

## Leadership Board

Tuesday 24 January 2023 at 2.00pm

Meeting to be held at: Committee Room 2, Durham County Hall, DH1 5UL

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# AGENDA

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	Page No
<b>1. Apologies for Absence (Members)</b>	
<b>2. Declarations of Interest</b>	
Please remember to declare any personal interest where appropriate. Please also remember to leave the meeting where any personal interest requires this.	
<b>3. Minutes of the Previous Meeting held on 29 November 2022</b>	<b>1-8</b>
For approval as a correct record.	
<b>4. Announcements from the Chair and/or the Head of Paid Service</b>	
<b>5. Chair's Thematic Portfolio Update (Verbal Item)</b>	
<b>6. Economic Development and Digital Thematic Portfolio Update</b>	<b>9-16</b>
<b>7. Transport Thematic Portfolio Update</b>	<b>17-24</b>
<b>8. Finance, Skills and Employability Thematic Portfolio Update</b>	<b>25-30</b>

- |  |                |
|--|----------------|
| <b>9. Budget 2023/24 and Medium-Term Financial Strategy</b>                      | <b>31-86</b>   |
| <b>10. Capital Programme 2023/24 and Treasury Management Policy and Strategy</b> | <b>87-174</b>  |
| <b>11. North East Devolution - Update</b>  | <b>175-300</b> |
| <b>12. Audit Completion Report 2021/22 – <i>Deferred till next meeting</i></b>   |                |
| <b>13. Date and Time of Next Meeting: 4 April 2023 at 2.00pm.</b>                |                |

Contact Officer: Toby Ord Tel: 0191 424 7541  
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## **Leadership Board**

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

29 November 2022

(2.00pm – 2.35pm)

Meeting held at: Mayor's Parlour, Sunderland City Hall, SR1 3DP

#### **Present:**

**Councillors** Miller (Chair), Dixon, Gannon, Hopgood

Lucy Winskell (NELEP)

**Officers** Nicola Robason (Monitoring Officer, NECA), John Hewitt (on behalf of Head of Paid Service, NECA), Sheena Ramsey (Chief Executive, Gateshead), Jonathan Tew (Chief Executive, South Tyneside Council), Paul Wilson (Assistant Director of Finance, Sunderland City Council), Eleanor Goodman (Finance Manager, NECA), Gavin Armstrong (Policy and Scrutiny Officer, NECA) and Toby Ord (Strategy and Democratic Services Asst., NECA)

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

Apologies for absence were received from Patrick Melia and Paul Darby.

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

None.

#### **3 MINUTES OF THE PREVIOUS MEETING HELD ON 4 OCTOBER 2022**

The minutes of the previous meeting held on 4 October 2022 were approved as a correct record.

#### **4 ANNOUNCEMENTS FROM THE CHAIR AND/OR HEAD OF PAID SERVICE**

None.

**5 CHAIR’S THEMATIC PORTFOLIO UPDATE (VERBAL ITEM)**

Submitted: Report of the Chair (verbal item, not previously circulated nor attached to official minutes).

The Chair reiterated key points delivered by Councillor Rowntree in the previous meeting, most notably commendations over the region’s conduct during the period of mourning following the death of Her Majesty the Queen Elizabeth II, Liz Truss’ brief tenure as Prime Minister, and a reminder that COVID-19 remains prevalent within the region.

**RESOLVED that: -**

- i. the update be noted.

**6 ECONOMIC DEVELOPMENT AND DIGITAL THEME UPDATE**

Submitted: Report of the Economic Development and Digital Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead for Economic Development and Digital provided a brief outline of the contents of the report, focussing mainly rising inflation the cost of living crisis and the autumn statement.

The main issuing facing the NECA region currently was said to be inflation and the cost of living crisis, with businesses impacted the hardest with energy prices rising by 300% in some cases. There was also said to be lower footfall levels in local transport hubs and retail than pre-pandemic levels, leading to a further decline in business confidence.

Despite this, the local economy was said to continue to show resilience, with minimum job loss stories across the region. Claimant numbers have slowed to a halt, with previous continuous declines now remaining static at 4.1%, though this was commended as claimant numbers currently stand at less than half of that at the height of the pandemic. As for unemployment, the region stands at 5.6%, lagging behind the national average of 3.8%, though it was noted that a number of people have been driven away from the labour market in recent years due to national issues as the labour demand weakens.

The focus moved onto the autumn statement, which announced plans for tax rises and public spending changes, with a recession projected to last until 2024. This, alongside rising inflation, puts the UK on course for a 7% fall in living standards by 2024. As an already 'deprived' region, the North East is bound to feel the effects of this harder than most.

The cost of living payment will be provided to those struggling the most, though all families will likely feel the pressure in the coming months. The Board was made aware that Councils have been granted the authority to raise Council Tax by 5%, though it was noted that this is likely to have more negative effects for local communities than positive, with families having to pay £500 more a year on average to keep housing utilities running.

Additional funding has been announced for the health and social care sectors, though there has been a delay in planned adult health and social care reform.

There is to be no cuts to capital spending in the next few years, with projects such as Project Gigabyte still on course. Round two of the Levelling Up Fund will continue, with £7bn being allocated nationwide this year. Additionally, the UK Shared Prosperity Fund (UKSPF) is still said to be going ahead, though there has been no update with regard to a local investment plan.

It was said that there is little enticing businesses to invest in the current climate, highlighting some missed opportunities for business rate reform within the autumn statement. Despite economic resilience, the coming years are expected to be challenging, though NECA authorities will support undoubtedly support the local economies to identify opportunities to spur growth.

**RESOLVED that: -**

- i. the report be noted.

7

**TRANSPORT THEMATIC PORTFOLIO UPDATE**

Submitted: Report of the Transport Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead for Transport delivered a brief update, mostly focussing on national rail and Tyne & Wear Metro.

There was said to be concerns within Transport for the North (TfN) regarding the performance of performance of passenger rail services, most notably Transpennine Express and Northern Rail, due to continuous delays and cancellations to services, with cancellations continuing to rise. It was noted that there are concerted objections from political voices to be expected in the coming months.

Moving onto the Tyne & Wear Metro, the Transport Lead suggested that the reference 'Tyne & Wear' has almost become obsolete, with the ever-growing requirement for a 'North East' Metro, with a vision for extended Metro services inclusive of Northern Durham, and more ambitiously, extensive far beyond the Tyne & Wear region.

The next generation of Metro train cars are already in production, with the delivery of the first of its kind expected before the end of this year. It was noted that this new generation was only possible with commission from the Government to the tune of £230m.

Members were informed that the Metro Flow Scheme in South Tyneside not only greatly benefits residents within said borough, but benefits the whole Metro system as a whole, increasing total system capacity by 20%.

The Wearside Loop project is also massively important; as Washington sits fourth in the list of biggest towns without a rail link in the UK, extending Metro services to include the area will once again not only benefit its residents, but the NECA region as a whole. With the project in its advanced business stage, costs are still being negotiated through a local land value capture no gauge whether landowners would be willing to reduce costs for construction on their site. With a detailed economic analysis completed, it is believed that there is a compelling case for growth and levelling up to be put forward to the Government.

Work is still ongoing to reopen the Leamside Line to Metro services, again with another compelling case. This not only increases capacity on the East Coast Mainline for local, light and freight trains, but allows us to remove freight trains from the Leamside Line, and increase connectivity to important areas such as Washington, Belmont and Ferryhill. The ambition to create a Metro system that benefits the whole of the North East increases capacity for the whole region, additionally reducing pollution through removing the reliance on motor travel.

**RESOLVED that: -**

- i. the report be noted.

## **FINANCE, SKILLS AND EMPLOYABILITY THEMATIC PORTFOLIO UPDATE**

Submitted: Report of the Finance, Skills and Employability Thematic Lead (previously circulated and copy attached to the official minutes).

The Thematic Lead for Finance, Skills and Employability highlighted some main issues within the report, including the UKSPF, the risk of offloading finances on the taxpayer and developing local skills for future application.

With regard to the UKSPF, there was doubt over whether dates for spending will be extended. There is expected to be a shorter window for funds to be utilised in order to hit targets, with similar expectations over the Levelling Up Fund, though this has been delayed.

There was said to be a focus on developing level 2 skills, with jobs of the future being made a priority. Said jobs mostly revolve around the green economy and the fruits such labour will provide for future generations.

There was significant concern surrounding funds being wasted within Government on national employment and skills related schemes, with 49 schemes each being managed by multiple Whitehall sectors at the expense of £20bn. An overlap of multiple departments conducting similar if not identical work was said to be an extensive waste of time and resources. This is anecdotal of the Authority's necessity for cooperation and coordination in their work.

There was also mention of Councils being granted the authority to raise council tax by 5%, though this is likely to be more of a hindrance than an aid. In more affluent areas of the country, some authorities may raise ten times what North Eastern Authorities could, though it was conceded this may still prove more detrimental than useful.

Councillor Gannon resonated with this statement, noting that should the Government expect his authority to raise council tax by 5%, estimates suggest this will only raise £4.3m annually. In context, the overspend on Gateshead's budget is between £5-6m currently, with an expected gap of £50m in 2023/24. This is a burden on local residents that won't prove useful to local authorities, with anecdotes of leisure centres ran by Gateshead Council already facing reduced capacity and possible closure.

### **RESOLVED that: -**

- i. the report be noted.

9 **TREASURY MANAGEMENT MID-YEAR UPDATE**

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

The Finance Manager for NECA delivered the report, giving a brief update on treasury management with a focus on borrowing and investment activity.

Members were directed to positions set out within the report, highlighting that a small amount of borrowing had been repaid to the tune of £1m. Cash balances reside at £24.5m, due to a receipt of transport capital grants being paid in advance of investment.

Focus was drawn to detail management indicators within the report, and Members were informed that a strategy for the next financial year will be delivered to the upcoming meeting in January, with no changes to current strategies.

**RESOLVED that: -**

- i. the report be noted.

10 **NECA BUDGET 2023/24**

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

The Finance Manager for NECA delivered the report, briefing members on updated proposals for the NECA budget.

It was noted that indicative aspects of the budget were included in the report delivered to the previous meeting, most of which are largely unchanged. There has been an update to estimates to accommodate for the Local Government Pay Award, an increase in national insurance rates, and a significant increase in external audit fees following the PSAA procurement exercise touched on at the previous meeting.

There remains a forecast deficit, subsequent to increased levels in cash balances, with next years budget retaining the ability to unchanged constituent Council contributions of £10,000 per Authority.

**RESOLVED that: -**

- i. the report be noted.



11      **AUDIT COMPLETION REPORT 2021/22**

Submitted: Report of the External Auditor (not previously circulated nor attached to the official minutes due to deferral).

The report of the External Auditors was retracted by the submitter prior to the meeting due to a universal issue surrounding infrastructure which inhibits their ability to formally sign off on the audit.

It was agreed between the External Auditor and the Chief Finance Officer that the report should be deferred until this issue is resolved.

**RESOLVED that: -**

- i.      should the aforementioned issue be resolved in time, the report be delivered to the next meeting.

12      **STATEMENT OF ACCOUNTS 2021/22**

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

The Finance Manager for NECA provided a brief summary of the statement of accounts for the previous financial year.

Members were made aware that this was an up to date statement, with most of the work substantially completed. The opinion regarding the statement remains unmodified as the Finance Team and External Auditors await the aforementioned outstanding issues to be resolved.

The statement was presented to the Audit and Standards Committee the week prior, who raised no issues in regard to the report.

The appendaged narrative report provides clarity should it be required.

**RESOLVED that: -**

- i.      the report be noted.

13      **DATE AND TIME OF NEXT MEETING**

Tuesday 24 January 2023 at 2.00pm.



North East Combined Authority

DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

## NECA Leadership Board

**Date:** 24 January 2023  
**Subject:** Economic Development and Digital Thematic Portfolio Update  
**Report of:** Economic Development and Digital Thematic Lead

### Executive Summary

The purpose of this report is to provide an update on activity and progress made under the Economic Development and Digital (EDD) theme of the North East Combined Authority.

The report provides an update on the economy and labour market across the NECA area (highlighting concerns around recession, inflation, business and consumer confidence) and outlines the plans announced by Government in the Autumn Statement in December, including updates on Levelling Up and UK Shared Prosperity Funds.

### Recommendations

The Leadership Board is recommended to note the contents of the report.

## NECA Leadership Board

### 1.0 Background Information

1.1 This report provides an update on activity and progress made under the Economic Development and Digital theme of the Combined Authority, specifically:

- Economy and Labour Market;
- Government's Autumn Statement.

### 2.0 Economy and labour market

2.1 **The economy in the NECA area continues to be impacted national factors, particularly still high energy prices, the high cost of living for residents (particularly food prices), the rising costs of doing business and uncertainty over the future economic outlook.**

2.2 Inflation remains the main key issue as identified by the North East Chamber of Commerce's quarterly report, other recent key reports and feedback from the four Local Authorities in the NECA area. Concerns around the potential downsizing of energy support for businesses as well as rising labour costs and ongoing difficulties recruiting (particularly in social care) are also concerning firms.

2.3 Yet there are signs of optimism with the most recent Lloyds business barometer putting the region second only to the North West on businesses feeling confident about the future.

2.4 According to the Office for National Statistics, the national economy shrank in the three months to September (with estimates revised down from a 0.2% to a 0.3% contraction). The Bank of England and Office for Bank of England expect that this will be the start of a recession lasting until early 2024.

2.5 The latest unemployment data (for October and November) showed employment, unemployment and economic inactivity as broadly flat, with some signs however that employment has edged up recently, with lower economic inactivity offsetting a slight rise in unemployment.

2.6 The unemployment rate for the latest quarter in the North East (to October 2022) remained the same at 5.3%, the highest of all UK regions. Correspondingly, the headline employment rate remained the same at 70.6% (the lowest in the UK, outside of Northern Ireland). Economic inactivity also remained the same at 25.4% and, again, remains the highest in the UK barring Northern Ireland. In the NECA area, unemployment rates were as follows:

## NECA Leadership Board

	NECA	GB Average
Wider measure of unemployment (June 22)	4.6%	3.8%
Claimant Count (Nov 22)	4.1%	3.7%
Economic activity (June 22)	75%	78.6%

- 2.7 On pay, growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was the same at 6.1% in August to October 2022; for regular pay this is the strongest growth rate seen outside of the coronavirus (COVID-19) pandemic period.
- 2.8 In August to October 2022, growth in total and regular pay both fell in real terms (adjusted for inflation) by 2.7% on the year; this is slightly smaller than the record fall in real regular pay we saw in April to June 2022 (3.0%) but still remains among the largest falls in growth since comparable records began in 2001.
- 2.9. Nationally, average regular pay growth for the private sector was 6.9% in August to October 2022, and 2.7% for the public sector. Outside of the height of the pandemic period, this is the largest private – public sector pay gap for a number of years.
- 2.10 There are signs (albeit very early ones) of a wider slowdown in the economy and labour market. Vacancies are now falling back nationally, down by about 9% on their peak in the early summer but still very high (at 1.19 million).
- 2.11 In addition, the story behind the data continues to be the continued rise in economic inactivity locally, regionally and nationally, driven by those leaving the labour market and not seeking work due to ill-health (now at its highest ever rate nationally with the North East having one of the highest rates). It is also likely to be underestimated.
- 2.12 With the Bank of England and OBR predicting a rise in unemployment this year due to recession and high inflation, there are real concerns about the impact of this upon households already feeling pressure from the cost of living crisis and upon businesses struggling to recruit staff in key sectors such as social care and deal with inflation. The future outlook appears uncertain.

## **NECA Leadership Board**

### **3.0 Government's Autumn Statement**

- 3.1 The Chancellor, Jeremy Hunt, unveiled the much-awaited Autumn Statement on 17<sup>th</sup> November 2022 to the House of Commons. The themes of the statement were stability, growth, and public services as he outlined £55bn of fiscal consolidation (half coming from spending cuts and half from tax rises).
- 3.2 The Statement was set to a backdrop of; a recession lasting until 2024 (confirmed by the Office for Budget Responsibility, albeit with forecasts slightly more optimistic than the Bank of England); rising inflation (predicted by the OBR to remain high for the whole of next year driven by energy and food prices); a rise in unemployment from 3.6% 4.9%; and a 7% fall in living standards predicted by 2024.
- 3.3. The Statement promised increases in spending across health, education, and social care, the protection of departmental spending in cash terms for the next 2 years (including for local government), along with a continued focus upon infrastructure projects such as Northern Powerhouse Rail, devolution and Levelling Up (with confirmation that Levelling up Fund Round 2 announcements would be made soon).
- 3.4 Yet the detail behind the announcements is of falling spending for government departments (given the impact of inflation) leading to cuts and efficiency savings. From 2026, departmental capital spending will be frozen and only small overall increases (1%).
- 3.5 Such back-loading of the majority of cuts and tax rises (capital gains and stamp duty for example) suggests the majority of pain will come after 2025. More immediately, the freezing of Income Tax and National Insurance allowances will lead to all taxpayers seeing rises and more low-paid earners drawn into the tax system.
- 3.6 There was some support for business with the freezing of the business rates multiplier and a boost to rate relief, especially for hospitality, but no reduction in VAT to boost consumer spending or online sales taxes to level the playing field for high street retailers (or further incentives to boost business investment).
- 3.7 Furthermore, there are concerns (as highlighted above) about the lack of clarity on energy bills for businesses (and the public sector) from April, which is subject to a Government review.

## NECA Leadership Board

- 3.8 The Statement stated the “Government commitment to Levelling Up” with confirmation that Levelling Up Round 2 will allocate at least £1.7bn for the second round.
- 3.9 However, announcements of successful bids have been delayed from the original Autumn 2022 and then by year end 2022 to January 2023. This could put some projects at risk given delays to announcements will impact on delivery timescales and costs given rising inflation.
- 3.10 The Statement also set out support for new nuclear, offshore wind and solar investment, but few new details of such support. The Chancellor said there would be no cuts to capital spending in the next 2 years, with Northern Powerhouse Rail continuing (although in a watered down form), along with investment in gigabit-capable broadband through Project Gigabit.
- 3.11 Continued investment in R&D with spending rising by a third by 2024 compared to 2020 and funding for the next 5 years confirmed for Catapult Centres. Funding from 2025 to make buildings more efficient as part of national energy efficiency drive (further £6bn, matching the level currently being invested). On the back of EU Exit, reviewing regulations to drive growth in key sectors (digital, life science, green, financial services and advanced manufacturing).
- 3.12 UK Shared Prosperity Fund budgets were confirmed in Autumn Statement and subsequently Government stated that the £2.6bn three year programme (focussed on Communities and Place, Local Business Support and, in the final year, People and Skills) could commence.
- 3.13 Local Investment Plans have been approved and funding allocations – at levels previously expected – to NECA local authorities confirmed for 22/23 subject to the signing of an MOU (with Government also confirming the ability to transfer any underspend to 23/24). The four local authorities are working with key projects for this financial year.
- 3.14 In addition, the Investment Zones competition (announced under the Truss Government with a very short turnaround for Local and Combined Authorities to apply) was scrapped, with the programme refocused upon a small number of knowledge-intensive growth clusters, including through leveraging local research strengths (Universities).

## **NECA Leadership Board**

### **4.0 Reasons for the Proposals**

This report provides an update on Economic Development and Digital theme.

### **5.0 Alternative Options Available**

There are no alternative options associated with this report.

### **6.0 Next Steps and Timetable for Implementation**

A further update will be provided to the Board at subsequent meetings.

### **7.0 Potential Impact on Objectives**

The activities under the Economic Development and Digital theme will support NECA in its aims to promote economic growth and regeneration in the area.

### **8.0 Financial and Other Resources Implications**

There are no financial or other resource implications directly associated with this report as it is for information only.

### **9.0 Legal Implications**

There are no legal implications arising from this report.

### **10.0 Key Risks**

There are no specific risk management issues arising from this report.

### **11.0 Equality and Diversity**

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

### **12.0 Crime and Disorder**

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



## NECA Leadership Board

### 13.0 Consultation/Engagement

There are no specific consultation and engagement issues arising from this report.

### 14.0 Other Impact of the Proposals

There are no further impacts arising from the proposals.

### 15.0 Appendices

None

### 16.0 Background Papers

None.

### 17.0 Contact Officers

Rory Sherwood-Parkin, Corporate Lead – Policy & Insight, South Tyneside Council, [rory.sherwood-parkin@southtyneside.gov.uk](mailto:rory.sherwood-parkin@southtyneside.gov.uk)

John Scott, Head of Economic Growth, South Tyneside Council  
[john.scott@southtyneside.gov.uk](mailto:john.scott@southtyneside.gov.uk)

### 18.0 Sign off

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

### 21.0 Glossary

None.



## Leadership Board

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**Date:** 24 January 2023  
**Subject:** Transport Thematic Portfolio Update  
**Report of:** Thematic Lead for Transport

### Executive Summary

The purpose of this report is to provide an update on various transport matters of relevance to the NECA area.

### Recommendations

The Leadership Board is recommended to note the contents of this report.

## 1. Background Information

1.1 This report provides an update on transport issues affecting the NECA area.

### Devolution

1.2 The new devolution deal for the North East has now been agreed. Following detailed negotiation, the transport elements of this deal offer significant new benefits to the region, including:

- A five-year funding programme with over £900m of capital and revenue funding from 2022-27 - which blends Metro funding, Transforming Cities Fund, Bus Service Improvement Plan and City Region Sustainable Transport Settlement components.
- Agreement that the government will play an on-going role in supporting the Metro
- New powers to improve transport including bus franchising and strategic roads
- Partnership working with government agencies including Great British Railways and National Highways
- Acknowledgement of key regional priorities e.g. A19 Junctions / East Coast Main Line / Metro expansion, and a commitment to help develop the Leamside business case

### Rail

1.3 The Metro Flow project to increase capacity and improve resilience on the branch of between South Shields and Pelaw has now been completed and the line has reopened. Work continues with Government to endeavour to mitigate the significant impacts of the energy crisis on the cost base for Metro. The first train for the new Metro fleet will arrive towards the end of January and the programme as a whole remains on schedule with the whole fleet arriving by early 2025.

1.4 The Autumn Budget Statement confirmed that the Government is now committed to building the 'core Northern Powerhouse Rail' which refers to the version of NPR included in the November 2021 Integrated Rail Plan. Crucially for the North East, it confirms that the Government does not intend for NPR to include the reinstatement of the Leamside Line. However, the Strategic Outline Case for the northern section of the Leamside Line (the Washington Metro Loop) has been submitted to the DfT and some initial funding set aside to start the development of the Outline Business Case during 2023/2024.

1.5 Reliability across the whole rail network remains poor – all operators are being affected by high levels of sickness, training backlogs and industrial relations issues. In the North East these issues are mainly present with Northern and Trans Pennine Express (TPE).

## **Active Travel**

- 1.6 The North East Active Travel Strategy is currently out for consultation and can be found on the Transport North East website.
- 1.7 On 2<sup>nd</sup> January 2023, Active Travel England announced the award of over £32 million through the Active Travel Capability Fund 2022-23, aimed at developing projects and building capacity across the country. The North East will receive an allocation of £1.4M.

## **2. Proposals**

- 2.1 This report is for information only. Therefore no decisions are contained in this report.

## **3. Reasons for the Proposals**

- 3.1 This report is for information purposes only.

## **4. Alternative Options Available**

- 4.1 Not applicable to this report.

## **5. Next Steps and Timetable for Implementation**

- 5.1 Timetables are set out as appropriate in relation to the individual items in the sections above.

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

- 6.1 Sustaining an effective public transport system will be critical to NECA in delivering its objective to maximise the area's opportunities and potential. In addition to this continuing investment in the projects and programmes outlined above will help ensure the area has a transport system capable of meeting current and future challenges.

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

- 7.1 The report includes information on funding and financial opportunities.
- 7.2 There are no specific additional financial implications for NECA arising from this report.
- 7.3 There are no Human Resource or ICT implications for NECA arising from this report.

## **8. Legal Implications**

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

## **9. Key Risks**

9.1 Various risks exist in relation to the impacts that a failure to achieve the region's aspirations for improving transport would have on wider economic and environmental objectives.

## **10. Equality and Diversity**

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

## **11. Crime and Disorder**

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

## **12. Addressing Geographic Diversity:**

12.1 The continued provision of bus and other public transport services to more sparsely populated areas remains important to meeting the future needs of these areas.

## **13. Climate Change/Environmental Sustainability**

13.1 Transport remains a major source of carbon dioxide and other pollutants. Sustaining effective public transport networks and investing in alternatives to the private car as well as Electric Vehicles are important to achieving further reductions in carbon emissions.

## **14. Consultation/Engagement**

14.1 Not applicable.

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

15.1 No specific impacts.

## **16. Appendices**

16.1 Not applicable.

**17. Background Papers**

17.1 Not applicable.

**18. Contact Officers**

18.1 Sheena Ramsey

**19. Sign off**

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

**20. Glossary**

North East Joint Transport Committee – the formal decision making body in terms of transport strategy, covering both the NECA and North of Tyne areas.

# NORTH EAST JOINT TRANSPORT COMMITTEE

To: All Members of the Joint Transport Committee and Gateshead Council  
LA7 Leaders and Elected Mayor

Civic Centre  
Regent Street  
Gateshead  
NE8 1HH

19 August 2021

Dear Colleague

## **Bus Partnership update**

I am writing to update you on the next steps in developing a Bus Partnership for the North East, and to ask for your assistance both in leading your Council's input into the work, and in ensuring that your Cabinet Members have access to appropriate briefings.

Firstly I would like to thank you for the financial support that your Council has provided to allow a project team to be established swiftly, and for your active participation at the Joint Transport Committee that unanimously agreed to develop a bus partnership with operators.

The Covid-19 pandemic has put our public transport services and our transport objectives at risk. Ridership levels – and therefore income from fares – are way below pre-pandemic levels. Central government support has kept the buses and the Metro running until now because of their role as an essential service, but the government has been clear that this support will cease at the end of this financial year. We do not expect ridership to recover quickly enough to make services viable without further financial support, and we therefore need to act in order to preserve services.

The bus network has always been essential in the North East. Before the Covid-19 pandemic there were over 160m bus journeys each year in our region. Almost a third of our households have no access to a car, and for many people in one-car households the bus is their lifeline to get to work, education, health and social inclusion.

The North East Transport Plan that we approved earlier this year set out our shared transport objectives of: achieving carbon neutrality; overcoming inequality and growing our economy; improving public health; and offering appealing sustainable transport choices through a safe and secure network.

Throughout this year we have talked about the need for a new approach to buses. If we are to deliver on our ambitions to move towards net zero carbon emissions, to clean up the air we breathe, and to make sustainable travel an affordable and realistic choice for everyone, we need to change the way that buses work for our communities. We also need to change the way that we work with the bus industry.

In July the Joint Transport Committee agreed a Vision for Buses setting out our ambition for:

- An enhanced network that is simple and easy to understand;
- Faster and more reliable journey times;



- A simple and flexible fares structure;
- Better integration between modes;
- More early morning and evening services;
- Clear and consistent information that is easy to access;
- Improved safety and security;
- Cleaner and greener vehicles
- Improved connectivity beyond our boundaries;
- A first-class customer experience.

In July we also agreed to work with local bus operators through an Enhanced Partnership which will allow us to bid into a £3bn government fund. Members unanimously supported the proposal to draw up a strong proposal which will be in a document known as a Bus Service Improvement Plan (“BSIP”). The government fund is tied to a new National Bus Strategy published earlier this year, and our BSIP is effectively a bidding document that will need to convince the government that our plans are ambitious, credible, effective and deliverable.

We will of course continue to make the case for adequate government funding for bus services as matter of principle, directly and through the collective bodies like the Local Government Association and the Urban Transport Group. However, the government has been very clear that emergency Covid-19 funding support for buses will cease at the end of this financial year, and it seems increasingly likely that the only route to securing new funding for buses will be through grants awarded through the BSIP process.

It is therefore of the utmost importance that we present the strongest possible BSIP and secure the biggest possible share of the £3bn that we can. The funding will support not only our ambitions for a better bus system, but it will also be needed to provide essential relief as the bus network continues its recovery from the effects of the pandemic. The alternative we face is almost certain wide-spread cuts to services that will damage our communities.

To develop a strong BSIP that will truly make a difference to how buses operate we will need the leadership and support of you and your Cabinet colleagues, along with officers responsible for local highways and transport.

Extensive priority will need to be given to buses on our area’s roads, particularly on the approaches to centres of population, in order to speed up bus journeys and make them more reliable. This will see the introduction of more bus lanes and more bus-only roads and access gates across the region.

Road junctions at key points on the bus network will prioritise buses both in their physical design and in how traffic signals are phased. We will need to critically appraise parking charges and policies to make sure that buses are a competitive and attractive way to travel for both work and leisure. We will also need to make sure that parked cars do not prevent people from boarding buses or make it difficult for buses to pass through narrow roads in villages and estates.

The bus operators will of course have to make very significant improvements of their own as part of the package. They will need to make fares both affordable and integrated; buses will need to be of the highest standard in appearance, comfort, and environmental performance; and timetables will need to be designed to support communities across the area, rather than focusing on the most profitable routes.

I recognise that such changes will need to be considered very carefully, in consultation with the communities affected and considering the views of, and impact on, all road users. However, it is equally important to stress that without wide-ranging improvements of this nature our BSIP may not attract significant funding and our bus network will shrink as a result.

Officers from Transport North East and the LA7 Councils are working in partnership with bus operators to develop the BSIP. I would encourage everyone with a stake in a successful bus network successful to pro-actively feed ideas into the development of the BSIP.

In September we will review the first draft of our BSIP. I have asked my officers to ensure that, following the Joint Transport Committee briefing, every Council's Cabinet is offered a full briefing on the local implications. I would like to request your assistance in arranging this briefing so that your colleagues can gain a better understanding of what is being proposed and its possible benefits and impacts on the residents in your area.

The North East is already suffering from a car-dominated recovery with traffic levels consistently higher throughout the day than before the pandemic. Our leadership in the coming months will be essential to ensure that this is only a short-term effect and that public transport is able to play its full part in supporting a green economic recovery for the North East.

There are, unfortunately, no other avenues open to us at present if we want to secure funding to support and grow the bus network. Franchising is a possible long-term option which we will keep under review, but it is a very complex and lengthy process even for those Combined Authorities which have the legal powers to introduce a scheme themselves – and we do not. In any case bus-friendly highway and parking policies such as those I highlight above will still be necessary for the bus network to be successful, regardless of the system of governance.

If you would like to discuss this letter in person, I would be delighted to speak to you about it. I will also ask officers to make contact with your office to arrange a briefing of Cabinet Members as discussed above.

Yours sincerely

**Councillor Martin Gannon**  
**Chair of the North East Joint Transport Committee**  
Copied to: Transport Strategy Board

## Leadership Board

**Date:** 24 January 2023  
**Subject:** Finance, Skills & Employability Thematic Portfolio Update  
**Report of:** Thematic Lead for Finance, Skills & Employability

### Executive Summary

This report seeks to provide an update on current Finance, Skills and Employability portfolio activity, including the implications of the recent provisional local government finance settlement and on the wide-ranging Skills and Employability drivers which may impact on the delivery of Employment & Skills services in the coming years.

The recently announced North East Devolution Deal which subject to further detailed development and ratification provides further opportunities to progress and integrate skills development and employability support measures in line with policy priorities and delivery opportunities detailed in previous updates.

### Recommendations

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

#### 1. Background Information

1.1 Further to the agreed portfolio leads and the update provided to the Leadership Board in November, activity continues to progress all aspects of the Finance, Skills and Employment needs and opportunities across NECA. Identification of the main issues and progress being made under each element is as follows:

#### 2. Finance Theme

- 2.1 It is vital that the functions that NECA oversees as accountable body are properly resourced. The provisional local government finance settlement following the autumn statement was published for consultation on 19 December, with the government providing confirmation of the final settlement in January 2023.
- 2.2 The settlement totals £59.5bn, representing a 9% increase in core spending power. Core spending power measures the core revenue funding available for

## Leadership Board

local authority services, including Council Tax and locally retained business rates. The settlement confirms £2bn in additional grant funding for social care for 2023/24. Additional funding will be distributed by needs formulae, leading to more deprived areas receiving additional funding. However, the fact that much of the increased core spending power will come from increased levels of council tax and the continuing delay to the Fair Funding Review until at least April 2025 has disappointed many councils. Councils remain under significant financial pressure as a result of rising demand for services and inflation.

- 2.3 Draft proposals for the 2023/24 NECA Corporate budget were presented to the Leadership Board at the last meeting and final proposals are presented for approval in another paper elsewhere on this agenda.
- 2.4 Significant pressures remain in relation to transport budgets, particularly on the Tyne and Wear levy as energy price inflation has risen above levels previously assumed and this has had a hugely detrimental effect on Nexus' budget for high voltage power, the cost of which has more than doubled. Budget proposals for 2023/24 are presented to the JTC on 17 January following consultation on draft proposals published in November.

### 3. Skills Theme

#### 3.1 Integration of the traineeship programme

- 3.1.1 The government announced on 12 December 2022 that the traineeship programme will be integrated into 16 to 19 study programme and adult education provision from 1 August 2023. This means the last date for those starting a traineeship under the current rules, as set out in the framework for delivery 2022 to 2023, will be 31 July 2023.
- 3.1.2 From 1 August 2023, all the elements of the traineeship programme - English and maths, work experience, employability and occupational skills, and qualifications - will continue to be funded for 16 to 19-year-olds as part of the national 16 to 19 study programme, and for adults through the adult education budget. This means that providers with access to funding can choose to continue to offer traineeship programmes for young people who need support to get into work, apprenticeships, or further learning. This will enable greater flexibilities for employers, training providers and local authorities to work with young people to develop the skills needed at a local level.

## Leadership Board

3.1.3 In areas where the adult education budget (AEB) has been devolved, Mayoral Combined Authorities and Greater London Authority will decide on how best to support young adults in their areas.

### 4. Employment Theme

4.1 The Commission on the Future of Employment Support

4.1.1 The Commission on the Future of Employment Support has been set up to develop evidence-led proposals for reform of the system of employment support and services, so that it can better meet the needs of individuals, employers and our economy.

4.1.2 The Commission is defining employment support as those public or publicly funded services that:

- Help people who want to move into work,
- Supporting the retention and progression of those in – regardless of what (if any) benefits they are on, and where and how those services are delivered; and
- Help employers to find, recruit and retain the right people for their jobs.

4.1.3 The Commission will be looking at how employment support is organised at a UK level, within UK nations and locally; the role and function of Jobcentre Plus and of wider contracted or commissioned support; and how employment is supported in wider public services like education, skills and health. The Commission will run for around eighteen months, hosted by the Institute for Employment Studies (IES) with funding support from abrdn Financial Fairness Trust

4.1.4 The initial Call for Evidence phase is open until Monday 30<sup>th</sup> January 2023 and provides a focus on four specific areas, questioning how support / services

- Can work better for individuals, and particularly for those more disadvantaged in the labour market;
- Can meet the needs of employers, both to fill their jobs and support good work;

## Leadership Board

- Is organised and governed, including the role of the UK, devolved and local government and how services join up and work together locally; and
- Can meet the needs of our future economy and society – supporting growth, economic change, an ageing population and the transition to net zero.

4.1.5 Following the initial call for evidence phase, the commission propose to host a number of evidence sessions, roundtables and workshops leading to an interim report scheduled for production by early summer 2023 and fully detailed and costed proposals in early 2024.

### **5. Next Steps and Timetable for Implementation**

5.1 Employment & Skills issues and opportunities for development remain under development through meetings of the Skills and Employment Working Group. Working arrangements and the Employment and Skills focus may change over the coming months in line with the further development and consultation on the recently announced North East Devolution Deal.

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

6.1 This report is for information only.

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

7.1 There are no additional financial implications as this report is for information only.

### **8. Legal Implications**

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

### **9. Key Risks**

9.1 This report is for information.

### **10. Equality and Diversity**

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

### **11. Crime and Disorder**

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

## Leadership Board

### 12. Consultation/Engagement

12.1 Economic Directors have been fully consulted on the contents of this paper

### 13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report

### 14. Appendices

14.1 None

### 15. Background Papers.

15.1 Thematic Portfolio Update 29 November 2022

### 16. Contact Officers

16.1 Amy Harhoff, Corporate Director Regeneration Economy & Growth,

[Amy.Harhoff@durham.gov.uk](mailto:Amy.Harhoff@durham.gov.uk) Tel: 03000 267330

### 17. Sign off

17.1

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

### 18. Glossary

18.1	AEB	Adult Education Budget
	IES	Institute for Employment Studies
	JTC	Joint Transport Committee





## Leadership Board

**Date:** 24 January 2023

**Subject:** Budget 2023/24 and Medium-Term Financial Strategy

**Report of:** Chief Finance Officer

### Executive Summary

This report provides an updated forecast of outturn against the 2022/23 budgets agreed in February 2022 and presents the NECA revenue budget for 2023/24 and indicative estimates for 2024/25 and 2025/26 for consideration and approval.

The updated forecast outturn for 2022/23 is for total expenditure of £0.787m in relation to NECA corporate expenditure and £0.098m costs relating to the Accountable Body role for the JTC.

In 2023/24 the NECA corporate costs are estimated to be £0.797m and the budget for the JTC Accountable Body role is proposed to be set at £0.099m. After estimated investment income of £0.081m, the level of contributions from constituent authorities is proposed to be set as follows:

- £25,000 from each of the four constituent authorities in NECA to cover NECA corporate costs; and
- £10,000 from each of the seven local authorities in the JTC area to cover NECA costs relating to the JTC Accountable Body role.

The NECA corporate costs and budgets for the JTC Accountable Body role primarily covers employee and Service Level Agreement (SLA) charges and regular costs such as independent members' allowances, audit fees and other expenses. The budget will need to be kept under review for any new areas of work that are identified over and above the budget that is agreed and to take account of inflation and other pressures.

The budget proposals contained in this report have been subject to consultation with the NECA Leadership Board, Overview and Scrutiny Committee and relevant officer groups.

The report also sets out the proposals in relation to the Transport budget and levies which will be considered by the North East Joint Transport Committee (JTC) at its meeting on 17 January 2023. NECA is required to issue the levies agreed to its constituent authorities and, in its role as Accountable Body for transport, to administer the transport grants agreed to the delivery bodies.

## Leadership Board

### Recommendations

The Leadership Board is recommended to:

- a. Note the updated position in terms of forecast of outturn for 2022/23;
- b. Unanimously agree a budget for 2023/24 for the corporate costs of NECA of £0.797m, with an equal contribution of £25,000 from each of the constituent authorities in NECA to help meet these costs, as set out in section 2.8;
- c. Unanimously agree a budget for 2023/24 in respect of the accountable body role for the JTC in 2023/24 of £0.099m, with equal contributions of £10,000 from the seven local authorities in the JTC area to help meet these costs, as set out in section 2.8;
- d. Issue the levies as determined by the JTC at its meeting on 17 January 2023;
- e. Make arrangements to administer payment of a transport revenue grant to Durham County Council for the delivery of transport services in the Durham area and to Nexus for the delivery of transport services in Tyne and Wear as determined by the JTC at its meeting on 17 January 2023;
- f. Note that the North of Tyne Combined Authority will issue the Transport levies to Newcastle City Council, North Tyneside Council and Northumberland County Council that have been agreed by the JTC and will pass the levy income from Newcastle City Council and North Tyneside Council to NECA in order to meet costs relating to the Tyne and Wear area;
- g. Note that the North of Tyne Combined Authority will issue the transport revenue grant to Northumberland County Council as agreed by the JTC and make a £10,000 contribution to NECA in respect of Northumberland County Council's contribution to the costs of Transport North East;
- h. Authorise the Chief Finance Officer and the Monitoring Officer to take such other steps as are necessary to give effect to the proposals in this report;
- i. Note the section on the level of reserves set out in section 2.9 to 2.10;
- j. Agree the Pay Policy Statement for NECA at Appendix 3.

## Leadership Board

### 1. Background Information

- 1.1 The arrangements set out in the Order which set up the North of Tyne Combined Authority (NTCA) require decisions about the Transport Revenue Budget and Transport Levies and the Transport Capital Programme to be taken by the North East Joint Transport Committee (JTC). The transport functions and assets still rest with each Combined Authority but can only be exercised or deployed through the decisions of the JTC. Accordingly, the JTC is an integral part of the decision-making in relation to the budget of each Combined Authority.
- 1.2 The NECA Leadership Board take decisions about the non-transport elements of its budget and incorporate the transport elements decided by the JTC into its budget.

### 2. Proposals

#### 2022/23 Forecast of Outturn

- 2.1 The NECA budget for corporate costs is required to support operational costs including staff employed by NECA, Service Level Agreements (SLAs), independent members allowances and expenses, and supplies and services costs. The report to the Leadership Board on 1 February 2022 set a net NECA Corporate budget for 2022/23 of £212,390 which provided for NECA corporate capacity and to fulfil the JTC Accountable Body role. This is funded from contributions from NECA constituent authorities totalling £100,000 (£25,000 per authority), contributions from JTC constituent authorities totalling £70,000 (£10,000 per authority) and interest income on short term investments. The budget was revised in July to account for expenditure in relation to the North East Screen Industries Partnership (NESIP) region-wide development programme. Income for this expenditure is recovered from the four constituent local authorities so the impact on NECA's net budget is nil.
- 2.2 Interest rates have increased significantly during the year from historically low levels of 0.1% to the current Bank of England base rate of 3.5% and with potential for further increases. This has had a positive impact on the level of interest the authority has been able to achieve on its investments, part of which contributes to the budgets in this report.
- 2.3 Accordingly, the forecast for investment income receivable in 2022/23 is forecast to be in excess of the budget set for the year in February 2022. This offsets increased costs in relation to Service Level Agreements (SLAs) and supplies and services.
- 2.4 The forecast has been updated on the most recent information and is set out in the table below.
- 2.5 *Table 1: NECA Corporate Budget Forecast Outturn 2022/23*

## Leadership Board

	NECA Corporate		JTC Accountable Body	
	2022/23 Original Budget	2022/23 Forecast	2022/23 Original Budget	2022/23 Forecast
Employees	54,510	51,033	13,430	12,951
Service Level Agreements	54,060	69,770	76,330	85,490
Independent Members Allowances and expenses	6,500	5,980	0	0
Supplies and Services	7,560	26,539	0	0
NESIP	0	633,924	0	0
<b>Total Expenditure</b>	<b>122,630</b>	<b>787,245</b>	<b>89,670</b>	<b>98,441</b>
NECA Corporate Contributions	(100,000)	(100,000)	0	0
JTC Accountable Body Contributions	0	0	(70,000)	(70,000)
Interest Income	(20,000)	(50,000)	(19,000)	(28,000)
NESIP	0	(633,924)	0	0
<b>Total Income</b>	<b>(120,000)</b>	<b>(783,924)</b>	<b>(89,000)</b>	<b>(98,000)</b>
<b>Net deficit to fund from reserves</b>	<b>2,630</b>	<b>3,321</b>	<b>670</b>	<b>441</b>

### Budget Proposals 2023/24 and Estimates for 2024/25 and 2025/26

- 2.6 Appendix 1 sets out the budget for 2023/24 recommended for approval, along with Medium Term Financial Strategy estimates for 2024/25 and 2025/26. The constituent authority contributions to the NECA Corporate budget and the NECA budget for fulfilment of the JTC Accountable Body role are included at the current levels of £25,000 and £10,000 respectively for 2023/24 and beyond, however these will need to be subject to review for 2024/25 onwards and is dependent upon investment income being achieved at the expected levels and balances held being at a sufficient level.
- 2.7 The proposals set out for approval are largely unchanged from the draft proposals reported to the NECA Leadership Board in November 2022. The 2023/24 budget proposal is shown in the table below.
- 2.8 *Table 2: NECA Corporate Budget 2023/24*

## Leadership Board

	NECA Corporate	JTC Accountable Body	Total
	£	£	£
<b>Expenditure</b>			
Employees	54,550	14,040	<b>68,590</b>
Service Level Agreements	56,820	85,490	<b>142,310</b>
Independent Members Allowances	6,500	0	<b>6,500</b>
Supplies and Services	36,410	0	<b>36,410</b>
NESIP	642,610	0	<b>642,610</b>
<b>Total Expenditure</b>	<b>796,890</b>	<b>99,530</b>	<b>896,420</b>
<b>Income</b>			
NECA Corporate Contributions	(100,000)	0	<b>(100,000)</b>
JTC Accountable Body Contributions	0	(70,000)	<b>(70,000)</b>
Interest income	(52,000)	(29,000)	<b>(81,000)</b>
NESIP Contributions	(642,610)	0	<b>(642,610)</b>
<b>Total Income</b>	<b>(794,610)</b>	<b>(99,000)</b>	<b>(893,610)</b>
<b>In year (surplus)/deficit</b>	<b>2,280</b>	<b>530</b>	<b>2,810</b>

### Reserves

2.9 The Corporate reserve of NECA was £0.419m at 1 April 2022. After funding the small forecast deficit forecast for 2022/23, this reserve is forecast to be £0.416m at 31 March 2023, and £0.413m at 31 March 2024. Based on current budgets, this is considered a prudent level of reserves to hold to mitigate against unforeseen costs which may arise specifically in relation to this area of the budget.

## Leadership Board

- 2.10 Separate reserves are held for transport activity (including Nexus and the Tyne Tunnels) and decisions on these reserves will be taken by the JTC as part of its own budget considerations.

### Pay Policy

- 2.11 The Localism Act 2011 requires the authority to prepare and publish a pay policy statement annually which sets out the authority's policy relating to the remuneration of its Chief Officers and how this compares with the policy on the remuneration of its lowest paid employees. The policy must be published by the end of March for each subsequent year, although it can be amended by a resolution of the Leadership Board during the year.
- 2.12 Additionally, the Act requires that in relation to Chief Officers the policy must set out the authority's arrangements relating to:
- a) The level and elements of remuneration for each Chief Officer;
  - b) Remuneration of Chief Officers on recruitment;
  - c) Increases and additions to remuneration for each Chief Officer;
  - d) The use of performance-related pay for Chief Officers;
  - e) The use of bonuses for Chief Officers;
  - f) The approach to the payment of Chief Officers on their ceasing to hold office under or to be employed by the authority;
  - g) The publication of an access to information relating to the remuneration of Chief Officers.
- 2.13 The NECA Pay Policy Statement is set out at Appendix 3 for the consideration of the Leadership Board and outlines the details for the authority in line with the above requirement.

## 3. Reasons for the Proposals

- 3.1 This report sets out budget proposals for 2023/24 for the NECA Corporate budget, including fulfilment of its Accountable Body role for the JTC.
- 3.2 The report identifies that NECA Corporate contributions will be maintained at £25,000 per authority and contributions to the JTC Accountable Body role will be maintained at £10,000 per authority in 2023/24 and will be reviewed for 2024/25.
- 3.3 The two Combined Authorities in the JTC area are required to issue the Transport Levies before 15 February 2023 to enable their constituent councils to take the levies and other contributions into account in setting their own budgets.

## 4. Alternative Options Available

## Leadership Board

- 4.1 Option 1: agree the proposals as set out in the report;  
Option 2: suggest amendments or alternative budget proposals to be agreed.  
Option 1 is the recommended option.
- 5. Next Steps and Timetable for Implementation**
- 5.1 Letters confirming the Transport levies and dates for payment will be issued to NECA constituent authorities in February 2023. The revenue budget will be monitored and reported to the Leadership Board during the financial year.
- 6. Potential Impact on Objectives**
- 6.1 The budget and medium-term financial strategy 2023/24 to 2025/26 has been and will continue to be prepared to reflect the objectives of the Authority and feedback from constituent authorities.
- 7. Financial and Other Resources Implications**
- 7.1 The financial and other resources implications are set out in the main body of the report.
- 8. Legal Implications**
- 8.1 The budget must be approved unanimously in accordance with the requirements of the NECA Order and the NECA Constitution.
- 9. Key Risks**
- 9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.
- 10. Equality and Diversity**
- 10.1 There are no equality and diversity implications arising from this report.
- 11. Crime and Disorder**
- 11.1 There are no crime and disorder implications arising from this report.
- 12. Consultation/Engagement**
- 12.1 The NECA Constitution requires that consultation on budget proposals be undertaken at least two months prior to the budget being agreed. The draft proposals were subject to consultation with the Leadership Board, Overview and Scrutiny Committee and

## Leadership Board

officer groups. Comments raised as part of the consultation process have been taken into account in the preparation of the final reports.

### 13. Other Impact of the Proposals

13.1 There are no other impacts arising from these proposals.

### 14. Appendices

14.1 Appendix 1 – NECA Corporate and JTC Accountable Body estimates 2023/24 – 2025/26

Appendix 2 – JTC Budget Report 17 January 2023

Appendix 3 – NECA Pay Policy Statement

### 15. Background Papers

15.1 NECA Corporate Budget 2022/23 – Leadership Board 1 February 2022 - [Item-10-Budget-2022-23-And-Medium-Term-Financial-Strategy.pdf \(northeastca.gov.uk\)](#)

NECA Constitution - [NECA-Constitution-7-June-2022.pdf \(northeastca.gov.uk\)](#)

### 16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,  
[Eleanor.goodman@northeastca.gov.uk](mailto:Eleanor.goodman@northeastca.gov.uk), 0191 433 3860

### 17. Sign Off

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



## Leadership Board

### Appendix 1 – NECA Corporate and JTC Accountable Body Budget Proposals 2023/24-2025/26

	2023/24 Proposed Budget			2024/25 Draft Budget			2025/26 Draft Budget		
	NECA Corporate	JTC Accountable Body	Total	NECA Corporate	JTC Accountable Body	Total	NECA Corporate	JTC Accountable Body	Total
<b>Expenditure</b>									
Employees	54,550	14,040	<b>68,590</b>	56,730	14,600	<b>71,330</b>	58,990	15,180	<b>74,170</b>
Service Level Agreements	56,820	85,490	<b>142,310</b>	59,090	88,910	<b>148,000</b>	61,460	92,470	<b>153,930</b>
Independent Members Allowances	6,500	0	<b>6,500</b>	6,500	0	<b>6,500</b>	6,500	0	<b>6,500</b>
Supplies and Services	36,410	0	<b>36,410</b>	37,140	0	<b>37,140</b>	37,890	0	<b>37,890</b>
NESIP	642,610	0	<b>642,610</b>	821,430	0	<b>821,430</b>	820,390	0	<b>820,390</b>
<b>Total Expenditure</b>	<b>796,890</b>	<b>99,530</b>	<b>896,420</b>	<b>980,890</b>	<b>103,510</b>	<b>1,084,400</b>	<b>985,230</b>	<b>107,650</b>	<b>1,092,880</b>
<b>Income</b>									
NECA Corporate Contributions	(100,000)	0	<b>(100,000)</b>	(100,000)	0	<b>(100,000)</b>	(100,000)	0	<b>(100,000)</b>
JTC Accountable Body Contributions	0	(70,000)	<b>(70,000)</b>	0	(70,000)	<b>(70,000)</b>	0	(70,000)	<b>(70,000)</b>
NESIP	(642,610)	0	<b>(642,610)</b>	(821,430)	0	<b>(821,430)</b>	(820,390)	0	<b>(820,390)</b>
Interest Income	(52,000)	(29,000)	<b>(81,000)</b>	(57,000)	(33,000)	<b>(90,000)</b>	(57,000)	(37,000)	<b>(94,000)</b>
<b>Total Income</b>	<b>(794,610)</b>	<b>(99,000)</b>	<b>(893,610)</b>	<b>(978,430)</b>	<b>(103,000)</b>	<b>(1,081,430)</b>	<b>(977,390)</b>	<b>(107,000)</b>	<b>(1,084,390)</b>
<b>Net (to)/from Corporate Reserve</b>	<b>2,280</b>	<b>530</b>	<b>2,810</b>	<b>2,460</b>	<b>510</b>	<b>2,970</b>	<b>7,840</b>	<b>650</b>	<b>8,490</b>



## North East Joint Transport Committee

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**Date:** 17 January 2023  
**Subject:** Transport Budget and Levies 2023/24  
**Report of:** Chief Finance Officer

### Executive Summary

This report sets out the 2023/24 Transport Revenue Budget and associated Transport Levies for the North East Joint Transport Committee (JTC) together with indicative forecasts for future years also exemplified for consideration and approval. The budget proposals contained in this report take into account comments received during consultation on the outline proposals presented to this committee in November 2022 and input from members of the JTC Overview and Scrutiny Committee.

The two Combined Authorities in the JTC area are required to set the Transport Levies before 15 February 2023 to enable their constituent councils to take the levies and other contributions into account in setting their own budgets. The two Combined Authorities will formally determine to issue the levies that are agreed by the JTC at their meetings on 24 January 2023 (NECA) and 31 January 2023 (NTCA).

The report provides an update on the Revenue Budget outturn for 2022/23 and sets out the revenue resources planned to be used in 2023/24 to deliver the objectives of the JTC. A separate report on this agenda sets out the 2023/24 Transport Capital Programme and provides an update on the delivery of the 2022/23 Transport Capital Programme.

The proposed budget and levy for public passenger transport activity in County Durham is £16.912m for 2023/24, of which £16.902m will be payable as a grant to Durham County Council and £10,000 retained to contribute to the central costs of the JTC. This compares with a levy for 2022/23 of £15.619m, of which £15.609m was payable as transport grant.

The proposed budget and levy for public transport activity in Northumberland is £6.458m for 2023/24, of which £6.448m will be payable as a grant to Northumberland County Council and £10,000 retained to contribute to the central costs of the JTC. This compares with a levy of £6.357m for 2022/23, of which £6.347m was payable as transport grant.

The proposed levy for public transport activity in Tyne and Wear is £67.800m for 2023/24, of which £65.700m will be payable as a grant to Nexus. This represents a year-on-year increase of £2.575m (approximately 4%) in the levy compared with 2022/23 when the Tyne and Wear levy was £65.225m. As in previous years, £2.100m of the Tyne and Wear levy will be retained

and used to help fund central costs of the JTC, primarily relating to the former Tyne and Wear Integrated Transport Authority (TWITA) functions.

The gross expenditure budget proposed for the Transport North East (TNE) core budget is £1.037m in 2023/24, funded through a range of sources, including a contribution from the Local Transport Plan (LTP) Integrated Transport Block grant of £500,000 (equating to £62,500) for each of the seven local authorities and Nexus), contribution from external grants to meet programme management costs, a contribution from the Transport levies and other specific revenue grants received from central government, including funding towards the Bus Enhanced Partnership.

The Tyne Tunnels revenue account forecast for 2022/23 is for a deficit of £0.101m, and a deficit of £0.412m for 2023/24, which will be funded from Tyne Tunnels reserves. These estimates take into account the decision of the Tyne and Wear Sub Committee (TWSC) to defer until at least 1 May 2023 the application of the required toll increase for Class 2 and Class 3 vehicles triggered by the Retail Price Index (RPI) measure of inflation.

## Recommendations

The North East Joint Transport Committee is recommended to:

- i) Note the position of the Transport budget in 2022/23 and approve the revised estimates for the year;
- ii) Agree a Transport net revenue budget for 2023/24 of £91.170m, as set out in section 2.5 of this report;
- iii) Agree the following Transport Levies for 2023/24:
  - a. Durham County Council £16.912m
  - b. Northumberland County Council £6.458m
  - c. Tyne and Wear councils (detailed in Table 6) £67.800m (see section 2.15)
- iv) Agree a transport revenue grant to Durham County Council for the delivery of transport services of £16.902m, as outlined in section 2.7;
- v) Agree a transport revenue grant to Northumberland County Council for the delivery of transport services of £6.448m, as outlined in section 2.10;
- vi) Agree a transport revenue grant to Nexus for the delivery of transport services in Tyne and Wear of £65.700m;
- vii) Approve the budget for the Tyne Tunnels set out in section 2.71, which includes the effect of the decisions taken by the Tyne and Wear Sub-Committee on 15 November 2022;
- viii) Approve the budget for Transport North East as set out in section 2.64-2.68
- ix) Note and agree the forecast level and use of reserves at section 2.80-2.82.

## **1. Background Information**

- 1.1 The draft budget proposals were presented to this committee for consideration on 18 October 2022 and 15 November 2022 and have been the subject of consultation with officer groups, members of the JTC Overview and Scrutiny Committee and the Tyne and Wear Sub-Committee (for proposals relating to Tyne and Wear).
- 1.2 This report sets out the final budget proposals, taking into account the comments received during the budget setting process and the latest available information.
- 1.3 The report outlines the proposed Transport revenue budget and levies for 2023/24, together with indicative forecasts for future years exemplified for consideration and approval. The report also provides an updated forecast for the current year.
- 1.4 The budget proposals set out in the report assume business as usual activity. Should a devolution deal for a new mayoral combined authority in the region be signed off, there will be various pieces of transport work required as a result. Further information and updated budget proposals will be brought to the JTC as necessary at the appropriate time.

## **2. Proposals**

### **Transport Revenue Budgets Updated 2022/23 Forecast**

- 2.1 The main area of income and expenditure in the JTC revenue budget is the Transport Levies and the revenue grants paid to Durham County Council, Northumberland County Council and Nexus for the delivery of public transport services.
- 2.2 As the Transport Levies and revenue grants are normally fixed for the year, there is no change in the Levies payable and minimal change in the JTC revenue budget itself in year.
- 2.3 Any surplus or deficit against the budgets for the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of those organisations.
- 2.4 The updated forecast outturn position, together with the actual spend position to 31 October is set out in the table below:

Table 1: 2022/23 Transport Levies and Grants

	2022/23 Original Budget	Actual Spend to 31 Oct 2022	2022/23 Forecast Outturn	2022/23 Forecast Variance
	£m	£m	£m	£m
<b>Total Transport Levies</b>	<b>(87.201)</b>	<b>(50.867)</b>	<b>(87.201)</b>	<b>0.000</b>
Grant to Durham	15.609	9.105	15.609	0.000
Grant to Northumberland	6.347	3.702	6.347	0.000
Grant to Nexus	63.125	36.823	63.125	0.000
Retained Levy budget	2.120	1.237	2.120	0.000
<b>Total Expenditure</b>	<b>87.201</b>	<b>50.867</b>	<b>87.201</b>	<b>0.000</b>
Contribution to / (from) JTC reserves	0.000	0.495	0.000	0.000

### Transport Revenue Budget and Levy Proposals for 2023/24

2.5 The overall total proposed net revenue budget for transport levies in 2023/24 is £91.170m, as summarised in Table 2 below. This represents a total net increase of £3.969m (4.55%) when compared to 2022/23.

Table 2: Transport Levies 2023/24

	2022/23 Levy	2023/24 Proposed Levy	Change from 2022/23	Levy per person <sup>1</sup>
	£m	£m	£m	£
Durham	15.619	16.912	1.293	32.44
Northumberland	6.357	6.458	0.101	20.08
Tyne and Wear	65.225	67.800	2.575	60.23
<b>Total</b>	<b>87.201</b>	<b>91.170</b>	<b>3.969</b>	

<sup>1</sup> ONS mid-2021 Population estimates, [Population estimates for the UK, England, Wales, Scotland and Northern Ireland - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/population-demography/population/population-estimates-for-the-uk-england-wales-scotland-and-northern-ireland)

2.6 The variation in the figures for the levy per person reflects the higher costs of concessionary travel demand and capital financing costs in the Tyne and Wear area and demonstrates why three separate levies are required. The following table sets out a summary of the transport net revenue spending planned for 2023/24. Approximately £46.966m (53%) is planned to be spent on concessionary travel and £21.087m (24%) on subsidised bus services (not including the costs of home to school transport for children and young people as these are within the budgets of the relevant local authorities).

*Table 3: Summary of the 2023/24 Transport Levy Budget:*

	<b>Durham</b>	<b>Northumb erland</b>	<b>Tyne and Wear</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Statutory Concessionary Travel	11.155	5.020	28.235	44.410
Discretionary Concessionary Travel	-	-	2.556	2.556
Subsidised Bus Services	4.888	1.230	14.969	21.087
Bus Stations/Infrastructure	0.008	0.027	2.636	2.671
Public Transport Information	0.089	0.025	1.453	1.567
Metro (inc. Discretionary Travel)	-	-	22.362	22.362
Ferry	-	-	1.481	1.481
Staffing in Durham / Northumberland	0.762	0.146	-	0.908
Funded from Reserves	-	-	(7.992)	(7.992)
<b>Transport Grant</b>	<b>16.902</b>	<b>6.448</b>	<b>65.700</b>	<b>89.050</b>
JTC General Transport Costs and former TWITA Costs	0.010	0.010	2.100	2.120
<b>Transport Levy</b>	<b>16.912</b>	<b>6.458</b>	<b>67.800</b>	<b>91.170</b>

### **Durham**

2.7 The budget and levy for public passenger transport activity in County Durham will be set at £16.912m for 2023/24. This compares with a levy of £15.619m for 2022/23.

The budget and levy for 2022/23, including the forecast outturn position, and 2023/24 is summarised in the table below.

*Table 4: Durham Transport Budget and Levy 2023/24:*

	<b>2022/23 Original Budget</b>	<b>Actual Spend to 31 Oct</b>	<b>2022/23 Forecast</b>	<b>2022/23 Variance</b>	<b>2023/24 Initial Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Concessionary Fares	12.205	5.054	11.070	(1.135)	11.155
Subsidised Services	2.688	1.266	4.294	1.606	4.888
Bus Stations	0.176	0.552	0.199	0.023	0.276
Bus Shelters	(0.268)	0.098	(0.211)	0.057	(0.268)
Passenger Transport Information	0.089	0.085	0.085	(0.004)	0.089
Staffing	0.719	0.419	0.719	0.000	0.762
Share of NECA Transport Costs	0.010	0.000	0.010	0.000	0.010
<b>Net Expenditure / Levy</b>	<b>15.619</b>	<b>7.474</b>	<b>16.166</b>	<b>0.547</b>	<b>16.912</b>

2.8 The projected outturn for 2022/23 is an overspend of £0.547m. An anticipated underspend in Concessionary Fares is forecast based on a return to a reimbursement model following the lifting of Covid-19 restrictions, which, in line with current guidance, will be used to support the passenger transport network which is forecast to overspend in 2022/23 due to a combination of inflationary pressures and additional support for withdrawn services. Both Bus Stations and Bus Shelters are forecast to overspend due to additional premises costs being incurred this year.

2.9 The reason for the year on year increase in the budget relates largely to provision for inflation. At the time of preparing the JTC budget report Durham County Council was still developing its 2023/24 budget proposals and therefore the figures are only draft at this stage.

### **Northumberland**

2.10 The budget and levy for public passenger transport activity in Northumberland will be set at £6.458m for 2023/24. This compares with a levy of £6.357m for 2022/23. The



budget and levy for 2022/23, including the forecast outturn position, and 2023/24 is summarised in the table below.

*Table 5: Northumberland Transport Budget and Levy 2023/24*

	<b>2022/23 Original Budget</b>	<b>Actual Spend to 31 Oct</b>	<b>2022/23 Forecast</b>	<b>2022/23 Variance</b>	<b>2023/24 Initial Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Concessionary Fares	4.931	2.223	4.531	(0.400)	5.020
Subsidised Services	1.230	0.233	1.496	0.266	1.230
Bus Services	0.028	0.012	0.034	0.006	0.027
Passenger Transport Information	0.025	0.000	0.025	0.000	0.025
Staffing	0.133	0.078	0.133	0.000	0.146
Share of NECA Transport Costs	0.010	0.000	0.010	0.000	0.010
<b>Net Expenditure / Levy</b>	<b>6.357</b>	<b>2.546</b>	<b>6.229</b>	<b>(0.128)</b>	<b>6.458</b>

- 2.11 The projected outturn for 2022/23 is an underspend of £0.128m. Concessionary Travel is forecast to underspend by £0.400m. Following the lifting of Covid-19 restrictions the DfT has allowed local authorities to negotiate with the local travel providers regarding the reimbursement rates payable in respect of concessionary travel. The Council has been able to negotiate two fixed price deals with the two major operators for the period April 2022 to March 2023 rather than based on a reimbursement rate per journey. This has provided budget certainty for all parties as passenger numbers are yet to recover to pre-pandemic levels.
- 2.12 The Supported Services budget is currently forecast to overspend by £0.266m. The overspend relates to the high number of contracts that have been handed back to the Council by operators due to the increase in fuel prices and the lack of resources (drivers/vehicles) available. The passenger transport team have reviewed the existing network and prioritised the contracts that continue to provide value for money and ensure that all geographic areas are served by the new network.
- 2.13 The reason for the small increase is due to an allowance for some inflation. At the time of preparing the JTC budget report Northumberland County Council was still developing its 2023/24 budget proposals and therefore the figures are only draft at this stage.

## Tyne and Wear Levy

- 2.14 The levy for Tyne and Wear includes a centrally retained budget of £2.100m, required to fund central transport costs, primarily relating to the former Tyne and Wear Integrated Transport Authority.
- 2.15 The apportionment of the Tyne and Wear levy between the constituent councils is revised each year to consider the mid-year population estimates. In 2023/24 the split of the levy will be based on the mid-2021 population estimates, whereas the 2022/23 levy was split based on the mid-2020 population estimates. Table 6 below exemplifies the overall year on year change in the budget and apportionment between the Tyne and Wear Councils. The movement in population estimates means that the levy change per council may be higher or lower than the headline percentage change of c4%.

*Table 6: Tyne and Wear Levy Apportionment 2023/24*

	<b>2021 Population</b>	<b>2022/23 Levy</b>	<b>2023/24 Proposed Levy</b>	<b>Change including population impact</b>
		<b>£</b>	<b>£</b>	<b>£</b>
Gateshead	196,154	11,487,801	11,814,249	326,448
Newcastle	298,264	17,453,494	17,964,279	510,785
North Tyneside	209,151	11,881,498	12,597,052	715,554
South Tyneside	147,915	8,597,108	8,908,840	311,732
Sunderland	274,211	15,805,099	16,515,580	710,481
<b>Total</b>	<b>1,125,695</b>	<b>65,225,000</b>	<b>67,800,000</b>	<b>2,575,000</b>

## Nexus Revenue Budget

### Updated Nexus Forecast of Outturn 2022/23

- 2.16 At the JTC meeting in November 2022, it was reported that central government intervention (in the form of the Energy Bill Relief Scheme) had improved Nexus' expected financial position in 2022/23. This position has improved further, primarily due to an additional allocation of Local Transport Funding (LTF), increasing interest income (following the increase in interest rates) and better performing secured services revenue.
- 2.17 At the end of period 8, Nexus is no longer expecting to have to draw on reserves in order to balance the budget in the current year. The latest forecast position is a small surplus of £0.451m, which is £6.051m better than originally anticipated when the budget was set last year. Whilst this is a significant achievement considering the

budgetary pressures and financial challenges that Nexus is contending with, it should be noted that this turnaround would not have been possible had it not been for Local Transport Funding (LTF) and the Energy Bill Relief Scheme (EBRS) which combined are providing Nexus with an estimated £15.738m of unbudgeted grant support this year. Had it not been for this support the position would have been £10.138m worse than the budgeted position.

2.18 The position for 2023/24 and 2024/25 budget setting has however significantly deteriorated when compared to the Medium-Term Financial Plan (MTFP) forecasts presented to the JTC in January 2022, due mainly to inflationary pressures that are beyond the control of Nexus and the continuing post Covid recovery process. A much greater reliance on reserves will be required in 2023/24 to balance the budget and a further contribution (not previously planned) will also be required in 2024/25. It will therefore be necessary to earmark the reserves that were to be applied in the current year that have not been utilised in order to help mitigate these challenges in future years.

2.19 The table below shows expenditure to the end of period 8 (12 November), together with the forecast outturn to the year end, against the revised budget reported to JTC in November. There is narrative following the table explaining the variances against the revised budget across the main service areas.

*Table 7: Nexus Forecast of Outturn 2022/23*

	<b>2022/23 Revised Budget</b>	<b>Actual Spend to 31 Oct</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Concessionary Fares	31.155	18.832	30.652	(0.503)
Metro	17.076	7.870	13.986	(3.090)
Bus Services	15.327	6.848	13.092	(2.235)
Other	5.167	2.657	4.944	(0.223)
Levy	(63.125)	(39.086)	(63.125)	-
<b>Total Expenditure</b>	<b>5.600</b>	<b>(2.879)</b>	<b>(0.451)</b>	<b>(6.051)</b>
Reserves	(5.600)	2.879	0.451	6.051

**Metro**

2.20 At the end of period 8, financial performance on Metro shows net expenditure at £3.090m better than the revised budget, after central government support, and before application of reserves. During the year, the inflationary pressures have continued to rise, most notably the cost of HV power, which has more than doubled (estimated at £21.572m against a base budget of £8.356m), caused by geo-political factors and continued instability in the energy market. However, after taking into

account the EBRS introduced by Government (which will discount the HV power bill by an estimated £6.163m) and the allocation of LTF grant (which in total is now expected to be £9.575m) the in year HV power cost pressure is now fully funded in the current year.

- 2.21 Metro fare revenue at the end of period 8 was £25.830m which exceeded the evenly profiled budget by £2.005m (8%), which was set based on 84% of pre-Covid levels. Given the ongoing impact Covid is having on journey patterns, it is proving difficult to accurately assess the profile of Metro fare revenues. In addition, the current economic climate could adversely impact customer numbers as the year progresses. Despite this however, it is apparent that Metro revenue is likely to be better than budget by the year end and the updated forecast position is a favourable variance of £1.300m. The forecast also reflects the introduction of a £2 fare on Metro for Pay As You Go (PAYGO) products for the period of 3 months, commencing in January 2023, where the revenue foregone is estimated to be around £0.300m.
- 2.22 The forecast at the end of period 8, reflects a net saving of £0.770m across a number of areas (some of which are also applicable to the other service areas), including travel ticket costs, cash handling, ICT licences and additional contract income. This has increased since the previous report as it reflects the Government decision to reverse the 1.25% national insurance increase. The forecast continues to include savings expected in employee costs due to a number of posts being held vacant for longer than originally planned, which is expected to amount to £0.750m. In addition to this, due to the rise in interest rates, the expected increase in investment income is now expected to be £0.570m.
- 2.23 It is important that the improved forecast is seen in the context of the significant amount of additional central government support (LTF and EBRS) that has been received. As noted, there will be a greater reliance on reserves in future years therefore the improvement in the 2022/23 position should be earmarked for this purpose.

### **Concessionary Fares**

- 2.24 At the end of period 8, concessionary fares included higher than budgeted school income of £0.177m and other savings of £0.090m. The updated forecast outturn has improved, with school income now expected to be £0.232m across the year. The forecast also reflects savings of £0.150m in respect of teen travel and consultancy, as well as increased overhead savings of £0.121m.

### **Bus Services**

- 2.25 Taking into account the unbudgeted LTF grant that has been received this year, financial performance on Bus Services shows net forecast expenditure of £2.235m below the revised budget, and before application of reserves. This is an improvement on the position previously reported, primarily in respect of bus commercial revenue, which is now expected to be £0.917m better than budget across the year. In addition to this, there are expected to be savings of £0.551m on secured service contracts, where an above inflation increase in the budget has not been fully required, following the network reconfiguration in response to commercial cuts and tender prices that

have been subsequently obtained. The forecast also reflects £0.060m savings on Taxi Card costs.

- 2.26 During the year, Nexus has received £0.535m of additional Bus Recovery Grant funding from Transport North East which is reflected within the forecast outturn position. This represents unused funding from the previous financial year, which had been carried forward under the terms and conditions of the grant. Finally, there are increased overhead savings which are expected to amount to £0.172m for the year.
- 2.27 As with the Metro underspend, it is important that the improved forecast is seen in the context of the significant amount of additional central government support (LTF and EBRs) that has been received. As noted, there will be a greater reliance on reserves in future years therefore the improvement in the 2022/23 position should be earmarked for this purpose.

### **Other**

- 2.28 The budget heading includes Ferry, Bus Infrastructure and Passenger Transport Information. At the end of period 8, financial performance shows net expenditure is expected to be £0.223m better than the revised budget, before application of reserves. To the end of period 8, ferry revenue is £0.277m, which is £0.034m higher than the profiled budget. The forecast has been updated to reflect an estimated favourable variance of £0.024m for the year. The forecast also reflects £0.054m higher than budgeted fuel and insurance costs on the ferry, offset by overhead savings of £0.253m.

### **Nexus Budget 2023/24**

- 2.29 When the JTC met on 15 November 2022, Nexus reported that the impact of inflation (most notably HV power) on the 2023/24 budget was profound. An increase in the Tyne and Wear Transport Levy commensurate with the 4.0% uplift that was signalled in the budget report to the JTC in January 2022, was highlighted as being required in 2023/24. In addition to this, a package of further support from Central Government (DfT) was to be sought, due to the significant budget pressures which Nexus is experiencing in relation to the HV Power on Metro.
- 2.30 At this stage there has been no confirmation of any further support from DfT for 2023/24, although discussions are ongoing with the Department. Due to the financial gap that exists, if further support from the DfT is not forthcoming and/or the JTC does not agree the proposed levy increase, this would have a major detrimental impact on the recovery of Nexus as it emerges from the Covid pandemic and deals with the challenges posed by high levels of inflation and the cost of living crisis.
- 2.31 In the current year, in order to help set a balanced budget and enable Nexus' services to be maintained, the JTC approved a levy increase of 6.75% (£4.1m) and agreed a contribution of £5.6m from Nexus' reserves.
- 2.32 During the year to date, Nexus has seen recovery in customer numbers using the Metro, introduced measures to tackle anti-social behaviour on Metro and reacted to systemic changes in the bus network by reconfiguring and growing its own secured services provision. This is all being done against a backdrop of delivering major

capital investment in new trains, a new depot, other essential renewals, and the construction of a new line in South Tyneside (Metro Flow).

- 2.32 Inflation has risen significantly above the levels anticipated in the base budget and against the levels previously assumed and this has had a hugely detrimental effect on a range of costs making up Nexus' budget. In particular, the cost of high voltage power has more than doubled, caused by geo-political factors, and continued instability in the energy market. There are other pressures relating to employee pay, contract price inflation and instability in the bus market where, as the paragraph above outlines, Nexus has had to step in and preserve services which would otherwise have been lost.
- 2.33 Despite this, the financial position has been managed this year due to the receipt of:
- Additional central government support amounting to £9.6m, in the form of Local Transport Funding (LTF); and
  - Further support, estimated at £6.2m from the government's Energy Bill Relief Scheme (EBRS), which is expected to reduce HV Power expenditure down from £21.6m to £15.4m, against an original budget of £8.4m.
- 2.34 This means that in 2022/23, Nexus no longer expects to draw on its reserves to balance the budget, and in fact a small surplus (contribution to reserves) is currently forecast. This reduction in the planned use of reserves will need to be carried forward to assist with the financial challenges in 2023/24 and 2024/25, as outlined further below.
- 2.35 During budget setting for 2022/23, it was highlighted in the Medium Term Financial Plan forecasts that it would be necessary to increase the Tyne and Wear Transport Levy further in both 2023/24 and 2024/25 given that Nexus could not place reliance on reserves indefinitely. Initial forecasts suggested that an increase in the levy of 4.0% (amounting to £2.6m) in 2023/24 and 3.7% (amounting to £2.5m) in 2024/25 would be required. This was in addition to Nexus using an additional £3.1m of reserves in 2023/24 to enable services to be maintained, during recovery from the Covid pandemic.
- 2.36 Since the development of the 2022/23 budget and medium-term financial plan (where a deficit of £5.7m, to be offset by reserves was anticipated in 2022/23), a range of unforeseen pressures have arisen, the most significant being the cost of HV Power. The likely costs in 2023/24 are difficult to quantify with any certainty at this stage given the volatility in the markets. At the time of reporting to the JTC in November 2022, the HV power estimate and other inflationary pressures meant that there was an expected deficit of £22.7m for 2023/24, an increase of £17.0m on that previously notified to the JTC in January 2022.
- 2.37 To deliver a balanced budget, Nexus has assumed a continuation of central government support equivalent to the discount of the Energy Bill Relief Scheme into 2023/24. This is not certain at this stage, but discussions are ongoing with the DfT. Assuming this support is secured, Nexus is still forecasting a deficit of £10.6m in 2023/24, which would be funded by an increase to the Tyne and Wear levy of £2.6m (4.0%) and the use of Nexus' reserves of £8.0m.

- 2.38 In arriving at this position assumptions have been made regarding the delivery of efficiencies without a cut to services, including the renegotiation of contracts and containing cost pressures from within existing budgets (which together total £4.6m). In addition, the forecasts factor in the benefit of increases in interest rates which is expected to generate additional investment income of £0.4m, as well as government's decision to reverse the national insurance increase which is expected to save £0.3m.
- 2.39 The budget also includes a £0.6m benefit in respect of the Metro Rail (revenue) Grant (MRG), which DfT have agreed to index, effective from 1 April 2022, after initially advising Nexus that this grant would not increase. No further indexation in 2023/24 is assumed. However, in 2021/22, DfT provided Nexus with additional grant support of £3.3m for Metro revenue expenditure in lieu of MRG not being indexed in future years. Due to the budget pressures being faced in 2023/24, it is proposed to fully allocate this additional grant support in this year.
- 2.40 Finally, due to the more optimistic recovery of Metro fare revenue being seen in 2022/23, the forecast for 2023/24 has been revised upwards. The table below shows Nexus' latest estimate of Metro fare revenue across the medium term using 2019/20 i.e., the last full year before the Covid pandemic, as the base year. Despite faster recovery being reflected in 2023/24, Nexus is still not forecasting Metro revenue to return to pre-pandemic levels until 2024/25 despite the impact of successive fares reviews and two major capital interventions i.e., the new fleet and Metro Flow.

*Table 8: Metro Revenue forecasts*

	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget</b>
	<b>2019/20</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Fare Revenue	44.0	37.6	43.0	45.0	45.5
LRRRG (Covid-19 grant)	1.1	-	-	-	-
Impact of New Fleet	-	-	0.5	1.9	2.2
Impact of Metro Flow	-	-	-	0.5	2.0
<b>Total</b>	<b>45.1</b>	<b>37.6</b>	<b>43.5</b>	<b>47.4</b>	<b>49.7</b>
<b>Total as a % of 2019/20</b>	<b>n/a</b>	<b>84%</b>	<b>97%</b>	<b>105%</b>	<b>110%</b>

- 2.41 The efficiencies set out above help to partially offset the significant cost pressures caused by inflation, most notably HV power. At this stage, the HV power cost for next year is difficult to estimate due to the volatility in the markets, with estimates over the last few months ranging from £20.9m to £28.8m as the market price has fluctuated. The budget planning assumes that additional central government support is

provided, reducing the HV power cost to £15.2m. If this support is ultimately forthcoming a deficit of £10.6m would exist in 2023/24.

- 2.42 Given the magnitude of this financial challenge, Nexus has had to seek a 4.0% or £2.6m increase in the Tyne and Wear Levy in 2023/24. Table 6 shows the impact of this increase on each of the Tyne and Wear Councils.
- 2.43 Nexus is also proposing to underpin (and balance) the revenue budget in 2023/24 by applying £8.0m of its reserves in order to protect service delivery. This is possible due to the improved financial outturn in 2021/22, as well as the expected improved position in 2022/23. The adoption of such a strategy is considered prudent given the need to maintain services as far as possible, in order to ensure Nexus emerges from the Covid pandemic/cost of living crisis in a positive way, something that the recovery plan for the Metro submitted to central government insisted on, and without which, a spiral of decline in the level of service provided and fare revenue capable of being generated was foreseen.
- 2.44 The latest forecast for 2024/25 is that there will be a need for a further use of reserves despite a further increase in the levy being sought that year. After the assumed contributions in 2023/24 and 2024/25, this will mean that the remaining level of reserves earmarked to help underpin the revenue budget will have reduced to £1.8m, which leaves very little scope for addressing any additional budgetary pressures that might arise. Continued central government support in 2023/24 is essential to the budget strategy Nexus is adopting.
- 2.45 At the lower end of the HV power estimates, without central government support, an additional financial gap of £5.7m would exist, however at the top end of the estimates, it would be £13.6m. At these levels, Nexus would not be able to absorb the additional costs and would need to review services, which is why it is imperative that Nexus continues to lobby the DfT for further support.
- 2.46 Taking into account the reduced HV power estimate and an assumption that central government support is forthcoming, and after factoring in the measures proposed to balance the budget, Nexus' 2023/24 budget and its main sources of funding are summarised in the table below and in more detail at Appendix 2 and 3.

*Table 9: Nexus 2023/24 Budget and Funding Summary*

	<b>Gross Exp<sup>2</sup></b>	<b>Commercial Revenue<sup>3</sup></b>	<b>Government Grant<sup>4</sup></b>	<b>Net position</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>

<sup>2</sup> Including central support service costs and overheads.

<sup>3</sup> This assumes fare revenue recovers to 97% of pre-Covid levels.

<sup>4</sup> Metro grants includes £3.3m which has been carried forward and is currently held in reserves.



Statutory Concessions	28.3	(0.1)	-	28.2
Discretionary Concessions	3.2	(0.6)	-	2.6
Metro	133.0	(46.5)	(64.1)	22.4
Ferry	2.1	(0.4)	(0.2)	1.5
Bus Services	18.4	(2.6)	(0.9)	14.9
Bus Infrastructure	3.4	(0.4)	(0.4)	2.6
Public Transport Information	1.7	(0.2)	-	1.5
<b>Total</b>	<b>190.1</b>	<b>(50.8)</b>	<b>(65.6)</b>	<b>73.7</b>
JTC Grant from Levy				(65.7)
<b>Deficit funded from Reserves</b>				<b>8.0</b>

2.47 The proposed levy increase of £2.6m would mean the levy receivable by Nexus in 2023/24 would be £65.7m. Assuming the levy is increased, a split of the services which it funds, between Metro and non-Metro is shown in the table below:

*Table 10: Levy funding for Nexus Service 2023/24*

	<b>Gross Exp.</b>	<b>Comm. Revenue</b>	<b>Govt. Grant</b>	<b>Levy<sup>5</sup></b>	<b>Net Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-Metro Services	57.1	(4.3)	(1.5)	(51.3)	-
Metro Services	133.0	(46.5)	(64.1)	(14.4)	8.0
<b>Total</b>	<b>190.1</b>	<b>(50.8)</b>	<b>(65.6)</b>	<b>(65.7)</b>	<b>8.0</b>
Reserves					(8.0)

2.48 The c£2.6m levy increase has been earmarked for Metro Services, which will take the total levy earmarked for Metro Services to £14.4m. This results in the £8.0m reserves funding which is being used to underpin the revenue budget in 2023/24

<sup>5</sup> In this analysis, it is assumed that the levy is first applied to non-Metro services, because pre-Covid, levy funding was not applied to Metro services. There are, however, no strict rules as to how the levy should be applied and equally, this analysis could show a reduced level of levy support for non-Metro services (and an increase in the amount of levy support applied to Metro).

being earmarked entirely for Metro Services. In this regard, it is important to recognise that before the Covid pandemic, levy funding was not used to support Metro Services, save for a small contribution towards the cost of the Gold Card concessionary travel scheme.

2.49 The preparation of the 2023/24 budget gives rise to a number of risks and opportunities which include the following:

- a) The JTC may not approve the levy increase of £2.6m and/or the DfT is not forthcoming with a further package of support. This would require Nexus to review services;
- b) The budget makes an allowance for inflation on pay and non-pay. Inflation has risen steeply, and although it is expected to start to fall in the middle of next year, there is a risk that the allowance made may be insufficient and this will put Nexus' budget under additional pressure. On the other hand, if inflation falls faster than expected, this could have a positive impact on Nexus' budget;
- c) The ENCTS (concessionary fares) budget will remain at 2022/23 levels, with Nexus being able to justify payments to operators at this level through emergency legislation that is expected to be renewed from another year. There is a risk that commercial bus operators may need to consider further network changes as a result;
- d) Metro fare revenue is budgeted to recover to 97% of pre-Covid levels. In respect of this challenging target, it should be noted that Nexus' assessment of its ability to generate revenue at this level reflects the fantastic recovery seen during the year to date in 2022/23. The budget reflects the impact of the fares proposal that the Tyne and Wear Sub-Committee will be asked to approve in January 2023;
- e) The budget has been prepared ignoring the impact of the Bus Services Improvement Plan (BSIP). Any financial implications arising from its implementation would need to be considered at that time; and
- f) The budget makes allowance for opportunities from the new fleet including reduced HV power costs and additional fare revenue, all of which will need to be kept under review across the term of the Medium Term Financial Plan.

### **Nexus Forecasts 2024/25 and 2025/26**

2.50 It was previously indicated that it would be necessary to further increase the Tyne and Wear transport levy in 2024/25. This is still expected to be required and an increase thereafter will also be required based on the current medium term forecasts if service provision is to be protected. It will also be necessary to place reliance on reserves in 2024/25 (which is longer than previously anticipated). This is necessary to enable Nexus to maintain services until the energy crisis abates (assumed to be no earlier than 2025/26).

- 2.51 There is a huge degree of uncertainty over the HV power cost estimates for 2024/25 and 2025/26. Nexus procures its electricity through the North East Procurement Organisation (NEPO) who have recently commissioned a report from Cornwall Insight on the outlook for the energy market to assist with budgeting for future years. Using the intelligence from this report, Nexus' HV power cost is expected to reduce in 2024/25 but will still exceed the 2021/22 actuals in terms of price by an estimated 70%. Costs are expected to reduce further in 2025/26, although the price is still expected to be 40% higher than 2021/22 actuals. Clearly, whilst industry experts have informed these estimates, given the huge amount of instability in the energy market and price volatility, they are not as robust as other forecasts contained within Nexus' budget. Further complications relate to predicted levels of energy consumption as the old fleet is phased out and the new fleet is phased in.
- 2.52 The assumptions for inflation have been made with reference to the latest Bank of England forecasts with a significant reduction expected for 2024/25, and a further reduction for 2025/26. Despite this, the cost base is still expected to increase and therefore Nexus have assumed that MRG will be indexed by the DfT, however, this is unconfirmed and represents a risk to the forecast. The forecast for the cost base also reflects the end of the use of reserves previously set aside to partially fund the Metrocar Maintenance Agreement (which is replaced by the Train Services Agreement), and the additional costs associated with delivering a timetable uplift in connection with Metro Flow.
- 2.53 These additional costs have been estimated based on the original business case for Metro Flow. Work is ongoing to optimise the Metro timetable, commensurate with the opportunity that Metro Flow provides, but recognising that customer demand is very different post pandemic.
- 2.54 A key benefit in Nexus' forecast is the significant saving which is expected to arise in connection with debt charges relating to the construction of the Sunderland Metro extension. In addition to this, fare revenue is expected to continue to increase, with further recovery in 2024/25 forecast. The impact of the major capital interventions is also reflected, with additional revenue expected on the Metro Flow timetable uplift described above and the introduction of the new fleet.
- 2.55 Despite these opportunities being reflected in the forecasts, in 2024/25, with the cost of HV power still expected to be abnormally high, in addition to an increase in the levy, it will be necessary for Nexus to make a call on reserves of £3.6m.
- 2.56 In 2025/26, at this stage, Nexus is forecasting a deficit of £4.3m. A further levy increase of £2.1m (3.0%) would be necessary. Notwithstanding the uncertainties surrounding this forecast, given this would not close the financial gap, options to address the funding shortfall will need to be developed so that Nexus can set a budget which is sustainable in the long term and does not continue placing reliance on reserves.
- 2.57 The forecasts for 2024/25 and 2025/26 are subject to a huge amount of variability and will need to be updated over the coming months, once key risks and uncertainties become clearer. Indicative estimates are set out below:

Table 11: Nexus budget indicative estimates 2024/25 and 2025/26

<b>2024/25</b>	<b>Gross Exp</b>	<b>Comm. Revenue</b>	<b>Govt. Grant</b>	<b>Levy</b>	<b>Net Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-Metro Services	59.1	(4.2)	(1.7)	(52.8)	0.4
Metro Services	131.6	(50.3)	(62.7)	(15.4)	3.2
<b>Total</b>	<b>190.7</b>	<b>(54.5)</b>	<b>(64.4)</b>	<b>(68.2)</b>	<b>3.6</b>
Reserves					(3.6)

<b>2025/26</b>	<b>Gross Exp</b>	<b>Comm. Revenue</b>	<b>Govt. Grant</b>	<b>Levy</b>	<b>Net Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Non-Metro Services	60.4	(4.2)	(1.7)	(54.3)	0.2
Metro Services	134.4	(52.4)	(64.0)	(16.0)	2.0
<b>Budget 2025/26</b>	<b>194.8</b>	<b>(56.6)</b>	<b>(65.7)</b>	<b>(70.3)</b>	<b>2.2</b>

2.58 As shown in the table above, in 2024/25, the levy increase previously proposed of 3.7% (amounting to £2.5m) is still required and in 2025/26, a further levy increase of 3.0% (amounting to £2.1m) will also be necessary if significant cost in service provision are to be avoided. Despite this, the 2025/26 budget currently shows a deficit of £2.2m, which will require further consideration by Nexus and reassessed when the forecast is refreshed over the coming months.

2.59 Finally, in assessing Nexus' budget challenges across the medium term, the JTC might be interested that in its benchmarking with Metros across the globe (through Nexus' membership of Comet, 'the Community of Metros', which is facilitated by the Transport Strategy Centre at Imperial College, London) the Tyne and Wear Metro continues to compare very favourably with its peers. Key metrics include:

- Within the top quartile for customer recovery post pandemic (with European metros generally outperforming Asian and North/South/Latin American metros);
- Very good cost efficiency, with operating costs about as low as possible (reflecting the comparatively lower levels of public subsidy necessary to operate the system);
- Relatively high fares (the inference being that increasing fares further will be counter-productive);

- The oldest average fleet age among Comet metros (something that is being addressed); and
- Relatively low levels of demand relative to network length (the inference being that the region has ‘a lot of metro’ given its comparatively lower population and development density, meaning that making the best use of such an extensive asset is imperative).

## Transport North East

- 2.60 Since its creation in 2018, the Transport North East (TNE) team has been working at capacity to develop and lead on the delivery of a very broad and ambitious transport programme on behalf of the region. NECA and NTCA together form one of the largest areas in the country by population and geographical size. TNE acts as the strategic transport body that supports both Combined Authorities (via the JTC).
- 2.61 The TNE core budget is funded through contributions from the Transport Levies which are retained to support JTC activity and a topslice of the Local Transport Plan (LTP) Integrated Transport Block grant which is awarded to the JTC plus external contributions to fund specific posts and external grants for specific programmes and projects.
- 2.62 The budget proposed for 2023/24 assumes that contributions from the levies and LTP grant are maintained at the same level as 2022/23.
- 2.63 Forecast expenditure for 2022/23 is £0.871m, slightly below the budget of £0.950m due to reduced costs relating to strategy and Transport Plan work and research and development. Employee costs are forecast to be £0.034m higher than budget due to a restructure of posts which took place during the year, with the increased costs accommodated within the overall budget.
- 2.64 Total income forecast for 2022/23 is £0.990m, which is £0.040m higher than budget due to receipt of additional external contributions and grants. This results in a small forecast surplus of £0.119m which will be added to reserves to fund activity in future years.

*Table 12: Transport North East Core Budget*

	<b>2022/23 Original Budget</b>	<b>Actual Spend to 31 Oct</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Forecast Variance</b>	<b>2023/24 Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Employee costs	0.709	0.361	0.743	0.034	0.806
Transport Plan / Strategies	0.060	0.036	0.036	(0.024)	0.085
Research and Development	0.100	0.012	0.045	(0.055)	0.090

Travel and Miscellaneous	0.021	0.010	0.023	0.002	0.024
IT / Equipment / Accommodation	0.011	0.000	0.011	0.000	0.004
Contingency	0.049	0.002	0.003	(0.046)	0.018
Organisational Development	0.000	0.004	0.010	0.010	0.010
<b>Total Expenditure</b>	<b>0.950</b>	<b>0.425</b>	<b>0.871</b>	<b>(0.079)</b>	<b>1.037</b>
LTP Grant	(0.500)	0.000	(0.500)	0.000	(0.500)
Retained Transport Levy	(0.284)	(0.284)	(0.284)	0.000	(0.284)
External funding for specific posts	(0.166)	(0.008)	(0.196)	(0.030)	(0.178)
LTA Capacity Revenue grant	0.000	(0.004)	(0.010)	(0.010)	(0.010)
<b>Total income</b>	<b>(0.950)</b>	<b>(0.796)</b>	<b>(0.990)</b>	<b>(0.040)</b>	<b>(0.972)</b>
Net Expenditure to fund from Reserves	0.000	(0.371)	(0.119)	(0.119)	0.065
JTC Unallocated Reserves	0.000	0.371	0.119	0.119	(0.065)

2.65 A number of new revenue funding streams were awarded to TNE to administer subsequent to the original budget being set and these are included in the forecast outturn. The DfT's Capability Fund provides active travel revenue funding for local authorities to enable the delivery of behaviour change programmes linked to the implementation of infrastructure. The package is a combination of payments which will be made to the Local Authorities for delivery and TNE-led elements, such as increasing the amount of active travel data the team have access to which will inform the development of the North East Active Travel Strategy. The outcome of a further bid for Capability Fund grant to enable the work to continue into 2023/24 is awaited. The JTC was awarded £9.924m from the Local Transport Fund in respect of socially necessary bus services and light rail services, which was effective from April to October 2022. A further extension has been awarded, £1.312m which applies from October to December 2022.

2.66 Following the government's announcement that the region had been indicatively awarded funding of £163.5m for its Enhanced Bus Partnership, work has been underway to meet the new timescales and requirements set out in the indicative funding letter. Figures included in the forecast outturn for 2022/23 and indicative

budget estimate for 2023/24 are included on the basis that the EP funding is confirmed and received during the current financial year.

2.67 The JTC agreed on 15 November to progress the business case for the Washington Metro Loop to the next stage of development which is the Outline Business Case. Nexus is recommended as the most appropriate body to take the development forward, given that the route is proposed to be a Metro line, and given Nexus' recent experience in developing and delivering the Metro Flow project. Nexus has the resources and expertise in place to take the development of the OBC forward and have identified that it would cost between £7.5 million and £8 million and take 2-3 years.

2.68 In order to begin this work, £0.700m of resources have been allocated from the TNE budget so that work can begin in 2023/24, whilst a strategy is developed to secure the remainder of the funding needed for the development of the business case – from a range of sources, as well as for the delivery of the project itself. At the same time, TNE will continue to progress the development of the first stage business case for the other corridors identified in the North East Rail and Metro Strategy, including the remainder of the Leamside Line. This work will take a light-touch approach to engineering feasibility at this stage.

*Table 13: TNE Grants and Contributions Budget*

	<b>2022/23 Original Budget</b>	<b>Actual Spend to 31 Oct</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Forecast Variance</b>	<b>2023/24 Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Active Travel Planning	0.796	0.066	0.408	(0.388)	0.626
BSIP / Enhanced Partnership	0.280	0.167	19.127	18.847	38.506
Bus Recovery Grant	0.000	1.676	1.676	1.676	0.000
Capability Fund	0.000	0.004	2.160	2.160	0.000
Freight Study	0.000	0.000	0.050	0.050	0.000
Local Transport Fund (Bus and Light Rail)	0.000	3.650	9.924	9.924	0.000
Metro and Local Rail Studies (including Washington Loop OBC)	1.136	0.191	0.586	(0.550)	1.043
Rail Development	0.236	0.145	0.238	0.002	0.239

Programme Management	0.621	0.224	0.274	(0.347)	0.240
<b>Total Expenditure</b>	<b>3.069</b>	<b>6.123</b>	<b>34.443</b>	<b>31.374</b>	<b>40.654</b>
ATF Revenue Grant	(0.796)	(0.066)	(0.408)	0.388	(0.626)
Capability Fund Grant	0.000	(0.004)	(2.160)	(2.160)	0.000
DfT BSIP Grant	(0.207)	(0.167)	(19.127)	(18.920)	(38.506)
Bus Recovery Grant	0.000	(1.676)	(1.676)	(1.676)	0.000
Local Transport Fund	0.000	(3.650)	(9.924)	(9.924)	0.000
Metro and Local Rail Studies (funded by Nexus budget transfer)	(1.136)	(0.187)	(0.516)	0.620	(0.843)
LEP funding for Metro and Local Rail Studies	0.000	(0.004)	(0.070)	(0.070)	0.000
Rail Administration Grant (via Nexus)	(0.236)	(0.145)	(0.238)	(0.002)	(0.239)
TCF Tranche 2	(0.621)	(0.192)	(0.243)	0.378	(0.240)
<b>Total Grants and Contributions</b>	<b>(2.996)</b>	<b>(6.091)</b>	<b>(34.362)</b>	<b>(31.366)</b>	<b>(40.454)</b>
Net Expenditure	0.073	0.032	0.081	0.008	0.200
Contribution to/(from) Reserves	(0.073)	(0.032)	(0.081)	(0.008)	(0.200)

### Tyne Tunnels

- 2.69 The Tyne Tunnels are accounted for as a ring-fenced account within the JTC budget, meaning that all costs relating to the tunnels are wholly funded from toll income and Tyne Tunnels reserves, with no call on the levy or external government funding.
- 2.70 The JTC receives all toll income from the vehicle tunnels in the first instance and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels, primarily interest and principal repayments on borrowing taken out to fund the New



Tyne Crossing project, and other client costs associated with the management of the contract with the concessionaire.

2.71 The updated forecast outturn for 2022/23 and budget for 2023/24 is set out below.

*Table 14: Tyne Tunnels Budget 2022/23 and 2023/24*

	<b>2022/23 Original Budget</b>	<b>Spend to date 31 Oct 2022</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Variance</b>	<b>2023/24 Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Tolls income	(32.715)	(21.991)	(30.977)	1.738	(35.991)
TT2 Contract	24.322	13.898	24.104	(0.218)	28.032
Employees	0.142	0.073	0.129	(0.013)	0.147
Pensions	0.050	0.027	0.050	0.000	0.065
Premises	0.014	0.000	0.092	0.078	0.114
Support Services	0.155	0.004	0.160	0.005	0.160
Supplies & Services	0.195	0.199	0.525	0.330	0.347
Financing Charges	8.140	0.000	6.466	(1.674)	7.928
Interest/Other Income	(0.065)	(0.010)	(0.208)	(0.143)	(0.150)
Repayment from TWITA for temporary use of reserves	(0.240)	(0.240)	(0.240)	0.000	(0.240)
<b>(Surplus)/Deficit on Tyne Tunnels revenue account</b>	<b>(0.002)</b>	<b>(8.040)</b>	<b>0.101</b>	<b>0.103</b>	<b>0.412</b>

2.72 The forecast for tolls income in the current financial year is £1.738m lower than the original budget for the year as this had assumed that an increase in the toll would be applied during the financial year. The 2022/23 forecast and 2023/24 budget includes the impact of the decision taken by the Tyne and Wear Sub Committee in November 2022 in relation to the tolls increase. The Committee agreed an increase in the tolls to be applied from May 2023 for Class 2 and Class 3 vehicles, a delay from the earliest applicable date of February 2023, keeping the toll at the current level for both Class 2 and Class 3 vehicles throughout the winter to provide relief for tunnels users during this period taking into account winter fuel bills and the current cost of living

crisis. The income lost by holding the Class 2 tolls at the current levels for this period will be funded by Tyne Tunnels reserves.

- 2.73 This delay does not affect the increase in the 'shadow toll' payable to TT2, which increases from 1 January 2023.
- 2.74 Members of the JTC will be aware that decisions on tolls increases is the responsibility of the TWSC, based on the principles established at the creation of NECA that decisions around assets owned by the Tyne and Wear Integrated Transport Authority (namely the Tyne Tunnels and the Tyne and Wear Metro) would be taken by Tyne and Wear councils, and decisions around transport assets owned by Durham and Northumberland County councils would remain with those individual councils.
- 2.75 The increase in the toll's income estimate between the 2022/23 forecast outturn and 2023/24 budget is £5.014m, or around 16%. The majority of the increase (£4.571m) relates to the increase in the tolls triggered by the level of inflation as measured by the Retail Prices Index, with a further £0.443m relating to assumed increases in traffic. The toll increase from £1.90 to £2.20 totals 15.7% over a two-year period (during which time the Retail Prices Index has increased by 17.5%) following the last toll increase for class 2 vehicles which was implemented in May 2021.
- 2.76 Premises costs included in the budget relate to utilities charges for the Tyne Pedestrian and Cycle Tunnels. The two tunnels are around 270 metres in length and open 24 hours a day, 7 days a week. Electricity costs relating to lighting systems, CCTV and security systems and the lifts at either end are substantial and have increased significantly during 2022/23 as energy prices have increased sharply. The forecast is £0.078m higher than the budget for the year due to price increases.
- 2.77 The forecast for supplies and services is £0.330m higher than the original budget for the year due to the requirement for external engineering and legal support and costs of service contracts relating to the pedestrian and cycle tunnels.
- 2.78 Cost increases are largely accommodated during the financial year because financing charges are forecast to be £1.674m lower than the original budget. The budget had included some additional accelerated principal repayments on debt relating to the New Tyne Crossing. In order to offset the reduction in tolls income the additional, accelerated repayments of debt will not now be made in 2022/23. The minimum level of revenue provision for the repayment of debt will be made, along with all interest payments. In addition, interest and other income is forecast to be £0.143m in excess of the budget, as increases in interest rates during the year mean higher returns are now available on short term investments.
- 2.79 The deficits forecast for 2022/23 and 2023/24 primarily relate to the decision to delay the application of the tolls increase and will be funded from Tyne Tunnels reserves.

## **Reserves**

- 2.80 The JTC holds reserves to fund future activity and to manage financial risk associated with its activities. A summary of the reserves held at 1 April 2022 and the forecast position at 31 March 2023 and 31 March 2024 is shown in the table below.

Table 15: JTC Reserves

	<b>1 April 2022</b>	<b>Forecast 31 March 2023</b>	<b>Movement in Year 2022/23</b>	<b>Forecast 31 March 2024</b>	<b>Movement in Year 2023/24</b>
JTC Unallocated Reserve	(0.933)	(0.971)	(0.038)	(0.934)	0.037
Tyne Tunnels	(9.782)	(9.567)	0.101	(9.155)	0.412
Metro Reinvigoration	(8.108)	(8.293)	(0.185)	(2.993)	5.300
Metro Fleet Renewal	(10.168)	(10.399)	(0.231)	(3.176)	7.223
Go Smarter Legacy (grants unapplied)	(0.044)	(0.044)	0.000	0.000	0.044
Regional Transport Team	(0.184)	(0.184)	0.000	0.000	0.184
Metro and Local Rail Studies	(1.683)	(1.167)	0.516	(0.324)	0.843
<b>Total JTC Reserves</b>	<b>(30.902)</b>	<b>(30.625)</b>	<b>0.163</b>	<b>(16.582)</b>	<b>14.043</b>

- 2.81 Reserves are forecast to reduce slightly in 2022/23 as a result of the planned use of reserves to fund the Metro and Local Rail Studies work and the cost of the bid to the Levelling Up Fund, and to meet the forecast deficit on the Tyne Tunnels, offset by increased Metro Fleet Renewal and Metro Reinvigoration reserves which have had interest on revenue balances allocated to the balance. In 2023/24, a more significant use of reserves totalling £14.043m is planned, mainly to fund capital expenditure on the Metro Fleet Replacement (£7.223m) and Metro Asset Renewal Programmes (£5.300m) as well drawdowns required to meet the forecast deficit on the Tyne Tunnels and to contribute to the work on the outline business case for the Washington Metro Loop. The reserves are forecast to be £16.582m by 31 March 2024 which is considered to be a prudent level.
- 2.82 This table does not include Nexus own reserves, use of which is described in the Nexus budget sections above.

### 3. Reasons for the Proposals

3.1 The proposals are presented in this report to enable the JTC to set its budget for 2023/24.

#### **4. Alternative Options Available**

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

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

4.3 Option 1 is the recommended option. If the recommendations in the report are not agreed, a special meeting of the JTC would be urgently required in order to agree 2023/24 Transport Levies before the statutory deadline of 15 February 2023.

#### **5. Next Steps and Timetable for Implementation**

5.1 The NECA Leadership Board and NTCA Cabinet will issue the transport levies to their constituent authorities on behalf of the Joint Transport Committee, and this will be presented for agreement at meetings on 24 January and 31 January respectively.

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

6.1 The budgets presented in this report are aligned to the achievement of the Transport policy objectives of the JTC. They allow a balanced budget to be established in 2023/24 and include a strategy to enable the delivery of services over the medium term.

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

7.1 The financial and other resource implications are set out in the body of the report.

#### **8. Legal Implications**

8.1 The JTC must approve the transport budget and levies unanimously. The NECA Leadership Board and NTCA Cabinet will issue the levies to their constituent councils by 15 February preceding the financial year to which they relate. The Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 specifies that this function is exercisable only by the JTC.

#### **9. Key Risks**

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

9.2 The JTC must approve the transport budget and levies unanimously. Despite mitigations including briefings and consultation with all constituent authorities particularly in Tyne and Wear, there remains a risk that it is not possible to achieve unanimous agreement at this meeting.

9.3 Should the proposals for the levies not be agreed unanimously at this meeting, a special meeting of the JTC would be required to consider revised proposals. Without an increase in the Tyne and Wear levy, the approach to balancing the Nexus budget in 2023/24 may involve reductions in services.

9.4 Under the Transport Levying Bodies Regulations 1992, the two combined authorities are required to issue a levy before 15 February preceding the commencement of the financial year in respect of which it is issued. This is to enable constituent local authorities to be able to include the levy amounts in their budgets for the new financial year.

## **10. Equality and Diversity**

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

## **11. Crime and Disorder**

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

## **12. Consultation/Engagement**

12.1 The NECA Constitution requires that consultation on budget proposals in its role as Accountable Body for the JTC be undertaken at least two months prior to the budget being agreed. The draft proposals have been subject to consultation with members of the JTC Overview and Scrutiny Committee and officer groups.

12.2 The JTC Overview and Scrutiny Committee discussed the draft budget proposals in its meetings on 13 October and 15 December. As part of their discussions, Members recognised the current forecasts of deficits in the Nexus budget arising from the high cost of High Voltage power resulted in a serious position for the JTC and a set of stark choices around levy increases.

12.3 Members discussed the impact of changing working patterns on Metro fare revenue. A table setting out the forecast Metro revenue in total and as a proportion of pre-covid income is included in the report.

12.4 Members also noted the reliance on use of reserves in order to balance the budget and the need to reach a balanced position without reliance on reserves at the end of the MTFs period. The forecast for the period to 2025/26 is covered in detail in the report.

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

13.1 There are no other impacts arising from this report.

## **14. Appendices**

14.1 Appendix 1 – Transport Levy Arrangements

Appendix 2 – Nexus Summary Revenue Budget Requirement 2023/24

Appendix 3 – Detailed 2023/24 budget

**15. Background Papers**

- 15.1 JTC Budget 2022/23 – Report to JTC 2 February 2022  
<https://northeastca.gov.uk/wp-content/uploads/2022/01/2022.02.02-JTC-Public-Document-Pack.pdf>

**16. Contact Officers**

- 16.1 Eleanor Goodman, NECA Finance Manager,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 433 3860

**17. Sign off**

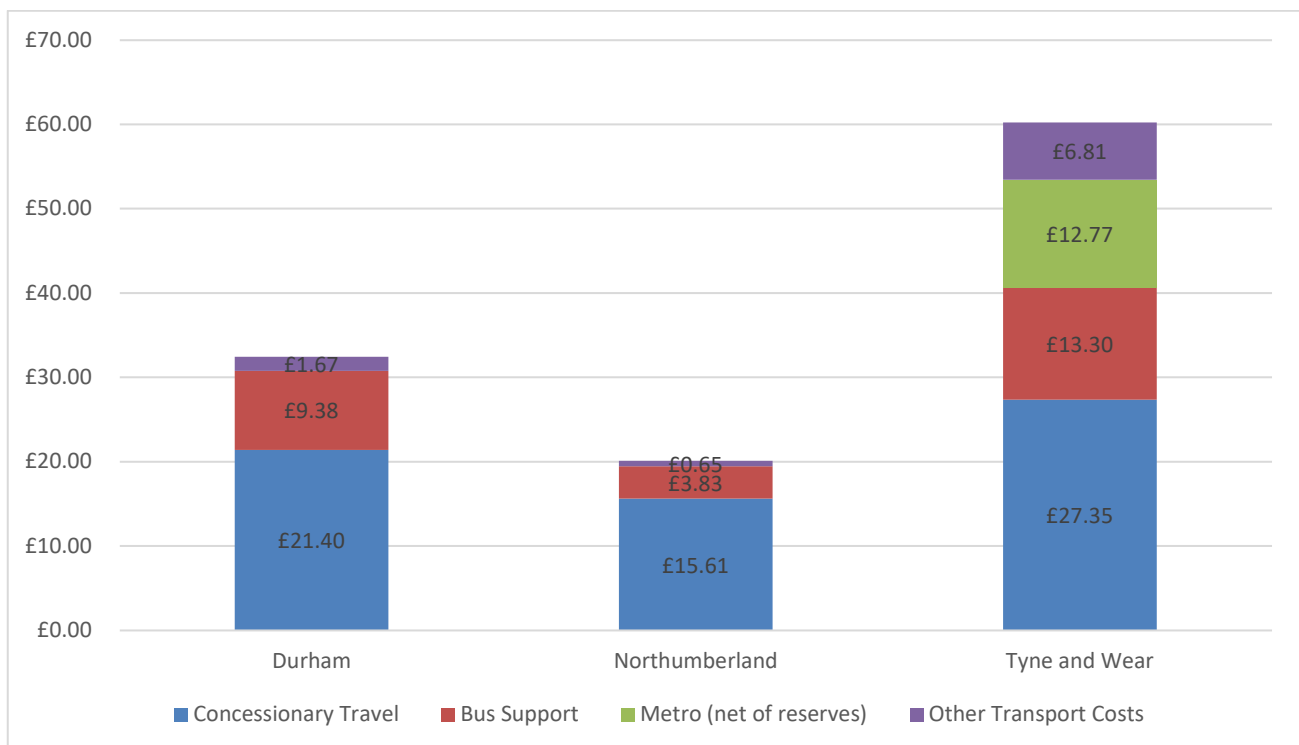
- The Proper Officer for Transport:
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

## Appendix 1 – Transport Levy Arrangements

### Background to Levy Arrangements

Public transport has traditionally been seen as a county-wide service, due to the wider geographic nature of transport services. County-wide precepts for Transport costs were replaced in 1990 with levying arrangements, reflecting Government decisions about how public transport grant support was to be provided, i.e., within the Revenue Support Grant paid to metropolitan districts rather than directly to Passenger Transport Authorities (PTAs). The levying arrangements which specified a population apportionment were set out in the Transport Levying Bodies Regulations 1992. The regulations reflected the principle that all residents in a county area should contribute equally to access to transport services. In recent years concessionary travel costs have also been classified by DLUHC and DfT as a county-wide level service.

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



The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport schemes across the county. 'Other' Transport costs also includes capital financing costs relating to transport schemes which are not included in the other levies. In 2023/24, due to the deficit forecast on Metro arising from the significant cost of High Voltage power, there is a significant contribution required from the levy, in contract to the pre-pandemic period when the levy contribution to Metro was only to meet the costs of the Gold Card.

### Apportionment on Population basis in Tyne and Wear

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

For the 2023/24 levy, this is the 2021 Mid-Year estimates published by the Office for National Statistics (ONS). The population estimates for 2020 and 2021 are set out in the table below. The population estimates for all five authorities have changed by different proportions:

	2020 MYE	2021 MYE	Change	
	People	People	People	% increase/- decrease
Gateshead	201,950	196,154	-5,796	-2.87%
Newcastle	306,824	298,264	-8,560	-2.79%
North Tyneside	208,871	209,151	280	0.13%
South Tyneside	151,133	147,915	-3,218	-2.13%
Sunderland	277,846	274,211	-3,635	-1.31%
<b>Total Tyne &amp; Wear</b>	<b>1,146,624</b>	<b>1,125,695</b>	<b>-20,929</b>	<b>-1.83%</b>

Apportioning the proposed levy of £67.800m gives the following figures for Tyne and Wear:

	2022/23	2023/24	Change from 2022/23	
	£	£	£	%
Gateshead	11,487,800	11,814,249	326,449	2.84%
Newcastle	17,453,495	17,964,279	510,784	2.93%
North Tyneside	11,881,498	12,597,051	715,553	6.02%
South Tyneside	8,597,108	8,908,840	311,732	3.63%
Sunderland	15,805,099	16,515,580	710,481	4.50%
<b>Total Tyne &amp; Wear</b>	<b>65,225,000</b>	<b>67,800,000</b>	<b>2,575,000</b>	<b>3.95%</b>



## Appendix 2 – Nexus Summary Revenue Budget Requirement 2023/24

### Revenue Budget 2023/24

	Direct Costs	External Income	Net Costs	Net Indirect	Grants	Loan Interest	Capital Adjustment	2023/24 Net
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	27.303	-	27.303	0.932	-	-	-	28.235
Discretionary CT	2.911	(0.588)	2.323	0.233	-	-	-	2.556
Metro	114.237	(45.591)	68.646	16.715	(31.623)	1.095	(32.471)	22.362
Ferry	1.471	(0.371)	1.100	0.573	-	0.014	(0.206)	1.481
Bus Services	16.556	(2.447)	14.109	1.799	(0.891)	0.010	(0.058)	14.969
Bus Infrastructure	2.490	(0.404)	2.086	0.684	-	0.235	(0.369)	2.636
Public Transport Information	0.557	(0.178)	0.379	1.044	-	0.030	-	1.453
<b>Total requirement</b>	<b>165.525</b>	<b>(49.579)</b>	<b>115.946</b>	<b>21.980</b>	<b>(32.514)</b>	<b>1.384</b>	<b>(33.104)</b>	<b>73.692</b>
<b>JTC Grant (levy)</b>								<b>(65.700)</b>
<b>Deficit</b>								<b>7.992</b>

### Appendix 3 – Nexus Detailed 2023/24 Budget

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
ENCTS	27.303	-	-	-	-	-	27.303
<b>ENCTS</b>	<b>27.303</b>	-	-	-	-	-	<b>27.303</b>
Discretionary CT	2.911	(0.588)	-	-	-	-	2.323
<b>Discretionary CT</b>	<b>2.911</b>	<b>(0.588)</b>	-	-	-	-	<b>2.323</b>
<b>METRO</b>							
Metro Farebox	0.650	(43.461)	-	-	-	-	(42.811)
PFN Income	-	(0.602)	-	-	-	-	(0.602)
Car Park Income	0.005	(0.198)	-	-	-	-	(0.193)
Ticketing & Gating	1.160	-	-	-	-	-	1.160
Automatic Fare Collection	1.522	-	-	-	-	-	1.522
<b>Fare Collection &amp; Revenue</b>	<b>3.337</b>	<b>(44.261)</b>	-	-	-	-	<b>(40.924)</b>
MMA Management	9.499	-	-	-	-	-	9.499
Contracts & Commercial	14.098	(1.317)	-	-	-	-	12.781
<b>Contracts &amp; Commercial</b>	<b>23.597</b>	<b>(1.317)</b>	-	-	-	-	<b>22.280</b>
Planning & Performance	1.442	-	-	-	-	-	1.442
Service Delivery	3.024	-	-	-	-	-	3.024
Operations Delivery	16.087	-	-	-	-	-	16.087
<b>Metro Operations</b>	<b>20.553</b>	-	-	-	-	-	<b>20.553</b>
Rail Infrastructure - Insurance & Claims	1.790	-	-	-	-	-	1.790
Rail Infrastructure - Rates	1.664	-	-	-	-	-	1.664
Utilities	0.718	-	-	-	-	-	0.718

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Metro Marketing	0.674	-	-	-	-	-	0.674
Customer Services	0.049	-	-	-	-	-	0.049
Rail Infrastructure - Depreciation	33.577	-	-	-	-	-	33.577
<b>Metro - Other</b>	<b>38.472</b>	-	-	-	-	-	<b>38.472</b>
Rail Infrastructure - HV Power	15.231	-	-	-	-	-	15.231
Assurance & Safety Metro	2.433	-	-	-	-	-	2.433
Planning Performance	0.755	-	-	-	-	-	0.755
Programme Assurance	0.000	-	-	-	-	-	0.000
Engineering	0.244	-	-	-	-	-	0.244
Buildings & Facilities	0.037	-	-	-	-	-	0.037
IMSM/facilities	3.099	-	-	-	-	-	3.099
Civils & Structures	2.205	-	-	-	-	-	2.205
Rail Management & Administration	0.107	-	-	-	-	-	0.107
Permanent Way	1.821	(0.012)	-	-	-	-	1.809
Power Supplies	0.854	-	-	-	-	-	0.854
Signalling	1.270	-	-	-	-	-	1.270
Stores	0.196	(0.001)	-	-	-	-	0.195
Capital Delivery	0.026	-	-	-	-	-	0.026
<b>Infrastructure Management</b>	<b>28.278</b>	<b>(0.013)</b>	-	-	-	-	<b>28.265</b>
<b>Metro</b>	<b>114.237</b>	<b>(45.591)</b>	-	-	-	-	<b>68.646</b>
Ferry	1.471	(0.371)	-	-	-	-	1.100
<b>Ferry</b>	<b>1.471</b>	<b>(0.371)</b>	-	-	-	-	<b>1.100</b>
Contract Management	0.270	-	-	-	-	-	0.270
Network Management	0.205	-	-	-	-	-	0.205

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
TaxiCard	0.182	(0.024)	-	-	-	-	0.158
Secured Bus Services	15.899	(2.423)	-	-	-	-	13.476
<b>Bus Services</b>	<b>16.556</b>	<b>(2.447)</b>	-	-	-	-	<b>14.109</b>
Bus Infrastructure	2.490	(0.404)	-	-	-	-	2.086
<b>Bus Infrastructure</b>	<b>2.490</b>	<b>(0.404)</b>	-	-	-	-	<b>2.086</b>
Information	0.557	(0.178)	-	-	-	-	0.379
<b>Public Transport Information</b>	<b>0.557</b>	<b>(0.178)</b>	-	-	-	-	<b>0.379</b>
<b>INDIRECT</b>							
Pensions & Provisions	-	-	4.663	-	-	-	4.663
Investment Income	-	-	(0.400)	-	-	-	(0.400)
Democratic Services & Executive	-	-	1.306	-	-	-	1.306
<b>Central Other</b>	-	-	<b>5.569</b>	-	-	-	<b>5.569</b>
Media & Communications	-	-	0.456	-	-	-	0.456
Print & Distribution	-	-	0.211	-	-	-	0.211
Marketing	-	-	0.414	-	-	-	0.414
Customer Services	-	-	1.286	-	-	-	1.286
<b>Customer Services &amp; Communications</b>	-	-	<b>2.367</b>	-	-	-	<b>2.367</b>
Human Resources	-	-	0.824	-	-	-	0.824
Learning & Development	-	-	2.182	-	-	-	2.182
Corporate Planning	-	-	1.400	-	-	-	1.400
<b>People &amp; Culture</b>	-	-	<b>4.406</b>	-	-	-	<b>4.406</b>
Administration & Secretarial	-	-	0.173	-	-	-	0.173
Legal Services	-	-	0.456	-	-	-	0.456

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
Finance & Audit	-	-	1.548	-	-	-	1.548
Procurement	-	-	0.260	-	-	-	0.260
Estates	-	-	0.695	-	-	-	0.695
ICT	-	-	4.241	-	-	-	4.241
<b>Finance &amp; Resources</b>	-	-	<b>7.373</b>	-	-	-	<b>7.373</b>
ICT Projects	-	-	0.148	-	-	-	0.148
ISTP	-	-	0.250	-	-	-	0.250
<b>Major Projects</b>	-	-	<b>0.398</b>	-	-	-	<b>0.398</b>
Assurance & Safety	-	-	1.867	-	-	-	1.867
<b>Assurance &amp; Safety</b>	-	-	<b>1.867</b>	-	-	-	<b>1.867</b>
<b>Indirect</b>	-	-	<b>21.980</b>	-	-	-	<b>21.980</b>
Loan Charges	-	-	-	-	1.384	-	1.384
Released from:							
Released from Capital Grants	-	-	-	-	-	(31.907)	(31.907)
Released from Capital Reserves	-	-	-	-	-	(1.197)	(1.197)
<b>Asset Financing</b>					<b>1.384</b>	<b>(33.104)</b>	<b>(31.720)</b>
Bus Operators Grant	-	-	-	(0.891)	-	-	(0.891)
Metro Rail Grant	-	-	-	(27.800)	-	-	(27.800)
Other Grant	-	-	-	(0.523)	-	-	(0.523)
Grant Funding from Reserves	-	-	-	(3.300)	-	-	(3.300)
<b>Grants</b>	-	-	-	<b>(32.514)</b>	-	-	<b>(32.514)</b>

Service Area	Direct Costs £m	External Income £m	Indirect £m	Grants £m	Loan Interest £m	Asset Financing £m	Net £m
<b>TOTAL REQUIREMENT</b>	<b>165.525</b>	<b>(49.579)</b>	<b>21.980</b>	<b>(32.514)</b>	<b>1.384</b>	<b>(33.104)</b>	<b>73.692</b>
JTC Grant	-	-	-	(65.700)	-	-	(65.700)
<b>JTC Grant</b>	-	-	-	<b>(65.700)</b>	-	-	<b>(65.700)</b>
<b>DEFICIT / (SURPLUS)</b>	<b>165.525</b>	<b>(49.579)</b>	<b>21.980</b>	<b>(98.214)</b>	<b>1.384</b>	<b>(33.104)</b>	<b>7.992</b>

## Appendix 3

# NECA Pay Policy

**2023/2024**

**(Revised 1 November 2022)**

## **Forward**

As an employer the North East Combined Authority want to secure jobs, offer fair living wages, with opportunities for career progression and believe good terms and conditions should be available to everyone.

This is the North East Combined Authority's Pay Policy Statement covering 2023/2024. It shows our commitment to openness and transparency in setting pay and grades for our staff, and our commitments on key issues such as the real Living Wage

Our pay policy statement provides a mechanism through which the North East Combined Authority can scrutinise issues of pay, equality, including average salaries levels and gender pay gap reporting – and crucially act on any disparities identified.

We intend to set an example for other organisations to follow.

**1 November 2022**



## **1 Introduction**

This policy outlines the key principles of the North East Combined Authority's (NECA) pay policy for the financial year 2023/2024 aimed at supporting the recruitment and remuneration of the workforce in a fair and transparent way. The policy complies with government guidance issued under the Localism Act 2011 and includes commentary on:

- the approach towards the remuneration of its Head of Paid Service,
- the remuneration of the lowest paid employee,
- the relationship between the remuneration of its Head of Paid Service and all other Combined Authority employees.

The Local Government Transparency Code published in February 2015 by the government also sets out key principles for local authorities in creating greater transparency through the publication of public data. As part of the code, the government recommends that local authorities should publish details of senior employee salaries. This pay policy forms part of NECA's response to transparency of senior pay through the publication of a list of job titles and remuneration.

The North East Combined Authority is mindful of its obligations under the Equality Act 2010 and is an equal opportunity employer. The overall aim of our Single Equality Scheme is to ensure that people are treated fairly and with respect. The scheme also contains a specific objective to be a diverse organisation, which includes recruiting and retaining a diverse workforce and promoting equality and diversity through working practices. This pay policy forms part of our policies to promote equality in pay practices. By ensuring transparency of senior pay and the relationship with pay of other employees, it will help ensure a fair approach which meets our equality objectives.

In setting the pay policy arrangements for the workforce, NECA seeks to pay competitive salaries within the constraints of a public sector organisation.

## **2 Background Information**

In 2018, to allow for the smooth and timely transfer of staff to the new combined authority, it was decided that staff were to be TUPE transferred with effect from 1 April 2020, on their respective existing terms and conditions, resulting in NECA employing staff with three different terms and conditions of service.

1. NECA terms and conditions of service.
2. Newcastle City Council terms and conditions of service.
3. NEXUS terms and conditions of service.

On 2 November 2021 NECA Leadership Board agreed a new pay and grading structure for NECA, and it was agreed that NECA's pay and grading structure would be aligned to that of Durham County Council due to Durham County Council being the accountable body for NECA.

This pay scheme is based upon a nationally agreed job evaluation system, the Local Government Single Status Job Evaluation Scheme (Gauge) and the national spinal column points of pay will see NECA remain within the existing national pay negotiating framework.

Significant progress has been made in the transfer of terms of conditions of NECA employees and now only two of NECA's 30 employees remain on their original terms and conditions.

### **3 Posts defined within the Act as Chief Officers**

The strict definition of Chief Officers within the legislation is limited to:

- The Head of Paid Service
- The Monitoring Officer
- The Statutory Chief Officer, and non-statutory Chief Officer under Section 2 of the Local Government Housing Act 1989
- A Deputy Chief Officer mentioned in Section 2 of that Act

For NECA these roles are fulfilled by officers who are employed by constituent local authorities and are not NECA employees and are subject to the pay policies of their employing authorities. No additional remuneration to individuals is paid for fulfilling the NECA roles.

However, NECA employs other senior officers to oversee the functions of the Authority:

Managing Director, Transport North East - this employee is directly employed by NECA and this post fulfils the role of Proper Officer for Transport which is required under the Order which established the North of Tyne Combined Authority and the North East Joint Transport Committee (JTC), and reports to the JTC. The post also includes the functions of the Director General of Nexus, the Tyne and Wear Passenger Transport Executive, which is a statutory role set out by the Transport Act 1968. Accordingly, NECA classifies this post as a Chief Officer.

Transport Strategy Director, Transport North East.

#### 4. Governance Arrangements.

NECA takes advice on setting its pay policy from the constituent local authority providing HR Services (Durham County Council).

Decisions on NECA appointments are taken by the Leadership Board, or by the Joint Transport Committee where a post relates to transport activity.

#### 5. Key Principles

##### Key Principles

Terms and conditions of employment for Chief Officers are as defined within the Joint Negotiating Committee for Chief Officers of Local Authorities Conditions of Service handbook, with discretion to set actual pay levels at a local level, but within a national negotiating framework. These posts are part of the nationally defined Local Government Pension Scheme.

#### 6. Pay Levels

Individual elements of the remuneration package are established as follows at the point of recruitment into the posts:

Role	Salary 01/04/2022
Managing Director, Transport North East	£134,747

In addition to the Managing Director, there is a role of Transport Strategy Director that has been evaluated using the same principles:

Role	Salary 01/11/2022
Transport Strategy Director, Transport North East	£107,255

Increases are made in accordance with the appropriate Joint Negotiating Committee (JNC) Pay Agreements. The JNCs for the Chief Executives and Chief Officers both agreed a pay award of £1,925 with effect from 1 April 2022.

For the majority of NECA employees, the National Joint Council (NJC) for Local Government Services for 2022/2023 agreed a pay award of £1,925 with effect from 1 April 2022. The NJC also agreed that from 1 April 2023, Spinal Column Point (SCP) 1 will be permanently deleted from the NJC pay spine.

Agreements reached by the NJC are collective agreements and if they are incorporated into employee contracts of employment then the changes will take effect.

## **7. The Authority's Policy on the Remuneration of its Lowest Paid Workers**

### **Definition of Lowest Paid Workers**

NECA employees below senior officer level are subject to the National Framework as outlined in the National Joint Council for Local Government Services "Agreements on Pay and Conditions of Service." This ensures that the lowest paid workers and the wider workforce share equitable terms and conditions and access to pay and conditions arrangements that are set within a national negotiating framework.

The lowest paid post in the NECA establishment is a range from Spinal Column Point 11 which equates to a full-time annual salary of £24,054 (at 1 April 2022). This is the Authority's definition of 'lowest paid workers.'

## **8. The Policy Relationship between Chief Officers Pay, the Lowest Paid Workers, and the Wider Workforce Current Position**

In setting the relevant pay levels, a range of background factors outlined at Point 3 were taken into consideration for senior pay alongside the significant scope and scale of the Authority.

For 2022/2023, the ratio between the highest and the lowest paid posts employed by NECA is 5.6:1 (2022/2023), against figures published by government of an expectation to always be below 20:1 in local government.

In addition during 2022/2023 the employer will contribute to the pension fund for all employees in the Local Government Pension Fund at the levels determined by the triennial valuation.

## **9. Paying Market Supplements**

Market supplements will only be considered when all other means of improving recruitment and retention have been exhausted. A market supplement is an additional payment to the basic salary of a post where the labour market pressures indicate a need for a supplementary increase in pay. Market supplements will only be considered in exceptional circumstances where a clear business rationale has been identified and the recruitment or retention issues are due to relative labour market pay.

Market supplements will be issued for a maximum 2 year fixed term period and the temporary, annually renewable nature of the payment will be made clear to the employee as part of their statement of terms and conditions.

A business case must be submitted outlining the need for a market supplement and the supporting evidence for this decision. This must be authorised by the Head of Paid Service.

The decision to award or extend a market supplement will only be agreed where robust evidence is provided to substantiate the business case.

In order to defend any potential equal pay claim, we must be able to justify any difference between work which is rated equivalent or of equal value. This difference needs to be genuinely through labour market forces and regular review.

## **10. Pay Policy Objectives**

This planned approach towards pay for the wider workforce, and the use of established equality impact assessed job evaluation schemes in the exercise will ensure:

- a planned approach towards pay policy for the organisation that enables NECA to establish a relationship between pay for senior officers, the low paid and the wider workforce to align to the national guidance.
- the provision of accountability, transparency and fairness in setting pay for the North East Combined Authority.

## **11. Pay Policy Decisions for the Wider Workforce**

The decision-making power for the implementation of the new pay arrangements is one for the Joint Transport Committee and the Leadership Board of the Authority, ensuring that decision in relation to workforce pay are taken by those who are directly accountable to local people.

## **12. The Approach towards Payment for those Officers Ceasing to Hold Office Under or be employed by the Authority.**

The Authority has an agreed policy in relation to officers whose employment is terminated via either voluntary or compulsory redundancy. This policy provides a clear, fair, and consistent approach towards handling early retirements and redundancy for the wider workforce, including Chief Officers.

In setting policy, the Authority does at this time retain its discretion to utilise the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales Regulations)2006.

### **13. Policy towards the Reward of Chief Officers Previously Employed by the Authority.**

Chief Officers leaving the authority under regulations allowing for early access to pension are leaving in circumstances where there is no longer a suitable role for them, and in such circumstances, they leave the employment of the Authority.

Immediate re-engagement in another role would negate redundancy by operation of the Redundancy Payments (Continuity of Employment in Local Government, etc.) (Modification) Order 1999.

The Authority would not expect such officers to be offered further remunerated employment with the Authority or any controlled company without such post being subject to external competition.

The administering authority for the Local Government Pension Scheme does not currently have a policy of abating pensions for former employees who are in receipt of a pension, although this is an area that is kept under review.

The Authority is mindful of its obligations under equality legislation and as such is limited in its ability to adopt a policy that it will not employ people of an age that has entitled them to pension access on leaving former employment in the public sector or to propose that such applicants be employed on less favourable terms than other applicants. It expects all applicants for any posts to compete and be appointed on merit.

### **14. Future Potential Recommendations**

Future pay policy recommendations will continue to be underpinned by the principles of public sector delivery and a commitment to fairness; and this Pay Policy Statement is an evolving document that will continue to be developed and be responsive to the emerging position regarding remuneration. A strategic approach to pay and rewards is adopted by NECA to ensure we can recruit and retain appropriate staff and drive service improvement.

Any NJC pay proposals negotiated between national employers and the collective trade unions would alter the current pay spine and would need to subsequently be reflected in the current pay scales. NECA's Pay Policy will be amended to reflect any agreed changes as and when these are agreed through negotiation.

As we continue to develop new ways of working and innovative working arrangements, we will capture these in our family friendly/work life balance policies which enhance the non-salary elements of our staff benefits offer

## **15. Trade Union Consultation**

NECA acknowledges and welcomes the role that the Trade Unions play in working with us to build a strong industrial relations climate and we are committed to working in partnership with the Trade Unions. Therefore, in the event that NECA aims to change its existing local or national pay and grading arrangements we will consult with the recognised Trade Unions and fully involve them through communication, consultation, and negotiation around remuneration policies.

## **16. Evaluation and Review**

This pay policy will be subject to evaluation and further review by NECA in line with each new financial year.

**01 November 2022**





## Leadership Board

**Date:** 24 January 2023

**Subject:** Capital Programme 2023/24 and Treasury Management Policy and Strategy

**Report of:** Chief Finance Officer

### Executive Summary

This report provides the Leadership Board with a copy of the Capital Programme for 2023/24 as agreed by the North East Joint Transport Committee (JTC) on 17 January 2023. The report to the JTC sets out an updated forecast of outturn for the current year as well as the capital programme for 2023/24 and indicative programme for future years, and includes details of how the capital investments will be financed. The Transport Capital Programme will be administered by NECA in its role as Accountable Body for the JTC. The full report to the JTC is set out at Appendix 1.

The initial capital programme for 2023/24 agreed by the JTC totals £238.994m and includes a wide range of transport programmes including Transforming Cities Fund, the Metro Asset Renewal Plan, Metro Fleet Replacement, Local Transport Plan Integrated Transport block grant and the capital elements of the region's Active Travel Fund programme.

This report also presents the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

### Recommendations

The Leadership Board is recommended to:

- i) Note the forecast outturn position for 2022/23 set out in section 2.2 of the report and Appendix 1;
- ii) Agree to administer the capital programme approved by the JTC as set out in section 2.2 of the report and Appendix 1;
- iii) Agree the Treasury Management Strategy and the Treasury Prudential Indicators contained within Appendix 2, including the Authorised Limit;

## **Leadership Board**

- iv) Agree the Cash Investment Strategy 2022/23 contained in the Treasury Management Strategy within Appendix 2.

## Leadership Board

### 1. Background Information

- 1.1 This report provides an updated forecast of outturn against the revised capital budget for 2022/23 and outlines the proposed capital programme for 2023/24 and the funding sources identified to deliver it. The capital programme covers a wide range of economic and regeneration initiatives and transport improvements.
- 1.2 In its role as accountable body for the JTC, NECA accounts for the transport capital programme which is set and overseen by the JTC, so this is included in summary in the budgets included in this report. A copy of the detailed report considered and agreed by the JTC is appended to this report.
- 1.3 The report also sets out the authority's Treasury Management Strategy and Minimum Revenue Provision Policy for 2023/24. Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

### 2. Proposals

#### Transport Capital Programme

- 2.1 The Transport Capital Programme for 2023/24 and indicative amounts for 2024/25 and 2025/26 was approved by the JTC on 17 January 2023. The report also provided an update on the latest forecast of outturn for 2022/23. Details of the various elements making up the transport capital programme are set out in detail in the report to the JTC, which is attached as Appendix 1. As Accountable Body for the JTC, NECA must administer the capital programme which the JTC has agreed.
- 2.2 A summary of the forecast outturn for 2022/23 and the initial programme for 2023/24 is set out in the table below with full details contained in the report at Appendix 1.

	<b>2022/23 Revised Budget</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Forecast Variance</b>	<b>Actual Spend to 31 Oct</b>	<b>2023/24 Initial Programme</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
TCF Tranche 2	60.879	53.470	(7.409)	8.065	44.009
Active Travel Fund Tranche 2	5.278	3.269	(2.009)	1.885	4.161
Active Travel Fund Tranche 3	0.000	1.929	1.929	0.000	16.000

## Leadership Board

	2022/23 Revised Budget	2022/23 Forecast Outturn	2022/23 Forecast Variance	Actual Spend to 31 Oct	2023/24 Initial Programme
	£m	£m	£m	£m	£m
Metro Asset Renewal Programme	35.632	26.788	(8.844)	12.157	43.897
Metro Fleet Replacement	67.999	59.174	(8.825)	38.697	115.236
Nexus Other Capital Projects	4.151	4.135	(0.016)	0.855	3.107
Metro Flow	86.774	90.369	3.595	58.199	1.075
Electric Vehicle Charging Infrastructure	0.175	0.398	0.223	0.022	0.000
Ultra-Low Emission Vehicles – Taxi Project	0.043	0.070	0.027	0.000	0.000
Tyne Tunnels	0.415	0.415	0.000	0.128	0.200
Local Transport Plan	11.391	11.391	0.000	4.663	11.309
<b>Total Capital Programme</b>	<b>272.737</b>	<b>251.408</b>	<b>(21.329)</b>	<b>124.670</b>	<b>238.994</b>

### Prudential Code and Treasury Management

- 2.3 Appendix 2 outlines the authority's prudential indicators for 2023/24 to 2025/26, details of the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).
- 2.4 Consideration of this report and adoption of the Treasury Management Strategy fulfils NECA's legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance.

## Leadership Board

- 2.5 Included within the Treasury Management Strategy is a cash investment strategy which sets out the Authority's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This element of the strategy is in accordance with the Department for Levelling Up, Housing and Communities Investment Guidance.
- 2.6 The Treasury Management Strategy sets out how the treasury service will support the capital decisions taken in this report, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator being 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 CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
- 2.7 The Authority's Minimum Revenue Provision (MRP) Statement sets out how the authority will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007).
- 2.8 The policies and parameters set out in the Treasury Management Strategy and Statement on Minimum Revenue Provision provide an approved framework within which officers undertake day to day capital and treasury activities.

### 3. Reasons for the Proposals

- 3.1 The proposals are presented in this report to enable the Leadership Board to agree its capital programme for 2023/24 and to adhere to legislative requirements with regards to compliance with the CIPFA Prudential Code for Capital Finance. Appendix 2 therefore contains the NECA Treasury Management Strategy, the expected treasury operations for this period and provides details of the Treasury Management Strategy and Statement on Minimum Revenue Provision (MRP).

### 4. Alternative Options Available

- 4.1 Option 1: The Leadership Board may accept the recommendations set out in this report.
- Option 2: The Leadership Board may not accept the recommendations set out in this report.
- Option 1 is the recommended option.

### 5. Next Steps and Timetable for Implementation

- 5.1 The initial capital programme for 2023/24 and the indicative capital programme for future years will be closely monitored. As new funding is sourced additional schemes will be added and therefore the capital programme will inevitably be subject to change. Any changes to the capital programme, including slippage and necessary re-profiling

## Leadership Board

of investments, will be subject to reports and consideration by meetings of the Joint Transport Committee.

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

- 6.1 The capital investment set out in the report will have a positive impact on the objectives of the Authority. Successful delivery of the various transport schemes and investment proposals will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

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

- 7.1 The financial and other resources implications are set out in the main body of the report.

### **8. Legal Implications**

- 8.1 It is noted that both the recommended resolutions require unanimous approval in accordance with the NECA Constitution.

### **9. Key Risks**

- 9.1 Appropriate risk management arrangements are in place and managed by the teams delivering the capital programme on the authority's behalf.
- 9.2 Both the CIPFA Code and government guidance require NECA to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. NECA's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

### **10. Equality and Diversity**

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

### **11. Crime and Disorder**

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

### **12. Consultation/Engagement**

- 12.1 Projects being delivered by constituent authorities or in constituent authority areas are subject to local consultation and planning approvals.

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

## Leadership Board

13.1 There are no other impacts arising from these proposals.

### 14. Appendices

14.1 Appendix 1 – North East Joint Transport Committee Capital Programme Report  
Appendix 2 – North East Combined Authority Annual Treasury Management Strategy 2023/24

### 15. Background Papers

15.1 NECA Capital Programme and Treasury Management Strategy – Leadership Board 1 February 2022 [Agenda-Pack-1-February-20221.pdf \(northeastca.gov.uk\)](#)

### 16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,  
[Eleanor.goodman@northeastca.gov.uk](mailto:Eleanor.goodman@northeastca.gov.uk), 0191 433 3860

### 17. Sign Off

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





## North East Joint Transport Committee

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**Date:** 17 January 2023  
**Subject:** Transport Capital Programme 2023/24  
**Report of:** Chief Finance Officer

### Executive Summary

This report provides the North East Joint Transport Committee (JTC) with an updated forecast capital overrun for 2022/23 and presents the initial 2023/24 capital programme, totalling £238.994m, for consideration and approval.

The report identifies that total capital expenditure on Transport schemes of £251.408m is now forecast for 2022/23 against the revised programme budget of £272.737m. The main variance since the last update reported to the committee is a substantial revision of forecast expenditure on the Transforming Cities Fund Tranche 2 programme, alongside a reduction in forecast expenditure on the Active Travel Fund Tranche 3 programme, where some schemes have entered into a change control process which must be concluded before schemes can progress. There are also variances forecast on the Metro Asset Renewal Programme, Metro Fleet Replacement, Nexus Other Capital Projects, and Metro Flow which are detailed within the report.

£53.470m of capital expenditure is forecast on Transforming Cities Fund Tranche 2 schemes in 2022/23. This is a sizeable revision of the most recent forecast expenditure (£87.025m) and has arisen largely due to a failure to meet assurance milestones and progress the development of schemes within the programme at the required pace. £44.009m of expenditure has therefore been profiled into 2023/24.

The report sets out details of the Nexus capital programme for 2023/24 totalling £163.315m which includes the Metro Asset Renewal Programme (MARP, £43.897m), Fleet Replacement Programme (FRP, £115.236m), Other Nexus Capital Projects (£3.107m) and Metro Flow (£1.075m). Indicative figures for 2024/25 and 2025/26 are included, which are subject to approval of funding.

The programme includes an estimated £14.057m of Local Transport Plan Integrated Transport Block grant that will be received by NECA on behalf of the JTC, most of which will be paid to constituent authorities and Nexus on a quarterly basis to support their capital programmes. Expenditure on the Nexus elements is included in the sections on the Nexus capital programme and to avoid double counting the remaining £11.309m is reported against the LTP programme line.

## **Recommendations**

The North East Joint Transport Committee is recommended to:

- i) Note the latest position in respect of the 2022/23 capital programme, set out in section 2.1 and the following sections;
- ii) Approve the proposed initial capital programme for 2023/24 which amounts to £238.894m as set out in section 2.1 and the following sections.

## 1. Background Information

- 1.1 In January 2022, the JTC approved the initial 2022/23 capital programme of £279.774m. The capital programme was updated to take account of adjustments for slippage in the 2021/22 outturn and new developments and funding secured in 2022/23. The revised updated budget for 2022/23, as reported to the JTC in November 2022 is £272.737m.
- 1.2 The programme for 2023/24 includes schemes for which funding has been identified. Where funding announcements are still outstanding (for example in relation to the capital elements of the Bus Service Improvement Plan), schemes will be brought forward for inclusion in the capital programme once funding has been confirmed.

## 2. Proposals

### 2022/23 Capital Programme forecast

- 2.1 A summary of the Transport capital outturn forecast for 2022/23, together with details of actual expenditure to 31 October 2022 and the indicative Transport capital programme for 2023/24 is set out in the table below, with further details provided in the sections that follow.

*Table 1: Transport Capital Programme 2022/23 and 2023/24*

	<b>2022/23 Revised Budget</b>	<b>2022/23 Forecast Outturn</b>	<b>2022/23 Forecast Variance</b>	<b>Actual Spend to 31 Oct</b>	<b>2023/24 Initial Programme</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
TCF Tranche 2	60.879	53.470	(7.409)	8.065	44.009
Active Travel Fund Tranche 2	5.278	3.269	(2.009)	1.885	4.161
Active Travel Fund Tranche 3	0.000	1.929	1.929	0.000	16.000
Metro Asset Renewal Programme	35.632	26.788	(8.844)	12.157	43.897
Metro Fleet Replacement	67.999	59.174	(8.825)	38.697	115.236
Nexus Other Capital Projects	4.151	4.135	(0.016)	0.855	3.107
Metro Flow	86.774	90.369	3.595	58.199	1.075

Electric Vehicle Charging Infrastructure	0.175	0.398	0.223	0.022	0.000
Ultra-Low Emission Vehicles – Taxi Project	0.043	0.070	0.027	0.000	0.000
Tyne Tunnels	0.415	0.415	0.000	0.128	0.200
Local Transport Plan	11.391	11.391	0.000	4.663	11.309
<b>Total Capital Programme</b>	<b>272.737</b>	<b>251.408</b>	<b>(21.329)</b>	<b>124.670</b>	<b>238.994</b>

### Transforming Cities Fund (TCF) Tranche 2

- 2.2 The North East was awarded £198m of capital grant for Tranche 2 of Transforming Cities Fund. Within the Tranche 2 schemes, £103.8m is for schemes where the decision making on funding is devolved to the region, and the remaining £94m is for the Metro Flow scheme managed by Nexus, where the decision making on the funding is retained by the Department for Transport. Updates on Metro Flow are included with the Nexus Capital Programme sections in this report.
- 2.3 There are 23 schemes within the TCF Tranche 2 programme, of which 18 schemes have currently been approved, and 14 of these have progressed into delivery.
- 2.4 Total expenditure to date within the TCF Tranche 2 programme stands at approximately £14.383m, which represents 13.9% of the overall grant. Over quarter 1 and quarter 2 of 2022/23, £8.065m from the Devolved Pot was incurred. A total of £53.473m of expenditure is forecast for 2022/23. Therefore, a rapid acceleration in the spending over the remainder of 2022/23 is required to meet the forecast. Expenditure forecasts have been based on quarterly monitoring returns and expenditure profiles included within scheme business cases.
- 2.5 Scheme development difficulties, ongoing resource and capacity constraints and challenging market conditions have led to some scheme promoters failing to hit assurance milestones, because of these delays it is now forecast that expenditure will run into the 2023/24 financial year. The Department for Transport have accepted revised forecasts, however, across the Country the Transforming Cities Fund is subject to an ongoing review which will commence in January.

*Table 2: TCF Tranche 2 Capital Forecast of Outturn 2022/23 to 2023/24:*

<b>TCF Tranche 2</b>	<b>2021/22 Outturn</b>	<b>2022/23 Forecast Outturn</b>	<b>2023/24 Initial Budget</b>	<b>Total Budget</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Devolved Programme Level	5.592	53.470	44.009	103.798

## Active Travel Fund – Tranche 2

- 2.6 In November 2020, the North East region was allocated £9.049m of grant funding from Tranche 2 of the Active Travel Fund (ATF) (£7.714m capital and £1.335m revenue). To date £3.269m of the capital funding has been spent.
- 2.7 Eight Active Travel schemes across the seven Local Authorities have been allocated capital funds. In order for a Grant Funding Agreement (GFA) to be set up and claims to be processed for schemes, TNE has requested that an Assurance Statement and a Monitoring and Evaluation Plan is submitted for the scheme. This is additional to the DfT requirement to submit a letter confirming the outcomes of public consultation activities. Six of the eight required GFAs are now in place.
- 2.8 In early December 2022, Active Travel England (ATE) approved a change control request to remove one Sunderland City Council scheme from the ATF Tranche 3 programme (B1405 European Way / Pallion New Road – Segregated Cycle Lanes) and reallocate the funding to Sunderland’s ATF Tranche 2 scheme (A183 Whitburn Road Cycleway) and Sunderland’s other ATF Tranche 3 scheme (A183 Dame Dorothy Street – Segregated Cycle Lanes) due to significant inflationary pressures. As such the allocation for the A183 Whitburn Road Cycleway scheme now stands at £2.292m, consequently the overall ATF Tranche 2 programme allocation (capital and revenue) has been revised to £10.216m.
- 2.9 Due to development difficulties and scheme interdependencies, we are forecasting that three schemes will complete in 2023/24. Inclusive of the Sunderland scheme noted above, the revised capital budget for 2023/24 is £4.160m.

*Table 3: ATF Tranche 2 Capital Forecast of Outturn 2022/23 to 2023/24*

ATF Tranche 2	2022/23 Forecast Outturn	2023/24 Initial Budget	Total Budget
	£m	£m	£m
Great North Cycleway	0.000	0.000	0.600
Gateshead Town Centre Walking and Cycling Improvements	0.338	0.000	0.361
Grey Street	0.442	1.769	2.250
RVI Active Travel Access Improvements	0.364	0.329	1.040
Strategic Corridors	1.249	0.000	1.575
A183 Whitburn Road Cycleway	0.000	2.062	2.062
Waterloo Road/Renwick Road Cycle Improvements, Blyth	0.336	0.000	0.336
Sea Lane and South Eldon Street	0.540	0.000	0.540
<b>All Programme Level</b>	<b>3.269</b>	<b>4.160</b>	<b>8.765</b>

### Active Travel Fund – Tranche 3

- 2.10 In March 2022, the North East was allocated £17.929m of capital grant funding from Active Travel Fund Tranche 3. To date no capital funding has been spent.
- 2.11 Nine schemes across four Local Authorities were allocated funds, however given the change control request noted above there are now eight schemes and the allocation for ATF Tranche 3 totals £16.762m. Similarly, to Tranche 2, in order for a Grant Funding Agreement (GFA) to be set up and claims to be processed for schemes, TNE has requested that an Assurance Statement and a Monitoring and Evaluation Plan is submitted for the scheme. This is additional to the ATE requirement to submit a letter confirming the outcomes of public consultation activities. ATE must also sign off final designs before schemes can progress into delivery.
- 2.12 Schemes have experienced difficulties due to substantial inflationary pressures, and as such ATE recently introduced a new change control procedure which allows Local Authorities to submit requests to amend delivery programmes and request additional funding. There is an allocation put aside centrally within this financial year to process these requests.
- 2.13 Therefore, the full allocation of Tranche 3 expenditure has been forecast into 2023/24 given that the majority of schemes will need to go through the change control process and will need to await the outcome before they can progress into delivery.

*Table 4: ATF Tranche 3 Capital Forecast of Outturn 2022/23 to 2023/24*

ATF Tranche 3	2022/23 Forecast Outturn	2023/24 Initial Budget	Total Budget
	£m	£m	£m
Brunton Road – Sandy Lane	0.000	2.500	2.500
Claremont Road	0.000	2.100	2.100
Coast Road Newcastle	0.000	3.100 (funding split TBC)	3.100 (funding split TBC)
Heaton Road Newcastle	0.000		
North Tyneside Sea Front Sustainable Route (SFSR)	0.000	3.500	3.500
Ashington: North Seaton Road	0.000	1.497	1.497
Blyth Town Centre to South Beach	0.000	1.966	1.966
A183 Dame Dorothy Street – Segregated Cycle Lanes	0.000	2.100	2.100
<b>All Programme Level</b>	<b>0.000</b>	<b>16.762</b>	<b>16.762</b>

### Nexus Capital Programme 2022/23 update

- 2.14 The JTC approved Nexus' Capital Programme for 2022/23 to 2024/25 in January 2022. Following the 2021/22 outturn report a revised 2022/23 Capital Programme budget was approved by the JTC in July 2022. The programme is sub-divided into the following sections:
- i. Metro Asset Renewal Programme (MARP);
  - ii. Fleet Replacement Programme (FRP);
  - iii. Other Capital Projects (OCP); and
  - iv. Metro Flow (MFL)
- 2.15 The following report reviews the financial performance, at the end of Period 8, against the latest revised programme budget approved in terms of:
- i. Actual cumulative spend at the end of the period;
  - ii. Latest forecast outturn for 2022/23; and
  - iii. Actual capital grant recovery.
- 2.16 Nexus' revised capital programme for 2022/23 provides for gross expenditure of £194.556m. By comparison the 2022/23 programme forecast outturn as at Period 8 stands at £180.466m, which is a variance of £14.090m. At the end of Period 8 the total programme spend was £109.908m, against the budgeted profile spend of £118.841m. The £8.933m underspend relates to variances across all four programmes which is detailed below.

*Table 5: Total Nexus Capital Programme 2022/23*

	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Actual / Forecast</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Cumulative to Period 8</b>				
MARP	0.000	14.818	12.157	(2.661)
FRP	44.499	44.499	38.697	(5.802)
OCP	1.238	1.238	0.855	(0.383)
MFL	63.186	58.286	58.199	(0.087)
<b>Total</b>	<b>108.923</b>	<b>118.841</b>	<b>109.908</b>	<b>(8.933)</b>
<b>Outturn</b>				
MARP	32.762	35.632	26.788	(8.844)
FRP	69.808	67.999	59.174	(8.825)
OCP	8.345	4.151	4.135	(0.016)
MFL	83.498	86.774	90.369	3.595
<b>Total</b>	<b>194.413</b>	<b>194.556</b>	<b>180.466</b>	<b>(14.090)</b>

2.17 At the end of Period 8, £114.892m of capital grant has been claimed from the DfT. This includes both the MARP, FRP and MFL. The actual amount claimed in total was 99.7% of forecast and therefore within DfT tolerance levels of +/- 5%.

### **Metro Asset Renewal Programme (MARP) 2022/23 update**

2.18 Cumulative actual spend at the end of Period 8 was £12.157m against the revised budgeted profile of £14.818m. The resultant under spend is largely due to reduced spend than that forecast on TVM's, Network Refresh and Tanners Bank.

2.19 The forecast outturn for 2022/23 is £26.788m (including contingency of £0.446m) against a revised budget of £35.632m. The £8.844m expected underspend is across a number of projects, including:

- £1.003m deferral of expenditure on the operating system upgrade of TVM's and other AFC field devices and £0.500m on vehicle replacement, due to long lead times;
- £1.317m deferral of expenditure on Pelaw Switches and Crossings and £1.722m on Whitley Bay Canopy, where the tenders received have been non-compliant;
- £0.688m of reduction on various station projects as the projects have progressed and scopes clarified;
- Slippage across a number of smaller projects into the next financial year; and
- A reduction in the programme contingency of £1.035m.

2.20 The November grant claim was £1.242m, compared to the forecast £1.300m and therefore within the +/- 5% DfT target. Total grant claimed to date is £10.640m and MRG capital grant totalling £20.831m (including £1.163m Metro Flow spend) is forecast to be claimed by year end. This represents a shortfall in MRG Capital Grant 2022/23 recovery of £9.369m. This will require a virement of funding from 2022/23 into 2023/24, which now exceeds the agreed 20% limit i.e., £6.040m, and will therefore require DfT approval, which Nexus has already sought.

2.21 This underspend represents the first time Nexus has had to seek approval outside of its grant funding conditions from DfT to vire monies between years and is a direct consequence of the continued instability in the market where the supply chain continues to suffer delay, price inflation exceeds budget, contractors are being more risk averse when pricing jobs and/or accepting contractual terms and conditions and internal resource capacity has reduced because of problems with recruitment and retention of key staff such as project managers, quantity surveyors and project engineers. These factors are combining to increase risks to successful project delivery.

2.22 Moving forward, Nexus are actively looking at options to de-risk delivery such as the creation of framework contracts for materials and services, and/or innovative packaging of projects. Such mitigations can only be achieved by securing a longer-term funding solution.



- 2.23 The forecast outturn of £26.788m will be funded from £19.668m MRG capital grant from DfT, with the remaining £7.120m funded from £4.751m of local funding (LTP), plus £2.369m Highways Challenge Fund (HCF) grant for Tanners Bank. In terms of prioritising how Nexus finances the programme, it is important that LTP and HCF are applied first.
- 2.24 As part of the regional devolution proposal, Metro Capital Rail Grant (MRG) became clearer and although additional funding for 2023/24 and 2024/25 is expected to be confirmed in due course (remitted to Nexus via DfT, rather than as part of any wider CRSTS funding package) members should recognise that this funding is not totally secure. In addition, bids for future funding beyond March 2025 will also need to be submitted via the Department through a future Spending Review. Furthermore, the majority of the local contribution, currently sourced from the Public Transport allocation of the LTP Integrated Transport Block, is likely to form part of CRSTS and Nexus will need to lobby for its continuation.

### **Fleet Replacement Programme (FRP) 2022/23 update**

- 2.25 Cumulative actual spend at the end of Period 8 was £38.697m against the approved budget profile of £44.499m. The £5.802m underspend relates to a £0.910m payment to Stadler under the train manufacturing contract in the current year, which is now programmed for July 2023, £2.129m as a result of delays to Type Testing (of the new trains), £0.928m deferred in respect of the Depot Construction Contract, and £1.835m of contingency that has not needed to be released yet.
- 2.26 Forecast outturn for 2022/23 is now £59.174m (including a risk contingency of £2.222m) against the revised budget of £67.999m. The £8.825m underspend largely relates to the variations set out in the paragraph above, although there is additional slippage in relation to the new depot, where P-Way, Signalling and Overhead Line works which were originally scheduled for March 2023 are now expected to be completed in July 2023.
- 2.27 The November grant claim is 101.8% of the forecast. The £59.174m forecast outturn is funded from the £59.159m DfT Fleet Replacement grant available in 2022/23, with the balance, £0.015m, funded from Arts Council. This results in an under recovery of £5.641m against available Fleet Replacement Grant in 2022/23. Nexus have submitted latest estimates of grant to be applied in the period 2022/23 to 2025/26 to the DfT.

### **Other Capital Projects (OCP) 2022/23 update**

- 2.28 In 2022/23 Other Capital Projects have a revised budget of £4.151m comprising of £2.382m Transforming Cities digital car parks project, £0.137m for the completion of the Bus Contracts system, £1.143m for Ground Investigation works at the site of the proposed North Ferry Landing relocation project, and a further £0.489m for Ferry vessels and maintenance of existing landings (North and South).
- 2.29 Cumulative actual spend at the end of Period 8 was £0.855m against the revised budgeted profile of £1.238m. The £0.383m under spend relates to programme slippage on the Transforming Cities, Digital Car Parks project.

- 2.30 Forecast outturn for 2022/23 is £4.135m (including a risk contingency of £0.419m) against an approved budget of £4.151m.
- 2.31 Slippage in respect of the Digital Car Parks project, will need up to £0.754m of Transforming Cities grant Funding to be carried over into 2023/24, without such approval this cost would need to be met by MRG capital grant in 2023/24.

#### **Metro Flow (MFL) 2022/23 update**

- 2.32 Expenditure at the end of Period 8 was £58.199m against a profiled budget of £58.286m. The £0.087m variance includes the purchase of the Network Rail Infrastructure, funded by DfT, totalling £4.900m, offset by a £4.987m underspend relating to a changed profile of works by the contractor, whilst not affecting the delivery of works during the blockade.
- 2.33 Forecast outturn for 2022/23 is £90.369m against a revised budget of £86.774m. The majority of the variance relates to the purchase of Network Rail infrastructure as described above. This is offset by a £1.305m under spend in the forecast as a result of a number of risks now having been closed off, offset by the anticipated additional costs of a telecommunications mast which had not been identified as part of the original budget.
- 2.34 TCF grant of £65.571m has been received from DfT in 2022/23 to date. The £90.369m forecast outturn is mainly funded from TCF grant, £84.307m, with the remaining £1.163m funded from MRG Capital Grant, as part of the local contribution and a separate £4.900m grant approval received from DfT in relation to the acquisition of the Network Rail infrastructure in South Tyneside.

#### **Nexus Capital Programme 2023/24**

- 2.35 Nexus' planned capital programme for 2023/24 to 2025/26 includes investment in Metro infrastructure (MARP), the new fleet of Metrocars (Fleet Replacement Programme or FRP); other capital projects such as the cross Tyne Ferry and Metro Flow. Funding for these items is largely provided by the DfT.
- 2.36 In respect of the MARP, the DfT are still to confirm the level of grant funding being made available to Nexus. For 2023/24 and 2024/25, £23.800m of grant funding is confirmed and the programme assumes a further £33.200m of grant funding will be approved, as well as the grant funding for 2025/26. The MARP programme within this report assumes Metropolitan Rail Grant (MRG) (Capital) funding of £28.485m in 2023/24 (inclusive of £8.844m slipped from 2022/23), £37.359m in 2024/25 and £35.756m in 2025/26. In relation to FRP, 2022/23 represents the fifth year of capital funding from DfT, with the programme fully funded to expected completion in 2025/26. OCP is largely funded via Nexus Reserves, in lieu of other funding being confirmed. The North Shields Ferry Landing relocation project funding is subject to a successful bid to the Levelling Up fund. With regard to MFL, residual project costs in 2023/24 are funded from MRG (Capital) Grant.
- 2.37 Other than the FRP, obtaining grant funding for the capital programme 2023/24 to 2025/26 has been extremely challenging. Currently £23.800m of grant funding is confirmed for 2023/24 and 2024/25, however, during summer 2022, the total

allocation for MRG (Capital) in 2023/24 and 2024/25 became clearer and a further £33.200m is expected to be confirmed, although this is contingent on regional devolution. Grant funding is expected to continue to be remitted to Nexus via DfT, rather than as part of any wider City Region Sustainable Transport Settlement (CRSTS) funding package, with bids for future funding beyond March 2025 also being submitted via the Department through a future Spending Review. The majority of the local contribution, currently sourced from the Public Transport allocation of the LTP Integrated Transport Block is likely to form part of CRSTS and Nexus will need to lobby for its continuation.

### **Metro Asset Renewal Programme (MARP) – 2023/24 budget**

- 2.39 Funding for the 2023/24 programme totals £43.897m, consisting of Metro Rail Grant of £26.242m (£28.485m less the £1.075m contribution to Metro Flow funding and £1.168m contribution to Digital Car Parks), supplemented by local contributions of £2.718m LTP grant, £14.937m reserves (including over programming, £9.637m).
- 2.40 As noted earlier, developing the MARP for 2023/24 to 2025/26 has been extremely challenging with capital grant from DfT across the three years still not absolutely confirmed. Since 2019, the MARP has been subject to annual funding settlements and as a result, planning the essential renewals programme has been very difficult. However, notwithstanding the challenges Nexus has had in connection the approval of capital grant allocations across the next three years, the MARP has been developed on the assumption that funding for future years will be obtained.
- 2.41 A number of significant projects across a range of different asset categories are planned in 2023/24. The programme is developed using a prioritisation model that, in the context of finite funding available for investment in the Metro asset base, targets resources based on a range of criteria ranging from safety and performance to impact on demand for the Metro service to strategic fit. The proposed programme is set out in Appendix 1 and a summary is provided below:
- 2.42 **Civils**
- Cullercoats Footbridge repairs
  - Design and planning of refurbishment of bridges at Stoddart Street (Newcastle)
  - Development of a scheme to replace the track system on Howdon Viaduct.
  - Asbestos Management in central area tunnels.
  - Repairs to Stoneygate Lane Bridge (Gateshead). Network Rail led work to a shared structure with 50% contribution from Nexus.
  - Remedial works to Regent Centre, Four Lane Ends and Northumberland Park Multi-Storey Car Parks and Surface Car Parks across the network.
- 2.43 **Permanent Way**
- Renewal of switches and crossings at Pelaw.

- Renewal of Prudhoe Street switch and crossing (central Newcastle tunnel).
- Procurement of Switches and Crossings for Installation at Monkseaton in the following year.
- Design and planning for the renewal and refurbishment of track between Regent Centre and Airport.
- Scope and option development to enable reduced reliance on lookout protection for infrastructure works.

#### 2.44 Mechanical and Electrical

- Completion of the programme of half-life refurbishment of lifts and escalators installed in the early years of the Asset Renewal Programme.
- Commence renewal of tunnel lighting across the network with efficient LED units.
- Development and design of Electric Vehicle charging infrastructure.

#### 2.45 Overhead Line Equipment

- Continuation of the overhead line renewal (50% complete to date)
- Initiate programme for replacement of fixed tension sections with automatically tensioned equipment.

#### 2.46 ICT Infrastructure

- Upgrades to ticketing and gating systems including operating system.
- Renewal and reconfiguration of Network Infrastructure equipment.
- Renewal of the core virtual infrastructure
- Scoping and development of systems for remote asset condition monitoring.

#### 2.47 Business Applications

- Complete the implementation of Timetabling and Rostering Applications.
- Commence replacement of the Asset Management Systems
- Scoping and development of a new Asset Management system

#### 2.48 Signalling

- Commencement of development of proposals for a new signalling system.
- Development, design, and implementation of a new SCADA system,
- Continuation of works to address cable degradation in - an ongoing multi-year programme continuing across the Metro infrastructure.

## 2.49 Stations

- Refurbishment of Whitley Bay Station canopy.
- Repairs to the Monkseaton Station canopy gable end.
- Development and design for refurbishment of Byker Station in 2024/25,
- Continuation of works to refresh and update Halt Stations across the network.
- Scoping and development of Gateshead Interchange and Monument stations.

## 2.50 Capital Maintenance/Other

- Continued heavy maintenance of the existing fleet.
- Renewal of road vehicles.
- Renewal and refurbishment of critical Engineering and Road/Rail vehicles.
- Investment in our office and operational premises.
- Permanent way, rail grinding, off track enhancements and vegetation management around the system.
- Refurbishment of electrically powered engineering locomotives.

## 2.51 There are a number of projects where cost uncertainty is high and programme level contingency budget has been included:

- Tunnel asbestos management – scope depends on outcome of regular inspections.
- OLE replacement of fixed tension elements – scope and design development to be confirmed.
- EV charging infrastructure – feasibility, scope, and design to be confirmed.
- Lookout protection works – scope to be confirmed and subject to Office of Rail and Road (ORR) discussions
- SCADA (Supervisory Control and Data Acquisition) – The degree of any cable degradation is still to be established and may require extensive renewal.

## 2.52 Over-programming has been set at around 22% for 2023/24. This provides delivery flexibility to mitigate unforeseen delays and changes, market conditions and supply chain issues, of which there have been a number in 2022/23. Additionally, it provides options to manage dependencies within the programme – particularly around introduction of the new Metro Fleet. Rigorous periodic monitoring will ensure that the programme delivers within the available funding and virement limits. Over-programming at 22% is consistent with historic levels in the ARP programme.

2.53 Despite considerable investment over the past twelve years, the programme of renewals needs to continue across the next three years and beyond in order to stabilise the backlog that had developed pre-2010, when Metro was subject to annual funding settlements, meaning that the condition of the Metro infrastructure had steadily declined. As highlighted above, the assumed funding for both 2023/24 and 2024/25 is only partially approved and funding for 2025/26 is subject to a further funding submission to DfT. Should this remaining funding for 2023/24 and 2024/25 not materialise, a revised programme will be necessary, with priorities comprising projects for which Nexus has contractual obligations with third parties, safety critical and to a lesser extent, business critical renewals. Consequently, the following projects are unlikely to progress:

- Engineering and Road/Rail Vehicle replacement.
- Remedial work to Multi-storey and surface car parks.
- Cullercoats footbridge repairs.
- Pelaw Switch and Crossing works.
- Track renewal/refurbishment from South Gosforth to Airport.
- Renewal of Engineering RRV vehicles.
- Refurbishment of the Engineering Battery Locomotives.
- Investment in Nexus Office and Operational property.
- Byker Station refurbishment.
- Road vehicle replacement will be downturned.
- Halt station refurbishment will be downturned.
- Bridge repairs, lookout protection and cable degradation works will be downturned.

2.54 The 2023/24 proposed programme is inclusive of projects which have slipped from the 2022/23 programme at a value of £8.844m. The corresponding slippage of funding exceeds the 20% allowable and a request for the excess virement between years has been approved by DfT.

2.55 Investment that is planned over the next 36 months (2023/24 to 2025/26) at asset category level is set out below and in more detail at Appendix 1.

*Table 6: Proposed Budget 2023/24 to 2025/26*

	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Capital Maintenance	4.868	3.100	2.650
Civils	4.247	4.247	7.100

Level Crossings	0.100	0.100	0.100
Mechanical and Electrical	0.884	1.766	4.200
Overhead line	3.850	5.150	3.200
Permanent Way (Plain line)	8.189	7.166	7.904
Plant	0.698	2.558	0.340
Risk Contingency	1.500	2.000	3.500
Signalling	4.692	6.653	3.905
Stations	7.350	4.643	3.350
Business Applications	0.701	0.636	0.355
ICT Infrastructure	3.647	3.545	0.620
Miscellaneous	2.916	4.500	1.000
Power	0.255	0.250	0.250
	<b>43.897</b>	<b>46.314</b>	<b>38.474</b>

- 2.56 The proposed 2023/24 programme has been assessed for feasibility of delivery and sufficient resources have been made available to enable that. Nexus will still be required to fund 10% of the overall investment in the MARP, which will amount to £3.165m in 2023/24. As with investment since 2010, Nexus will secure this from the LTP Integrated Transport Block. However, the LTP Integrated Transport Block is likely to form part of CRSTS and Nexus will need to lobby for its continuation.

#### **Fleet Replacement Programme (FRP) – 2023/24 Budget**

- 2.57 In October 2017, government announced £336.8m of grant funding for the replacement of Nexus' fleet of Metrocars. This is augmented by a £25.0m local contribution.
- 2.58 The funding profile was confirmed in January 2020 based on the key milestones to be delivered within the programme and is detailed below:

*Table 7: Original FRP funding profile*

	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital	-	21.6	29.8	44.0	78.6	117.7	43.6	1.5	336.8
Local Cont.	1.1	7.6	16.3	-	-	-	-	-	25.0
	<b>1.1</b>	<b>29.2</b>	<b>46.1</b>	<b>44.0</b>	<b>78.6</b>	<b>117.7</b>	<b>43.6</b>	<b>1.5</b>	<b>361.8</b>

- 2.59 As the project has progressed the funding profile has been amended with the agreement of DfT. The latest approved funding profile from October 2021 is illustrated below:

*Table 8: October 2021 approved FRP funding profile*

	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital	-	21.6	35.8	54.1	64.8	99.0	42.3	19.2	336.8
Local Cont.	1.5	3.3	7.9	7.3	5.0	-	-	-	25.0
	<b>1.5</b>	<b>24.9</b>	<b>43.7</b>	<b>61.4</b>	<b>69.8</b>	<b>99.0</b>	<b>42.3</b>	<b>19.2</b>	<b>361.8</b>

2.60 During 2022/23 the profile has evolved further with most notably a 3 month delay to completion of type testing. As a result, the following funding profile has been agreed with DfT:

*Table 9: Latest approved FRP funding profile*

	2018/ 19	2019/ 20	2020/ 21	2021/ 22	2022/ 23	2023/ 24	2024/ 25	2025/ 26	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
DfT Capital	-	21.6	35.8	54.1	59.2	108.0	44.3	13.8	336.8
Local Cont.	1.5	3.3	7.9	5.1	-	7.2	-	-	25.0
	<b>1.5</b>	<b>24.9</b>	<b>43.7</b>	<b>59.2</b>	<b>59.2</b>	<b>115.2</b>	<b>44.3</b>	<b>13.8</b>	<b>361.8</b>

2.61 The re-profiling of the delivery programme does not reflect any delay to the planned delivery of the new train fleet, although to the extent there is a delay, the profile would need to be amended and grant funding limits agreed with DfT. Currently, it is envisaged that over the next 36 months, the Manufacture and Supply Agreement (MSA) will progress through manufacture and acceptance leading to the delivery of all 46 new trains. In addition, the existing depot site will continue to be configured to enable stabling of the entire new fleet. The following expenditure is forecast:

*Table 10: FRP Forecast 2023/24 to 2025/26*

	Proposed Budget 2023/24	Proposed Budget 2024/25	Proposed Budget 2025/26
	£m	£m	£m
New Train Fleet (MSA)	97.876	41.103	1.076
Gosforth Depot (DCC)	8.809	-	-
Project Delivery	4.975	2.601	0.511
Risk Contingency	3.577	0.644	12.178
	<b>115.236</b>	<b>44.348</b>	<b>13.765</b>

#### **Other Capital Projects (OCP) – 2023/24 budget**

2.62 Other Capital Projects largely feature other external funding that Nexus has yet to secure. During the three years Nexus will complete delivery of a range of digital enhancements at car parks across the Metro estate, funded by MRG (Capital) Grant.



The relocation of the North Shields Ferry Landing to a new site on North Shields Fish Quay is also planned for 2024/25, but this is subject to a successful bid into the Levelling Up fund or failing that, the acquisition of other external funding. The construction cost, whilst included in the table below, is therefore subject to external funding being obtained:

*Table 11: OCP Forecast 2023/24 to 2025/26*

	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
North Shields Ferry Landing Relocation	0.826	9.882	0.280
Other Ferry Infrastructure	1.113	0.517	0.060
Digital Car Park Enhancements	1.168	-	-
	<b>3.107</b>	<b>10.399</b>	<b>0.340</b>

- 2.63 Should funding for the North Shields Ferry Landing Relocation project be unsuccessful, the existing landing will require remedial capital renewals which would increase pressure on Nexus Reserves funding, although it should be recognised that the existing north landing is expected to be life expired within the timeframe of this capital programme.
- 2.64 Bus Service Improvement Plan (BSIP) projects deliverable by Nexus are still to be defined and delivery will be subject to funding being made available.
- 2.65 During the next three years Nexus expects to develop the strategic outline business case for the Wearside Loop Metro expansion. This is subject to funding being provided by Transport North East (TNE) and does not feature within the programme detailed in this report.

### **Metro Flow (MFL) – 2023/24 budget**

- 2.66 In March 2020 DfT awarded Nexus £95.0m of Transforming Cities funding for the Metro Flow project, subject to approval of the Final Business Case which was duly achieved in Summer 2021. A local contribution of £8.4m, from an allocation of Metro Rail Grant was confirmed by DfT, ahead of final confirmation of MRG funding for 2022/23.
- 2.67 The MFL project, largely completed during 2022/23, allows passive provision to deliver more capacity, better frequency, and more resilience (subject to the revenue budget allowing for this) because of the implementation of dual tracking in South Tyneside
- 2.68 During 2023/24 a budget of £1.075m is required for any small scale residual works and project management. This will be funded by MRG (Capital) grant as part of the project's local contribution.

### **Nexus Capital Programme Funding**

2.69 Funding for the proposed Capital Programme for 2023/24 to 2025/26 is only secured in part, with £33.200m of MRG (Capital) funding for 2023/24 and 2024/25, and the entire funding of £35.756m for 2025/26, still to be confirmed by DfT. Notwithstanding this, the programme funding is summarised in the following table:

*Table 12: Nexus Capital Programme Proposed Funding 2023/24 to 2025/26*

	<b>Proposed Funding 2023/24</b>	<b>Proposed Funding 2024/25</b>	<b>Proposed Funding 2025/26</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Metro Rail Grant (DfT)	28.485	37.359	35.756	101.600
NoTCA Funding	-	0.687	0.063	0.750
LTP Grant	2.797	2.797	2.797	8.392
Fleet Replacement Grant (DfT)	108.013	44.348	13.765	166.126
Levelling Up Fund	0.805	9.195	-	10.000
	<b>140.101</b>	<b>94.386</b>	<b>52.381</b>	<b>286.868</b>
Nexus Reserves	1.055	0.438	0.198	1.690
Nexus Retained Reserves for MARP	5.300	4.700	-	10.000
Fleet Reserves	7.223	-	-	7.223
Overprogramming	9.637	1.537	-	11.174
	<b>23.214</b>	<b>6.675</b>	<b>0.198</b>	<b>30.087</b>
<b>Total</b>	<b>163.315</b>	<b>101.061</b>	<b>52.579</b>	<b>316.955</b>

2.70 As noted earlier, dialogue will continue with DfT in respect of confirming the MRG funding for 2023/24 to 2025/26.

### **Electric Vehicle Charging Infrastructure**

2.71 Work is continuing around to progress the installation of new EV charging infrastructure at sites around the North East. One recent change relates to the planned siting of charging infrastructure in the main car park at West Denton leisure centre, Newcastle. As the leisure centre and car park are undergoing a complete rebuild in the next 2 years following receipt of a Levelling Up grant, the charger is now to be located in the rear car park, which is not affected by the works, and the contractors are liaising with Newcastle's Major Projects Team to progress this.

### **Go Ultra Low taxi project**

2.72 It is expected that the final two chargers in Newcastle and North Tyneside will go live imminently with orders being placed for connections. Delays are owing to legal

agreements and the capacity of the supply chain to act. The framework agreement with the supplier of the infrastructure is due to expire in February 2023 and discussions are ongoing with Local Authority partners as to the future of this contract. Evaluation of the success of the programme and future engagement is underway.

### **Tyne Tunnels**

- 2.73 The Tyne Pedestrian and Cyclist Tunnels reopened for public use in August 2019 after being closed for several years for refurbishment. They are currently open to the public with no charge to users. To access the tunnels, pedestrians and cyclists can use the vertical lift at both ends. The tunnels are monitored via CCTV by the 24-hour security presence on-site
- 2.74 The inclined glass lifts at the Tyne Cyclist and Pedestrian Tunnels are additional lifts which have been planned to increase capacity for cyclists and to provide a tourist attraction, as they are bespoke glass lifts which travel on a steep incline down the historic escalator shaft to the lowest part of the tunnels. Completion and certification of the inclined lifts is still awaited, as they have proved difficult to complete due to the bespoke nature of the design and issues with contractors.
- 2.75 The completion of the inclined lifts was delayed throughout 2020 with the Italian lift engineers (Maspero) citing Covid-19 travel restrictions as the principal reason for this. Maspero engineers were last on site in January 2020 and have not been back to site since.
- 2.76 New lift contractors were appointed in 2021 with works taking place in late 2021 and continuing into 2022. The new specialist lift engineers have made good progress on replacing the wiring and mechanical systems which control the lift. However, there are still works to be completed on the cabin, doors, and the door operating mechanisms. New parts are required and have been ordered, although they are subject to a longer delivery process than expected due to supply chain delays. As soon as the parts are installed and fitted the works can move on to the final stage of testing and certification. The new lifts will be able to carry up to 6 cyclists and their bikes in one journey.
- 2.77 It is likely that testing and commissioning of the inclined lifts will be completed early in the 2023/24 financial year. Capital budget provision of up to £0.200m to be funded from Tyne Tunnels reserves has been included in the programme for this.

### **Capital Programme Financing**

- 2.78 Forecast capital expenditure for the 2022/23 year will be financed as follows:

*Table 13: Capital Programme Financing 2022/23*

	<b>2022/23 Original Budget</b>	<b>2022/23 Revised Budget</b>	<b>2022/23 Forecast</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Government Grants	269.728	270.027	250.993	(19.034)
Earmarked Reserves	10.046	2.710	0.415	(2.295)
<b>Total Funding</b>	<b>279.774</b>	<b>272.737</b>	<b>251.408</b>	<b>(21.329)</b>

2.83 The proposed 2023/24 capital programme will be financed as follows:

*Table 14: Capital Programme Financing 2023/24*

	<b>2023/24 Initial Programme Budget</b>
	<b>£m</b>
Government Grants	225.216
Earmarked Reserves	13.778
<b>Total Funding</b>	<b>238.994</b>

### **3. Reasons for the Proposals**

3.1 The proposals are presented in this report to enable the JTC to agree its capital programme for 2023/24.

### **4. Alternative Options Available**

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

4.2 Option 2 – the North East Joint Transport Committee may not accept the recommendations set out in this report.

4.3 Option 1 is the recommended option.

### **5. Next Steps and Timetable for Implementation**

5.1 Progress against the JTC Capital Programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery bodies. As and when updated information on funding bids is received, the capital programme will be updated and presented to the JTC for consideration and approval.

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

6.1 Successful delivery of the various transport schemes and investment proposals outlined in this report will assist the JTC in meeting its objective to maximise the region's opportunities and potential.

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

7.1 The financial and other resource implications are set out in the body of the report.

## **8. Legal Implications**

8.1 The Newcastle upon Tyne, North Tyneside, and Northumberland Combined Authority (Establishment and Functions) Order 2018 specifies that the setting of the capital programme in relation to transport is a function exercisable only by the JTC. Unanimous approval is required.

## **9. Key Risks**

9.1 Risks associated with the delivery of transport schemes by the key delivery bodies are factored into the risk management processes of those organisations.

## **10. Equality and Diversity**

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

## **11. Crime and Disorder**

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

## **12. Consultation/Engagement**

12.1 Projects being delivered by constituent authorities and other delivery partners, or in constituent authority areas, are subject to local consultation and planning approvals.

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

13.1 There are no other impacts arising from this report.

## **14. Appendices**

14.1 Appendix 1 – Proposed Nexus Capital Programme 2023/24 to 2025/26

## **15. Background Papers**

15.1 JTC Capital Programme 2022/23 – Report to JTC 18 January 2022 ([Public Pack](#))[Agenda Document for North East Joint Transport Committee, 18/01/2022 14:30 \(northeastca.gov.uk\)](#)

## **16. Contact Officers**

16.1 Eleanor Goodman, NECA Finance Manager,  
[eleanor.goodman@northeastca.gov.uk](mailto:eleanor.goodman@northeastca.gov.uk), 0191 433 3860

**17. Sign off**

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

## Appendix 1 – Proposed Nexus Capital Programme 2023/24 to 2025/26

Asset Category	Proposed Budget 2023/24	Proposed Budget 2024/25	Proposed Budget 2025/26
	£m	£m	£m
<b>Metro ARP</b>	<b>43.897</b>	<b>46.314</b>	<b>38.474</b>
Capital Maintenance	4.868	3.100	2.650
<i>Capital Maintenance - Existing fleet and transition.</i>	3.223	1.700	1.700
<i>Infrastructure Vehicle Renewal and Refurbishment (RRV's, wagons, etc.)</i>	0.720	0.800	-
<i>Plain Line (Heavy Maintenance)</i>	0.600	0.600	0.600
<i>Rail Grinding</i>	0.325	-	0.350
Civils	4.247	4.247	7.100
<i>Structural Assessments – overbridges</i>	0.075	0.075	0.075
<i>Tanners Bank Underbridge</i>	0.005	-	-
<i>Tunnels - repairs and asbestos maintenance</i>	0.225	0.225	0.225
<i>Howdon Viaduct - Track System Renewal</i>	0.800	0.250	6.200
<i>Stoddart Street bridges - repair/waterproofing</i>	0.157	2.430	-
<i>Cullercoats Footbridge</i>	0.850	-	-
<i>Multi Storey Car Parks refurbishment</i>	0.810	0.442	-
<i>Surface Car Parks Refurbishment</i>	0.275	0.325	-
<i>Bridges - condition and assessment led repairs/painting</i>	0.500	0.500	0.600
<i>Stoneygate Lane Bridge - Network Rail Contribution</i>	0.550	-	-
Level Crossings	0.100	0.100	0.100

<b>Asset Category</b>	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Crossing Upgrade / repairs	0.100	0.100	0.100
Mechanical and Electrical	0.884	1.766	4.200
<i>Escalators - Haymarket (No. 1&amp;3) 1/2 Life Refurbishment</i>	0.384	0.016	-
<i>Tunnel Lighting</i>	0.200	1.500	2.000
<i>Central and Monument Escalator half life refurb</i>	-	0.050	1.300
<i>Regent Centre and St James Lift 1/2 life refurb</i>	-	0.050	0.800
<i>Network wide LED lighting and Heating upgrades (Efficiency)</i>	0.200	0.050	-
EV Vehicle infrastructure	0.100	0.100	0.100
Overhead line	3.850	5.150	3.200
<i>OHL renewal - Continued from Phase 2 ARP</i>	3.700	3.650	1.700
<i>Replacement of fixed tensioning with automatic</i>	0.150	1.500	1.500
Permanent Way (Plain line)	8.189	7.166	7.904
<i>Vegetation management - / Off track remedial works</i>	0.750	0.750	0.750
<i>Metro Infrastructure Boundary improvements</i>	0.100	0.100	0.100
<i>Switches &amp; Crossings - Pelaw 7005/7006/17 pts</i>	1.646	0.200	-
<i>Switches &amp; Crossings - Prudhoe Street 6007A/B pts</i>	2.090	-	-
<i>Plain Line Refurbishment. SGF to Airport (Col)</i>	2.377	3.625	6.804
<i>Switches &amp; Crossings - Monkseaton 2036Bpts (Turnout), 2034 Abpts (Crossover), 2032 AB pts (Crossover)</i>	0.976	2.241	-
<i>Lookout Protection infrastructure works</i>	0.250	0.250	0.250



<b>Asset Category</b>	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Plant	0.698	2.558	0.340
<i>Vehicle replacement Programme</i>	<i>0.600</i>	<i>0.300</i>	<i>0.300</i>
<i>Battery Locomotive refurbishment</i>	<i>0.098</i>	<i>2.258</i>	<i>0.040</i>
Risk Contingency	1.500	2.000	3.500
Signalling	4.692	6.653	3.905
<i>Cable Testing and Replacement</i>	<i>0.600</i>	<i>0.600</i>	<i>0.600</i>
<i>Location Rewire</i>	<i>0.210</i>	<i>0.225</i>	<i>0.250</i>
<i>Cable degradation - relay rooms</i>	<i>0.350</i>	<i>0.150</i>	<i>-</i>
<i>Scada (and Mimic)</i>	<i>2.922</i>	<i>4.928</i>	<i>1.055</i>
<i>Delta Track Circuits</i>	<i>0.005</i>	<i>-</i>	<i>-</i>
<i>Signal Sighting</i>	<i>0.005</i>	<i>-</i>	<i>-</i>
<i>Troughing</i>	<i>0.100</i>	<i>-</i>	<i>-</i>
<i>Signalling System replacement development</i>	<i>0.500</i>	<i>0.750</i>	<i>1.000</i>
<i>RTMS Upgrade / refresh</i>	<i>-</i>	<i>-</i>	<i>1.000</i>
Stations	7.350	4.643	3.350
<i>Northumberland Park Car Park</i>	<i>0.100</i>	<i>1.000</i>	<i>-</i>
<i>Interchange station GHD (Design)</i>	<i>0.075</i>	<i>-</i>	<i>-</i>
<i>Whitley Bay (Canopy)</i>	<i>4.078</i>	<i>0.618</i>	<i>-</i>
<i>Byker</i>	<i>0.520</i>	<i>1.640</i>	<i>-</i>
<i>Jesmond</i>	<i>-</i>	<i>-</i>	<i>0.200</i>

<b>Asset Category</b>	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Manors</i>	-	-	0.050
<i>Monkseaton (incl canopy)</i>	0.766	-	-
<i>Monument Scope and Design</i>	0.050	0.075	0.100
<i>Station- Heworth Interchange- Construction</i>	0.050	0.500	2.500
<i>Four Lane Ends interchange enhancement</i>	-	-	0.100
<i>Chichester refurbishment</i>	1.000	0.500	-
<i>Halt Stations - including Sunderland line</i>	0.711	0.310	0.250
<i>Airport Stations</i>	-	-	0.150
<b>Business Applications</b>	<b>0.701</b>	<b>0.636</b>	<b>0.355</b>
<i>Asset Management Software Replacement</i>	0.116	0.526	0.255
<i>Timetable &amp; Driver Rostering</i>	0.260	-	-
<i>Project System &amp; Process upgrades/reporting and integration</i>	0.025	0.025	0.025
<i>Business Applications</i>	0.075	0.075	0.075
<i>Domain Controllers</i>	0.025	-	-
<i>NTS Time sources</i>	-	0.010	-
<i>Database EOL replacement</i>	0.200	-	-
<b>ICT Infrastructure</b>	<b>3.647</b>	<b>3.545</b>	<b>0.620</b>
<i>Cycle Lockers</i>	0.050	-	-
<i>Microsoft SQL Server</i>	0.050	0.050	-
<i>Network Refresh</i>	0.373	-	-

<b>Asset Category</b>	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>Digital Connectivity</i>	0.100	-	-
<i>Remote condition monitoring inc' point motors, track circuits</i>	0.200	0.300	0.300
<i>Core Virtual Infrastructure</i>	2.609	-	-
<i>CCTV Storage Platform</i>	0.050	2.400	-
<i>CCTV - Safety and Security led enhancements</i>	0.050	0.050	-
<i>Copper ICT 50 pair cable</i>	0.120	0.110	0.050
<i>Lift Help Points</i>	-	0.075	-
<i>PA Speakers and Cabling</i>	-	-	0.150
<i>UPS EOL replacement</i>	0.045	-	-
<i>Office LAN</i>	-	0.340	-
<i>Telephony architecture</i>	-	0.100	-
<i>Smartphone renewal</i>	-	0.120	0.120
Miscellaneous	2.916	4.500	1.000
<i>Benton Square (Safety and Security)</i>	0.100	-	-
<i>Fare Collection Systems - Reader upgrades and asset renewal</i>	0.050	3.000	-
<i>Control Centre improvements (further)</i>	0.251	-	-
<i>Nexus Office and Operational Property strategy delivery.</i>	1.000	1.500	1.000
<i>Upgrade TVMs, gates/barriers, validators, TOMs XP</i>	1.515	-	-
Power	0.255	0.250	0.250
<i>DC Switch Boxes</i>	0.250	0.250	0.250

<b>Asset Category</b>	<b>Proposed Budget 2023/24</b>	<b>Proposed Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<i>HV Improvements</i>	0.005	-	-
<b>Fleet Replacement Programme</b>	<b>115.236</b>	<b>44.348</b>	<b>13.765</b>
<i>MSA</i>	97.876	41.103	1.076
<i>DCC</i>	8.809	-	-
<i>Project Delivery</i>	4.975	2.601	0.511
<i>Risk Allowance</i>	3.577	0.644	12.178
<b>Metro Flow</b>	<b>1.075</b>	-	-
<b>Other Capital Projects</b>	<b>3.107</b>	<b>10.399</b>	<b>0.340</b>
<i>Digital Car Park</i>	1.168	-	-
<i>Ferry</i>	1.939	10.399	0.340
<i>Ferry Vessels</i>	0.202	0.517	0.060
<i>Ferry North Landing Relocation</i>	0.826	9.882	0.280
<i>South Landing works</i>	0.911	-	-
<b>Total Capital Programme</b>	<b>163.315</b>	<b>101.061</b>	<b>52.579</b>

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### Appendix 2 – North East Combined Authority Treasury Management Strategy 2023/24

#### Purpose

- 1 In accordance with statutory guidance and the Authority's Financial Procedure rules, this report presents the 2023/24 position for the proposed Treasury Management Strategy, the Annual Cash Investment Strategy, Prudential Indicators, Minimum Revenue Provision (MRP) Policy and Treasury Management Policy Statement and Practices (which are detailed at Annex 1).

#### Background

- 2 Treasury management is defined as 'the management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks'.
- 3 The Authority operates a balanced budget, which broadly means that cash raised during the year will meet cash expenditure incurred. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, with the main aims of providing sufficient liquidity and security, with the achievement of the best possible investment returns ranking as less important.
- 4 The second main function of the treasury management service is to arrange the funding of the Authority's capital programme, which will support the provision of NECA services. The capital programme provides a guide to the borrowing need of the Authority, and there needs to be longer term cash flow planning to ensure capital spending requirements can be met. The management of longer-term cash may involve arranging long or short-term loans, utilising longer term cash flow surpluses and, occasionally, debt restructuring to meet NECA risk or cost objectives.
- 5 The Authority adopts the latest CIPFA Code of Practice on Treasury Management (the Code) which is regarded as best practice in ensuring adequate monitoring of the Authority's capital expenditure plans and its Prudential Indicators (PIs). This requires that Members agree the following reports, as a minimum:
  - i. An annual Treasury Management Strategy in advance of the year (this report);
  - ii. A mid-year Treasury Management Review (report presented to Leadership Board on 29 November 2022);
  - iii. An annual review following the end of the year describing the activity compared to the strategy (report presented to the Leadership Board on 26 July 2022).

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- 6 CIPFA published revised Treasury Management and Prudential Codes in December 2021 which included revisions to the reporting framework from the 2023/24 financial year.

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

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

All of NECA’s investments and investment income fall into category a) Treasury Management.

- 7 The revised Treasury Management Code also requires authorities to implement the following:

- Adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case. NECA has no long-term investments;
- Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year. NECA does not currently have any pooled funds or investments.
- Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights

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significant actual or forecast deviations from the approved indicators. Going forward, this will be reported as part of the regular revenue and capital monitoring, in addition to the existing Treasury Management Strategy Statement, Mid-Year Review and Final Outturn reports.

- 8 This report provides a summary of the following for 2023/24:
- Summary Treasury Position including Mid-Year Update;
  - Borrowing Strategy;
  - Other Debt and Long-Term Liability Plans;
  - Cash Investment Strategy;
  - Non-Treasury Investments;
  - Treasury Management Indicators;
  - Prudential Indicators;
  - MRP Policy Statement;
  - Other Matters.

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

### Summary Treasury Position

- 10 The Authority’s debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments, and to manage risks within all treasury management activities.

- 11 The following table shows the Authority’s treasury position as at 31 December 2022 alongside the expected position for 31 March 2023:

	1 April 2022	Rate /Return	Average Life	31 Dec 2022	Rate /Return	Average Life
	£m	%	years	£m	%	Years
<b>Total Debt</b>	170.000	4.24	38.9	169.667	4.25	38.1
<b>Total Investments</b>	100.000	0.39	0.71	124.500	1.71	0.38
<b>Net Debt</b>	<b>70.000</b>			<b>45.167</b>		

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### Borrowing Strategy

- 12 NECA held £170.000m of loans at 31 March 2022. The balance had decreased to £169.667m at 31 December 2022 and is expected to be £169.333m at 31 March 2023, as detailed below:

	<b>1 April 2022</b>	<b>2022/23</b>	<b>31 March 2023</b>	<b>Average</b>	<b>31 March 2023</b>
	<b>Actual Balance</b>	<b>Estimated Movement</b>	<b>Estimated Balance</b>	<b>Interest Rate</b>	<b>Average Life</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>	<b>years</b>
Public Works Loan Board (PWLB)	81.000	(0.667)	80.333	4.09	22.8
Private Sector	89.000	0.000	89.000	4.39	48.3
<b>Total borrowing</b>	<b>170.000</b>	<b>(0.667)</b>	<b>169.333</b>		

- 13 The Authority's principal objective when borrowing has been to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.
- 14 The difference between the Authority's borrowing requirement and the actual borrowing undertaken is called under-borrowing. This represents the ability of the Authority to use its balance sheet reserves to delay the date that loans are taken out. The strength of the Authority's balance sheet means it has no immediate need to borrow to fund its capital outlays and this means that using internal balances is the generally most cost-effective option. However, in the medium term the Authority may need to borrow to fund its capital programme.
- 15 No new borrowing has been undertaken during 2022/23 to date and none is anticipated for the remainder of the financial year.
- 16 The following sources of long-term and short-term borrowing have been identified for approval:
- Public Works Loan Board (PWLB);
  - UK local authorities;
  - Any institution approved for investments (see paragraph 36);
  - UK public/private sector pension funds;
  - European Investment Bank; and
  - Local authority special purpose vehicles created to enable local authority bond issues (for example the Municipal Bonds Agency)



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17 A major source of the Authority's borrowing is the PWLB, which is a lending facility operated by the UK Debt Management Office on behalf of HM Treasury. In order to have access to PWLB loans, the current arrangements require the Authority to confirm that they are not buying investment assets primarily for yield and that they are not borrowing in advance of need, with the aim of making a profit from the sums borrowed.

18 The Authority meets the borrowing criteria so taking out PWLB loans is an available option. Loan rates are fluid (PWLB rates change twice daily), and the Authority will continue to work with its Treasury Management advisors, Link Asset Services, to monitor rates and cash flow requirements to determine the timing for taking out further loans.

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

19 The Authority will not borrow more than, or in advance of, its needs, purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be made within approved Capital Financing Requirement (CFR) estimates and following careful consideration, in order to demonstrate value for money and ensure the security of such funds.

20 Any risks associated with activity to borrow in advance will be subject to prior appraisal and will be subsequently accounted for in the Treasury Management report that follows.

### **Debt Rescheduling**

21 As short-term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be opportunities to generate savings by switching from long term debt to short term debt. Advantages of debt rescheduling would include:

- generating cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhancing the balance of the portfolio (amend the maturity profile and / or the balance of volatility).

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

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

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

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- 23 NECA does not currently have any capital finance liabilities in the form of finance leases.

### **Cash Investment Strategy**

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

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

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

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

### **Specified Investments**

- 28 These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. These are considered to be low risk assets where the possibility of loss of principal or investment income is small and are not defined as capital expenditure. These would include the following sterling investments:
- Deposit with the UK Government – e.g. the Debt Management Office deposit facility, UK treasury bills or gilts with less than one year to maturity;

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

### Non-Specified Investments

29 These are investments which do not meet the specified criteria as outlined above. The Authority is therefore required to examine non-specified investments in more detail. As well as any of the above sterling investments that are of more than one-year maturity, non-specified investments include the following sterling investments:

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

### Creditworthiness Policy

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

- it maintains a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security and arrangements for monitoring their security; and
- it has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

31 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties

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considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

- 32 Since 1 April 2020, Treasury Management services to NECA have been provided by Durham County Council. Durham County Council have a contract with Link Asset Services as Treasury Management advisers. Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue weight to only one agency's ratings.
- 33 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.
- 34 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.
- 35 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- 36 In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.
- 37 Sole reliance will not be placed on the use of the service provided by Link. The Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches / outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

### Investment Criteria

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

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

- UK banks and/or

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

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

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

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;
- Banks 3 – The Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case, balances will be minimised in both monetary size and time;
- Bank subsidiary and treasury operation. The Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above;
- UK Government (including gilts and the Debt Management Account Deposit Facility [DMADF]);
- Local authorities, parish councils etc.;
- Building societies. The Authority will use societies which:
  - Meet the ratings for banks outlined above; or
  - Have assets in excess of £1 billion;
- Money market funds;
- Ultra-Short Dated Bond Funds;
- Property Funds.

### Time and Monetary Limits applying to Investments

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

<b>Investment Type</b>	<b>Long Term Rating</b>	<b>Money Limit</b>	<b>Time Limit</b>
Banks / Building Societies*	AA-	£20m	1 year
Banks / Building Societies*	A	£20m	1 year
Banks / Building Societies*	A-	£15m	6 months
Banks – part-nationalised*	N/A	£20m	1 year
Banks – Authority's banker*	A-	£20m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited

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Local Authorities	N/A	£10m each	3 years
<b>Investment Type</b>	<b>Asset Size</b>	<b>Money Limit</b>	<b>Time Limit</b>
Building Societies	+£1 billion	£10m	6 months
<b>Investment Type</b>	<b>Fund Rating</b>	<b>Money Limit</b>	<b>Time Limit</b>
Money Market Funds	AAA	£40m total	liquid
Money Market Funds CNAV	AAA	£10m each	liquid
Money Market Funds LVNAV	AAA	£10m each	liquid
Money Market Funds VNAV	AAA	£10m each	liquid

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

The above limits have been revised from the previous Treasury Management Strategy. This is because the limits had been in place for some years and had not been increased to reflect the higher level of cash balances being received by NECA in recent years in its role as Accountable Body for the Joint Transport Committee. This means that frequently grants will be paid to NECA relating to JTC programmes, which may need to be placed in short term investments until payments to delivery partners fall due. This activity is expected to increase further in the coming months through the receipt of grant income from the Levelling Up Fund, City Region Sustainable Transport Fund and the Bus Service Improvement Plan.

The proposed revised limits will increase the flexibility available for short term investments while still maintaining the balance of security and liquidity.

### UK Banks – Ring Fencing

- 40 An additional factor must be taken into account when making investments with some UK banks from 1 January 2019. From this date the largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities. This is known as “ring-fencing”. Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt to be included in the arrangements. Several banks are very close to the threshold already and so may come into scope in the future regardless.
- 41 Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and “riskier” activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity’s core activities are not adversely affected by the acts or omissions of other members of its group.

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

### Non-Treasury Investments

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

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

45 The Authority recognises that investments such as these, taken for non-treasury management purposes, require careful investment management and that it is important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Authority’s agreed risk profile.

### Treasury Management Indicators

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

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

	<b>2023/24 Limit</b>
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

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

	<b>Lower Limit</b>	<b>Upper Limit</b>
Under 12 months	0%	20%
12 months to 2 years	0%	40%

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2 years to 5 years	0%	60%
5 years to 10 years	0%	80%
10 years and above	0%	100%

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

	2022/23	2023/24	2024/25
Principal sums invested > 365 days	£15m	£15m	£15m

### a) Prudential Indicators

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

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

- 52 Capital Expenditure – the table below summarises capital expenditure incurred and planned and how the expenditure was and will be financed:

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
<b>Capital Programme</b>	<b>113.112</b>	<b>251.408</b>	<b>238.994</b>	<b>101.061</b>	<b>52.579</b>
<b>Financed by:</b>					
Capital grants	111.455	250.993	225.216	96.361	52.579
Revenue and reserves	1.657	0.415	13.778	4.700	0.000
<b>Net borrowing financing need for the year</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

- 53 Capital Financing Requirement (CFR) – the CFR is a measure of the Authority’s underlying borrowing need for a capital purpose.



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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Capital Financing Requirement	183.611	180.363	177.122	173.908	170.693
<b>Movement in CFR</b>	(3.259)	(3.248)	(3.241)	(3.214)	(3.215)
Net borrowing financing need for the year	0.000	0.000	0.000	0.000	0.000
Less MRP/VRP and other financing movements	(3.259)	(3.248)	(3.241)	(3.214)	(3.215)
<b>Movement in CFR</b>	(3.259)	(3.248)	(3.241)	(3.214)	(3.215)

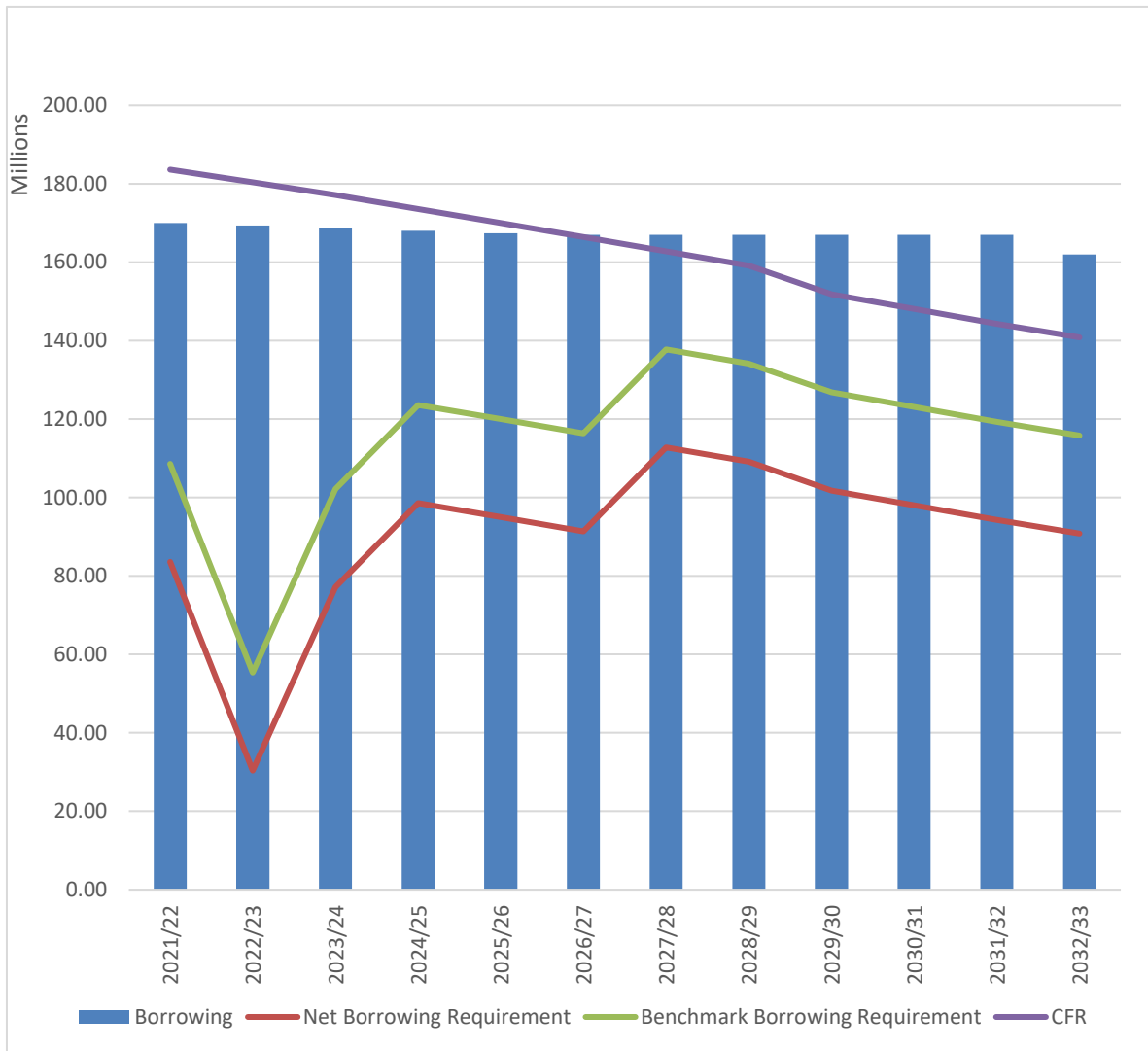
54 Gross Debt and the Capital Financing Requirement – in order to ensure that debt will only be held for capital purposes, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional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

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt at 1 April	170.667	170.000	169.333	168.666	168.000
Expected change in debt	(0.667)	(0.667)	(0.667)	(0.666)	(0.667)
<b>Gross Debt at 31 March</b>	<b>170.000</b>	<b>169.333</b>	<b>168.666</b>	<b>168.000</b>	<b>167.333</b>
<b>Capital Financing Requirement</b>	<b>183.611</b>	<b>180.363</b>	<b>177.122</b>	<b>173.908</b>	<b>170.693</b>
<b>Under borrowing</b>	<b>(13.611)</b>	<b>(11.030)</b>	<b>(8.456)</b>	<b>(5.908)</b>	<b>(3.360)</b>

55 Debt Liability Benchmark – this benchmark has been introduced to show the link between the Capital Financing Requirement and the profile of the borrowing that the authority has taken out to finance this requirement, where:

- Net Borrowing Requirement – shows the need to borrow after taking account of reserve balances that can be used for internal borrowing;
- Benchmark Borrowing Requirement – shows the Net Borrowing Requirement plus a margin to ensure there is an adequate balance to manage cashflows effectively.

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The chart shows that external borrowing will begin to exceed the capital financing requirement in the next five years. The authority may need to investigate early repayment of some borrowing should this prove to be the case.

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

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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Operational Boundary	205.000	205.000	205.000	205.000	205.000
Authorised Limit	210.000	210.000	210.000	210.000	210.000

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

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Ratio of financing costs to net revenue stream:					
Tyne and Wear Levy	2.30%	2.14%	2.01%	1.92%	1.86%
Tyne Tunnels Account	21.53%	20.87%	17.73%	16.08%	15.19%

The estimates of financing costs include current commitments and the proposals in the budget report.

- 58 Estimates of the ratio of investment income to net revenue stream – this indicator identifies the trend in reliance of the authority on income from treasury management against the net revenue stream. NECA does not currently have any service or commercial investments.

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Treasury Management Income	0.56%	2.91%	1.45%	0.91%	0.87%

### MRP Policy Statement

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

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

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calculation of a prudent provision but local authorities have significant discretion in determining the level of MRP which they consider to be prudent.

- 61 The Government updated its Statutory Guidance on MRP on 2 February 2018, with some elements of the guidance taking effect from 1 April 2018.
- 62 The Authority's annual MRP policy has been set in line with the following principles:
- Supported capital borrowing (pre-2008) debt – minimum revenue provision to be made on a 2% straight line basis.
  - Supported capital borrowing undertaken on behalf of Nexus, being a 4% minimum revenue provision – this relates to historic debt (prior to 1 April 2008) only.
  - For unsupported capital borrowing (Prudential Borrowing) undertaken on behalf of Nexus, making provision for the debt in equal annual instalments over the estimated life of the asset.
  - For unsupported capital borrowing for the New Tyne Crossing, making provision for the debt over the life of the asset on an annuity basis. This basis is suitable for use on this particular project as it is consistent with the financial model which reflects an increase in traffic and tolls over the life of the concession contract. A 50-year asset life is assumed.
  - For unsupported capital borrowing (prudential borrowing) in relation to Enterprise Zones, making provision for the repayment of debt over the life of the asset on an annuity basis (maximum of 25 years); or making provision for the repayment of the debt over a shorter period on an annuity basis for a period agreed by the CFO with reference to the estimate of business rates income receivable to repay the debt.
  - The Authority retains the right to make additional voluntary payments to reduce debt if deemed prudent.
- 63 The regulations allow the Authority to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy would be kept under regular review in order to ensure that the annual provision is prudent.

### Other Matters

#### Training

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

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

65 Link Asset Services are Durham County Council's treasury management advisers and whilst they provide professional support to the internal treasury management team, 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.

The range of services provided by the advisers currently includes:

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

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### **Annex 1: Treasury Management Policy Statement and Practices**

#### **Treasury Management Policy Statement**

The Authority defines its treasury management activities as:

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

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 Authority, and any financial instruments entered into to manage these risks.

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

#### **Treasury Management Practices**

From 1 April 2020, Durham County Council has provided Treasury Management support to NECA under a service level agreement. Accordingly, NECA will adopt the TMPs of Durham County Council to enable this support to be provided to implement its Treasury Management Policies.

#### **TMP1 Risk management**

##### **General Statement**

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

The arrangements for the management of identified risks are detailed overleaf.

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### Credit and Counterparty Risk Management

The Authority regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited, and will limit its investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques*. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing or derivative arrangements.

### Liquidity Risk Management

The Authority will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft 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. The Authority will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

### Interest Rate Risk Management

The Authority will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be the subject to a consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

### Exchange Rate Risk Management

It will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels.

### Inflation Risk Management

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The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

### **Refinancing Risk Management**

The Authority will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised are managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

### **Legal and Regulatory Risk Management**

The Authority will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] *credit and counterparty risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly with regard to duty of care and fees charged.

The Authority recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

### **Fraud, Error and Corruption, and Contingency Management**

The Authority will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

### **Price Risk Management**

The Authority will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

### **TMP2 Performance Measurement**



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The Authority is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation's stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements.

### **TMP3 Decision Making and Analysis**

The Authority will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time.

### **TMP4 Approved Instruments, Methods and Techniques**

The Authority will undertake its treasury management activities within the limits and parameters defined in TMP1 *Risk management*.

Where the Authority intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering into arrangements to use such products to ensure that it fully understands those products.

### **TMP5 Organisation, Clarity and Segregation of Responsibilities, and Dealing Arrangements**

The Authority considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is at all times a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly with regard to the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when the Authority intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

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The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also ensure that at all times those engaged in treasury management will follow the policies and procedures set out.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds.

The delegations to the responsible officer in respect of treasury management are set out in the Authority's constitution. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the *Standard of Professional Practice on Treasury Management*.

### **TMP6 Reporting Requirements and Management Information Arrangements**

The Authority will ensure that regular reports are prepared and considered on the implementation of its treasury management policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum:

The Leadership Board will receive:

- (a) an annual report on the strategy and plan to be pursued in the coming year;
- (b) a mid-year review;
- (c) an annual report on the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

The Leadership Board will receive regular monitoring reports on treasury management activities and risks.

The Audit and Standards committee, will have responsibility for the scrutiny of treasury management policies and practices.

### **TMP7 Budgeting, Accounting and Audit Arrangements**

The responsible officer will prepare, and the Authority will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those

## **Leadership Board**

required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangements*.

The Authority will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

### **TMP8 Cash and Cash Flow Management**

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of the Authority will be under the control of the responsible officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1 *Liquidity risk management*.

### **TMP9 Money Laundering**

The Authority is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained.

### **TMP10 Training and Qualifications**

The Authority recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that members tasked with treasury management responsibilities have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively.

### **TMP11 Use of External Service Providers**

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist

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skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer.

### **TMP12 Corporate Governance**

The Authority is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved. Accordingly, the treasury management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.

The Authority has adopted and has implemented the key principles of the Code. This is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

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### **TREASURY MANAGEMENT PRACTICES – DETAILED SCHEDULES**

The following schedules have been prepared to support the implementation of the TMPs.

**TMP 1 Risk management**

**TMP 2 Best value and performance measurement**

**TMP 3 Decision-making and analysis**

**TMP 4 Approved instruments, methods and techniques**

**TMP 5 Organisation, clarity and segregation of responsibilities,  
and dealing arrangements**

**TMP 6 Reporting requirements and management information  
arrangements**

**TMP 7 Budgeting, accounting and audit arrangements**

**TMP 8 Cash and cash flow management**

**TMP 9 Money laundering**

**TMP 10 Training and qualifications**

**TMP 11 Use of external service providers**

**TMP 12 Corporate governance**

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### TMP 1 RISK MANAGEMENT

#### 1.1 CREDIT AND COUNTERPARTY RISK MANAGEMENT

##### **Credit and counterparty risk**

*The risk of failure by a third party to meet its contractual obligations to the Authority under an investment, borrowing, capital, project or partnership financing, particularly as a result of the third party's diminished creditworthiness, and the resulting detrimental effect on the Authority's capital or current (revenue) resources.*

##### 1.1.1 Criteria to be used for creating/managing approved counterparty lists/limits:

- (a) Suitable criteria for assessing and monitoring the credit risk of investment counterparties will be formulated and a lending list comprising time, type, sector and specific counterparty limits will be constructed. This criteria will follow the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance issued in February 2018 to cover financial years from 1 April 2018.
- (b) The primary criteria used in the selection of counterparties is their credit worthiness. However the authority will also monitor latest market information and reduce the limits imposed on third parties where appropriate.
- (c) The Authority's Treasury Management Advisers provide a regular update of all the ratings relevant to the authority as well as any changes to the counterparty credit ratings. This information is also available via their website.
- (d) Credit ratings will be used as supplied from one or more of the following credit rating agencies: -
  - Fitch Ratings
  - Moody's Investors Services
  - Standard and Poor's
- (e) Counterparty limits will be as set within the annual Treasury Management Strategy reported to Authority.

1.1.2 Credit ratings for individual counterparties can change at any time. The Chief Finance Officer is responsible for applying the stated credit rating criteria in 1.1.1 for selecting approved counterparties, and will add or delete counterparties as appropriate to / from the approved counterparty list when there is a change in the credit ratings of individual counterparties or in banking structures e.g. on mergers or takeovers. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

1.1.3 When there is a change in the credit ratings of individual counterparties or in banking structures (e.g. on mergers or takeovers in accordance with the criteria in 1.1.1) the

## **Leadership Board**

Chief Finance Officer will also adjust lending limits and periods. This is delegated on a daily basis to the Durham County Council Treasury Management team who provide treasury management support to NECA.

### **1.2 LIQUIDITY RISK MANAGEMENT**

#### **Liquidity Risk**

*The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Authority's business/service objectives will be thereby compromised.*

#### **1.2.1 Cash Flow**

NECA finance officers will maintain, on a daily basis, a cash flow projection showing:

- (a) all known income and expenditure
- (b) all anticipated income and expenditure.

This record will be maintained for a minimum period of 12 months ahead of current date.

#### **1.2.2 Amounts of approved minimum cash balances and short-term investments**

The Treasury Management team shall seek to ensure that the balance held in the Authority's main bank accounts at the close of each working day is held at a level in order to maximize the amount of credit interest receivable. Borrowing or lending shall be arranged in order to achieve this aim.

#### **1.2.3 Short-term borrowing facilities**

The Authority can access temporary loans through approved brokers on the London money market.

#### **1.2.4 Closure of Offices**

When the Authority's offices are closed on a banking day, then provision will be made for expected clearances and receipts. The actual strategy to be adopted will depend on overall liquidity and market conditions at the time and available staff resources. At such times the Treasury Management team undertakes transfers, anticipating cash flow within the Authority's accounts.

### **1.3 INTEREST RATE RISK MANAGEMENT**

#### **Interest rate risk**

*The risk that fluctuations in the levels of interest rates creates an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.*

#### **1.3.1 Details of approved interest rate exposure limits**

## **Leadership Board**

This risk is considered as part of the Treasury Management Strategy Statement approved by Authority in February each year. The Strategy sets interest rate exposure limits in accordance with the requirements of the CIPFA Prudential Code. A variety of Prudential indicators is required to be approved and monitored by Authority. The Authority will have regard to potential fluctuations in interest rates when borrowing or lending surplus cash. Advice will be sought from the Authority's Treasury Management advisers before any non-routine transaction is made.

### **1.3.2 Maximum proportion of variable rate debt/interest**

The requirement to set out a series of Prudential Indicators includes a requirement to set upper limits for exposure to fixed interest rates and variable interest rates.

## **1.4 EXCHANGE RATE RISK MANAGEMENT**

### **Exchange rate risk**

*The risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.*

### **1.4.1 Approved criteria for managing changes in exchange rate levels**

NECA rarely deals with foreign currency so an exposure to exchange rate risk will be minimal. However, as a result of the nature of the Authority's business, the Authority may have an exposure to exchange rate risk from time to time. This will mainly arise from the receipt of income or the incurring of expenditure in a currency other than sterling. Where appropriate the Authority will adopt a hedging strategy to control and add certainty to the sterling value of these transactions. This will mean that the Authority will minimize all foreign exchange exposures as soon as they are identified.

Where there is a contractual obligation to receive income or make a payment in a currency other than sterling at a date in the future, forward foreign exchange transactions will be considered, with professional advice, to comply with this full cover hedging policy. Unexpected receipt of foreign currency income will be converted to sterling at the earliest opportunity unless the Authority has a contractual obligation to make a payment in the same currency at a date in the future. In this instance, the currency may be held on deposit to meet this expenditure commitment, depending on the expected timing of transactions.

## **1.5 INFLATION RISK MANAGEMENT**

### **Inflation risk**

*The risk that prevailing levels of inflation cause an unexpected or unbudgeted burden on the Authority's finances, against which the Authority has failed to protect itself adequately.*

### **1.5.1 Details of approved inflation exposure limits for cash investments/debt**



## **Leadership Board**

During the current period of low and stable worldwide inflation there is little requirement for an active consideration of the impact of inflation. The key consideration is that investments reap the highest real rate of return, with debt costing the lowest real cost, consistent with other risks mentioned within TMP 1 *Risk Management*.

### **1.5.2 Approved criteria for managing changes in inflation levels**

Inflation both current and projected will form part of the debt and investment decision-making criteria both within the strategy and operational considerations.

## **1.6 REFINANCING RISK MANAGEMENT**

### **Refinancing risk**

*The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the Authority for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time.*

### **1.6.1 Debt/other capital financing maturity profiling, policies and practices**

The maturity profile of debt will be monitored and used to minimize any refinancing risk in consultation with the Authority's treasury advisors. Any debt rescheduling is likely to take place when the difference between the refinancing rate and the redemption rate is most advantageous and the situation will be continually monitored. The reasons for any rescheduling to take place will include:

- (a) The generation of cash savings at minimum risk;
- (b) To reduce the average interest rate;
- (c) To enhance the balance of the long term portfolio (amend the maturity profile and /or the balance of volatility)

### **1.6.2 Projected capital investment requirements**

The Authority will prepare forecasts of capital investment needs and resources covering at least a three-year period within the Medium Term Financial Plan (MTFP). This will identify capital financing requirements and therefore the need to borrow to finance the capital programme. The MTFP provides details of the Authority's financial plans covering a three-period and is updated on an annual basis.

### **1.6.3 Policy concerning limits on revenue consequences of capital financings**

As part of compliance with the CIPFA Prudential Code, the Authority will consider the revenue consequences of any capital scheme to ensure it is affordable, prudent and sustainable.

## **1.7 LEGAL AND REGULATORY RISK MANAGEMENT**

### **Legal and regulatory risk**

## Leadership Board

*The risk that the Authority itself, or a third party with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Authority suffers losses accordingly.*

### 1.7.1 References to relevant statutes and regulations

The treasury management activities of the Authority shall comply with legal statute and the regulations of the Authority.

### 1.7.2 Procedures for evidencing the Authority's powers/authorities to counterparties

The Authority will prepare, adopt and maintain, as the cornerstones for effective treasury management:-

- (a) A Treasury Management Policy Statement, stating the overriding principles and objectives of its Treasury Management activities.
- (b) Treasury Management Practices, setting out the manner in which the Authority will achieve those principles and objectives, and prescribing how it will manage and control those activities.

### 1.7.3 Required information from counterparties concerning their powers/authorities

Lending shall only be made to counterparties on the authorised list and borrowings will only be undertaken from recognized and reputable counterparties to comply with TMP 9 *Money Laundering*.

Durham County Council (providing support to NECA) hold letters verifying that the approved brokers are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000, under which Local Authorities are classified as market counterparties.

Building Societies are members of Building Society Association and are governed by Building Society Act 1986.

Banks are regulated by the Financial Services Authority under the provisions of the Financial Services and Markets Act 2000.

### 1.7.4 Statement on the Authority's political risks and their management

The Authority recognises that future political, legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the authority.

## 1.8 FRAUD, ERROR AND CORRUPTION, BUSINESS CONTINUITY AND CONTINGENCY MANAGEMENT ARRANGEMENTS

### **Fraud, error and corruption, business continuity and contingency risk**

*The risk that the Authority fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury*

## Leadership Board

*management dealings, and fails to employ suitable systems and procedures to maintain effective business continuity and contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk.*

### 1.8.1 Details of systems and procedures to be followed, including internet services

Durham County Council's Treasury Management function is subject to a regular review by the Council's Internal Audit Service. The systems and procedures followed are described below:

#### **Authority:**

- The Scheme of Delegation to Officers sets out the appropriate delegated levels. All loans and investments, including PWLB, are negotiated by the Chief Finance Officer or authorized persons.

#### **Occurrence:**

- Detailed register of loans and investments is maintained.
- Adequate and effective cash flow forecasting records are maintained to support the decision to lend or borrow.
- Written confirmation is received from the lending or borrowing institution
- All transactions placed through the brokers are confirmed by a broker note, showing details of the loan arranged.

#### **Completeness:**

- The loans register is updated to record all lending and borrowing. This includes the date of the transaction and interest rates and covers both Treasury Management loans and others to third parties that are not part of the routine Treasury Management activity.

#### **Measurement:**

- The Treasury Management team checks the calculation of repayment of principal and interest notified by the lender or borrower for accuracy.
- The Treasury Management team calculates periodic interest payments of PWLB and other long-term loans. This is used to check the amount paid to these lenders.

#### **Timeliness:**

- The Treasury Management team maintains an up to date diary and register that clearly identifies when money borrowed or lent is due to be repaid.

#### **Regularity:**

- Lending is only made to institutions on the Approved List or as specifically approved by Cabinet for loans that are outside the usual Treasury Management activity.
- All loans raised and repayments made go directly to and from the institutions bank account.

## **Leadership Board**

- Authorisation limits are set for every institution (see 1.1.1).
- A list of named officials authorised to perform loan transactions is maintained.
- There is adequate Fidelity Guarantee insurance cover for employees involved in loans management and accounting.

### **1.8.2 Contingency planning and business continuity management arrangements**

If the Electronic Banking System fails, there is a contingency arrangement in place with the Bank whereby cash balances can be obtained from Lloyds Bank, and the Authority can make CHAP payment instructions (which are normally input directly into the electronic payment system) to Lloyds, via telephone and/or e-mail.

In the event of a business continuity problem, which prevents access to the electronic payment system, the present contingency management arrangements will be invoked.

### **1.8.3 Insurance cover details**

The officers concerned in the treasury management function are covered by appropriate fidelity guarantee insurance.

## **1.9 MARKET RISK MANAGEMENT**

### **Market risk**

*The risk that, through adverse market fluctuations in the value of the principal sums invested, the Authority's stated treasury management policies and objectives are compromised, so it has not protected itself adequately against the effects of the fluctuations.*

### **1.9.1 Details of approved procedures and limits for controlling exposure to investments whose capital value may fluctuate (gilts, CDs, etc.)**

The Authority does not normally make investments where the capital value may fluctuate. Investment instruments used by external fund managers are subject to fluctuations in capital and exposure to interest rate risk. The Authority does not currently use external fund managers but will keep the situation under review. In order to minimise the risk of fluctuations in capital value of investments, capital preservation is set as the primary objective.

## Leadership Board

### TMP 2 BEST VALUE AND PERFORMANCE MEASUREMENT

#### 2.1 **METHODOLOGY TO BE APPLIED FOR EVALUATING THE IMPACT OF TREASURY MANAGEMENT DECISIONS**

Durham County Council's Treasury Management consultants are required to carry out a health check of the Treasury Management function, who provide support to NECA.

#### 2.2 **POLICY CONCERNING METHODS FOR TESTING BEST VALUE IN TREASURY MANAGEMENT**

##### 2.2.1 **Frequency and processes for tendering**

Tenders are normally awarded for a minimum ranging from two to five years. The process for advertising and awarding contracts will be in line with Durham County Council's Contract Standing Orders.

##### 2.2.2 **Banking services**

Banking services will be reviewed every 5 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends.

##### 2.2.3 **Money-broking services**

The Authority will use money broking services in order to make deposits or to borrow, and will establish charges for all services prior to using them. An approved list of brokers will be established which takes account of both prices and quality of services. The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

##### 2.2.4 **Consultants'/advisers' services**

Durham County Council's policy is to separately appoint professional treasury management consultants and leasing advisory consultants.

##### 2.2.5 **Policy on External Managers (Other than relating to Superannuation Funds)**

The Authority's current policy is not to use an external investment fund manager to manage a proportion of surplus cash. This will be kept under review.

#### 2.3 **METHODS TO BE EMPLOYED FOR MEASURING THE PERFORMANCE OF THE AUTHORITY'S TREASURY MANAGEMENT ACTIVITIES**

Performance of the Treasury Management function will be measured against annual Treasury Management Strategy Statement targets and compliance with the CIPFA Code of Treasury Practice.

Performance will be monitored monthly against approved budgets and internally agreed targets.

#### 2.4 **BENCHMARKS AND CALCULATION METHODOLOGY:**

## **Leadership Board**

2.4.1 Performance will be measured against Annual Treasury Management Strategy targets:

### **Debt management**

Average rate on all external debt  
Average maturity of external debt

### **Investment**

The performance of in house investment earnings will be measured against 7 day LIBID, (London Inter-Bank Bid Rate)

## **Leadership Board**

### **TMP 3 DECISION-MAKING AND ANALYSIS**

#### **3.1 FUNDING, BORROWING, LENDING, AND NEW INSTRUMENTS /TECHNIQUES:**

##### **3.1.1 Records to be kept**

- (a) Daily cash projections.
- (b) Telephone / e-mail rates.
- (c) Dealing ticket for all money market transactions.
- (d) PWLB loan schedules.
- (e) Local bond certificates (if used).
- (f) Market bond certificates (if used).
- (g) Temporary loan receipts (if used).
- (h) Brokers confirmations for deposits/investments.
- (i) Contract notes received from fund managers (if used).
- (j) Fund managers valuation statements (if used).
- (k) Confirmation notes from borrowers.

##### **3.1.2 Processes to be pursued**

- (a) Cash flow analysis.
- (b) Maturity analysis.
- (c) Ledger reconciliations
- (d) Review of borrowing requirement.
- (e) Monitoring of projected loan charges and interest and expenses costs.
- (f) Review of opportunities for debt rescheduling.
- (g) Collation of performance information.

##### **3.1.3 Issues to be addressed.**

###### **3.1.3.1 *In respect of every decision made the Authority will:***

- (a) Above all be clear about the nature and extent of the risks to which the Authority may become exposed.
- (b) Be certain about the legality of the decision reached and the nature of the transaction, and that all authorities to proceed have been obtained.
- (c) Be content that the documentation is adequate both to deliver the Authority's objectives and protect the Authority's interests, and to deliver good housekeeping
- (d) Ensure that third parties are judged satisfactory in the context of the Authority's creditworthiness policies, and that limits have not been exceeded
- (e) Be content that the terms of any transactions have been fully checked against the market, and have been found to be competitive.

## **Leadership Board**

### **3.1.3.2 *In respect of borrowing and other funding decisions, the Authority will:***

- (a) Evaluate the economic and market factors that might influence the manner and timing of any decision to fund.
- (b) Consider the merits of alternative forms of funding, including (but not exclusively) funding from revenue, leasing and private partnerships
- (c) Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- (d) Consider the ongoing revenue liabilities created, and the implications for the Authority's future plans and budgets.

### **3.1.3.3 *In respect of investment decisions, the Authority will:***

- (a) Consider the optimum period, in the light of cash flow availability and prevailing market conditions.
- (b) Consider the alternative investment products and techniques available, especially the implications of using any which may expose the Authority to changes in the value of its capital.



## **Leadership Board**

### **TMP 4 APPROVED INSTRUMENTS, METHODS AND TECHNIQUES**

#### **4.1 APPROVED ACTIVITIES OF THE TREASURY MANAGEMENT OPERATION**

- (a) Borrowing;
- (b) Lending;
- (c) Debt repayment and rescheduling;
- (d) Consideration, approval and use of new financial instruments and treasury management techniques;
- (e) Managing the underlying risk associated with the Authority's capital financing and surplus funds activities;
- (f) Managing cash flow;
- (g) Banking activities;
- (h) Leasing.

#### **4.2 APPROVED INSTRUMENTS FOR INVESTMENTS**

All investments will comply with the Authority's Annual Investment Strategy (which takes into account guidance issued by the Secretary of State concerning Local Authority investments). The instruments used will be:

- (a) Term deposits with banks and building societies
- (b) Term deposits with non-rated subsidiaries of an institution meeting the basic credit criteria
- (c) Debt Management Office
- (d) Treasury Bills
- (e) Term deposits with other Local Authorities and Parish Councils
- (f) Money market funds that meet the criteria set in the investment policy
- (g) Ultra-Short dated Bond Funds
- (h) Property Funds

#### **4.3 APPROVED METHODS AND SOURCES OF RAISING CAPITAL FINANCE**

Finance will only be raised in accordance with the Local Government and Housing Act 1989, and within this limit the Authority has a number of approved methods and sources of raising capital finance.

Borrowing will only be undertaken in keeping with the contents of the Prudential Code and within the limits determined through the approved Prudential Indicators and Treasury Management Strategy and, in respect of any long term borrowings, following consultation with the Chief Finance Officer.

All forms of funding will be considered dependent on the prevailing economic climate, regulations and local considerations. The Chief Finance Officer has delegated powers through this policy and the strategy to take the most appropriate form of borrowing from the approved sources.

## **Leadership Board**

### **TMP 5 ORGANISATION, CLARITY AND SEGREGATION OF RESPONSIBILITIES, AND DEALING ARRANGEMENTS**

#### **INDEX OF SCHEDULES:**

- 5.1 Limits to responsibilities/discretion at Authority/Director levels**
- 5.2 Principles and practices concerning segregation of duties**
- 5.3 Treasury management organisation chart**
- 5.4 Statement of duties/responsibilities of each Treasury post and other officers involved with Treasury Management**
- 5.5 Absence cover arrangements**
- 5.6 Investment Dealing Limits**
- 5.7 List of approved brokers**
- 5.8 Policy on brokers' services**
- 5.9 Policy on recording of conversations**
- 5.10 Direct dealing practices**
- 5.11 Settlement transmission procedures**
- 5.12 Documentation requirements**
- 5.13 Arrangements concerning the management of third-party funds.**

#### **5.1 LIMITS TO RESPONSIBILITIES/DISCRETION AT AUTHORITY/DIRECTOR LEVELS**

- (a) Leadership Board will receive and review reports on treasury management policies, practices and activities, and the annual treasury management strategy.
- (b) The Chief Finance Officer will be responsible for amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices.

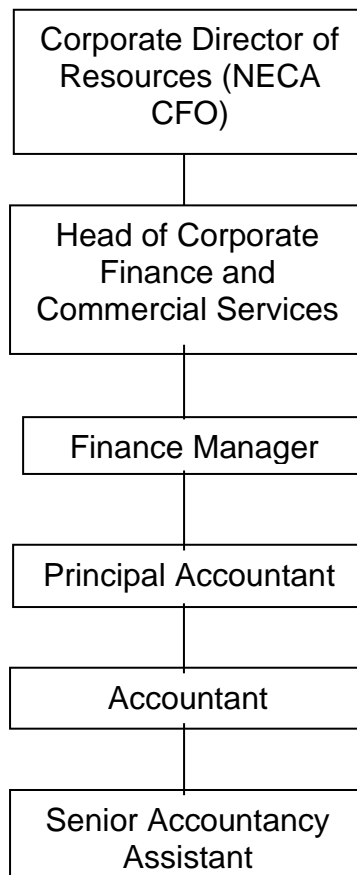
#### **5.2 PRINCIPLES AND PRACTICES CONCERNING SEGREGATION OF DUTIES**

Durham County Council provide Treasury Management support to NECA. In addition, the Corporate Director of Resources has the role of Chief Finance Officer for NECA.

## Leadership Board

The Corporate Director of Resources will ensure there is always adequate segregation of duties in all transactions.

### **5.2.1 DURHAM COUNTY COUNCIL TREASURY MANAGEMENT ORGANISATION CHART**



### **5.3 STATEMENT OF DUTIES/RESPONSIBILITIES OF EACH TREASURY POST AND OTHER OFFICERS INVOLVED WITH TREASURY MANAGEMENT**

#### **5.3.1 Corporate Director of Resources**

(a) The Corporate Director of Resources will:

- Recommend clauses, treasury management policy/practices for approval, reviewing the same regularly and monitor compliance
- Submit Treasury Management reports to NECA Leadership Board
- Authorise and maintain TMPs and Schedules
- Set, submit and monitor budgets
- Review the performance of the treasury management function.
- Ensure the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function

## Leadership Board

- Ensure the adequacy of internal audit and liaise with external audit
  - Recommend the appointment of external service providers and brokers where appropriate.
  - Approve and authorise investment deals (within dealing limits – see 5.6)
- (b) The Corporate Director of Resources has delegated powers to take the most appropriate form of borrowing from the approved sources and to take the most appropriate form of investments in approved instruments.
- (c) Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of The Corporate Director of Resources to be satisfied, by reference to legal and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Authority's Financial Regulations.
- (d) The Corporate Director of Resources may delegate power to borrow and invest to members of staff to conduct all dealing transactions. All transactions must be processed by at least two specified named officers. Alternatively staff can be authorised to act as temporary cover for leave/sickness.

### 5.4.2 Head of Corporate Finance and Commercial Services

The treasury responsibilities of this post will be to assist the Corporate Director of Resources to:

- (a) Formulate the Treasury Management Strategy.
- (b) Identify and recommend opportunities for improved practices
- (c) Supervise Treasury Management staff
- (d) Monitor performance
- (e) Review the performance of treasury management functions

### 5.4.3 Finance Manager

The treasury responsibilities of this post will be to assist the Corporate Director of Resources and the Head of Corporate Finance and Commercial Services to:

- (a) Formulate the Treasury Strategy
- (b) Produce the Treasury Management reports to Council
- (c) Identify and recommend opportunities for improved practices
- (d) Supervise Treasury Management staff
- (e) Monitor performance
- (f) Review the performance of treasury management functions
- (g) Implement Treasury Management Strategy
- (h) Approve and authorise investment deals (within dealing limits – see 5.6)
- (i) Approve Chaps payments/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
- (j) Arrange rescheduling or premature repayment of existing borrowings.

## Leadership Board

### 5.4.4 Principal Accountant

This post responsibilities to assist the Finance Manager – Commercial Capital Treasury to:

- (a) Formulate the Treasury Strategy.
- (b) Identify and recommend opportunities for improved practices
- (c) Supervise Treasury Management staff
- (d) Monitor performance
- (e) Review the performance of treasury management functions
- (f) Implement Treasury Management Strategy
- (g) Approve and authorise investment deals (within dealing limits – see 5.6)
- (h) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below

### 5.4.5 Accountant

This post has responsibilities to:-

- (a) Calculate daily cash balances
- (b) Monitor performance and market conditions on a day to day basis and recommend investments
- (c) Adhere to agreed policies and procedures on a day to day basis
- (d) Enter transmission of monies via Lloyds Banking system
- (e) Approve Chaps/Faster payments according to the limits in the Table of Payment Approval Responsibilities below
- (f) Select Brokers from approved list
- (g) Adhere to agreed policies and practices on a day to day basis
- (h) Submit management information reports
- (i) Maintain cash flow projections
- (j) Record investment deals and obtain third party loan confirmation
- (k) Identify and maintain relationships with 3rd parties and external partners
- (l) Ensure counter party limits are not exceeded

### 5.4.6 Senior Accountancy Assistant/Principal Accountancy Assistant

This post has responsibilities to:-

- (a) Calculate daily cash balances
- (b) Enter transmission of monies via Lloyds Banking system
- (c) Select Brokers from approved list
- (d) Adhere to agreed policies and practices on a day to day basis
- (e) Submit management information reports
- (f) Maintain cash flow projections
- (g) Obtain third party loan confirmation
- (h) Ensure counter party limits are not exceeded

### Table of Payment Approval Responsibilities

## Leadership Board

Monetary Limit per Investment	Number of Approvers	Level of Approver Required
Up to £100,000	1	Any one of Accountant/Principal Accountant/Finance Manager
£100,000 to £20,000,000	2	Any two of Accountant/Principal Accountant/Finance Manager
£20,000,000 to £30,000,000	2	Any two of Principal Accountant/Finance Manager

### **5.4 ABSENCE COVER ARRANGEMENTS**

The Corporate Director of Resources is responsible for ensuring that adequate arrangements are in place to cover staff absences.

### **5.6 INVESTMENT DEALING LIMITS**

Dealings can be carried out providing that transactions are within limits determined by the Authority and the Chief Finance Officer as detailed in the table below:

Officers	Limits
Corporate Director of Resources and Head of Corporate Finance and Commercial Services	As per limits set within the Treasury Management Strategy
Finance Manager & Principal Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months
Accountant	As per limits set within the Treasury Management Strategy for dealings of up to 12 months, in consultation with Finance Manager or Principal Accountant

### **5.7 LIST OF APPROVED BROKERS**

A list of approved brokers is maintained within the Treasury Management section and a record of all transactions recorded against them.

### **5.8 POLICY ON BROKERS' SERVICES**

It is the Authority's policy to divide business between brokers.

### **5.9 POLICY ON RECORDING OF CONVERSATIONS**

It is not the Authority's Policy to record broker's conversations

### **5.10 DIRECT DEALING PRACTICES**

## **Leadership Board**

It is an acceptable practice for the Authority to make direct dealings with suitable counterparties if the use of Brokers does not provide a satisfactory financial arrangement at any time.

### **5.11 SETTLEMENT TRANSMISSION PROCEDURES**

All payments and repayments resulting from the treasury management function will be made via the authority's bank account using the electronic payment facility (with Lloyds Banking system). Only authorised officers can transmit, approve or release payments, protected by appropriate passwords and a card operated pin number. A manual back up facility, agreed with Lloyds Bank, is in place to cover system failure.

### **5.12 DOCUMENTATION REQUIREMENTS**

For each deal undertaken a record should be prepared giving details of amount, period, counterparty, interest rate, dealing date, payment date(s), broker.

### **5.13 ARRANGEMENTS CONCERNING THE MANAGEMENT OF THIRD-PARTY FUNDS**

The authority manages funds under delegated powers for the Office of the Durham Police, Crime and Victims' Commissioner and the Durham County Council Pension Fund. From 1<sup>st</sup> April 2020 it will also manage funds for the North East Combined Authority.

## **Leadership Board**

### **TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGEMENTS**

#### **6.1 ANNUAL TREASURY MANAGEMENT STRATEGY**

The Treasury Management Strategy sets out the specific expected treasury activities for the forthcoming financial. This strategy will be submitted to the Leadership Board for approval before the commencement of each financial year.

The formulation of the annual treasury management strategy involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter term variable interest rates.

The Treasury management statement is concerned with the following elements:

- (a) Summary Treasury Position;
- (b) Borrowing Strategy;
- (c) Other Debt and Long Term Liability Plans
- (d) Cash Investment Strategy;
- (e) Non-Treasury Investments
- (f) Treasury Management Indicators;
- (g) Prudential Indicators;
- (h) MRP Policy Statement;
- (i) Other Matters

#### **6.2 MID-YEAR REVIEW OF ANNUAL TREASURY MANAGEMENT ACTIVITY**

A report will be presented to the Leadership Board detailing performance for the six months to 30<sup>th</sup> September against the items reported in the annual strategy. The report will be presented to the Leadership Board at the earliest practicable meeting after the mid-year point.

#### **6.3 ANNUAL PERFORMANCE REPORT**

An annual report will be presented to the Leadership Board at the earliest practicable meeting after the end of the financial year, but in any case by the end of September. This report will include the following:

- (a) Summary Treasury Position;
- (b) Borrowing Activity;
- (c) Other Debt and Long Term Liability Activity;
- (d) Investment activity;
- (e) Treasury Management Indicators;
- (f) Prudential Indicators;



## **Leadership Board**

### **TMP 7 BUDGETING, ACCOUNTING AND AUDIT ARRANGEMENTS**

#### **7.1 STATUTORY/REGULATORY REQUIREMENTS**

The accounts are drawn up in accordance with the Code of Practice on Local Authority Accounting in Great Britain that is recognized by statute as representing proper accounting practices.

#### **7.2 ACCOUNTING PRACTICES AND STANDARDS**

Due regard is given to the Statements of Recommended Practice and Accounting Standards as they apply to Local Authorities in Great Britain. The Authority adopts in full the principles set out in:

- (a) the CIPFA Code of Practice on Treasury Management in the Public Services;
- (b) the CIPFA Prudential Code for Capital Finance in Local Authorities;
- (c) the Code of Practice on Local Authority Accounting in the United Kingdom (Statement of Recommended Practice);
- (d) Statutory Guidance on Local Authority Investments;
- (e) Statutory Guidance on Minimum Revenue Provision and
- (f) any other mandatory guidance covering this service area.

#### **7.3 BUDGETING AND ACCOUNTING ARRANGEMENTS**

The Finance Manager will prepare an annual budget for treasury management, which will bring together all the expenditure incurred with regard to this activity, as well as the associated income. The Finance Manager will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with section TMP6 *Reporting Requirements and Management Information Arrangements*.

All transactions for loans, repayments and interest paid and received are recorded to general ledger codes reserved for these purposes.

#### **7.4 LIST OF INFORMATION REQUIREMENTS OF INTERNAL AND/OR EXTERNAL AUDITORS**

The Authority will ensure that all those charged with regulatory review, including internal and external auditors, have access to all information and papers supporting the activities of the treasury management function.

## **Leadership Board**

### **TMP 8 CASH AND CASH FLOW MANAGEMENT**

#### **8.1 ARRANGEMENTS FOR PREPARING/SUBMITTING CASH FLOW STATEMENTS**

The authority will monitor and complete daily cashflow forecasts for major items of income and expenditure. The annual and monthly cash flow projections are prepared from the previous year's daily cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. Additionally, a strategic cashflow forecast will be prepared annually and updated as necessary.

## **Leadership Board**

### **TMP 9 MONEY LAUNDERING**

#### **9.1 PROCEDURES FOR ESTABLISHING IDENTITY/AUTHENTICITY OF LENDERS**

The Authority will only accept loans from individuals where the funds are transferred through a United Kingdom domiciled bank account. All other loans are obtained from the PWLB or from authorised institutions under the Financial Services and Markets Act 2000. The Financial Conduct Authority (FCA) is responsible for maintaining a register of authorised institutions. This register can be accessed through their website at <https://register.fca.org.uk/>

#### **9.2 RECONCILIATION OF DEPOSITS**

All deposits are identified and reconciled on a daily basis. The source of each deposit is verified so they can be allocated to the appropriate fund within the main accounting system. Staff will be kept aware of developments in money laundering regulations and will be encouraged to keep abreast of money laundering issues through specific training, publications and the Internet.

## Leadership Board

### TMP 10 STAFF TRAINING AND QUALIFICATIONS

#### 10.1 DETAILS OF TRAINING ARRANGEMENTS

The Corporate Director of Resources is committed to ensuring that staff engaged in Treasury Management activities are appropriately trained, so they can carry out their duties to the required standards.

Staff employed in the treasury management function will be qualified to the level that is appropriate to their post. All staff will be given appropriate basic training before fulfilling their treasury management duties for the first time and will be expected to undertake continuous training as appropriate to enable them to keep up to date with all aspects of treasury management within their responsibility.

Training courses run by CIPFA and other training providers such as our Treasury Advisors will form the major basis of ongoing staff training. Records will be kept of all courses and seminars attended by staff as part of their annual appraisal. The authority will take all reasonable steps to ensure that staff are adequately trained.

CIPFA members are required to abide by CIPFA's Ethics Standard on Professional Practice (SOPP).

## Leadership Board

### TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

#### **11.1 DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS**

##### **11.1.1 Banking services**

- (a) Name of supplier of service is Lloyds Bank plc. The branch address is:  
102 Grey Street  
Newcastle upon Tyne  
ME1 6AG
- (a) Contract commenced 5 November 2015 and runs for a minimum 5 years, subject to one year's notice, such notice to expire after the minimum period
- (b) Cost of service is variable depending on schedule of tariffs and volumes agreed at the beginning of the contract

##### **11.1.2 Money-broking services**

Name of suppliers of service:

- (a) Martin Brokers (UK) plc
- (b) Tradition (UK) Ltd
- (c) King and Shaxson
- (d) BGC Brokers
- (e) Tullett Prebon (Europe) Limited

The Chief Finance Officer may add brokers to the list during the year, providing they meet the Authority's standards and requirements.

No commission is paid by the Authority to any money broker

##### **11.1.3 Consultants/advisers services**

- (a) Treasury Consultancy Services

Name of supplier of service is Link Asset Services Their address is:  
65 Gresham Street  
London  
EC2V 7NQ

- (b) Leasing Consultancy Services.

Name of the supplier of the service is Link Asset Services. Their address is:  
65 Gresham Street  
London  
EC2V 7NQ

The cost of the service is dependent upon the value of leasing drawdowns which take place throughout the year.

- (c) External Fund Managers

## **Leadership Board**

There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

## **Leadership Board**

### **TMP 12 CORPORATE GOVERNANCE**

#### **12.1 LIST OF DOCUMENTS TO BE MADE AVAILABLE FOR PUBLIC INSPECTION**

To support the implementation of a robust corporate governance policy, the following documents are available for public inspection:

- (a) Treasury Management Practices;
- (b) Treasury Management Strategy;
- (c) Mid-year Treasury Management Review;
- (d) Annual Treasury Management Report;
- (e) Annual Statement of Accounts, and
- (f) Annual Budget





## Leadership Board

**Date:** 24 January 2023

**Subject:** North East Devolution - Update

**Report of:** Nicola Robason – NECA Monitoring Officer (Core)

### Executive Summary

The purpose of this report is to summarise the “minded to” devolution deal for the North East. The report also outlines the findings of the governance review and the process and timeframes for Local Authorities to progress with the necessary statutory procedures, including public consultation.

The “minded to” devolution deal for the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Councils) would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth.

To implement the deal, the Councils will need to establish a new mayoral combined authority which covers the area of the seven Councils and replaces the two existing combined authorities in the region, including the North East Combined Authority. This report sets out the findings of a statutory review regarding these proposed governance changes and finds a strong rationale to build on existing collaboration, delivery and success by creating a new Mayoral Combined Authority.

Of the course of last week, the seven Local Authorities were satisfied with the findings of the governance review, and all agreed to publish a scheme in respect of the proposals and undertake 8 weeks of public consultation.

### Recommendations

The Leadership Board is recommended to:

- note the “minded to” devolution deal as endorsed by all seven Local Authorities (see Appendix 1, Annex A);
- note the findings by the seven Local Authorities of the governance review (see Appendix 1) regarding the proposed creation a new mayoral combined authority for the North East region; and
- note the process that the seven Local Authorities must now take to progress the necessary statutory procedures, including public consultation.

## Leadership Board

### 1. Background Information

- 1.1 On 28 December 2022 HM Government announced a “minded to” devolution deal with the seven councils across the North East (i.e. Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland Councils, collectively “the Council’s”).
- 1.2 The deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total, it would provide £4.2 billion of additional investment to the region over 30 years, including a £1.4bn investment fund alongside significant funding for transport, education and skills, housing and regeneration. This will enable investment into projects which reflect local needs and opportunities, making a real difference for our residents, communities, and the local economy.
- 1.3 To implement the deal, the Councils will need to establish a new mayoral combined authority which covers the area of the Councils and replaces the two existing combined authorities in the region. This report sets out the findings of a statutory review regarding these proposed governance changes as agreed by the Council’s.
- 1.4 The “minded to” devolution deal has emerged from serious and passionate cross-party, cross-regional leadership during the coronavirus pandemic. As well as providing policy leadership in the response to COVID19, the Leaders and Mayors of the North East worked together on substantive recovery plans. They worked with partners across business, academia, the community and voluntary sector and with the people of the North East to set out what a North East, built back better and fairer, would look like.
- 1.5 The “minded to” devolution deal sets out the offer of powers and budget from Government and the reforms and measures that the Councils would need to deliver. The deal would see a significant shift of powers, funding and responsibility which would enable the Councils to pursue their ambitions for inclusive growth. In total it would provide £4.2 billion of additional investment to the region over 30 years, including a £1.4bn investment fund alongside significant funding for transport, education and skills, housing and regeneration. The deal is the culmination of a process of negotiation with Government which commenced when it became clear that additional funding and powers – including access to the City Regional Sustainable Transport Fund – could only be unlocked through a regional devolution deal.
- 1.6 A copy of the minded to devolution deal that has been endorsed by the Councils is included at Appendix 1, Annex A. The key elements of the deal can be summarised as follows:

## Leadership Board

**Bigger and better** – demonstrably adding value in relation to the existing devolution deal for the North of Tyne area and bringing new resources and powers – and significant private sector leverage – into the North East region. It recognises the huge value of integrating economy, skills, transport, housing and public sector reform.

**Reduced carbon, reduced inequality** – with the green agenda clearly woven through the deal, and shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled and sustainable region.

**Bold on the rural economy** – setting out clear intentions to accelerate rural growth and looking at the opportunities of the Northumberland Line, rural housing, rural stewardship and net zero transition – including through a Rural Growth and Stewardship Board

**Amplifying the North East's global assets** – through a clear focus on the region's growth corridors, 3 ports, gigafactories, an international airport, and globally-facing cities and historic town centres. A world-leading 'Arc of Green and Blue Energy Innovation' from OREC to Nissan and home of the next-generation electric vehicle industry and the only science park nationally, NETPark in Sedgefield County Durham, to host 2 centres from different Catapults.

**Balancing growth and prevention** – by bringing forward fiscal innovation, working on a public service reform programme, greater influence within the integrated care system.

**Transforming connectivity** – using a full package of devolved transport investment and powers to create an integrated transport system, including the potential unlocking of visionary schemes, such as, the Northumberland Line, Leamside Line and Washington Extension, Cobalt Loop, Team Valley, Newcastle City Mobility plans and a region-wide EV charging network.

**Attacking the opportunities of digital and 5G** – providing strong incentives for investment in digital connectivity, 5G-ready infrastructure, digital skills and unlocking the huge potential of digital-enabled manufacturing.

**Connecting our coastal areas** – using devolved funding and powers to better link our unique coastal communities and economic assets – through skills, jobs and accelerating development on our housing and economic sites.

**Building on strong collaborative governance** – ensuring each of the partners can see the benefits of cross-regional investment, and that decisions are made in a

## Leadership Board

way that reflects our diverse geography, assets and needs.

1.7 The endorsement of the minded-to deal by the Councils represents a significant step towards securing important decision-making powers and investment for region. The new mayoral Combined Authority would also be able to make decisions that reflect local needs and invest into projects that will make a difference for North East residents, communities and local economy.

1.8 Furthermore, it could be the first step in a process of further devolution, and the North East could potentially deepen their devolution arrangements over time. It is proposed that the government and North East would commence negotiations on trailblazer provisions which deepen and enhance the powers in the deal in early 2023, drawing on the arrangements in Greater Manchester and West Midlands when concluded, with a view to these powers being in place as soon as possible after the first mayoral election in May 2024. The government will also continue to work with the North East on important areas of public service reform and infrastructure investment, to support inclusive economic growth in towns, cities and rural areas whilst tackling climate change, on our journey to 2030.

### 1.9 **A new mayoral combined authority**

Whilst the deal has been supported by all the Councils, its implementation will depend upon the creation of a new mayoral combined authority which covers the whole of the North East region, i.e. the area of all 7 Councils. This would require the Secretary of State to make a statutory order under the Local Democracy, Economic Development and Construction Act 2009 ("the 2009 Act") to:

- a. abolish the existing 2 combined authorities i.e. NECA (which covers the areas of Durham Gateshead South Tyneside and Sunderland) and NTC (which covers the areas of Newcastle, North Tyneside and Northumberland); and
- b. create the new mayoral combined authority for the North East region (which, it is proposed, will be called the North East Mayoral Combined Authority or NEMCA).

### 1.10 **Governance review**

As the first stage in the process of seeking the statutory order to create the new combined authority, the 7 Councils undertook a governance review in accordance with sections 108 and 111 of the 2009 Act to establish whether the governance proposals set out in the previous paragraph would meet the necessary statutory

## Leadership Board

criteria, namely that the proposals would improve the exercise of statutory functions in the region.

1.11 A report setting out the findings of the governance review is attached at Appendix 1 to this report for information. The review found a strong rationale to build on existing collaboration, delivery and success by creating a new Mayoral Combined Authority. It concluded that:

- Current regional governance arrangements – based on a combination of a Mayoral and a non-Mayoral Combined Authority and a Joint Transport Committee – do not represent the best model in terms of delivering the long-term ambitions of the authorities within the area for economic growth and delivery of public services.
- The new Combined Authority would extend the benefits of devolved funding for investment, skills and housing, previously secured by the North of Tyne MCA, over the full regional geography. In addition, it would also unlock new funding and powers, including over transport, across the whole region.
- There is limited practical scope for the existing governance arrangements to be meaningfully strengthened, short of adopting the Mayoral Combined Authority (MCA) model of governance.
- A change is required to enable the Councils to pursue their economic and social policy agenda at greater pace.

1.12 On the basis of these findings, the review concluded that the relevant statutory criteria had been met. Specifically, that the move to a single mayoral combined authority would improve the exercise of statutory functions across the region, whilst also having a positive impact on the interests and identities of local communities and helping secure more effective and convenient local government by reducing complexity and streamlining the delivery of public services. This was agreed by all of the Councils during the week commencing 16 January 2023.

### 1.13 **The Scheme and public consultation**

As the Councils were satisfied with the findings of the governance review, the next stage is for the Councils to publish a scheme in respect of the proposals. A draft of the scheme is attached as Annex B to the governance review at Appendix 1 to this report. In brief, the scheme explains how the new mayoral combined authority (“NEMCA”) would be constituted, who would be appointed to NEMCA, what

## Leadership Board

functions it would have and how it would make decisions on the exercise of those functions.

- 1.14 As set out in the scheme, it is expected that the first election for the new Mayor of the new Combined Authority would take place in May 2024, when NEMCA would come into existence. The Mayor would make decisions on certain functions – see section 3 of the scheme. NEMCA’s Cabinet would make decisions on all other matters. The Cabinet would comprise the Mayor, a member from each of the 7 Councils, a representative of the business community and a representative of the voluntary and community sector. Only the Mayor and the representatives of the 7 Councils would have a vote on Cabinet decisions. Most decisions would be made by way of a simple majority vote, save for the exceptions set out at section 2.6 of the scheme.
- 1.15 As agreed by all of the Councils, the scheme will now be published for the purposes of public consultation. The consultation period will last for a period of 8 weeks. The consultation process will include on-line and face to face engagement across the region and include a number of questions (which have been shared with central government) to seek views on the proposals.
- 1.16 At the end of the consultation period, the Councils will prepare a summary of the consultation responses received. This will include an analysis of the issues arising from that consultation and any submissions which it is proposed that the Councils should make in response to those issues. A further report will be brought to Cabinets of all seven Councils before the summary of the consultation responses and any proposed submissions on behalf of the Councils are sent to the Secretary of State.

## 2. Proposals

- 2.1 It is proposed by the Councils that the creation of a new mayoral combined authority for the North East region would unlock the benefits of the minded to devolution deal and improve the exercise of statutory functions across the region.
- 2.2 Publishing the scheme for consultation is the next step needed to establish the mayoral combined authority for the region and access the benefits of devolution. In addition to the economic and social impacts set out above, it is expected that the new mayoral combined authority would also provide:
- strong and visible collective leadership of the area recognised by government with direct democratic accountability and transparency, able to

## Leadership Board

influence national decision making for the benefit of the area and access initiatives only available to mayoral combined authorities;

- alignment of decision-making at a strategic level across a broad range of statutory functions and through a coherent strategy and investment programme; closer working across the wider public sector on integrating functions and services and providing innovative solutions to the challenges of reducing financial resources; and
- strengthened capacity through a combined and co-located resource supported with better information and analysis.

### 3. Next Steps and Timetable for Implementation

- 3.1 The Cabinets of all 7 North East Councils have all considered reports regarding the minded to devolution deal, the governance review and the proposed scheme. All seven Councils have endorsed the deal and have agreed that the scheme will be published for public consultation across the region.
- 3.2 Following that consultation, the Councils will consider views received and, if they wish to proceed with the creation of a new mayoral combined authority, prepare a summary and analysis for submission to the Secretary of State.
- 3.3 The Secretary of State will then decide if the statutory criteria have been met and whether the relevant authorities have given the necessary consents, before making the statutory order to create the new mayoral combined authority. It is envisaged that the new mayoral combined authority would come into existence in May 2024 at the point at which the mayoral election will take place.

### 4. Potential Impact on Objectives

- 4.1 As set out in this report, the creation of a new mayoral combined authority for the North East region would unlock the benefits of the minded to devolution deal and improve the exercise of statutory functions across the region. It would also abolish the North East Combined Authority.

### 5. Financial and Other Resources Implications

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

## Leadership Board

as well as input into the new local skills improvement plans. Over time the region would also expect to benefit from access to additional funding streams reserved for mayoral combined authorities. Detailed discussions will be progressed with the existing combined authorities and the other constituent authorities regarding the financial arrangements associated with the transition to the new arrangements.

### 6. Legal Implications

- 6.1 The NECA Monitoring Officer (Core) has contributed to the drafting of this report and the legal implications are set out in the report and appendices.

### 7. Key Risks

- 7.1 For the reasons set out in the attached governance review report and above, it is considered that the failure to establish NEMCA risks the region falling behind other major city regions such as Greater Manchester, Liverpool City Region and Tees Valley, which have received new powers and funding. In terms of establishing NEMCA, the key risk is that the Secretary of State will not be satisfied that the statutory criteria are met and/or that the necessary consents from the affected bodies are not forthcoming. In order to mitigate these risks, it will be important for the seven Councils to consider and respond to issues raised in the consultation process.

### 8. Equality and Diversity

- 8.1 In developing these proposals, the Councils have taken account of their obligations under section 149 of the Equality Act 2010 (i.e. the public sector equality duty). It is not expected that the proposals described in this report will have any adverse impacts on people with protected characteristics. Indeed, the aim of promoting inclusive growth within the region is expected to boost the efforts of its constituent authorities to advance equality of opportunity and foster good relations between different groups. The Councils will continue to assess their responsibilities in this regard and ensure that the equality impact assessment will be reviewed throughout the process.

### 9. Crime and Disorder

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

### 10. Consultation/Engagement

- 10.1 The consultation process for the Councils is outlined above and Appendix 1, Annex B – Draft Scheme for public consultation



## Leadership Board

### 11. Other Impact of the Proposals

- 11.1 The green agenda is a critical element of the minded to devolution deal and therefore the governance changes proposed by the Councils as set out in this report, if implemented, would help to deliver those initiatives identified in the minded to deal.

### 12. Appendices

- 12.1 Appendix 1, Annex A - “minded to” devolution deal dated 28 December 2022  
Appendix 1 - Governance Review Report  
Appendix 1, Annex B – Draft Scheme for public consultation

### 13. Background Papers

- 13.1 The following is a list of the background papers (excluding exempt papers) relied upon in the preparation of the above report:  
Appendix 1, Annex A - “minded to” devolution deal dated 28 December 2022  
Appendix 1 - Governance Review Report  
Appendix 1, Annex B – Draft Scheme for public consultation

### 14. Contact Officers

- 14.1 Nicola Robason, Monitoring Officer (Core), E-mail  
[Nicola.robason@Southtyneside.gov.uk](mailto:Nicola.robason@Southtyneside.gov.uk) , Tel: 0191 424 7186

### 15. Sign off

- 15.1
- Head of Paid Service: ✓
  - Monitoring Officer: ✓
  - Chief Finance Officer: ✓

### 16. Glossary

- 16.1 NEMCA – North East Mayoral Combined Authority



# North East Authorities

Appendix 1

## Governance Review

Undertaken in accordance with Section 111 of the Local Democracy  
Economic Development and Construction Act 2009

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## Executive summary

On 28 December a “minded-to” devolution deal was agreed between government and the local authority leaders of Durham County, Gateshead, Newcastle City, North Tyneside, Northumberland County, South Tyneside and Sunderland City Councils. The deal agrees a significant shift in powers, funding and responsibility from Whitehall to the region in return for establishing the role of a directly elected Mayor for the area of the North East.

The additional powers and funding within the deal include a £1.4bn investment fund, alongside funding for skills, transport, education and skills, housing and regeneration. We estimate that the overall value of the deal will be £4.2bn. This will enable investment into projects which reflect local needs and opportunities, making a real difference for our residents, communities, and the local economy.

The purpose of this governance review, undertaken in accordance with Section 111 of the Local Democracy, Economic Development and Construction Act 2009 [the 2009 Act] is to look at the exercise of statutory functions in the North East with a view to deciding whether to prepare and publish a scheme with new functions and changed constitutional arrangements, including a directly elected mayor for a combined authority across the whole area. A public consultation would then be carried out on the proposals set out in the scheme. The Secretary of State would then be provided with a summary of consultation responses and would need to consider whether an order should be made under the 2009 Act to establish a Mayoral Combined Authority [MCA] for the area.

Under Section 112 of the 2009 Act, the review needs to conclude that the exercise of the power to make an order to establish an MCA for the North East area would be likely to: improve the exercise of statutory functions in relation to the North East area; help secure more effective and convenient local government; and reflect the interests and identities of local communities.

The review has found that the economic evidence provides a rationale to build on existing collaboration, delivery and success by creating a new Mayoral Combined Authority to exercise powers to grow the whole North East economy. In doing this, it would have responsibility to develop the people, communities and businesses it serves across the whole region. The new Mayoral Combined Authority would replace the existing North East Combined Authority [NECA], which covers Durham County, Gateshead, South Tyneside and Sunderland, and the North of Tyne Combined Authority [NTCA], which covers Newcastle City, North Tyneside and Northumberland County. Together with the North East Local Enterprise Partnership [North East LEP] and Transport North East, these organisations have significant existing capabilities and technical expertise which can be utilised by the new MCA.

The NTCA, NECA, North East LEP and Transport North East have overseen programmes of investment which have secured thousands more jobs, supported hundreds of residents into employment and seen major investment in infrastructure. Nevertheless, by working at a wider geography there is the opportunity to not just deliver more for the region but to also better-meet the needs of the regional economy, where supply chains and commuting patterns stretch out over a wide geography.

Despite significant economic successes and assets, the North East is still a net spender of UK tax revenues and there are ongoing challenges in relation to securing the region's ambition to promote faster and more inclusive growth, tackle the climate emergency and deliver an integrated transport system fit for the 21<sup>st</sup> Century. And there is not enough local control over the policies that affect our economy.

The North East deal will unlock significant long-term funding and give local leaders greater freedom to decide how best to meet local needs and create new opportunities for the people who live and work here. The government recognises that devolution is a journey, not a one-off event. The agreement is the next step in a process of further devolution. As institutions mature, they can gain greater responsibility, and the North East will be able to deepen the devolution arrangements over time, subject to government agreement. The government will continue to work with the North East on important areas of public service reform and infrastructure investment, to support inclusive economic growth in towns, cities and rural areas whilst tackling climate change, on our journey to a net zero green economy.

The review concludes that:

- Current regional governance arrangements – based on a combination of a Mayoral and a non-Mayoral Combined Authority and a Joint Transport Committee (through which the combined authorities exercise transport functions) – do not represent the best model in terms of delivering the long-term ambitions of the local authorities within the area for economic growth and delivery of public services. Currently, the Combined Authorities have responsibilities for creating the conditions for economic growth and new investment in the area, with the NTCA also having additional powers and funding to support inclusive growth, housing and skills. The Joint Transport Committee was established to provide policy direction and governance to transport matters across the whole of the North East area.
- The new Authority would extend the benefits of devolved funding for investment, skills and housing, previously secured by the North of Tyne MCA, over the full regional geography. In addition, it would unlock new funding and powers, including over transport, across the whole region.
- There is limited practical scope for the existing governance arrangements to be meaningfully strengthened, short of adopting the Mayoral Combined Authority (MCA) model of governance.
- A change is required to enable the North East authorities to pursue their economic and social policy agenda at greater pace, while continuing to collaborate with Tees Valley, Cumbria and southern Scotland.
- The statutory criteria for preparing and publishing a scheme are met, i.e. the making of an order under the 2009 Act, to enable the adoption of an MCA model of governance for the area of the North East, will likely **improve the exercise of statutory functions in that area.**
- In addition, with regard to the criteria which the Secretary of State would need to consider before making such an order, it is considered that establishing a MCA model of governance for the North East will:

- **Have a positive impact on the interests and identities of local communities** – these proposals build on established regional governance arrangements, longstanding and productive collaboration over a functional economic area and which represent the views and interests of the local community; and
- **Secure more effective and convenient local government** by reducing complexity and streamlining the delivery of public services within the area.

It is therefore proposed that a scheme is published (a draft scheme is included at Appendix B) that confirms:

- A new MCA should be created to cover the area of the North East, replacing the existing NTCA and NECA organisations;
- A North East Mayor would be elected in May 2024;
- The Mayor would be a member of the Combined Authority and chair meetings of the authority;
- Each Council will appoint a member to the new MCA, alongside non-voting members representing business and the community and voluntary sector; and
- The Mayor and MCA will exercise statutory functions, and hold some powers concurrently with the North East local authorities. No functions are being removed from those councils. Where existing functions currently held by North East local authorities are to be shared with the Mayor or the MCA, this must be agreed by the constituent councils.

Upon establishment, the initial objectives for the new MCA will include:

- Creating an additional 24,000 jobs;
- Building an additional 3,100 homes;
- Helping 6000 people to get “work ready” each year;
- Commissioning 70,000 courses each yet to get people good jobs;
- Taking major steps to Net Zero; and
- Leveraging £5.0bn of private sector investment.

## Purpose of review

North East Leaders and Mayor have agreed with Government that fulfilling the local economic priorities and drawing down significant additional powers and funding through the North East Devolution Deal would create new opportunities for the area. However, seeking to maximise these opportunities for the area raises questions about the on-going appropriateness of regional governance arrangements which are currently based on the North East Combined Authority (non-Mayoral), the North of Tyne Mayoral Combined Authority, the North East LEP, and the Joint Transport Committee. As part of the deal, Leaders and Mayor have committed to consider the creation of a new, directly elected North East Mayor, acting as Chair to the North East Mayoral Combined Authority by May 2024.

The seven councils, along with the two combined authorities, have therefore commissioned this review to look at whether strengthening existing collaboration arrangements by adopting a single MCA model of governance would be the best way of creating more inclusive and cleaner growth and improving delivery of transport functions.

To ensure compliance with the relevant legislation contained in the 2009 Act, the Review considers whether an MCA is the best governance model that would be likely to

- Improve the **exercise of statutory functions** in the area of the North East
- Secure **more effective and convenient local government for the area**; and
- Have a positive impact on the **identities and interests of our local communities**.



## **Methodology for the Governance Review**

The Governance Review has comprised the following:

- The North East's ambition and context, covering the area's devolution journey and devolution deal
- An economic assessment of
  - The existence of a Functional Economic Market Area across the North East; and
  - The region's economic strengths, challenges and opportunities
- An assessment of the current governance arrangements across the North East
- The case for change
- The devolved functions in scope
- An options appraisal that considers the alternative governance structures which could be pursued in the light of the above evidence
- Consideration of whether the preferred option meets the statutory tests; and
- The conclusions drawn from all the above.

## North East Devolution Ambitions

The proposal for a devolution deal emerges from serious and passionate cross-party, cross-regional, leadership during the pandemic. As well as providing policy leadership in the response to COVID19, the leaders and mayors of the North East worked together on substantive recovery plans. They worked with partners across business, academia, the community and voluntary sector and with the people of the North East to set out what a North East, built back better and fairer, would look like.

These plans were submitted to government as part of the 2020 and 2021 Comprehensive Spending Rounds and underpinned the North East Transport Plan. They informed and linked collaboration and collective action to lead the North East to a stronger future.

The ambition is for a deal which is:

- **Bigger and better** – demonstrably adding value in relation to the existing North of Tyne deal and bringing new resources and powers – and significant private sector leverage – into the region. It recognises the huge value of integrating economy, skills, transport, housing and public sector reform.
- **Reduced carbon, reduced inequality** – with the green agenda clearly woven through the deal, and shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled and sustainable region.
- **Bold on the rural economy** – setting out clear intentions to accelerate rural growth and looking at the opportunities such as the Northumberland Line, rural housing, rural stewardship and net zero transition – including through a Rural Growth and Stewardship Board.
- **Amplifying the North East's global assets** – through a clear focus on the region's growth corridors, three ports, gigafactories, an international airport, and globally-facing cities and historic town centres. A world-leading '*Arc of Green and Blue Energy Innovation*' from OREC to Nissan and home of the next-generation electric vehicle industry and the only science park nationally, NETPark in Sedgefield County Durham, to host two centres from different Catapults.
- **Balancing growth and prevention** – by bringing forward fiscal innovation, working on a public service reform programme, greater influence within the integrated care system.
- **Transforming connectivity** – using a full package of devolved transport investment and powers to create an integrated transport system, including the potential unlocking of visionary schemes; such as, the Northumberland Line, Leamside Line and Washington Metro Loop, Cobalt Loop, Team Valley, Newcastle City Mobility plans and a region-wide EV charging network.
- **Attacking the opportunities of digital and 5G** – providing strong incentives for investment in digital connectivity, 5G-ready infrastructure, digital skills and unlocking the huge potential of digital-enabled manufacturing.

- **Connecting our coastal areas** – using devolved funding and powers to better link our unique coastal communities and economic assets – through skills, jobs and accelerating development on our housing and economic sites.
- **Building on strong collaborative governance** – ensuring each of the partners can see the benefits of cross-regional investment, and that decisions are made in a way that reflects our diverse geography, assets and needs.

With a population of 2.0 million, the North East offers enormous potential. It is a coherent economic area and has a number of significant growth sectors including automotive and advanced manufacturing, offshore and renewable energy, and life sciences, as well as four universities.

Sizeable parts of the North East enjoy access to exciting new opportunities for growth. Car manufacturer Nissan is building a £1 billion electric vehicle hub near to its existing plant in Sunderland, which will create 6,000 new jobs at the firm and associated supply chain. While the adjacent International Advanced Manufacturing Park will be the location for advanced manufacturing and European-scale supply chain industries - this will see an estimated 5,200 jobs created in the long term. Hitachi Rail have invested £110m in Newton Aycliffe, pioneering the next generation of high-speed rail in the UK.

Blyth in Northumberland is seeing potential investment of £2.6 billion by battery manufacturer Britishvolt into a new 95-hectare Gigaplant. But the North East also faces challenges which impact on productivity levels and the ability to grow. These include: addressing skills issues, replacing an ageing workforce and ensuring skills for existing and new sectors; developing more indigenous SMEs; attracting more foreign direct investment; increasing innovation investment and exploitation; and reducing unemployment.

Greater local powers are needed to level up, to tackle the challenges facing the North East, and to harness its huge economic opportunity for the benefit of people in the North East and for the whole UK.

This approach builds on the existing strong track record of the North East Local Enterprise Partnership and the North of Tyne MCA, as well as new levelling up funds already allocated.

The local councils of the North East and government aim for a mayoral devolution deal which will provide powers and funding to enable the North East to unleash its full economic potential, and in doing so level up, raise living standards for its communities and make a full contribution to the UK economy. It will build upon the area's history of collaboration to maximise this investment.

## North East context

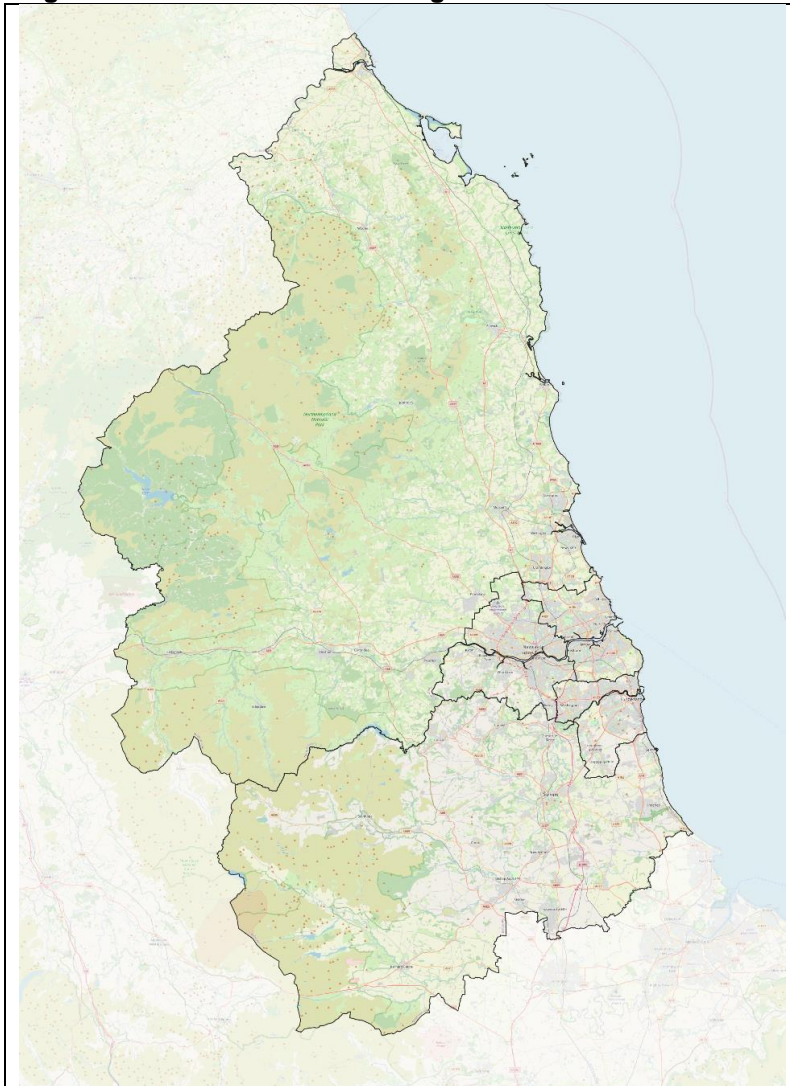
The area covered by the local authorities of County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland is extensive, varied and beautiful. It is a large geography spanning from Berwick upon Tweed in the north to Newton Aycliffe in the south and Haltwhistle in the west to South Shields in the east. A significant portion of the area is north of parts of Scotland.

A population of 2.0 million live across a wide variety of settlements with both high and very low population density. For example, 5 people per square kilometre in Bellingham in Northumberland to over 9 000 people per square kilometre in the hearts of Newcastle and Sunderland.

We have 3 cities, vibrant towns and extensive rural and coastal communities with a unique combination of city, coast and country that provides a high quality of life.

The North East is home to 68,850 businesses who provide 887,000 jobs.

**Figure 1: The North East MCA region**



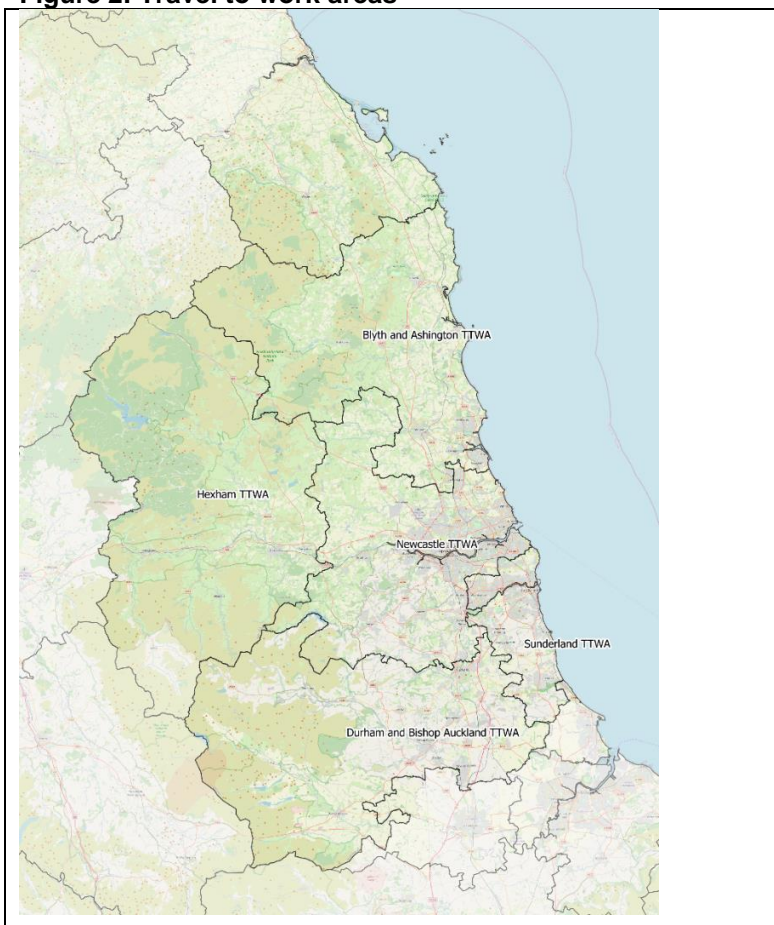
## A functional economic market area

A well-developed evidence base highlights the importance of connecting residents with key employment centres, reducing journey times to improve economic and labour market outcomes. The ONS identifies four 'travel to work' areas which are contained within the North East area – the Newcastle/Tyneside area is the largest by number of journeys, followed by Sunderland, Durham/Bishop Auckland and then Blyth/Ashington. In addition, the travel to work areas for North Northumberland extends into Scotland.

There are strong commuting dependencies within the North East area, with over 90% of residents working in the area – making it a coherent geography to consider skills, access to employment and other labour force issues. These links are comparable to those in West Yorkshire but greater than other MCAs for example Greater Manchester (87%), South Yorkshire (85%), Tees Valley (86%), Liverpool (76%).

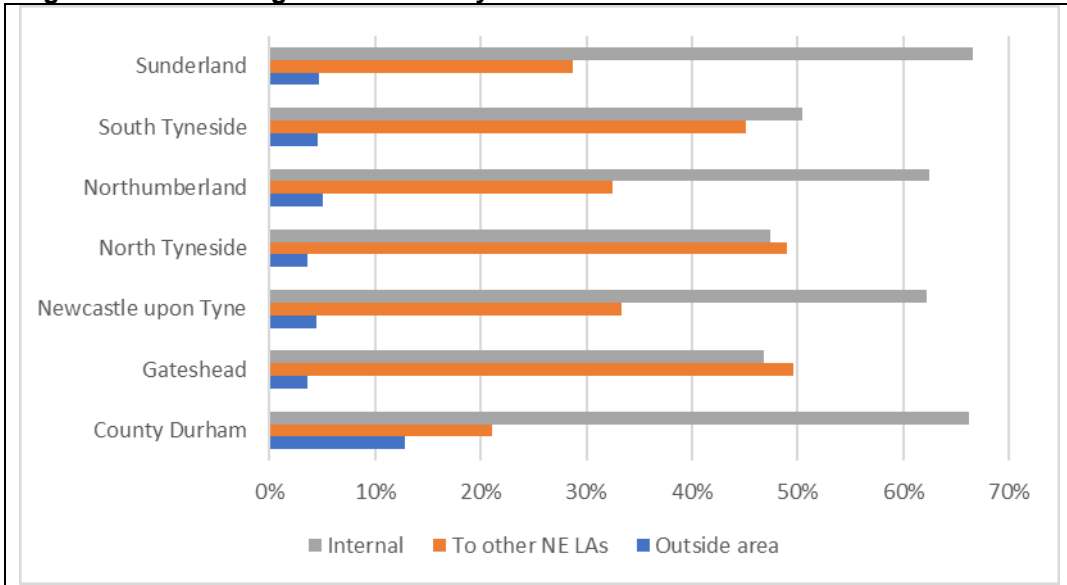
There are strong business relationships across the area, including a regional professional services role and supply chain clusters around key sectors, including automotive, offshore technology and health and life sciences. These strong commuting and business links make the area a natural functional geography for economic interventions.

**Figure 2: Travel to work areas**



Source: ONS

**Figure 3: Commuting destinations by location of residence**



Source: ONS

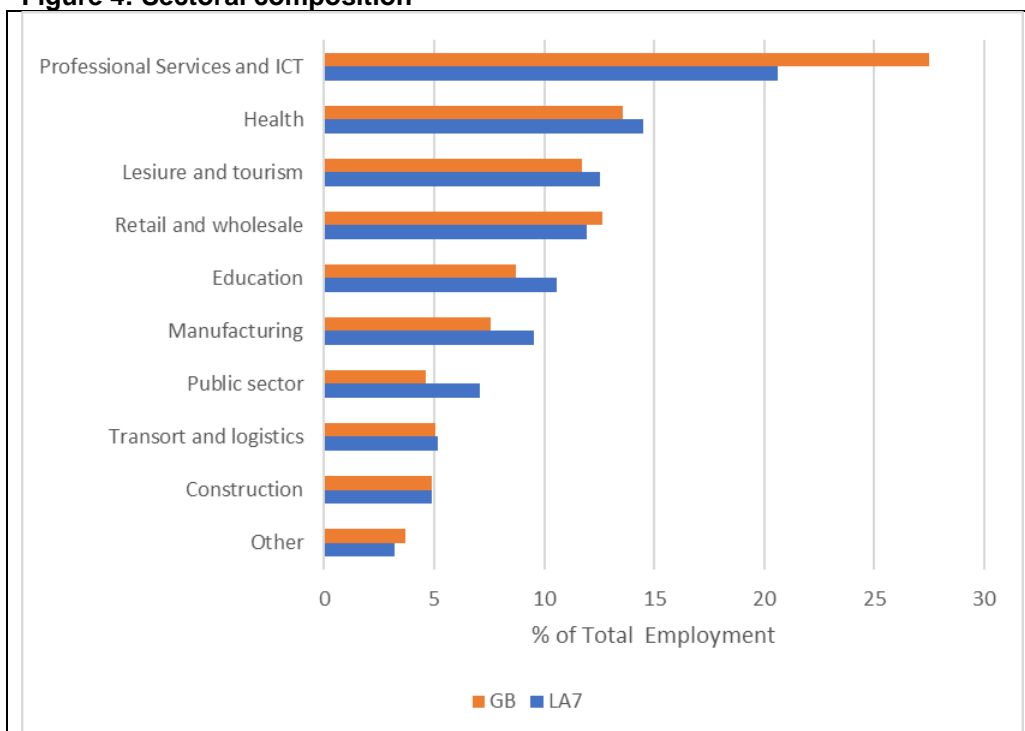
## North East Economy

### Economic profile

Although the composition of the North East's economy has many similarities to the national sectoral profile, there are also important differences including:

- A large, advanced manufacturing sector – including the nationally-significant automotive cluster centered around Nissan;
- An increasingly important low-carbon economy, including offshore wind technologies on the Tyne, Blyth and Wear and electrification/batteries around Blyth, Newcastle and Sunderland, and onshore wind and geothermal energy in County Durham;
- A thriving tech sector, with Sage the largest software company in the UK, Atom Bank a Unicorn Fintech company and other expertise running from consultancy to games production;
- An important leisure and tourism sector, including urban and rural assets;
- A professional services sector which is a large employer, despite accounting for a smaller proportion of employment than across the UK as a whole;
- Internationally-recognised healthcare and education assets;
- A longstanding national hub for public services, including significant HMRC and DWP assets and teams;
- Important rural and coastal economy; and
- Tourism, leisure and retail with the North East providing a diverse offer based on cities, coast and countryside.

**Figure 4: Sectoral composition**



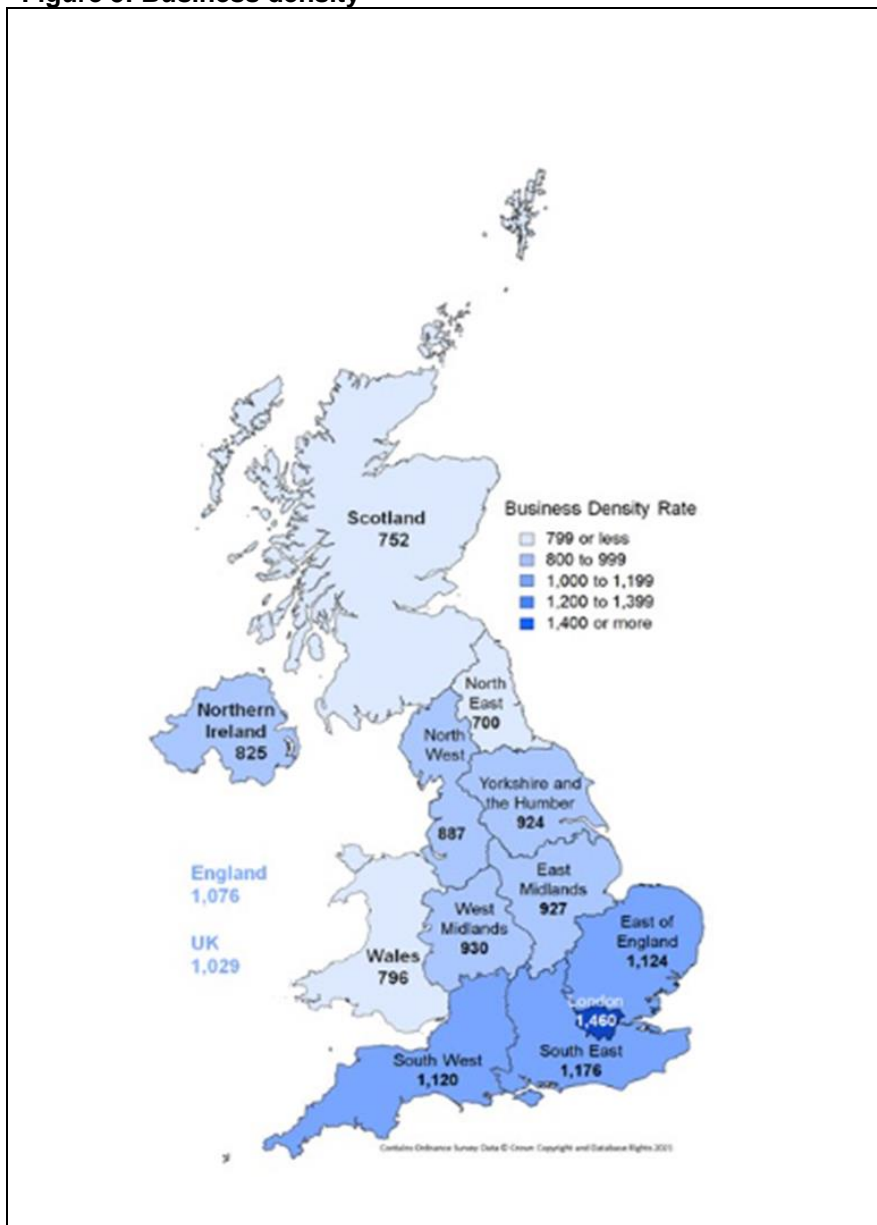
Source: ONS

Despite its strengths, the North East has a relatively small business base, with the wider NE region having the lowest business density in the country. Micro and small businesses with under 50 employees account for 97.8% of businesses (UK, 98.1%).

A slightly greater proportion of residents are employed in large businesses of more than 250 employees, including in a number of our major manufacturing companies. And the rate of new business formation is only about three-quarters of the national average, but business scale-up rates are better. The North East has strong export performance, particularly including automotives and pharmaceuticals.

Challenges identified by our businesses include: skills shortages, replacing an ageing workforce, skills for new sectors, increasing energy and input costs, attracting more foreign direct investment and increasing innovation – where levels of private sector research and development are much lower than the national average.

**Figure 5: Business density**



Source: ONS

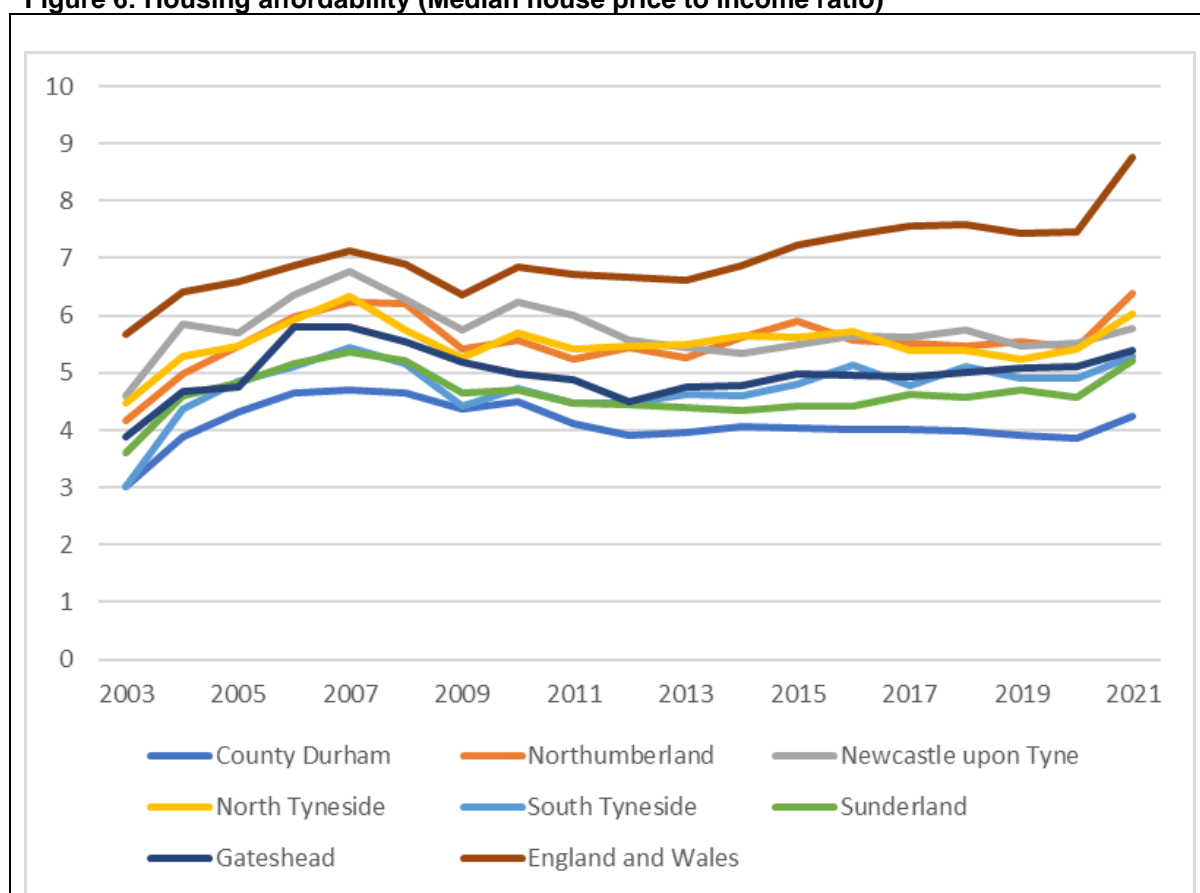


In terms of housing, on average house prices are more affordable in the region than the country as a whole. However, affordability measures have deteriorated and in several communities housing remains out of reach of many, including key workers.

Other housing challenges include:

- Tackling the increasing challenge of homelessness
- Weaknesses in the private rented market
- Improving the quality of stock
- Bringing empty homes back into use; and
- Accelerating housing delivery on a number of brownfield sites.

**Figure 6: Housing affordability (Median house price to income ratio)**



Source: ONS

Car usage continues to dominate, accounting for 60% of all journeys across the region. The North East Transport Plan sets out how the transport network can evolve in a series of lasting improvements that will shape our region in the decades to come.

The Transport Plan identifies a range of policy initiatives and investments – including a major increase in the levels of active travel through improvements to pedestrian and cycling infrastructure, improving bus travel, a region-wide electric vehicle charging network, investment in metro and local rail, and improving connections outside the region. In addition, rurality provides an opportunity for innovative transport solutions and behavioural change initiatives.

Digital connectivity varies significantly across the area. While superfast coverage in Tyne and Wear and County Durham exceeds or is in line with the national average, Northumberland is lagging with 95% superfast and 36% full fibre, compared with UK averages of 97% and 42%

There are fast rail connections to London and Scotland via the East Coast Mainline; mass rapid transit in Tyne and Wear is delivered by the Metro system which is owned and operated by Nexus (the Passenger Transport Executive) which is a public sector body that works on behalf of the Tyne and Wear councils; and the Tyne Tunnels are also a locally-owned asset linking North and South Tyneside, and making the A19 highway a long-distance strategic connection. The local authorities have a significant stake in the North's 2nd largest airport, with links to international hubs including Heathrow and Dubai. The area has important ports – at Blyth, Tyne and Sunderland – supporting trade and industry.

There are four leading universities – Durham, Newcastle, Northumbria and Sunderland – and a strong further education network, with Newcastle College Group one of the biggest providers in the country and Tyne Coast College delivering unique maritime education and the North East Institute of Technology provides specialist training in construction, engineering, manufacturing and digital sectors.

Significant progress has been made by the North East in reducing carbon emissions, specifically from industrial and commercial sources. Overall, there has been a 56% decrease in emissions, which are now 23% lower on a per head basis than the national average. Nevertheless, further progress needs to be made on the transition to net zero, especially around transport where (with the exception of the impact of the pandemic) emissions have remained relatively little changed over the past 15 years.

The area is known for its outstanding historic, cultural and leisure assets, with the Hadrian's Wall World Heritage site (which includes assets in Northumberland, Newcastle, North Tyneside and South Tyneside) complemented by the Durham World Heritage Site.

There are also diverse rural and coastal assets – from the Kielder Forest with its Observatory and Dark Sky status to the UK's Beach of the Year at South Shields and the North Pennines Area of Outstanding Natural Beauty. These are backed by a strong sporting heritage, contributing to the region's identity.



Marsden Beach, South Tyneside

## Challenges

Despite these strengths, economic outcomes in the area underperform the national average. On many measures, recent improvements were reversed during the pandemic. However, in contrast to our experience with previous recessions, outcomes during the pandemic did not diverge further from the national averages.

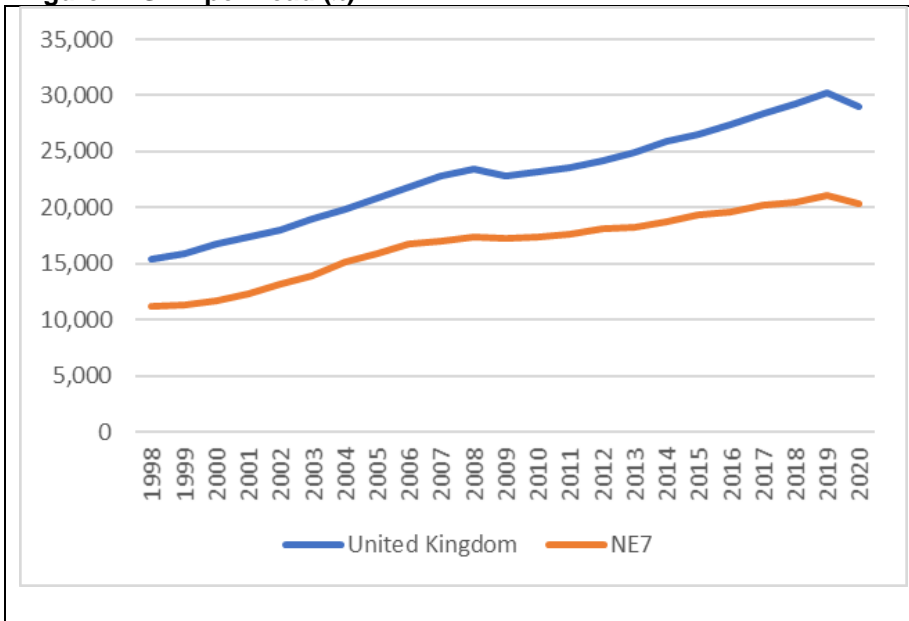
In addition to the need to tackle climate change, we have identified five key inter-related challenges which are particularly related to the region. First, low growth and productivity, which has also held back wages. Second, average qualification levels well below national average. Third, levels of unemployment and inactivity are significantly above the national average, with outcomes notably worse for those with lower-skill levels. Fourth, lower income and higher rates of worklessness has led to significant deprivation. And this has been accompanied by our fifth challenge: poorer health outcomes.

### i. Lower growth, productivity and wages

Trends in the North East's economy over the past two years have been dominated by global forces; the onset and recovery from the pandemic, and then the cost-of-living crisis, with sharp increases in energy and other costs resulting from the war in Ukraine.

But comparisons with the national picture show that the level of economic output – as measured by GVA per head which is an indicator of productivity – is significantly lower in the North East than the UK average. The gap with the 'median' across the country is smaller, although economic growth in the North East has been weaker over the past 15 years.

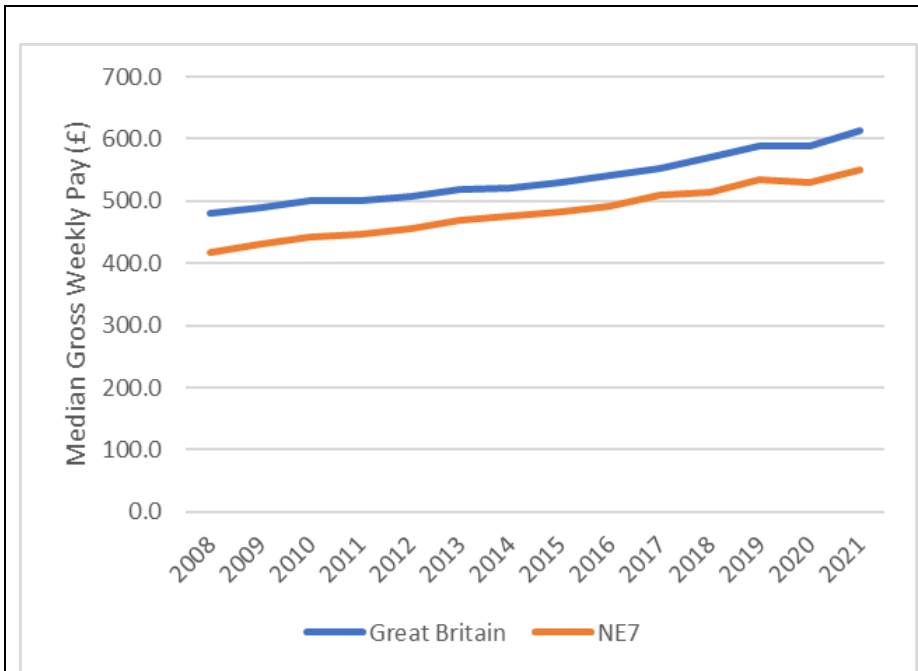
**Figure 7: GVA per head (£)**



Source: ONS

Lower economic growth has also been accompanied by lower average wages, which are currently around 10% below the national average. Of the seven local authority areas, only in Newcastle are average wages close to the national average.

**Figure 8 Average weekly wages**



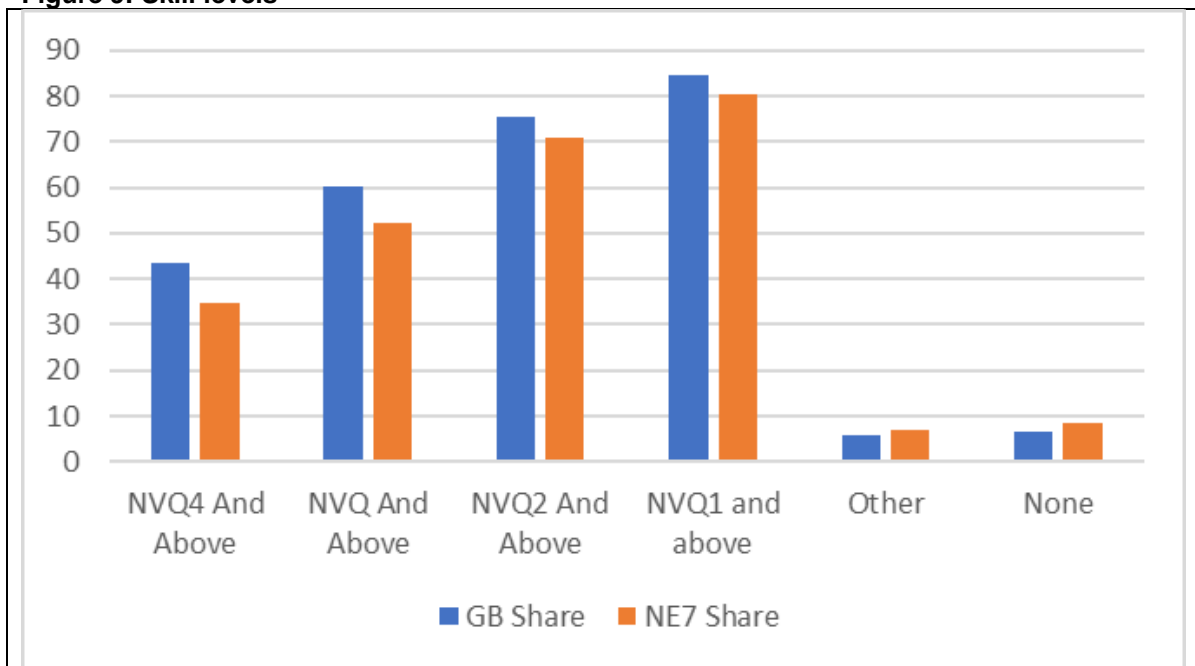
Source: ONS

ii. Skill levels well below national average

The North East generally performs poorly in terms of skills supply. Average qualification levels are lower than national average, with more residents with no qualifications.

This gap in qualifications is particularly pronounced at higher levels, with the number of people in the NE region with qualifications at degree level (NVQ4) or above only 80% of the national average.

**Figure 9: Skill levels**



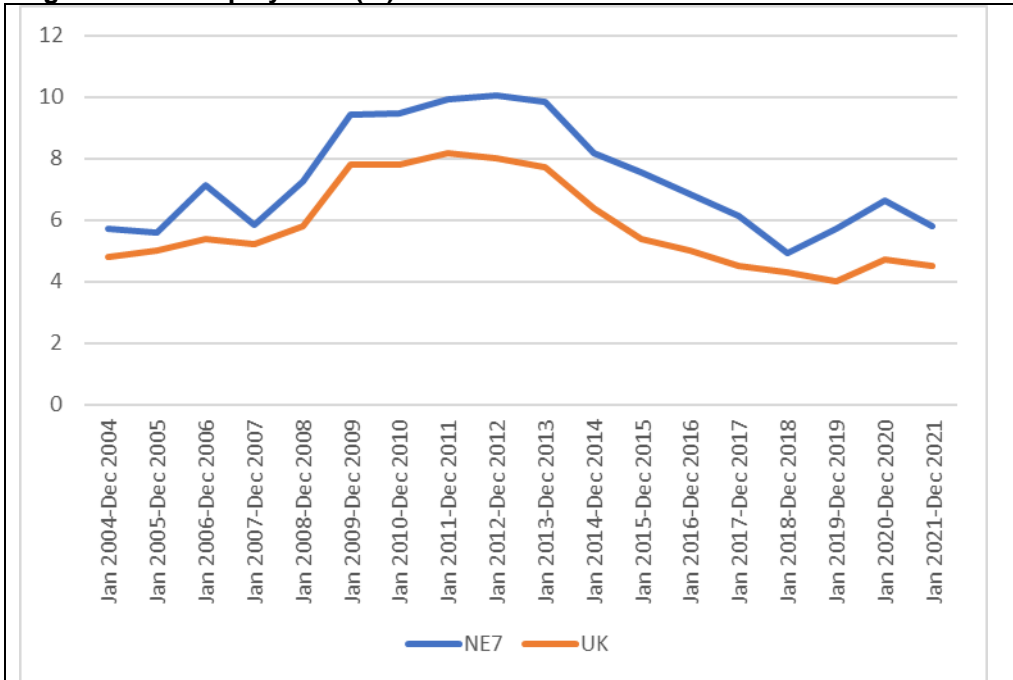
Source: ONS

iii. Higher unemployment and inactivity

The area has seen a strong reduction in unemployment since the height of the pandemic, with the unemployment rate falling to 5.0% in the 12 months to June 2022 from a peak of 6.9%. Nevertheless, this remains significantly above the national average.

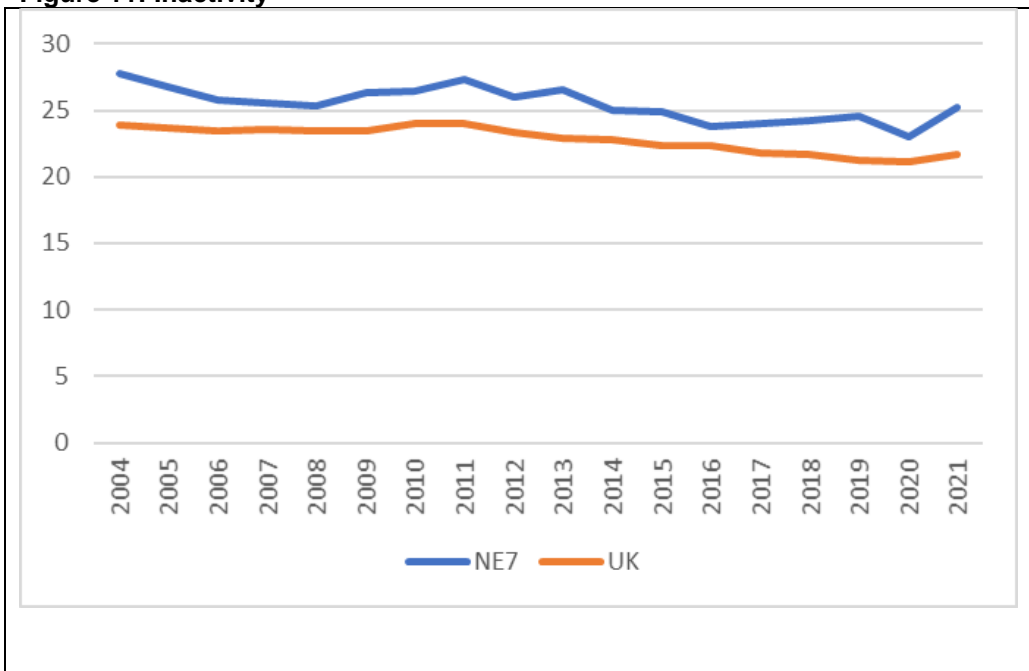
The number of people classified as 'economically inactive' has increased significantly in the past two years. This category includes those who are not working and are not currently seeking a job – and includes those who are sick, students, the retired and those with caring responsibilities. The big increase in inactivity which we have seen mainly reflects people who are long-term sick.

**Figure 10: Unemployment (%)**



Source: ONS

**Figure 11: Inactivity**

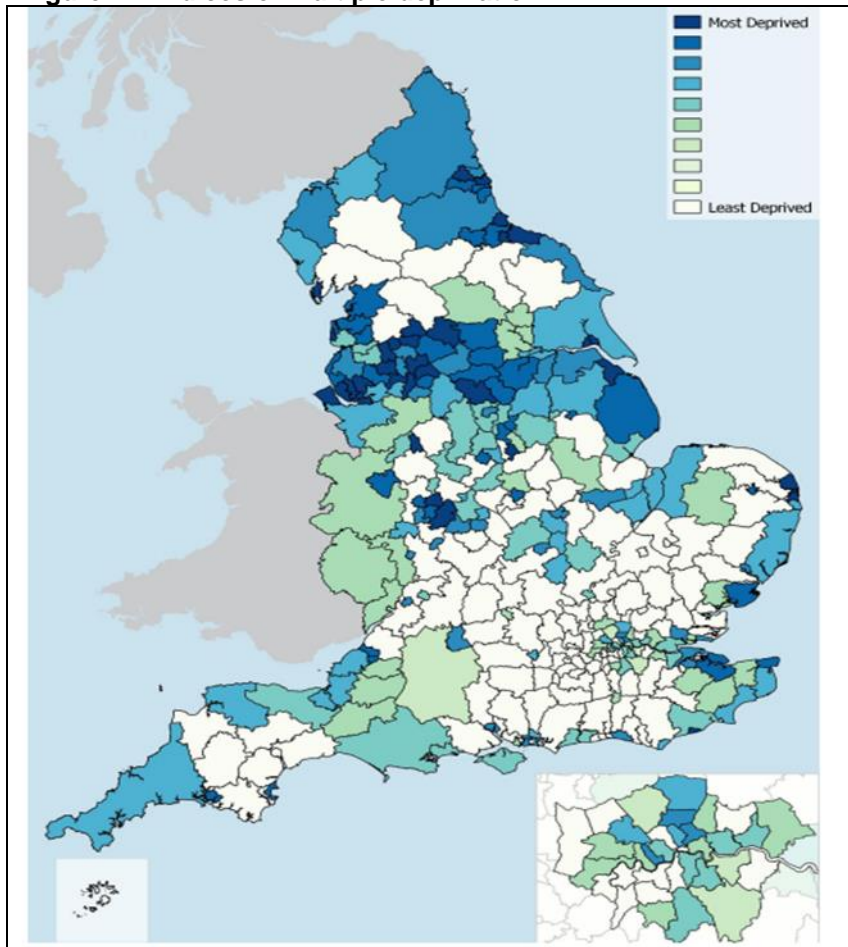


Source: ONS

iv. Higher levels of deprivation

Higher rates of unemployment and lower average pay result in higher levels of deprivation in the North East. In particular, there are clusters of deprivation along the banks of the Tyne and the Wear, in SE Northumberland and the Eastern towns of County Durham. This is captured in Government's 'Indices of Multiple' deprivation, which are based on a weighted average of a number of different outcome measures. On this index, the North East scores worse than the national averages around measures of employment and income, but better on measures of the quality of 'living environment' and around the accessibility of 'housing and local services'.

Figure 12: Indices of multiple deprivation



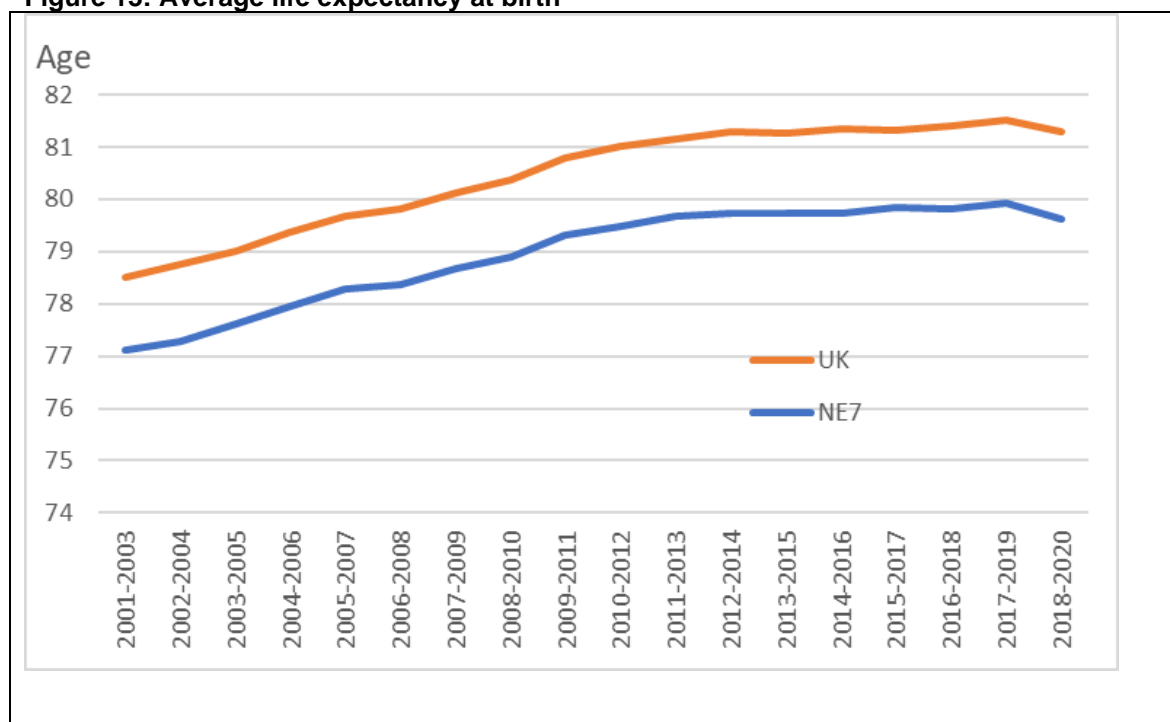
Source: ONS

v. Poorer health outcomes

The North East has poorer health outcomes than the UK overall. At 79.6, the average life expectancy at birth in the North East is 1.7 years lower than the median across the UK. And this gap has increased in recent years: at the turn of the millennium the gap was 1.4 years.

In addition to being more likely to have a shorter lifespan, those in the North East spend a larger proportion of their lives in poor health. Within the region, there is substantial variation between outcomes in more deprived and more affluent areas.

**Figure 13: Average life expectancy at birth**



Source: ONS

### Opportunities to improve outcomes

Despite the challenges, there are opportunities to improve outcomes including:

- To better-connect people to employment – taking advantage of high levels of vacancies in region by historic standards
- To improve longer-term outcomes for residents (and support the economy) through improvements to education, skills and entrepreneurship and by increasing the focus on ‘good work’
- To lead the low-carbon revolution – especially around offshore wind, geothermal energy and electrification – and to continue to attract record investment
- To improve business growth and productivity through high value-added industrial clusters, including by strengthening innovation and R&D outcomes
- To transform perceptions of region: From a relatively peripheral region with a relatively weak economy... to one which is connected nationally and internationally by strong digital and transport links ... with a strengthening economy ... and which can offer outstanding quality of life – building on strength of communities, affordable housing, a resilient climate and access to outstanding rural, coastal and heritage assets.

This Governance Review is focused on how best to tackle the challenges and use those opportunities.



## **Understanding current governance arrangements**

The proposals set out in this document are based on a strong track-record of working together across local authority boundaries in the North East. In recent years this has included through the work of the NECA and the NTCA, together with collaboration through other structures, including the Association of North East Councils, the North East Local LEP and the North East Joint Transport Committee. These organisations have had responsibility for issues spanning from the pandemic response to overseeing improvements to transport infrastructure, and from unlocking house building to the introduction of new skills programmes.

### **Devolution in the North East**

This is a third iteration of devolution in the North East.

The first saw the creation in 2014 of a North East Combined Authority comprising Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside and Sunderland. This was established to bring together decision taking and collaboration on integrated transport and local economic development. A similar approach was taken in other places, including South Yorkshire, West Yorkshire and Liverpool City Region.

In 2016, discussions in the North East on a 'minded to' devolution deal ended when it became clear that the deal could not command the constituent authority consent of all 7 local authorities involved at the time.

The consequences were the adjustment of the North East Combined Authority to cover Durham, Gateshead, South Tyneside and Sunderland to continue to collaborate but without an elected mayor. And, the creation of a new Mayoral Combined Authority in November 2018, the North of Tyne Combined Authority, to cover Newcastle, North Tyneside and Northumberland. Collaboration around transport would be led through a Joint Transport Committee across the wider area.

The two Combined Authorities have been responsible for creating the conditions for economic growth and new investment in the area, with the NTCA also having additional powers and funding to support inclusive growth, housing and skills. To date, the NTCA has secured investments which will create almost 5000 jobs, half the NTCA's 30-year target. At the same time, there has been strong collaboration between NECA and NTCA on a range of issues including:

- Development of a joint North East Transport Plan
- Management of strategic transport funding including prioritisation of the Transforming Cities Fund
- Delivery of the North East Strategic Economic Plan (2014-2024)
- Access to finance
- NE Screen Industries Partnership
- Oversight of North East LEP activities

A new Mayoral Combined Authority for the North East would be able to build on this work, overseeing over £4billion of new investment into economic growth, skills, transport and housing & regeneration.

In addition to the creation of NECA and NTCA, a Joint Transport Committee was established through which both Combined Authorities agreed to jointly exercise their transport functions. The Joint Transport Committee has developed policies, funding bids, projects, contract management, delivery programmes and partnerships covering all aspects of transport covering the whole of the North East area – that is the LA7 authorities.

Coterminous with this arrangement is the North East LEP whose board, which was established in 2011, includes political representation from across both combined authorities, together with private sector leadership and the education and voluntary sectors.

On 2<sup>nd</sup> February 2022, the Secretary of State for Levelling Up, Homes and Communities published “Levelling Up The United Kingdom” a White Paper that describes the Government’s policy intent in tackling regional disparities and inequalities. The White Paper and announcement make reference to a “County Deal” for Durham and negotiations to agree a Mayoral Combined Authority deal for the North East.

### **Collaboration across the North East**

The “North East” can mean many things to many people. Sometimes it is the 12 local authorities which come together as the Association of North East Councils. Those local authorities work together on health and social care as part of the North East and North Cumbria Integrated Care Board (which actually covers 13, soon to be 14 local authorities) and through the North East branches of the Association of Directors of Children’s Services, the Association of Directors of Adult Social Services and the Association of Directors of Public Health. The same 12 currently host the North East Cultural Partnership and collaborate to provide elected member representation on a range of bodies who cover the entire North East from Redcar and Cleveland to Northumberland.

During the pandemic, for almost two years, 8 Leaders and Mayors (7 local authorities and the Mayor of North of Tyne) have collaborated to provide policy leadership to the response. Meeting at least weekly, they worked hard to provide a coordinated, cross-party voice to the communities they serve and on behalf of those communities into government. That leadership made a difference to the strength of the North East’s response and is now focussed on the region’s recovery.

In parallel, for the last 4 years, the same leadership group, working through a Joint Transport Committee have provided policy leadership to a Transport Plan for the North East and secured significant investment which is currently making a practical difference on the ground in the region. That group have also created a common voice to government on integrated rail planning, bus services and government support to local public transport. In particular, they have worked together to make the case for the use of the Leamside Line, upgrading the East Coast Main Line,

developing the Northumberland Line and a stronger partnership to deliver better bus services.

All of that work has created a sense of common purpose that Leaders and Mayors have sought to continue for the good of the North East.

### **Local Enterprise Partnerships**

From 2011, local enterprise partnerships (LEPs) were established as a public-private sector partnership. There are 38 LEPs across England. They are business-led partnerships between local authorities, local private sector business leaders and education and voluntary sector senior leaders. Each is tasked with playing a central role in determining local economic priorities and undertaking activities to drive economic growth and job creation, improve infrastructure and raise workforce skills within the local area.

The wider North East served by the 12 local authorities is covered by two Local Enterprise Partnerships. One for the 5 Tees Valley authorities and one for the other 7 – the North East LEP.

The North East LEP board is led by a private sector Chair and has board members from local leaders of industry, educational institutions, the voluntary sector and local authorities. It manages multi-million-pound investment programmes designed to improve and support the North East's economy. These include the North East Investment Fund, North East Enterprise Zones, the Local Growth Fund and the Getting Building Fund. The North East LEP leads significant programmes covering the skills and enterprise agendas, business and sectors' growth and innovation, as well as economic data and evidence work on behalf of the region.

In March 2022, Government announced its response to a review of LEPs. That includes the intention to integrate LEP functions and roles into Mayoral Combined Authorities or upper-tier local authorities. Following discussion locally and nationally, the "Minded-To" deal includes integration of the functions and roles of the North East LEP into the North East Mayoral Combined Authority.

### **Transport Governance and Funding**

As described earlier, the transport powers of both current combined authorities are currently exercised through the North East Joint Transport Committee. Political representatives from across the area come together to provide policy direction and governance for transport matters in line with the agreed North East Transport Plan. There are specific delegations in place to allow for Durham, Northumberland and Nexus to deliver services on behalf of the Joint Transport Committee, and a sub committee for Tyne and Wear to oversee Nexus' delivery of services (Metro, bus and Ferry) and the Tyne Tunnels.

The North East Joint Transport Committee is responsible for overseeing over £200m of capital investment, including funding from the Transforming Cities Fund. This includes investments in active travel corridors, bus priority schemes, Park & Ride improvements and city centre public realm improvements. In addition, the £94m Metro Flow scheme will provide extra Metro track capacity in Jarrow and Hebburn,

which when combined with the introduction of a £360m new fleet of Metro trains will enable the whole system to operate at six trains per hour on each line, compared to five trains per hour at present, and to reduce delays by improving operating efficiency and resilience.

Leaders and Mayors have recently turned their attention to longer term transport funding and the Government's City Region Sustainable Transport Settlements. This funding is designed to support integrated transport at a regional level. In 2021, Leaders and Mayors spent time with Government Ministers making the case for delegation of £563m of transport funding to the North East via the Joint Transport Committee. Towards the end of 2021, the Government made it clear that it would only consider such a delegation through a Mayoral Combined Authority for the North East.

## **Case for change**

As explained above, the current governance arrangements for the LA7 authorities and the different powers between parts of the area constrain access to funding. The authorities have therefore undertaken an assessment of the opportunities and challenges existing across the region, demonstrating that access to a broader range of powers and devolved funding is needed to achieve the area's full growth potential.

### **The “Minded-To” North East Devolution Deal**

Government and the North East local authorities have agreed an ambitious “minded-to” devolution deal that will provide the area with significant new powers and funding to increase opportunities and living standards through inclusive growth and productivity improvements. The content of the deal (included here in Annex A) has a clear focus on making a difference for people, communities and business in the North East.

The deal is described as “minded-to” as the proposals are subject to consultation with stakeholders, formal consent from each constituent council and parliamentary approval of the relevant legislation to implement the proposal over the coming months.

### **Governance**

The economic and social challenges facing the region need to be addressed and opportunities maximised if the area is to grow and prosper. Collaboration via the North East LEP, the North East Joint Transport Committee and the example of the North of Tyne Mayoral Combined Authority have demonstrated the ability to make a difference with the right relationships, powers and investment. However, in the current governance environment that ability is limited in scope and geography.

As a consequence, there is strong evidence that strengthened governance arrangements across the North East with additional powers and funding, will deliver significant economic outcomes locally and improve the contribution of the area to the national economy.

Through the “minded-to” devolution deal, North East local authorities have the opportunity to take on greater control and responsibility for a number of key drivers of economic growth with a strong range of additional powers and funding. Government have made it clear this opportunity does not exist within the existing arrangements.

Under the terms of the deal a North East Mayoral Combined Authority with a new directly elected mayor for the area will provide a stable and directly accountable platform for devolution of resources and a wider range of powers from central government. The MCA will exercise a broader range of functions which are contained in the deal and summarised below. However, it is important to note that no constituent authority powers are removed or replaced.

The Mayor will Chair the Combined Authority meetings while each of the 7 authorities will appoint one member to make up the Cabinet of the Combined

Authority. The Cabinet will be supported by a representative of the business community and a representative of the community and voluntary sector.

The MCA will be able to explore building upon existing collaboration to further strengthen partnership working with Tees Valley, Cumbria and south east Scotland (particularly relevant to the Borderlands work involving Northumberland County Council.) The constituent authorities will also work hard to ensure that the Mayor and Cabinet receive inclusive advice from the wider community of partners and stakeholders to shape policy and understand how action can lead to impact and outcome.

The relationship with business will be integral to the proposed arrangements. The new North East Mayoral Combined Authority will be supported to take on all of the functions and roles carried out by the North East LEP, consistent with section 10 of the guidance on LEP integration. This includes all relevant LEP assets and receipts, and the ongoing management of current and legacy local growth funding streams for the benefit of the whole region. The region shall benefit from strategic economic planning across a clear, consistent economic geography that builds on the established evidence based developed by the North East LEP.

Following the Government's policy announcement in March 2022 on the Integration of LEPs into local democratic institutions, the Chief Executive of the North East LEP is working with constituent authorities and the current North of Tyne Mayoral Combined Authority (the LEP's Accountable Body) to design a migration plan to move the functions and roles of the North East LEP into the proposed new MCA.

As well as carefully supporting the current North East LEP team, the critical policy issue will be the creation of the arrangements for North East businesses to provide advice and challenge to the Mayor and Cabinet. The expectation is that the North East LEP Board will turn into a "Business Board" linked to the Mayor and Cabinet and that the Chair of that Board will represent North East businesses as a non-voting member of Cabinet.

Experience in the North East LEP, the Joint Transport Committee, the North East Combined Authority and the North of Tyne Mayoral Combined Authority shows that decisions are generally made by consensus based on good quality, evidence-based, policy making. The "Minded To" deal builds on that with the Scheme for Publication showing a clear set of voting arrangements which will be enshrined in the order establishing the MCA and its constitution.

In addition, the following decisions will require the unanimous support of all Voting Members (ie the Mayor and all seven Constituent Council Members):

- Approval of, and any amendment to, NEMCA's annual budget excluding those elements of NEMCA's annual budget which relate to Mayoral functions;
- Approval of, and any amendment to, the setting of any levy which NEMCA shall apply to any Constituent Council;

The Mayor will be required to consult the Combined Authority on Mayoral strategies and this will be subject to the following specific conditions

- If the new MCA decides that they want to take on a Spatial Development Strategy power at a later date, then the decision to confer a duty on the Mayor to produce such a Strategy will require the consent of the members of the MCA's Cabinet appointed by the constituent councils. Decisions on the adoption and operation of the Strategy will be on the basis of simple majority, including the mayor (5/8).
- The Combined Authority will be able to amend the Mayor's budget if five of the voting members agree to do so; and
- The Combined Authority will be able to amend the Mayor's transport strategy if a majority of members agree to do so.

The following decisions by the Mayor will require the consent of the Combined Authority member, or substitute member acting in that member's place, appointed by the constituent council in whose area the decision will apply

- Designation of any area of land as a Mayoral development area leading to the establishment, by order, of a Corporation (the consent of the relevant national park authority is also required if the land falls within the designated national park area)
- The compulsory purchase of land or building
- Any decision that could lead to a financial liability falling directly upon that constituent council; and
- Such other matters as may be contained in the Combined Authority constitution and agreed with the Mayor.

The Mayor and the Combined Authority will be scrutinised and held to account by the Combined Authority's Overview and Scrutiny and Audit Committees. The existing Joint Transport Committee, North of Tyne Mayoral Combined Authority and the North East Combined Authority have these arrangements and the area is therefore familiar with supporting scrutiny in the context of transport and mayoral combined authority functions. Alongside all institutions with devolved powers, the new mayoral combined authority will be subject to the Devolution Accountability Framework, once it is formally agreed and announced. The Mayor and Combined Authority may also seek to enhance scrutiny and develop wider conference with all elected members in the Combined Authority's area to engage on key issues.

## **Functions**

The deal acknowledges that some of the functions are already exercised within the North East via the Joint Transport Committee, the North East LEP or the North of Tyne Mayoral Combined Authority. However, the "minded to" deal consolidates those functions into one Mayoral Combined Authority; the Scheme for Publication explains the legislative underpinning to that consolidation as well as the devolution of further powers, not currently exercised in the area.

The detail of those functions and associated investment are in the “minded-to” deal at Annex A and can be summarised as:

- Finance and Investment -- providing an opportunity to deliver a programme of transformational long-term investment, including by supporting employment growth at key sites in the region such as: the innovation centres at Newcastle Helix and County Durham NetPark; the International Advanced Manufacturing Park; and port and river-side sites in North Tyneside, Northumberland, South Tyneside and Gateshead. It also seeks to continue the provision of access to finance for SMEs to scale in the region.
- Skills and Education – including by delivering the Adult Education Budget to meet local skills priorities faced by businesses across the whole region, and through a focus on education recovery to address COVID learning loss, addressing disparities and improving life chances for our children throughout their time in education.
- Innovation and Clean Energy – including through a trailblazer deal to grow the private sector at a local level, building the resilience of businesses and households in the North East to cost of living pressures, strengthening the North East’s global competitiveness and empowering local entrepreneurs. While a bespoke ‘inclusive innovation deal’ programme will focus on translating the region’s world class research expertise into jobs, skills and inclusive growth outcomes.
- Housing and Land – with the authority overseeing a major programme of investment in enabling works to bring forward new housing development and having broad powers to acquire and dispose of land to build houses, commercial space and infrastructure - supporting growth and regeneration.
- Transport – including responsibility for producing an area-wide transport plan; the delivery of significant local transport infrastructure through a £563m City Region Sustainable Transport Settlement and other devolved transport funds including Active Travel Fund and Bus Service Improvement Plan funding; service delivery through Durham, Northumberland, Nexus (Metro, bus and Ferry) and the Tyne Tunnels; developing ambitious plans for the improvement of bus services and the development of integrated ticketing schemes; the promotion of active travel; creating partnerships with national agencies including Network Rail / Great British Railways, National Highways and Active Travel England; and developing a region-wide electric vehicle charging network.
- Digital and Connectivity – including a focus on tackling the digital divide; supporting the smart adoption and scale-up of advanced digital service and technologies within our industries and public services; and working with Government to support the rollout of broadband and mobile infrastructure.
- Arts, Culture, Heritage and Sport – using the cultural, creative and visitor economy sectors to drive inclusive and sustainable growth, and making the most of the region's distinctive natural, cultural and heritage assets.
- Public Service Reform – exploring initiatives to improve delivery of public services including around Place-based Health and Care, Healthy Ageing and



Population Health and Prevention. In addition, the new MCA will work closely with the Police and Crime Commissioners to develop strong partnership arrangements, ensuring a joined up approach between community policing and place-based services;

- Resilience and Public Safety – with the Combined Authority having a role in local resilience, building on work of Leaders and Mayors to support the economy through the pandemic;
- Rural – with opportunities to build on the Borderlands Inclusive Growth Deal through the development of a joint plan for rural growth, stewardship and net zero; exploring issues including the rural economy, infrastructure, and rural housing and development.

The Combined Authority will take a joined-up approach to maximising the impact of these functions. One example of how this has previously been done is that the NTCA – working closely with local authority, NECA and North East LEP colleagues – is bringing forward a comprehensive programme to unlock opportunities associated with offshore wind; with simultaneous investment in sites, port-infrastructure, innovation and skills. This has helped unlock significant jobs growth in businesses including JDR Cables, Smulders Projects UK and Equinor.

The Combined Authority will also be able to take a place-based approach to development and inclusive growth – including strategic propositions which straddle multiple local authority areas. This will include building on the work which is using the re-opening of the Northumberland Line as part of a wider strategy around skills, employment, jobs and housing along a corridor running from SE Northumberland, through North Tyneside and into Newcastle. A similar approach is planned around the Leamside Line and Washington Metro Loop, along the A1 and A19 corridors in County Durham, and the Moor Farm / Seaton Burn A19 junctions on the boundary between North Tyneside and Northumberland.

## Criteria

This section sets out the local and legislative criteria against which possible regional governance options are then considered.

### Local policy objectives and tests

Leaders and Mayors agreed a set of policy objectives and tests at the beginning of the devolution journey which reflected their different positions and the mix of governance.

The policy objectives were

- A proposal which matches the ambition of Leaders and Mayors to make a difference for our residents, communities and economy
- A proposal where each Local Authority and each Combined Authority can see clear benefit for their place
- A proposal which contributes to the recovery of the region following the COVID19 pandemic; and
- A proposal supported by stakeholders and partners.

Those tests were

- Is any proposal at least at the level of the North of Tyne Combined Authority Devolution Deal in terms of powers, cash value and flexibilities?
- Does any proposal contain sufficient additionality that Newcastle City Council, North Tyneside Council and Northumberland County Council can see the benefit of operating across a greater geography?
- Does the proposal avoid unfunded liability?
- Can we communicate the proposal effectively so that our residents, communities and businesses can understand it and make a balanced decision? And
- Do Leaders, Mayors and the Chief Officer team all feel sufficiently involved and recognise their contribution to any proposal?

### Statutory tests

Section 112 of the 2009 Act provides that where one or more of the authorities which undertook the Review conclude that the exercise of the power to make an order under sections 104 to 107 of the 2009 Act would be likely to improve the exercise of statutory functions in the North East then they may prepare and publish a scheme relating to the exercise of those functions. The Secretary of State may then only make such an order if they consider that to do so is likely to **improve the exercise of statutory functions** in the Combined Authority's area. In making any such order, the Secretary of State must also have regard to the need:

- To secure **more effective and convenient local government** for the area;  
and
- To reflect the **identities and interests of local communities.**

## **Governance options**

This section examines the effectiveness of existing governance structures at the North East level and considers their appropriateness against that of other possible governance models. An assessment of the following three options is provide below

- Option 1 – Do nothing / business as usual
- Option 2 – Strengthen existing arrangements; and
- Option 3 – A Mayoral Combined Authority

### **Option 1 – Do nothing / business as usual**

The existing arrangements have demonstrated several strengths.

The North East LEP has:

- Created a place for regional leadership and collaboration on economic development bringing business, local authorities and education together to coordinate policy;
- Channelled significant public investment into infrastructure, skills and business growth; and
- Provided significant analytical and policy development capability to the area since its inception.

The Joint Transport Committee has:

- Created a stable and representative body to lead the development and delivery of a North East Transport Plan;
- Provided effective governance to the multi-million-pound operation of transport across the area – particularly through the pandemic; and
- Provided leadership and decision taking on a range of significant programmes which are improving local transport, including developments of the Tyne and Wear Metro and delivery of the Transforming Cities Fund.

The North of Tyne Mayoral Combined Authority has:

- Met its targets for job creation, job protection and leveraging private investment;
- Shown policy leadership on Good Work, its Green New Deal and supporting rural growth; and
- Worked collaboratively across the area to support the development of wider devolution.

The North East Combined Authority has:

- Provided an important forum for collaboration and aligning the strategic intent of the four local authorities as a sub-region; and
- Acted in the role of accountable body for the Joint Transport Committee – employing the Transport North East officer team, managing significant grant funding, and providing support services for the transport function.

However there are drawbacks and the potential to miss opportunities by doing nothing / continuing business as usual:

- Foregoes coordination benefits of having strategic powers on skills, planning, housing economic development and transport within a single body over a wide geography;
- Risks only very limited private sector investment in region-wide transport projects, by having an unclear set of arrangements; and
- The powers and funding on offer through the North East “Minded To” Devolution Deal are conditional upon the adoption of a directly elected Mayor.

## **Option 2 – Strengthen existing arrangements**

Following the publication of the Levelling Up White Paper and the introduction of the Bill to Parliament, Government has set out a clear framework for devolution. In addition, in March 2022, Government responded to the national review of LEPs and set out its policy intent to integrate LEP functions into MCAs. Government, via the Home Office, has been clear that only in those instances where a MCA and Police Force are coterminous, can local leaders consider combining the powers of the Mayor and the PCC.

In practical terms, this means there is limited opportunity to strengthen local arrangements.

In a national context, the North of Tyne Mayoral Combined Authority is likely to continue to be asked to take powers and investment in line with the Government’s work with all MCAs. (The devolution of Brownfield Housing and Skills Boot Camp funding are good examples.) However, this is only applicable to Newcastle, North Tyneside and Northumberland.

Locally, there are some policy opportunities. For example, Leaders and Mayors recently asked the PCC to Chair the Northumbria Combatting Drugs Partnership on their collective behalf. There are some opportunities to apply some managerial changes; creating shared spaces for the teams involved, examining the potential to share functions and teams. It is clear, these changes are not commensurate with the challenges faced by the area.

In July 2021, the then Prime Minister proposed the potential for devolution County Deals. Subsequently, some counties have pursued this model of additional powers

and investment in line with the Levelling Up White Paper and committed to a directly elected mayor or leader.

In the North East, Northumberland and Durham considered County Deals. Northumberland County Council ruled this out as an option based on their commitment to, and satisfaction with, their participation in the North of Tyne Combined Authority. Durham County Council agreed to explore the possibility. However, after significant local and national discussion the leadership of Durham County Council felt the additional powers and investment on offer from government were insufficient and too conditional to prove successful in delivering local policy priorities. Following this analysis, and discussion with Ministers, Durham County Council formally sought to join the emerging Minded To Deal for the North East.

### **Option 3 – Establishing a North East Mayoral Combined Authority**

This option requires the existing governance arrangements to convert to a North East Mayoral Combined Authority.

The adoption of an MCA model of governance for the North East will enable the whole area to unlock the additional benefits of the “minded-to” devolution deal through the additional powers and funding from government. This will both extend and enhance the powers/functions currently exercised within the NTCA area.

In addition to the current arrangements, and over and above any strengthening of those arrangements, the following value is added by the whole North East region moving to a mayoral combined authority model of governance:

- The 30-year gainshare funding mechanism agreed in the deal provides a strong basis for the long-term approach needed to address the long-standing economic challenges facing the region. In this Governance Review we have identified challenges around a) low growth and productivity, (b) below average qualification levels, (c) levels of unemployment and inactivity above the national average, (d) lower income and higher rates of worklessness and significant deprivation, and (e) poorer health outcomes. Working at a regional level (including by providing a coherent framework for more localised interventions) provides the opportunity to develop approaches jointly with businesses, residents and communities at geographies which reflect business cluster, supply-chain and travel-to-work patterns. In addition, the Authority would have access to a wide range of assets and strengths over this geography – including within FE colleges, universities, catapult centres, transport hubs and business clusters.
- Access to £563m of new transport funding through a City Region Sustainable Transport Settlement, along with other transport funds agreed through the “minded-to” devolution deal with a total value of over £900m.
- An opportunity to draw together a range of other funding sources into one place under consolidated policy direction.
- Greater local accountability and decision-making power working in partnership with government and the constituent councils.

- A unified and influential voice to strengthen conversations with government, national agencies and business leaders in the development of local inclusive growth policy, strategic interventions, securing a greater share of national resources and influencing national decision making.
- Greater visibility and influence as one of the group of mayoral combined authorities with access to the initiatives and funding opportunities only available to the MCAs.
- Alignment at a strategic level across a broader range of statutory functions, including skills, planning, housing, economic development, transport and under a coherent strategy, appraisal framework and investment programme.
- Opportunity to use devolved skills funding to ensure greater alignment between educational provision and business needs.
- Closer working across the wider public sector on integrating functions and services.
- A stable and accountable platform underpinned by statutory powers to access greater devolved powers and funding delegated from government as part of future deals to enable locally devised interventions; and finally
- Making a difference for people, places and business by:
  - Serving a population of 2,003,593
  - Creating an additional 24,000 jobs
  - Building an additional 3,100 homes
  - Helping 6000 people to get “work ready” each year
  - Commissioning 70,000 courses each yet to get people good jobs
  - Taking major steps to Net Zero; and
  - Leveraging £5.0bn of private sector investment

## Conclusions

To ensure the improved exercise of statutory functions across the area of the North East, adopting a Mayoral Combined Authority model of governance for the area (Option 3) is considered the best approach. An MCA for the area offers greater flexibility and accountability and, moreover, devolved powers and funding than can be provided through either continuing with the existing arrangements (Option 1) or strengthening existing arrangements (Option 2.)

The new MCA governance model, along with the additional devolved powers and funding resulting from the “minded-to” deal, would better enable the area to pursue its objectives of promoting faster, more inclusive and cleaner growth and delivering transport system suitable for the 21<sup>st</sup> Century.

It is therefore concluded that:

- Current governance arrangements for the North East – based on two combined authorities (one Mayoral and one not) – do not represent the best model in terms of delivering the long-term ambitions of the authorities within the area for economic growth and the delivery of public services.
- There is limited practical scope for the existing governance arrangements to be meaningfully strengthened, short of adopting a mayoral combined authority model.
- A change is required to enable North East authorities to pursue their economic agenda a greater pace while continuing to collaborate with Tees Valley, Cumbria and south east Scotland in pursuit of shared economic and social objectives.
- The statutory criteria for preparing and publishing a scheme are met, i.e. the making of an order under S104 and S105 to enable the adoption of an MCA model of governance for the North East area is the best option and will be likely to **improve the exercise of statutory functions in that area.**
- In addition, establishing an MCA model for the North East will
  - **Have a positive impact on the interests and identities of local communities** – these proposals build on established regional governance arrangements and relationships, and will cover a coherent functional economic area and which represent the views and interests of local communities; and
  - **Secure more effective and convenient local government** by reducing complexity and streamlining the delivery of public services within the area. Where appropriate, initiatives to support businesses, residents and communities will be developed and delivered at wider geographic footprint, also enabling better alignment with the geographical coverage of other partner organisations.

It is therefore proposed that a governance scheme is published (a draft scheme is included at Appendix B) that confirms:



- A mayoral combined authority should cover the area of the North East;
- A mayor for the new north east combined authority should be elected in May 2024;
- The mayor would be a member of the Combined Authority and chair meetings of the authority;
- Each Council will appoint a member to the new Combined Authority, alongside non-voting members representing business and the community and voluntary sector; and
- The Mayor and MCA will exercise statutory functions, and hold some powers concurrently with the North East local authorities. No functions are being removed from those councils. Where existing functions currently held by North East local authorities are to be shared with the Mayor or the MCA, this must be agreed by the constituent councils.

## **Annex A: The “Minded To” Deal**

Insert

## **Annex B: The Draft Scheme for Publication**

Insert



## North East Devolution Deal

Subject to ratification of the deal by all partners and the statutory requirements referred to within this document, including, public consultation, the consent of councils affected, and parliamentary approval of the secondary legislation implementing the provisions of this deal.



Department for Levelling Up,  
Housing & Communities



## Signature page

**The Rt Hon Michael Gove MP**  
Secretary of State for Levelling Up,  
Housing and Communities

**Cllr Amanda Hopgood**  
Leader, Durham County Council

**Cllr Martin Gannon**  
Leader, Gateshead Council

**Cllr Nick Kemp**  
Leader, Newcastle City Council

**Mayor Jamie Driscoll**  
Mayor, North of Tyne

**Norma Redfearn CBE**  
Mayor, North Tyneside Council **Cllr**

**Cllr Glen Sanderson**  
Leader, Northumberland County Council

**Tracey Dixon**  
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## Introduction

1. The government has set itself a mission that, by 2030, every part of England that wants a devolution deal will have a devolution deal, with powers at or approaching the highest level of devolution, with a simplified, long-term funding settlement. The Levelling Up White Paper makes clear the case for devolution as the engine room of improved productivity and reduced regional disparities. Devolution will be critical to delivering our twelve headline Levelling Up missions, strengthening local leadership to act more flexibly and innovatively to respond to local need, whether on transport, skills or regeneration.
2. This document sets out the terms of an agreement for a Level 3 devolution deal between the government and the local councils of County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland (“the North East”). This document describes both the offer of powers and budgets from government and the reforms and measures that the North East will need to deliver. Central to this is the election of a directly elected leader across the deal area to champion its interests, deliver on local priorities and be accountable to local people. This agreement is subject to ratification by those councils, and to the statutory requirements for making the secondary legislation implementing the provisions of the deal. These statutory requirements include public consultation, those councils consenting to the legislation and Parliament approving it. Once this legislation is approved and made, the devolution deal will be confirmed.
3. The deal outlined in this document is the product of two separate negotiations. The first negotiation was amongst the six local authorities of Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland (the “LA6”). A North East deal, negotiated on an LA6 basis, was agreed in late summer 2022. Subsequent negotiations have focused on incorporating Durham County Council into this agreement. The final agreement outlined in this document ensures a strong deal for the whole of the North East.
4. This deal emerges from serious and passionate cross-party cross-regional leadership during the pandemic. As well as providing policy leadership in the response to COVID19, the leaders and mayors of the North East worked together on substantive recovery plans. They worked with partners across business, academia, the community and voluntary sector and with the people of the North East to set out what a North East, built back better and fairer, would look like.
5. These plans were submitted to government as part of the 2020 and 2021 Comprehensive Spending Rounds and underpinned the North East Transport Plan. They informed and linked collaboration and collective action to lead the North East to a stronger future.



6. This deal is:

- **Bigger and better** – demonstrably adding value in relation to the existing North of Tyne deal and bringing new resources and powers – and significant private sector leverage – into the region. It recognises the huge value of integrating economy, skills, transport, housing and public sector reform.
- **Reduced carbon, reduced Inequality** – with the green agenda clearly woven through the deal, and shared principles of inclusive growth, addressing disparities and bringing communities together in a smart, skilled and sustainable region.
- **Bold on the rural economy** – setting out clear intentions to accelerate rural growth and looking at the opportunities of the Northumberland Line, rural housing, rural stewardship and net zero transition – including through a Rural Growth and Stewardship Board.
- **Amplifying the North East’s global assets** – through a clear focus on the region’s growth corridors, three ports, gigafactories, an international airport, and globally-facing cities and historic town centres. A world-leading ‘*Arc of Green and Blue Energy Innovation*’ from OREC to Nissan and home of the next-generation electric vehicle industry and the only science park nationally, NETPark in Sedgefield County Durham, to host two centres from different Catapults.
- **Balancing growth and prevention** – by bringing forward fiscal innovation, working on a public service reform programme, greater influence within the integrated care system.
- **Transforming connectivity** – using a full package of devolved transport investment and powers to create an integrated transport system, including the potential unlocking of visionary schemes; such as, the Northumberland Line, Leamside Line and Washington Extension, Cobalt Loop, Team Valley, Newcastle City Mobility plans and a region-wide EV charging network.
- **Attacking the opportunities of digital and 5G** – providing strong incentives for investment in digital connectivity, 5G-ready infrastructure, digital skills and unlocking the huge potential of digital-enabled manufacturing.
- **Connecting our coastal areas** – using devolved funding and powers to better link our unique coastal communities and economic assets – through skills, jobs and accelerating development on our housing and economic sites.
- **Building on strong collaborative governance** – ensuring each of the partners can see the benefits of cross-regional investment, and that decisions are made in a way that reflects our diverse geography, assets and needs.

7. With a population of 2 million and a GVA of over £32,300 per head, the North East offers enormous potential. It has 68,850 businesses providing 887,000 jobs. It is a coherent economic area and has a number of significant growth sectors including automotive and advanced manufacturing, offshore and renewable energy and life sciences, as well as four outstanding universities.
8. Sizeable parts of the North East enjoy access to exciting new opportunities for growth. Car manufacturer Nissan is building a £1 billion electric vehicle hub near to its existing plant in Sunderland, which will create 6,000 new jobs at the firm and associated supply chain. While the adjacent International Advanced Manufacturing Park will be the location for advanced manufacturing and European-scale supply chain industries - this will see an estimated 5,200 jobs created in the long term. Blyth in Northumberland is seeing potential investment of £2.6 billion into a new 95-hectare Gigaplant. But the North East also faces challenges which impact on productivity levels and the ability to grow. These include: addressing skills issues, replacing an ageing workforce and ensuring skills for existing and new sectors; developing more indigenous SMEs; attracting more foreign direct investment; increasing innovation investment and exploitation; and reducing unemployment. Greater local powers are needed to level up, to tackle the challenges facing the North East, and to harness its huge economic opportunity for the benefit of people in the North East and for the whole UK.
9. These powers will build on the existing strong track record of the North East Local Enterprise Partnership and the North of Tyne MCA, as well as new levelling up funds already allocated. These funds include £379.6 million from previous Growth Deals; £47 million from the Getting Building Fund; £61.9 million from the Future High Street Fund (for Sunderland, Bishop Auckland, Blyth, and South Shields); a £20.9 million Town Deal for Blyth and £33.2 million for Bishop Auckland; £6.15 million from the Community Renewal Fund; and £79.8 million from the Levelling Up Fund.
10. The local councils of the North East and government are minded to agree a historic mayoral devolution deal which will provide powers and funding to enable the North East to unleash its full economic potential, and in doing so level up, raise living standards for its communities and make a full contribution to the UK economy. It will build upon the area's history of collaboration to maximise this investment. The North East devolution deal shows how levelling up can be done in practice – with clear alignment to the twelve headline levelling up missions and long-term, devolved funding underpinning it.
11. The North East deal will unlock significant long-term funding and give local leaders greater freedom to decide how best to meet local needs and create new opportunities for the people who live and work there. The government recognises that devolution is a journey, not a one-off event, and this agreement is the next

step in a process of further devolution. The Government and North East will commence negotiations on trailblazer provisions which deepen and enhance the powers in this Deal in early 2023, drawing on the arrangements in Greater Manchester and West Midlands when concluded, with a view to these powers being in place as soon as possible after the first election in May 2024. The government will also continue to work with the North East on important areas of public service reform and infrastructure investment, to support inclusive economic growth in towns, cities and rural areas whilst tackling climate change, on our journey to 2030.

## **Summary of the devolution deal between the government and the local authorities of the North East comprising County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland.**

The government and the North East are minded to agree a devolution deal which will provide the area with new powers and funding to increase opportunities and living standards through inclusive growth and productivity improvements.

A devolution agreement is contingent upon the North East proceeding through the steps necessary to meet the governance criteria for a Level 3 devolution deal.

This devolution agreement includes:

- The North East electing a directly elected mayor to provide overall vision and leadership, seek the best value for taxpayer's money, be directly accountable to the city region's electorate, and to receive new powers on transport, housing and skills.
- Control of a £48 million per year investment fund over 30 years (£34 million revenue and £14 million capital), to be invested by the North East to drive growth and take forward its priorities over the longer term.
- New powers to improve and better integrate local transport, including the ability to introduce bus franchising, control of appropriate local transport functions e.g., local transport plans, and control of a key route network.
- A city region sustainable transport settlement of up to £563 million capital funding, with £5.7 million resource funding for 2022/23 and further funding to be confirmed in line with other eligible areas. The North East MCA will invest this settlement in a manner which reflects the development of the deal prior to County Durham joining, for the current funding period to 2026/27.
- New powers to better shape local skills provisions to ensure these meet the needs of the local economy. This will include devolution of adult education functions and the core adult education budget, as well as input into the new local skills improvement plans.
- The North East Mayoral Combined Authority will plan and deliver the UK Shared Prosperity Fund (UKSPF) from 2025/26.
- The integration of the North East Local Enterprise Partnership into the North East MCA will ensure there continues to be a strong and independent local business voice which informs local decision making and strategic economic planning. In absorbing the role and functions of the North East LEP, the North East will deliver a number of functions on behalf of central government departments agreed jointly between government and the North East.
- A commitment to explore a local partnership with Great British Railways Transition Team so that the mayor can help shape and improve the local rail offer.
- New powers to drive the regeneration of the area and to build more affordable, more beautiful homes, including compulsory purchase powers and the ability to establish mayoral development corporations.

- To support this, additional £17.4 million for building new homes on brownfield land, subject to sufficient eligible projects for funding being identified.
- £20m of capital funding in this SR period to drive place-based economic regeneration.
- A commitment to developing, in partnership with the Government, an arrangement which ensures close cooperation with the North East's Police and Crime Commissioners (PCCs), and a key leadership role for the mayor in local resilience and civil contingency planning, preparation and delivery.

More detail on these commitments is given in the main body of the document below.

Further powers may be agreed over time and included in future legislation.

## **Governance**

12. The agreement flows from collaboration on transport management and work done during the COVID19 Pandemic. It reflects discussions and correspondence with Ministers on delegated transport funding, reflections on the Prime Minister's July 2021 Levelling Up speech and the White Paper.
13. This agreement builds on or updates existing regional governance: specifically, North East Combined Authority, North of Tyne Mayoral Combined Authority, the North East Joint Transport Committee and the North East Local Enterprise Partnership.

### Mayoral Combined Authority

14. A key advantage of the mayoral combined authority model is its joint governance arrangements for key growth levers such as transport, skills, economic development and regeneration, which allow for strategic prioritisation across its area and integrated policy development. In addition, a directly elected mayor provides greater local accountability and decision-making power, working in partnership with the combined authority and constituent councils.
15. As part of this agreement, the North East will, through the current process set out in the Local Democracy, Economic Development and Construction Act 2009 adopt the model of a directly elected mayor over a new combined authority area in the North East, with the first mayoral election in May 2024. The mayor will provide overall leadership and be directly accountable to the city region's electorate. The new mayor will be elected by the local government electors for the areas of the constituent councils of the new combined authority - County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, and Sunderland. Mayoral terms will last four years.
16. The North East Mayoral Combined Authority will comprise the following members:

#### Voting members:

- The elected mayor.
- Seven elected members, one appointed by each of the seven constituent councils.
- The constituent councils may nominate one substitute member for their combined authority member who will act as a member of the combined authority in the absence of the appointed member.

#### In addition, there will be:

- The Chair of the Business Board.
- A representative of the Community and Voluntary Sector.

These members will be non-voting unless the combined authority resolves to give them a vote on any issues.

17. The North East Mayoral Combined Authority will continue to explore opportunities for further collaboration with its other neighbouring councils such as those in the Tees Valley MCA.
18. The mayor and the other combined authority members will be required to work together. Specifically:
  - The mayor will provide overall leadership and chair combined authority meetings.
  - The mayor will appoint a deputy mayor from among the members of the combined authority who will act as mayor if the mayor is unable to act or the position is vacant.
  - The mayor may choose to delegate function(s) to members of the combined authority. Where this is the case the member to which a specific mayoral function has been delegated will exercise that function on behalf of the mayor, and that member may include the deputy mayor.
  - Members of the combined authority may also act to support and advise the mayor in the exercise of mayoral functions.
  - The mayor may appoint one person as the mayor's political adviser.
  - The combined authority may establish an independent remuneration panel to recommend allowances payable to the mayor or utilise one of the independent remuneration panels of its constituent councils to discharge this function.
19. Functions contained in this deal document will be devolved to the mayoral combined authority by the government subject to parliamentary approval. Some of these functions will be exercisable by the mayor personally and some by the combined authority collectively. Where these functions are local authority functions, they will be held concurrently with the local authorities in the area to ensure joined up decision making. Arrangements for the concurrent exercise of the functions will be a matter for agreement between the combined authority and the constituent councils.
20. The functions that are currently exercised by the North of Tyne Mayoral Combined Authority and the North East Combined Authority will be conferred onto the new combined authority. These include powers in relation to:
  - Housing and regeneration.
  - Education, skills and training.
  - The adult education budget.
21. The combined authority will also have new powers arising from this devolution deal in relation to transport including powers currently undertaken by the Joint Transport Committee and its subcommittees.

22. The directly elected mayor for the North East Combined Authority will autonomously exercise their new functions with personal accountability to the electorate, devolved from central Government and set out in legislation. These functions will be:
- The functional power of competence.
  - Housing and planning
    - Power to designate mayoral development areas and establish mayoral development corporations.
    - Housing and land acquisition powers to support housing regeneration, infrastructure and community development and wellbeing.
  - Finance
    - Power for the mayor to set a precept on council tax to fund mayoral functions.
    - Power to charge business rate supplement (subject to ballot).
  - Transport
    - Power to draw up a local transport plan and strategies.
    - Bus franchising powers.
    - Ability to pay grants to bus service operators.
23. No constituent council functions are currently being removed from those councils. Where existing functions or resources currently held by the constituent councils are to be shared with the mayor and the combined authority, this must be agreed through the constituent councils. Additionally, the government intends to legislate so that mayors will have a power of direction allowing them to direct highway authorities on exercising their highway powers with regard to the Key Route Network (KRN). The combined authority may exercise functions in relation to its area and may exercise functions outside its area, subject to and in accordance with, statutory provisions.
24. Proposals for decision by the combined authority may be put forward by the mayor or any combined authority member. The mayor will have one vote as will other voting members of the combined authority. Any questions that are to be decided by the combined authority are to be decided by a simple majority of the members present and voting, unless otherwise provided for in legislation.
25. For those functions that are currently exercised by North of Tyne Mayoral Combined Authority or North East Combined Authority as listed in paragraph 20, the mayor does not need be in the majority in favour but instead can ask the combined authority to review decisions that they have voted against. For new functions with new funding transferring over to the new combined authority, as listed in paragraph 21, the majority in favour must include the mayor.
26. The North East Mayoral Combined Authority will establish constitutional and practical decision-making arrangements that seek to ensure the functions and



activities of the combined authority are undertaken in a collaborative and consensual way. This will include member-led statutory and advisory boards with appropriate portfolio holder and collective combined authority oversight.

27. In addition, for the following decisions the majority members must include the consent of the mayor and all the constituent councils:
  - Approving the combined authority's budget (excluding decisions which relate to the mayor's budget).
  - Setting a levy.
28. The mayor will be required to consult the combined authority on their strategies, and this will be subject to the following specific conditions:
  - Decisions on the adoption of any mayoral spatial development strategy will be by majority vote (5/8) including the mayor, following a unanimous vote of the constituent councils to confer a duty on the mayor to produce an SDS.
  - The combined authority will be able to amend the mayor's budget if 5 of the 7 constituent members agree to do so.
  - The combined authority will be able to amend the mayor's transport strategy if a simple majority of members agree to do so.
29. The following decisions by the mayor will require the consent of the combined authority member(s), or substitute members, appointed by the constituent council in whose area the decision will apply:
  - The designation of any area of land as a mayoral development area leading to the establishment, by order, of a corporation (the consent of the National Park Authority, if relevant, is also required if the land falls within the designated National Park area, recognising that National Parks are protected land and not land for wider development areas as a whole).
  - The compulsory purchase of land or buildings by the mayor.
  - Any decisions that could lead to a financial liability falling directly upon that constituent council.
  - Such other matters as may be contained in the combined authority's constitution and agreed with the mayor.
30. The mayor and the combined authority will be scrutinised and held to account by the combined authority's Overview and Scrutiny Committee(s). The mayor and the combined authority may also seek to enhance scrutiny and develop wider conference with all elected members in the combined authority area to engage on key issues.
31. "Nexus" is the Tyne and Wear Passenger Transport Executive for Tyne and Wear and its role as the executive body and officer of both the North East Combined Authority and the North of Tyne Mayoral Combined Authority will be

transferred to the new mayoral combined authority in relation to transport functions in Tyne and Wear. Following review by the new mayoral combined authority, Nexus' role may also be extended to cover transport functions in Northumberland and County Durham.

32. Ownership of, and responsibility for, the Tyne Tunnels (both road tunnels and the pedestrian/cycling tunnel) will be transferred from the North East Combined Authority and the North of Tyne Mayoral Combined Authority to the new mayoral combined authority. The existing provisions, through which any income, revenue or financial liabilities arising from the Tyne Tunnels are ring-fenced to the Tyne and Wear authorities, will be maintained. Following review by the new mayoral combined authority future income, revenue or financial liabilities arising from the Tyne Tunnels may be expanded to additionally include Northumberland.
33. The Levelling Up White Paper committed the government to producing a reformed accountability framework for all local areas with devolution deals in England. The government, the North East and other areas with devolution deals will work together to determine how this can best work in practice, so that we can improve the consistency of data and reporting, streamline our approach to focus on clear and transparent outcomes and ensure the right mechanisms are in place to promote good practice, as well as address serious concerns. This is to ensure that local people have confidence that devolution is leading to improvements in their area. This framework will apply to the North East as well as all existing areas that have agreed devolution deals and all future areas. The framework will be published later in 2022.
34. The provisions in this devolution deal are subject to ratification by each local council through their normal executive decision-making processes. This will include a governance review, the development and consultation of a scheme, and the submission the outcomes of the consultation to the government. The implementation of the deal will require public consultation including with local communities and business on the proposals. Implementation is also subject to the Secretary of State for the Department for Levelling Up, Housing and Communities being satisfied that the required statutory requirements have been met, the required relevant statutory consents from authorities locally and parliamentary approval of the required secondary legislation.

#### LEP Integration

35. The Levelling Up White Paper announced the government's intention to support the integration of local enterprise partnership functions and roles into local democratic institutions to ensure a strong business voice at the heart of local decision making. Further guidance on how integration should happen was published on 31 March 2022. This deal confirms the integration of LEP functions in the North East, subject to government approval of an integration plan and agreement from the North East LEP.

36. The new North East Mayoral Combined Authority will be supported to take on all of the functions and roles set out in section 10 of the guidance on LEP integration. The geography of this deal will allow for the full integration of the North East Local Enterprise Partnership's role and functions into the North East Mayoral Combined Authority, including all relevant LEP assets and receipts, and the ongoing management of current and legacy local growth funding streams for the benefit of the whole region. The region shall benefit from strategic economic planning across a clear, consistent economic geography that builds on the established evidence based developed by the North East Local Enterprise Partnership.
37. Any long-term future funding for the integration of LEP functions and roles will be subject to future funding decisions and business planning. Government reserves the right to modify the functions and roles set out in section 10 of the guidance on LEP integration.

## Finance and Investment

38. The North East will create a fully devolved funding programme covering all budgets for devolved functions (“North East Investment Fund”) to the North East Mayoral Combined Authority.
39. The North East will use the North East Investment Fund to deliver a programme of transformational long-term investment. Government agrees to allocate £48 million per annum for 30 years (£34 million revenue and £14 million capital) which will form part of the North East Investment Fund. This will be subject to five-yearly gateway assessments to confirm that the investment has contributed to economic growth and levelling up. Once the Order is made establishing a new mayoral institution and the North East Mayoral Combined Authority has its Assurance Framework signed off, the North East Mayoral Combined Authority may have access to the Investment Fund prior to mayoral elections, subject to the agreement with Government of suitable caps.
40. The North East Mayoral Combined Authority will have the flexibility to secure private and public sector leverage. As per local government guidance, The North East Mayoral Combined Authority will also be able to use capital receipts from asset sales as revenue funding for public service transformational initiatives.
41. Based on existing permissions to the North of Tyne Mayoral Combined Authority, the North East Mayoral Combined Authority will be given powers to borrow for its new functions, which will allow it to invest in economically productive infrastructure, subject to an agreed cap with HM Treasury. The combined authority will agree overall debt limits with HM Treasury. These limits are subject to review as set out in the debt cap agreements. The combined authority will update HM Treasury about any deviation from its underlying borrowing plans in order to support HM Treasury in its duty to monitor and forecast changes in the fiscal aggregates. The North East Mayoral Combined Authority will also provide information, explanation and assistance to support the Office for Budget Responsibility in its duty to produce economic and fiscal forecasts for the UK economy.
42. The costs of the North East Mayoral Combined Authority will be met from the overall resources of the authority, including any new resources secured by the combined authority following the agreement of this deal. To support the combined authority in its early stages, the government will provide £1 million in capacity funding in 2023/24 and 2024/25, once the establishing legislation is made and the Assurance Framework confirmed with government. Any future capacity funding will be subject to spending reviews, in line with arrangements for other devolution deals. When taking on additional activities or funding allocations from government, the need for additional resources to support the new activity will be considered as for other authorities.

43. The mayor will have the power to issue a precept on local council tax bills to help pay for the mayor's work. This precept can only be raised for mayoral functions.
44. The mayor will have the power to introduce a supplement on business rates for expenditure on a project or projects that will promote economic development in the area, subject to a ballot of affected businesses.
45. The North East Mayoral Combined Authority will be the lead local authority for the planning and delivery of the UK Shared Prosperity Fund from 2025/26, subject to a future spending review and reconfirmation of overall UK Shared Prosperity policy and delivery arrangements. It will have responsibility for developing investment proposals and their delivery. It is anticipated that the combined authority will have overall accountability for the funding and how the fund operates in the area, with wide flexibility to invest and deliver according to local needs. In carrying out this role, it will need to engage constituent authorities and other local partners to ensure that the needs of residents can be effectively addressed.
46. The government agrees that the significant additional investment to the North East set out in this devolution deal, including the expanded element of the investment fund, represents new money with no cross-subsidisation from existing funding streams to the North of Tyne Combined Authority.
47. The North East region is highly ambitious. At the heart of this devolution deal is the role for the new mayor and combined authority in providing the visible leadership and coordination to seize opportunities and overcome barriers to growth. The combined authority will continue to develop proposals for a Regional Wealth Fund and specific financial innovations that could support inclusive economic growth within key sites in the region – such as Newcastle's Accelerated Development Zone, the International Advanced Manufacturing Park, and port-and-river-side sites in North Tyneside, South Tyneside and Gateshead. The proposed Regional Wealth Fund and specific financial innovations could also support the ambition of driving inclusive economic growth at Aykley Heads in Durham City.
48. The government recognises the combined authority's and future mayor's leadership driving growth in the North East, and the significant opportunities available in the area. An effective partnership between the government and the combined authority and future mayor will capitalise on local leaders' in-depth knowledge of the local policy, political, social and economic landscape. The government is committed to maintaining a close dialogue with the combined authority and mayor on shared priorities, and to consider innovative policy proposals from the area as appropriate.

## Skills and Education

### Adult Education

49. Government will fully devolve the Adult Education Budget (AEB) to the North East from academic year 2024/25 subject to readiness conditions and successful passage through Parliament. These arrangements do not cover apprenticeships.
50. Prior to full devolution taking place the government will work with the North East to support their preparations for taking on the relevant functions.
51. Upon devolution the North East Mayoral Combined Authority will be responsible for making allocations to providers and the outcomes to be achieved, consistent with statutory entitlements. The government will not seek to second guess these decisions, but it will set proportionate requirements about outcome information to be collected in order to allow students to make informed choices.
52. The government will consult with the North East Mayoral Combined Authority on any proposed changes to a funding formula for calculating the size of the grant to be paid to the North East Mayoral Combined Authority for the purpose of exercising the devolved functions recognising the geographical coverage of the new area.
53. In order to proceed with devolution, the government needs to be assured of the following readiness conditions, recognising that the North East Mayoral Combined Authority will be building on the structures and processes already in place for the North of Tyne Combined Authority:
  - a. The Secretary of State for Education and appropriate accounting officer are assured that the North East Mayoral Combined Authority is operationally ready to administer the adult education budget and is satisfied the required statutory tests have been met.
  - b. Parliament has legislated to enable transfer to the North East Mayoral Combined Authority of the current statutory duties on the Secretary of State to secure appropriate facilities for further education for adults from this budget and for provision to be free in certain circumstances.
  - c. Agreement to a memorandum of understanding between the Department for Education and the North East Mayoral Combined Authority that provides appropriate assurance that the named parties will work together to ensure the future financial stability of the provider base, including for sharing financial risk and managing provider failure.
  - d. Learner protection arrangements are agreed between parties.
54. In addition, the government will commit to working with the North East Mayoral Combined Authority, and other areas which have devolved powers for adult education, to further the skills agenda, and to adopt a consistent approach towards the apportionment of funding between the areas. With regard to Skills Bootcamps, the Government cannot guarantee funding for any MCA beyond the

2022/23 financial year; however, it is the government's intention to continue to grant fund MCAs and some local authorities to deliver local programmes over this spending review period. The Department for Education will negotiate with the North East Mayoral Combined Authority for future years of Bootcamps funding based on their view of demand across the new combined authority.

### Skills and Education

55. Local leadership and coordination of the skills system is essential to support the people of the North East and its economy. Building on the track record of our constituent councils, North of Tyne Combined Authority, LEP, Chamber of Commerce and businesses, the North East Mayoral Combined Authority will take this further and make a material difference for individuals and for the economy.
56. Local Skills Improvement Plans (LSIPs) will set out the current and future skills needs of an area and how local provision needs to change to help people develop the skills they need to get good jobs and increase their prospects. They will build a stronger and more dynamic partnership between employers and providers and allow provision to be more responsive to the skills needs of employers in local labour markets. Working with the designated Employer Representative Body and utilising and sharing the local labour market intelligence and analysis developed<sup>1</sup>, the North East Mayoral Combined Authority will support and provide input into the LSIP for the area. DfE will look to align the LSIP specified area to the new MCA area, within the first year of the MCA receiving AEB funding.
57. The pandemic has had a significant impact on the education of young people across the North East – with large numbers of students and staff absent. This exacerbates long-term disparities in outcomes for pupils in the North East. The North East Combined Authority is committed to enabling education recovery to address COVID learning loss, addressing disparities and improving life chances for our children throughout their time in education, starting in the Early Years Foundation Stage. This work will build on a successful NTCA pilot and addresses the government's Levelling Up Mission 5. The government commits to collaboration between the North East Combined Authority and DfE, advising on how North East Combined Authority work can best complement DfE funded activity.<sup>2</sup>
58. To support emerging system changes as outlined in the Opportunity For All white paper, the North East Mayoral Combined Authority will support and enable

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<sup>1</sup> This includes analysis produced previously by the North East LEP and its Skills Advisory Panel (funded by a Department for Education grant up until March 2023) and the existing Combined Authorities in the area.

<sup>2</sup> [https://mcusercontent.com/12a4bd639231413c724e87521/files/2a940c33-924a-a5b0-3d86-4711cf5a784c/Press\\_release\\_Covid\\_related\\_absences\\_in\\_schools\\_December\\_2021.pdf](https://mcusercontent.com/12a4bd639231413c724e87521/files/2a940c33-924a-a5b0-3d86-4711cf5a784c/Press_release_Covid_related_absences_in_schools_December_2021.pdf)

collaboration between all parts of our local education system. DfE commits to supporting this collaboration, with the intention of seeing the system working together to the benefit of our children.

59. 38% of North East children live in relative poverty, with over half of those in working households<sup>3</sup>. Recognising the significant human and economic cost, the North East Mayoral Combined Authority commit to the continuation and expansion of the NTCA's Child Poverty Prevention pilot, based on interventions to support poverty prevention in school, workplace and family settings. It will undertake this work with a wider coalition of partners and consider how best to capitalise on national activity and government programmes.
60. In order to learn from – and potentially scale up – the pilot phase of this programme, the government commits to explore collaboration with North East Mayoral Combined Authority to address priorities for better health. DfE also commits to working with the North East Mayoral Combined Authority to advise how best to address priorities identified in the Special Educational Needs and Disabilities and Alternative Provision green paper.
61. The government recognises the vital role that local Further Education institutions play in providing skills for people from across the region. Government recognises that further investment is needed in these institutions to ensure that the facilities are up to a standard that will allow providers to deliver on the ambition to create a world-leading technical education offer in this country. The government is committed to providing the investment that is needed into Further Education colleges, subject to affordability and will seek to target this investment into the areas where it is most required to deliver quality further education.
62. While applying to all Further Education partners in the area, this specifically includes support – through decisions already made by government on the Further Education Capital Transformation Programme – to Tyne Coast College Group, as it develops its globally significant maritime capability and works with the constituent authorities on both sides of the Tyne to move into appropriate accommodation and drive town centre regeneration, particularly in South Shields. It also includes work with Education Partnership North East and the Housing Innovation and Construction Skills Academy with investment in a facility dedicated to support the North East's Advanced Manufacturing and Electric Vehicle specific training requirements.
63. The government recognises the crucial role that the North East Mayoral Combined Authority will have in improving skills in the region. The government will work with the North East Mayoral Combined Authority across a range of policies to achieve the ambitious skills mission.

## Employment

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<sup>3</sup> <https://endchildpoverty.org.uk/child-poverty/>



64. The government recognises the challenges facing the North East, with diverse, urban, rural and coastal communities experiencing a complex range of issues, such as poor connectivity and access to jobs and skills. There is a need to develop and deliver targeted programmes to address the unique and very different challenges across such a large and diverse region. The North East will work in partnership to develop proactive support for priority groups through ongoing engagement with local DWP Jobcentre Plus. The government and the region will also work together to better target employment support by understanding and utilising publicly available local labour market intelligence and analysis.<sup>4</sup>
65. To provide a strategic framework for collaboration, DWP and the North East Mayoral Combined Authority commit to the expansion of the current joint North of Tyne Combined Authority and Department for Work and Pensions 'Delivery Statement'. A new Framework Agreement will have Ministerial and Mayoral endorsement. DWP will also consider what role the North East Mayoral Combined Authority could have in the design and delivery of future contracted employment programmes.
66. Through this devolution deal, DWP and DHSC commit to working with the North East Mayoral Combined Authority on stronger regional engagement to provide support to those with mental ill health into and to be able to sustain employment.
67. To promote local employment and sustainable supply chains, DLUHC will stress to departments their existing general duty around social value and how it may be used in supply chains in the region, where appropriate, and will engage the North East Mayoral Combined Authority in this activity.
68. Strategic leadership will be provided to this work by DWP and local partnership working through an expanded Inclusive Economy Board, to incorporate the new MCA geography, building on the success of the North of Tyne Combined Authority in this area. DWP continues its commitment to departmental involvement in the Board.
69. DWP and the North East Mayoral Combined Authority will work together on its strategic priorities for employment through enhanced engagement by way of:
- a. Membership of the joint DWP and DfE Mayoral Combined Authority Advisory Group.
  - b. Regular engagement with the regional Employer and Partnership team in Jobcentre Plus, and strategic labour market partnership teams.

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<sup>4</sup> this includes analysis produced previously by the North East LEP and its Skills Advisory Panel (funded by a Department for Education grant up until March 2023).

## **Levelling up Innovation and Clean Energy**

### Private Sector Growth

70. Through the deeper devolution trailblazer deals announced in the Levelling Up White Paper, government will bring together a holistic package of powers, roles, functions and strategic relationships to grow the private sector at a local level. The trailblazers are designed as a blueprint for other mayoral combined authorities, and the government will draw lessons from this approach to make a similarly broad and holistic offer to the North East Mayoral Combined Authority in due course. This offer will aim to build the resilience of businesses and households in the North East to cost of living pressures, strengthen the North East's global competitiveness and empower local entrepreneurs. This offer will explore the following, and potentially other, options to:
- a. Empower the North East to be able to secure greater private investment in local priorities.
  - b. Strengthen the North East's local innovation capacity to help realise the potential of local innovation assets and the innovation potential of small and medium-sized enterprises.
  - c. Help to realise the global export potential of local businesses in the North East and maximise the local benefits of international trade.
  - d. See the North East play a greater role in supporting local businesses to improve their productivity.
  - e. Engage the North East in the delivery of digital infrastructure and potential economic and public service applications of data and data science.
71. Recognising the work undertaken to-date by the North of Tyne Combined Authority to realise local economic strengths and drive entrepreneurship, the government will work with the North East Mayoral Combined Authority to take early action to grow the private sector through this devolution deal.

### Levelling up Innovation

72. Innovation will be vital to levelling up the North East; it makes firms more productive, boosting wages and economic growth. In the Levelling Up White Paper, government set out how it will maximise the contribution of innovation to levelling up by building on existing and emerging strengths across the country. These reforms will deliver benefits to the North East alongside other areas of the UK.
73. Domestic public investment in R&D outside the Greater South East will increase by at least 40% by 2030, and over the spending review period by at least one third, with that additional government funding seeking to leverage at least twice as much private sector investment over the long term to stimulate innovation and productivity growth. Supporting delivery of this mission, BEIS will make levelling up one of the objectives of its R&D investment strategy and will aim for the regions outside the Greater South East to receive at least 55% of its R&D budget by 2024/25. This will be in lockstep with the approach set out in the Innovation Strategy to unleash private investment across the UK.

74. The government's commitments build on the brilliant work already underway between business and universities in the North East, for example between Proctor and Gamble and the University of Newcastle upon Tyne and the region's strengths in the offshore wind and maritime industries. The government is backing the North East's ambition to realise the green industries of the future, with, for example, Innovate UK supporting businesses in the North East's offshore energy and maritime clusters to support transition from oil and gas to renewable energy and offshore wind.
75. The North East is home to four universities; Durham, Newcastle, Northumbria, Sunderland. The North East Mayoral Combined Authority will work with its universities, businesses and stakeholders to develop a bespoke 'Inclusive Innovation Deal' programme – focusing on translating the region's world class research expertise into jobs, skills and inclusive growth outcomes. As set out above, government and the North East Mayoral Combined Authority will take further steps, building on this devolution deal, to strengthen the North East's local innovation capacity, to help realise the potential of local innovation assets and the innovation potential of small and medium enterprises, including by considering how the lessons learned from the Innovation Accelerator pilots could be rolled out more widely.
76. The UK Infrastructure Bank ("the Bank") will increase infrastructure investment across the UK by partnering with the private sector and local government to help tackle climate change and support regional and local economic growth. The Bank's advisory service, when launched, could offer advice and support to local actors, including the North East Mayoral Combined Authority, to help deliver on their objectives, including driving investment into net zero infrastructure and innovative local projects. It can also act as a convenor, bringing together local actors for collaborative projects, and where appropriate identifying where projects can be aggregated to achieve greater impacts.

#### Offshore, engineering and green manufacturing

77. Building the world-class strength of the region's offshore, engineering and green manufacturing industries in the North East, the government and the North East Mayoral Combined Authority will work together to create a connected package of investment, flexibilities and investment incentives across the region.
78. The assets and growth opportunities that this will bring together are critical to the region's economy - complimenting key existing industrial activities and enabling the region to further develop its export capability - and to UKPLC. This includes the export of Nissan vehicles across the globe, green energy from the North Sea Link, the base for offshore subsea engineering, the servicing of the world's largest offshore wind farm at Dogger Bank and the Seagreen wind farm, and the potential of the region's international airport to drive supply chain growth and talent into these industries. The North East Mayoral Combined Authority will work in close collaboration with government to develop a model which connects the

Ports of Blyth, Tyne and Wear, Newcastle International Airport, IAMP and the region's industries, building on the work of Energy Central and the Tyne Taskforce.

79. The North East Mayoral Combined Authority intend to bring this work together under the banner of a collaborative Green Superport.
80. To advance this agenda, the government will work with the North East Mayoral Combined Authority, Port of Blyth, Port of Sunderland, Port of Tyne, IAMP LLP, Tyne Taskforce and Newcastle International Airport to explore a range of financial and policy measures, including:
  - a. Measures to enable greater operational synergies and collaboration between the region's maritime ports and leverage greater private sector investment into the region.
  - b. Working with the Department for International Trade to explore areas for deeper collaboration on trade and investment at a local level.
  - c. Development of an integrated skills pipeline and curricula to support accelerated growth in related industries – through existing devolved skills funding, Bootcamps and close collaboration between DfE, BEIS and the North East Mayoral Combined Authority.
  - d. Agreement from these stakeholders to take the following actions to address specific physical and operating constraints across our cluster that would – if removed – accelerate growth, trade and job creation. These are outlined below.
81. The government and the North East Mayoral Combined Authority will work together to address specific infrastructure and environmental issues:
  - a. The government recognises the importance of the Ports in stimulating low carbon growth. For example, recent major investments by JDR Cables at Blyth, and by Equinor on the Tyne.
  - b. The North East Mayoral Combined Authority will work with DEFRA and associated ALBs to create a sustainable, long-term environmental management and dredging regime that delivers healthy and resilient rivers, underpinned by appropriate Action Levels and channels that support enterprise.
  - c. On the Tyne, the North of Tyne Combined Authority is working closely with National Grid Electricity Transmission and Port of Tyne to understand the issues relating to the cables over the river; government welcomes the progress of parties working together to progress a cost benefit analysis which will be put to Ofgem, the independent regulator, to consider; and it will continue to engage with Port of Tyne, Tyne Taskforce and National Grid as this progresses.
  - d. The government recognises the need to increase the North East's electricity network capacity to meet future electricity demand, including from industry. As set out in the Electricity Networks Strategic Framework, government is committed to ensuring that areas with a devolution deal, including the North East Mayoral Combined Authority, have a meaningful

role in planning our future energy system for net zero, alongside other local areas as appropriate.

- e. The government commits to continuing to support the North East Mayoral Combined Authority to produce a Blyth to IAMP Clean Energy Innovation Deal.
- f. The government notes the work underway at the International Advanced Manufacturing Park to ensure sufficient network capacity is in place to meet the requirements of the region's planned gigafactories. Planning applications to the Nationally Significant Infrastructure Project regime for network upgrades will be considered by the Secretary of State for Business, Energy and Industrial Strategy following the usual quasi-judicial process.
- g. The North East Mayoral Combined Authority will work with DLUHC and Homes England, where relevant, on a shared plan – and identify joint resources – to accelerate sites for green industry, leisure and housing in ways that can unlock accelerated growth and wider social and economic benefits.
- h. To expand capacity and capitalise on the region's capability delivering innovative methods of construction to reduce the impacts of climate change, such as the globally acclaimed Low Carbon Materials company who were Earthshot Prize short listed 2022 and located at JADE County Durham.

82. This will seek to seek to leverage the unique capabilities on the Blyth, the Tyne and the Wear which could help deliver specific strategically important infrastructure projects.

83. In return, the North East Mayoral Combined Authority and constituent councils will continue their collaborative work to leverage private sector funding and expertise to deliver the right infrastructure to support the UK's place in the offshore, clean energy and advanced manufacturing sectors, and in green heat and energy innovation. For example, building on the leading work done by the Offshore Renewable Energy Catapult and Energy Central around the Blyth Estuary, the 2050 Innovation Hub at the Port of Tyne, the Tyne Task Force and numerous partnerships with NISSAN, and pilots in hydrogen and minewater heating in Gateshead and South Tyneside, and the ambition to create a National Centre for Geothermal Energy at Seaham Garden Village.

## Housing and Land

84. The North East Mayoral Combined Authority will have broad powers to acquire and dispose of land to build houses, commercial space and infrastructure, for growth and regeneration. They will be able to invest to deliver housing for the area.
85. The North East Mayoral Combined Authority will have land assembly and compulsory purchase powers, subject to the agreement of the North East Mayoral Combined Authority, the local authority constituent member where the relevant land is located, and to the consent of the Secretary of State for Levelling Up, Housing and Communities.
86. The mayor will have the power to designate mayoral development areas and to create mayoral development corporations, which will support delivery on strategic sites in the North East. This power may be exercised only with the consent of the combined authority member(s) who represent the area in which the development corporation is to be established, and the consent of the National Park Authority, if relevant, is also required.
87. This is intended to support bold and creative use of development corporations for key places and corridors. It is also intended to support the government's commitment to levelling up, urban recovery and 'Building Back Better High Streets.'
88. The North East Mayoral Combined Authority seeks to work with government to build on the North of Tyne High Streets and Town Centre investment and the government's High Street Fund and Town Deals. This deal seeks to set the basis for levelling up our towns, market towns, high streets and coastal communities in areas like Ashington, Gateshead, Houghton le Spring, Hebburn, Jarrow, North Shields and Wallsend in line with the constituent authorities' priorities. Housing delivery will also be the catalyst for the levelling up and regeneration of a number of former mining villages in East Durham including Horden and Easington Colliery
89. The North East Mayoral Combined Authority and Homes England will build upon the existing, successful North of Tyne Combined Authority Housing and Land Board to work together to identify and develop key opportunities for housing delivery, building a pipeline of housing and regeneration sites across the region. This will be overseen through the establishment of a formalised Strategic Place Partnership with Homes England at a combined authority level. The government will consider potential investment into housing propositions that emerge from development of this partnership; which could include the Brownfield Infrastructure and Land (BIL) Fund; options to unlock the Forth Yards site (Newcastle); an accelerated delivery of Sunderland's Partnerships for People and Place pilot and flagship schemes in each constituent authority area. For example, sites along the Northumberland Line, North Shields and Wallsend,

Horden in County Durham, or work in South Shields riverside and town centre, across Sunderland and related to Gateshead Quays.

90. The North East Mayoral Combined Authority will be eligible for Brownfield Housing Fund investment. This funding will support the combined authority in bringing in more land into development for delivery of housing on brownfield sites. Current NTCA funding is valued at £32m. To account for the opportunity that comes with the additional constituent authorities, the North East MCA will receive an additional £17.4 million of devolved capital funding across 2023/24 and 2024/25 to support the building of new homes on brownfield land, subject to sufficient eligible projects for funding being identified. In addition, Government commits to working with the North East MCA through the strategic place partnership with its housing delivery agency Homes England referenced in this deal to identify early opportunities to invest in the acceleration of green and affordable housing as part of the wider package of place-based regeneration enabled by this deal.
91. To support the North East Mayoral Combined Authority to identify and bring forward a pipeline of housing projects, the Government will also provide the North East Mayoral Combined Authority with £475,000 in capacity funding across 2023/2024 and 2024/2025.
92. In recognition of the economic opportunities presented by County Durham joining the North East Mayoral Combined Authority, Government will make a further investment in the North East area to drive place-based economic regeneration through a £20 million capital funding pot to be allocated over the current spending review period. Priority schemes for County Durham include the Netpark and Aykley Heads developments.
93. The pipeline will support the North East's ambition for a low carbon economy enabling a new market in offsite construction, with a new construction workforce being trained in specialist centres such as Housing and Innovation Construction Skills Academy and employed in offsite manufacturing hubs servicing the region.
94. Government has confirmed its intention to establish heat network zoning in England. Under the zoning proposals Zoning Coordinators within local government will be able to designate areas as heat network zones where heat networks are going to be the most cost-effective way to decarbonise heating and hot water within the zone. Local councils will have powers to require certain buildings to connect to heat networks within the zones. This will enable the North East Mayoral Combined Authority and its constituent councils to play a key role in the delivery of heat decarbonisation infrastructure. Government is committed to have heat network zoning in place by 2025.
95. Recognising the North East Mayoral Combined Authority's ambitions to accelerate progress towards net zero, the government commits to explore the

potential benefits of and design options for a place-based approach to delivering retrofit measures, as part of HMG's commitment in the Net Zero Strategy to explore how we could simplify and consolidate funds which target net zero initiatives at the local level where this provides the best approach to tackling climate change. This work will involve inviting the North East Mayoral Combined Authority to work with government through the relevant representative organisations to consider if such an approach could accelerate the meeting of net zero goals and provide better value for money.

96. The North East Mayoral Combined Authority will work together with government, Homes England and social housing providers to create a strategic plan and funding alignment to co-commission affordable housing delivery in the region. This will include specific work to explore the potential for a combined authority-level partnership to enable the building of more social and council housing, utilising existing development vehicles where possible.
97. The expectation is that, over the lifetime of this Devolution Deal, this Strategic Place Partnership will oversee a programme based on a long-term pipeline of strategic sites across the region. This will include Brownfield and Affordable Housing funding, investment in tackling homelessness and Housing First, and exemplar sites to demonstrate Modern Methods of Construction. In addition, based on current stock and condition, the North East Mayoral Combined Authority and its constituent authorities will seek to work with Homes England to ensure that the pipeline tackles weaknesses in the private rented market, to improve the quality of stock and housing management as well as bringing empty homes back into use. Work is expected with global investors to explore suitable partnerships for institutional quality private rented sector investment supporting the transition to low carbon living.

### Planning

98. The North East Mayoral Combined Authority commits to a collaborative approach to spatial planning, underpinned by local consent. It will therefore support the development of key economic and job creation sites aligned to opportunities such as the Metro Extension and IAMP, the Northumberland Line, and Gateshead Quays.
99. This work will clearly denote rural and biodiversity infrastructure amplifying existing commitments but also aligning this planning work to the rural economy of the area.
100. To that end, the North East Mayoral Combined Authority will develop a Strategic Infrastructure Plan. In doing so, this will include significant innovation in including consideration of rural infrastructure to support food security and the work underway on becoming a Rural Exemplar. As well as considering transport infrastructure this means consideration of major surface water



drainage, coastal protection and management and the physical assets that underpin food production in the area.

## **Transport**

101. A new, directly elected North East Mayor and the North East Mayoral Combined Authority will exercise the following powers and functions devolved from central government in order to deliver the ambitions set out in the North East Transport Plan and associated policy and strategy documents.

### Local Transport Plan

102. Responsibility for an area-wide local transport plan will be conferred onto the mayor and North East Mayoral Combined Authority.
103. In line with best practice as set out in new local transport plan guidance planned for early 2023, the constituent authorities will review and refresh the existing North East Transport Plan by March 2024, to be finalised by the mayor and combined authority once it is established. It is expected that the Local Transport Plan will implement quantifiable carbon reductions to the higher standard recommended in related guidance.
104. DfT will support the North East Mayoral Combined Authority in the delivery of its local transport plan, through collaboration between DfT ministers, officials and the North East Mayoral Combined Authority, and where necessary assisting the North East Mayoral Combined Authority in securing the support and collaboration of agencies such as National Highways, Network Rail, and Great British Railways Transition Team to play their part in delivery.
105. The local transport plan and business cases for investment will reflect the characteristics of the North East Mayoral Combined Authority area including the significant rural footprint of the area.

### Devolved transport funding

106. The North East Mayoral Combined Authority will be responsible for significant local transport funding from Government. Over the next five years this will be worth up to £732.3 million and will include:
- A City Region Sustainable Transport Settlement of up to £563 million capital funding, with £5.68 million resource funding for 2022/23 and further funding to be confirmed in line with other eligible areas;
  - Indicative allocation of £73.8 million of capital funding and £89.8 million resource funding to deliver the combined Bus Service Improvement Plan for the North East Mayoral Combined Authority;
  - In addition, there may be further funds relating to transport for which the North East Mayoral Combined Authority is eligible.

### City Region Sustainable Transport Settlement

107. The government will commit to making available a five-year City Region Sustainable Transport Settlement (CRSTS) of up to £563 million of capital funds to the North East Mayoral Combined Authority until 2026/27. The

funding available consolidates existing funds including Regional Highways Maintenance, Pothole Funding, Integrated Transport Block (ITB), 2022/23 Transforming Cities Fund, with additional funding for local transport enhancements. Maintenance funding has been consolidated on the basis of current annual funding and CRSTS proposals should include the effective management and maintenance of existing assets and meet existing obligations which the ITB and other funds currently individually address.

Funding that has already been committed to from this pot includes:

Highways Maintenance 2022/2023	£66.4m
Transforming Cities Fund 2022/2023	£86.2m

108. The CRSTS will be determined in line with plans put forward by the mayor on behalf of the combined authority and agreed with HMG. The process for other eligible areas will apply to the North East Mayoral Combined Authority. As part of the process of agreeing this settlement, the government also commits to working with the North East Mayoral Combined Authority to reach agreement on interim options to even the profile of capital funding over the period before a mayor is elected. In the event that this includes changes to their TCF programme, these will be considered through the established TCF Change Control governance and processes.
109. Resource funding for the North East Mayoral Combined Authority to support and prepare for CRSTS will be provided from funding already set aside by government. The government commits to providing £5.68 million of resource funding in 2022/23, payable when the devolution deal is signed. This will allow for CRSTS scheme preparation, prioritisation and delivery planning to take place. As per the 2021 spending review settlement, revenue grant funding in both 2023/24 and 2024/25 is half the levels of 22/23, and the North East Mayoral Combined Authority should plan on the basis that this falls proportionately. Further resource grant funding beyond 2024/25 will be subject to future Spending Reviews.
110. Prior to County Durham joining the North East Devolution Deal, the LA6 had negotiated a CRSTS settlement of £475 million capital funding until 2026/27, alongside the resource funding outlined above. Decisions pertaining to the allocation and investment of the City Region Sustainable Transport Settlement (CRSTS) will be taken by the new Mayor and MCA in line with its agreed governance arrangements, ensuring that each member will receive appropriate highways maintenance funding, Integrated Transport Block funding and potholes funding. Beyond this, the region intends to invest the settlement in a manner which reflects the development of the deal prior to County Durham joining, for the current funding period to 2026/27. The Government acknowledges this intention.

111. The government intends, subject to future spending reviews and the success of the CRSTS programme, that this could be the first of a series of 5-year transport settlements for the city regions. Decisions taken in future Spending Reviews will consider the membership and geography of the new mayoral combined authority at that time.
112. All constituent authorities, or the North East Mayoral Combined Authority on their behalf, may continue to approach the Department for Transport directly to consider funding for local transport enhancement schemes. Any funding requests will be considered in line with wider departmental priorities and would be subject to ministerial decision and the broader fiscal context.

#### Tyne and Wear Metro funding

113. The government acknowledges the significant economic and social benefits provided by the Tyne and Wear Metro to the North East, and that as well as being essential to local connectivity the Metro features some of the complex legal, operating, safety and infrastructure characteristics and liabilities of the national rail system. The government also recognises the significant safety responsibilities that Nexus has in relation to the Tyne and Wear Metro, including the various regulatory obligations arising from sharing track with freight (including dangerous goods) and other train operators.
114. The government agrees to provide Nexus with the following funding to support the safe operation, maintenance and renewal of the Tyne and Wear Metro:
  - £57 million of capital funding in 2023/24 and 2024/25, which includes £23.8 million of capital funding already confirmed by government for operationally essential and safety critical maintenance work. The government acknowledges that Nexus is seeking a higher allocation of capital funding than has been provided in 2023/24 and 2024/25.
  - Resource funding will be provided to support operations in 2023/24 and 2024/25 using the 2022/23 allocation of £27.8 million as the base figure for each year. The government will continue to work with Nexus to assess revenue funding asks in light of inflationary pressures.
  - Funding for Metro's Essential Renewals programme and operational support will be paid direct to Nexus as Metropolitan Rail Grant, outwith the CRSTS mechanism. However, £57 million of capital funding has been deducted from the North East's nominal CRSTS allocation to take account of the additional Metropolitan Rail Grant capital payments in 2023/24 and 2024/25.
  - Funding for Metro Essential Renewals and operational support for 2025/26 and 2026/27 will be considered as part of the next Comprehensive Spending Review following the production of a business case and discussion between the government, the North East Mayoral Combined Authority, and Nexus.

115. The government is currently providing £337 million of funding to Nexus to support the £362 million introduction of a new Metro train fleet and maintenance depot, expected to be fully implemented by the end of 2024. The government is also providing £94.7 million through the Transforming Cities Fund to deliver the Metro Flow project which will significantly enhance the frequency and capacity of the existing Metro system. The government has also provided £50 million in revenue funding to Nexus during the pandemic and recovery period and has allocated a further £7.3 million until October 2022.
116. The North East Mayoral Combined Authority may continue to approach the Department for Transport directly to consider funding for future enhancement work on the Metro. Funding for enhancements would be considered in line with wider departmental priorities, and would be subject to ministerial decision and the broader fiscal context

### Roads

117. The North East Mayoral Combined Authority will agree a Key Route Network (KRN) of local authority roads. The strategy for the KRN will be developed, agreed and coordinated by the mayor and North East Mayoral Combined Authority. To support this, all local roads maintenance funding will be placed under the control of the combined authority as part of the CRSTS settlement to enable the development and delivery of a single asset management plan for the North East road network in its entirety.
118. The mayor and combined authority will take any necessary highways powers to undertake this, to be exercised concurrently with the highway authorities, as agreed locally and set out in the required scheme and consultation.
119. The government intends to legislate to give the mayor, with their agreement, a power of direction allowing them to direct highway authorities on exercising their highways powers on the KRN, for example to construct, maintain and operate bus priority measures and cycling infrastructure. Use of this power should follow consultation with highway authorities and take account of highway authorities' statutory duties.
120. The North East Mayoral Combined Authority will also be able to enter into agreements with government, other local authorities and National Highways, including to determine shared priorities for its strategic and key road networks.
121. The North East has ambitious plans to introduce a region-wide electric vehicle charging network and has recently introduced a Zero Emission Vehicle policy, an outline of the region's aim to lead the country in boosting the up-take of electric vehicles by developing and expanding charging facilities. The government recognises the aspirations of the North East Mayoral Combined Authority to improve public electric vehicle charging infrastructure across the

region, which would increase the uptake of electric vehicles in the region and reduce carbon emissions by supporting all motorists in making the switch. Government is introducing a new £450 million local electric vehicle infrastructure (LEVI) scheme for local authorities to support local EV infrastructure delivery and will work with the North East Mayoral Combined Authority to ensure the area is well placed to respond once funding arrangements are announced.

122. The government recognises the importance of good links to the Strategic Road Network to the economy of the North East, and the modernisation of key routes to facilitate economic growth, job creation and net zero transition (providing the enabling infrastructure for electric buses and an expanding EV network). National Highways will work with the North East Mayoral Combined Authority and local highways authorities on the delivery of Road Investment Strategy 2 (RIS2) and the development of Road Investment Strategy 3 (RIS3).
123. The North East Mayoral Combined Authority will make the case for the upgrading of A19 junctions North of Newcastle (particularly Moor Farm roundabout and associated work at Seaton Burn and White Mare Pool); and will feed into any business case development work for A1 dualling related to the multi-modal study recommended in the Union Connectivity Review and will press for further work to improve the safety, capacity and speed of the A69. The Government will fully consider these schemes in the round as part of decisions on Roads Investment Strategy 3, taking into account economic benefits balanced against wider factors. The North East Mayoral Combined Authority will also explore whether an agreement with National Highways on assisting local authorities to achieve timely planning application decisions is possible, as the region continues to grow and sees investment in housing and employment sites, and over the use of “designated funds” to mitigate local impacts of major highways developments.

### Buses

124. The government is committed to delivering improved bus services across the country and has published a National Bus Strategy committing to £3 billion of expenditure nationally over the course of this parliament. The North East has ambitious plans for the improvement of bus services as set out in its Bus Service Improvement Plan (BSIP).
125. The government has given an indicative funding allocation of up to £163.5 million of funding (£89.8 million resource funding and £73.8 million of capital funding) to support the introduction of measures outlined in the North East Bus Service Improvement Plan.
126. The North East mayor will have access to bus franchising powers under the Transport Act 2000. This will provide the opportunity to further develop high-quality bus services as part of an integrated local transport system and help to

facilitate the delivery of smart, simple integrated ticketing across all local modes of transport in the city region.

127. The government is reforming the Bus Service Operators Grant (BSOG), as per the National Bus Strategy. Following BSOG reform, if North East Mayoral Combined Authority request BSOG be devolved to them the Department for Transport will work with the combined authority to devolve it in line with the consultation outcome.

Smart and Integrated ticketing: “Pop”

128. The North East has widespread smart and integrated ticketing on offer through the “Pop” brand and the established back-office systems managed by Nexus to support its use on bus and Metro, alongside single-operator products, as either a smart card or phone-based payment option. It also has a long-standing commercial multi-modal, multi-operator ticketing scheme (Network One Ticketing Ltd).
129. The North East Mayoral Combined Authority and Nexus plan to develop the “Pop” brand so that it can deliver smart, capped, simple integrated ticketing across all local modes of transport in the city region as set out in the North East Transport Plan, Bus Service Improvement Plan and Local Rail and Metro Strategy. The government recognises this is a priority project for the North East Mayoral Combined Authority which they will prioritise in their CRSTS plans. As technical solutions to facilitate multi-operator bus ticketing are developed, the government will seek to work with North East Mayoral Combined Authority and any other parties to facilitate their swift deployment in the North East region.
130. The North East Mayoral Combined Authority and Nexus will work with the Department for Transport, Great British Railways Transition Team and Northern Rail to develop proposals to introduce integrated ticketing using the “Pop” brand and functionality onto the Northumberland Line when it opens for passenger service (target December 2023). This will allow seamless integrated journeys to take place on the Northumberland Line and the Tyne and Wear Metro, with fares subject to a daily cap and discounted fares for young people. The North East Mayoral Combined Authority will develop a business case for its wider deployment on other local rail services in the North East. The government will support the North East Mayoral Combined Authority in discussions with Great British Railways Transition Team and Northern Rail to achieve this.

Smart and Integrated ticketing: contactless bank card / mobile phone bank payment

131. The government recognises that the North East Mayoral Combined Authority and Nexus wish to build upon the “Pop” brand by introducing capped contactless bank card and mobile phone bank payment options on the Tyne and Wear Metro.

132. The government is currently engaging with Great British Railways Transition Team, bus operators and Combined Authorities to develop proposals for contactless capped bank-card transactions across the services of different operators and travel modes. The government commits to working with Great British Railways Transition Team, the North East Mayoral Combined Authority, and Nexus with a view to the North East being actively involved in this work.

## Rail

133. The government will support the North East Mayoral Combined Authority in seeking a new rail partnership with Great British Railways Transition Team, once established, so that their priorities can be taken into consideration in future decisions regarding their local network. The North East Mayoral Combined Authority, alongside existing Level 3 authorities, will be considered a priority for these agreements which will provide the ability to influence the local rail offer. Local priorities will need to be coordinated and compatible with surrounding areas and the needs of the national network.
134. The government recognises the North East Mayoral Combined Authority's ambitions for further devolved powers and will work with the region, Great British Railways Transition Team, and Transport for the North to develop a suitable partnership that facilitate the improvements to services, stations, and fares and ticketing that are set out in the North East Transport Plan and Metro and Local Rail Strategy.
135. The government acknowledges the major capacity constraint on the East Coast Main Line that affects the performance and future growth of rail services in the North East. As part of its Integrated Rail Plan the government commits to upgrading and improving line speeds and capacity along the route and has asked Network Rail to begin consideration of how these ambitious plans can be delivered as efficiently as possible, engaging closely with local stakeholders as these progress, ensuring integration where appropriate with local development, regeneration, and rail expansion plans.
136. The government is considering the recommendations of the Union Connectivity Review, including on the road and rail transport corridor between North East England and South East Scotland. The government will continue to work with stakeholders as required including the North East Mayoral Combined Authority on how the recommendations can be taken forward to strengthen transport connectivity for the benefit of all parts of the UK.
137. The government recognises the aspirations of the region for the reopening of the Leamside Line and will work closely with the North East Mayoral Combined Authority to develop the business case for the introduction of Metro services along the line to South Hylton via Washington; and the reintroduction



of local rail services to Ferryhill and Sedgefield, and the use of the line by freight services. The government commits to supporting the North East Mayoral Combined Authority and Nexus to generate proposals, develop business cases and identify funding routes for these enhancements, where it is shown that the proposed schemes would deliver appropriate value for money to the taxpayer and subject to funding availability.

138. The North East Mayoral Combined Authority has ambitions to expand and improve rail services as set out in the North East Rail and Metro Strategy. These include Metro services to West Newcastle and Metrocentre, Cobalt Business Park and Team Valley; heavy rail services to Newcastle Airport; upgrades to the Tyne Valley and Durham Coast lines; local passenger services and new stations on the East Coast Main Line, and major investments in Sunderland and Newcastle Central stations. The government commits to working with the North East Mayoral Combined Authority and Nexus to develop business cases for these enhancements and to assist in finding suitable funding mechanisms where it is shown that the proposed schemes would deliver appropriate value for money to the taxpayer and subject to funding availability.
139. The North East Mayoral Combined Authority's plans for zero-carbon economic growth will see an increased demand for rail freight services. In recognition of this the government supports the North East Mayoral Combined Authority in developing a freight strategy taking into account new technologies, sustainable traction, and where required new and improved rail freight terminals and distribution centres.

#### Active Travel

140. The region is developing a transport pipeline and a key part of this will be to include how the region can meet its carbon targets. A major component of this will be a focus on sustainable transport schemes. The North East Mayoral Combined Authority commits to: prioritising investment in the cycling and walking networks identified through relevant Local Cycling and Walking Infrastructure Plans (LCWIPs) and partner council's own cycling and walking strategies, and to follow the latest Department for Transport cycle infrastructure design guidance [LTN1/20] and other relevant guidance/standards for all future cycling and walking schemes to deliver a step-change in high-quality active travel provision in the city region.
141. The North East Mayoral Combined Authority seeks to work in partnership with government and Active Travel England. The North East Transport Plan emphasizes the region's aspiration to make sustainable travel the first choice for short trips, or as part of a longer journey. Devolution will allow the mayor to consider appointing a Commissioner and to publish an ambitious active travel plan. This will take the region's LCWIPs and bind them together to form a regional network of LTN 1/20 compliant routes, connecting active

neighbourhoods to local hubs. The government recognises the North East Mayoral Combined Authority's role leading innovation in highways and street design and will work with the North East Mayoral Combined Authority and Active Travel England on innovative local schemes. This will help lock in resilience to our local businesses and help us make more healthy communities. With the help of devolved funding, we will be able to sequence and deliver a smoother pipeline of active travel infrastructure.

#### Institute of Future Mobility

142. The North East Mayoral Combined Authority seeks to establish an "Institute of Future Mobility", which will bring together North East universities and colleges together with the region's transport sector to exploit physical and digital assets for innovation and research and development. The government will work with the North East Mayoral Combined Authority and key stakeholders in the future of transport sector to support innovation and research and development in transport in the region. This will help the North East to be seen as a candidate for tests, trials, and pilot schemes of future transport technologies.

## **Digital and Connectivity**

143. Significant progress has been made in developing the digital sector in the North East with the area being nationally identified as a hot spot for digital growth. There are significant private sector assets; Ubisoft, Accenture, DXC are international businesses but there are also local major success stories including Perfect Image and Sage.
144. In parallel there are major pieces of infrastructure connecting the North East to Europe and the East Coast of the USA and significant public sector digital capabilities, particularly belonging to Her Majesty's Revenue and Customs and the Department for Work and Pensions.
145. In both the public and private parts of the digital sector, building on work already done across the North East, the North East Mayoral Combined Authority and the government commit to growing the digital sector and helping to enrich the local element of the supply chain with access to the right infrastructure, skills and data analytics capability to enable our businesses to achieve greater scale, adoption and growth.
146. The government recognises that high quality digital connectivity is crucial for future economic growth and productivity in the region. While rollout of broadband and mobile infrastructure will be delivered nationally through the Department of Digital, Culture, Media and Sport, the Government will engage with the North East Mayoral Combined Authority on a regular basis on delivery plans in the region, particularly where they involve hard to reach areas such as rural parts of Northumberland and County Durham. The government is committed to achieving nationwide coverage of gigabit capable broadband by 2030 and to ensuring that rural areas in the region are not left behind including in the North East. Procurements covering the North East commenced in 2022, and regular Project Gigabit programme updates will be provided demonstrating progress in delivering for communities across the area.

## **Tackling the Digital Divide**

147. Notwithstanding the assets noted above, the region sees major digital disparities and exclusion. Residents and communities need skills and connectivity to take advantage of an increasingly digital world and the right support in place for the region to take advantage of new roles with significant digital content and in the growing digital sector.
148. The North East Mayoral Combined Authority will develop a Local Digital Skills Partnership in the region, with DCMS committing to providing strategic support and guidance to the combined authority, to assisting it in effectively navigating its initial focus for the partnership, and to bringing it together with other existing Local Digital Skills Partnerships to facilitate shared learning and to support the identification of areas of potential collaboration.

## Building capabilities for digitally-enabled economy

149. The North East Mayoral Combined Authority will establish a specific Digital Connectivity Fund which will support the smart adoption and scale-up of advanced digital service and technologies within our industries and public services, building on the North of Tyne digital investment of £25 million, major 5G investments and the successful public/private digital partnership in Sunderland, the region's recent successful Digital Connectivity Infrastructure Accelerator bid and ongoing full-fibre roll-out across the region.
150. This will help establish the North East as a 'digital adoption accelerator' - a national centre of excellence for 5G use-case development and adoption – accelerating the economic, social and wellbeing impact of enhanced digital connectivity through focusing on rapid adoption and scale-up across our key sectors. The government is committed to supporting the region's digital connectivity ambitions, including through the upcoming Wireless Infrastructure Strategy which will set out a strategic framework for the development, deployment and adoption of 5G and future networks. This includes working closely with places to encourage investment in advanced wireless connectivity and increase its adoption across the local economy and public services.
151. Based on a combination of academic and industry capacity and capability, the North East Mayoral Combined Authority will work with government to explore the potential for a nationally significant Centre for AI Ethics building on the industry leading work done by the National Innovation Centre for Data and growing links with national centres of excellence such as the Alan Turing Institute.
152. The North East could also play a key role supporting levelling up at a national level through bringing its regional assets to bear on the monitoring and evaluation of the levelling up missions. The North East Mayoral Combined Authority will explore with the government options to mobilise the strength of the National Innovation Centre for Data for this purpose.

## Arts, Culture Heritage and Sport

153. The government recognises local plans which use cultural, creative and visitor economy sectors to drive inclusive and sustainable growth, and will work with the North East Mayoral Combined Authority to support an ambitious local cultural framework that makes the most of the region's distinctive natural, cultural and heritage assets. This will help enhance pride and wellbeing, develop the local visitor economy, and develop skills and investment to increase access and opportunities for local young people to live and work in the area.
154. Government will work with the North East Mayoral Combined Authority and DCMS Arm's Length Bodies (for example Arts Council England, Historic England and Sport England) to support greater funding alignment, joint investment and strategic collaboration in the region. This will include increased alignment around programmes such as Culture and Creative Zones and the Borderlands Growth Deal, to better harness the cultural, economic, social and educational capital of the region. Investment decisions should take into account strategic priorities, such as the UNESCO World Heritage Site of Hadrian's Wall, which is receiving significant investment in its visitor offer from the Borderlands Growth Deal, and the roll-out of Historic England's High Streets Heritage Action Zone programme to settlements where there is a perceived need, as with the successful projects in Hexham, North Shields and Sunderland. This builds on existing DCMS work with the region, as exemplified through the North East Visitor Economy policy sprint in Newcastle, attended by public and private sector partners including DCMS ALBs.
155. It will also include joint work on a potential vehicle to support and promote grassroots sport and physical activity as a key opportunity to tackle post-pandemic disparities.
156. The Football Foundation, funded in partnership by the government, the FA and the Premier League, has already invested £12.1 million in 2021-2022 for grassroots football facilities, which successfully delivered three hubs in Sunderland. There are a further two currently under construction in Newcastle and the government also announced a £205m investment into grassroots facilities across the UK over the next three years at the 2021 Spending Review.
157. The government recognises the importance of the film and media sector to the region. As the lead department, DCMS will, through its Arms Length Body for film and the moving image, the British Film Institute (BFI), continue to work with the North East Mayoral Combined Authority alongside relevant partners to explore options to strengthen the sector.

158. To create a co-ordinated approach across city, coast and countryside that supports the growth of the domestic and international visitor economy, DCMS will work with North East Mayoral Combined Authority to explore the best structures and geographies and governance for future Destination Management and Marketing interventions. This will be informed by the £2.25 million pilot DMO accreditation scheme in the region, which will see a North East-wide partnership to develop and market the North East as a must-visit destination, building on the DCMS response to the De Bois review of Destination Management Organisations in England
159. The North East has a track record of delivering world class events and there is room to do more. Government will consider the role the North East and all regions can play in future national and international events, recognising these are important opportunities for levelling up across the country. Government is committed to maintaining our strong reputation of hosting major and mega sporting events, and with the forthcoming Rugby World Cup 2025 and the 2028 UEFA European Football Championship bid, and hopes and expects that independent selection processes will look to showcase towns and cities across the country.
160. The government recognises the region's ambition for the Gateshead Quays to drive place-based economic and social regeneration through cultural, exhibition, and conference public realm facilities to transform the south Tyne riverside – rapidly delivering jobs, a social value return and leverage significant income into the region.

## Public Service Reform

161. Government supports the North East Mayoral Combined Authority in its ambition for public service reform. Government commits to working with the region to explore initiatives to improve delivery of public services jointly with its constituent authorities, such as how best to support residents with multiple complex needs. Where appropriate, and as part of its Levelling Up agenda, government will also consider devolving further powers to the North East Mayoral Combined Authority to support public service reform, in relation to the statutory duties held by its constituent authorities. Building on the correlation between strong institutions and strong productivity this could include joint work in three areas:

- **Place-based Health and Care** - building on the establishment of statutory Integrated Care Boards and Integrated Care Partnerships and the government's Social Care White Paper, government sees the benefits of a region-wide approach to social care collaboration, the health and social care workforce, and market shaping – focusing on skills, career pathways, collaborative recruitment and retention and innovation in commissioning and delivery (including potential use of relevant funding streams) and appreciates the need for collaboration between the North East and North Cumbria ICS and its Combined Authorities.
- **Healthy Ageing** – continued government recognition of the importance of the Campus for Ageing and Vitality and ongoing post-pandemic innovation for example, Northumbria PPE Innovation Hub. The North East will continue to explore, with partners, potential for a new “Golden Triangle” to develop stronger partnerships between the North East, Edinburgh and Glasgow.
- **Population Health and Prevention** – commitment by the Department for Health and Social Care and NHS England to work alongside North East and North Cumbria Integrated Care Board to develop a Radical Prevention Fund reshaping existing funding away from acute services and into preventative action. Building on regional population-based prevention work this would aim to develop new models of prevention to tackle long-standing health disparities to improve quality of life and reduce health and care costs. There is potential to use the Dormant Assets Act 2022 to support community and voluntary sector organisations to make a difference in their places.

162. The North East Mayoral Combined Authority will work with government as a pathfinder area considering the potential implementation of novel recommendations arising from the McAllister review and the recent national child safeguarding practice review - with particular emphasis on measures that could be taken to strengthen workforce resilience.

163. Building on the Social Care White Papers and the NHS changes, the Government commits to working closely with local councils and leaders from the North East to ensure the region maximises the opportunities offered by new investment from social care reform and wider changes to the health and social care system. In return, the North East Mayoral Combined Authority will work with North East and North Cumbria Integrated Care Board to align priorities and make a difference to health outcomes at a population level.
  
164. Building on the digital and connectivity facets of this deal it would create the ability to commission better joined-up local services and embed neighbourhood policing alongside other place-based services including better use of data to problem solve and prevent crime. In addition, there will be a particular emphasis on transport and safety of the transport networks as well as work in local Youth Justice Partnerships and alongside the Probation Service. This is particularly important to the North East Mayoral Combined Authority, the Northumbria and Durham constabularies and their respective PCCs as they work not just to prevent violence against women and girls but as they act positively to make women and girls believe they are safe.



## **Resilience and Public Safety**

165. The North East will have a clear role in local resilience following governments full consideration of the role and responsibilities of Local Resilience Forums. This may include an opportunity for the North East MCA to participate in future testing and piloting of potential new roles and responsibilities prior to any fuller national roll out.
166. The North East Mayoral Combined Authority, in partnership with the Government, will work with the Northumbria and Durham Police and Crime Commissioners to agree an appropriate arrangement to ensure close collaboration and productive joint working on public safety.

## Rural

167. This devolution deal also acknowledges the unique and complex rural environment in the North East. Acting as a rural exemplar is already at the heart of the North of Tyne Devolution Deal and the North East would expect to work with the government on opportunities to expand this into a wider area. This could include: focusing on innovation in rural communities and the rural economy; potential support to the unique physical infrastructure which is a critical part of rural communities; consideration of the remaining Northumberland Line rail scheme funding; and proactive work with the region to stimulate housing and economic development along the Northumberland Line economic corridor and in rural parts of County Durham and Gateshead.
168. To compliment this, the North East Mayoral Combined Authority will build on work commissioned by North of Tyne, the Scotland Office and the Union Connectivity Review to understand further opportunities for collaboration, connectivity, innovation partnership and shared growth along the North East Coast Corridor.
169. The government and the North East Mayoral Combined Authority commit to the development of a clear joint plan for rural growth, stewardship and net zero, which recognises the opportunities and challenges to the rural economy and the major role the North East can play in addressing them.
170. The North East Mayoral Combined Authority will establish a Rural Growth and Stewardship Board chaired by a Northumberland County Council Cabinet member and driven by Northumberland, Gateshead and County Durham Councils, with government committing to senior level engagement and strong collaboration with DEFRA and its arms-length agencies – supporting the Government’s Places for Growth programme. This Board will oversee a long-term Rural Economic Investment Programme for the region which builds on the LEADER programme.
171. DEFRA has set out plans to replace EU LEADER funding and growth programme elements of the Rural Development Programme, including the funding allocations for the North East Mayoral Combined Authority. This will allow the North East to deliver small scale capital grants for rural community infrastructure and grants for businesses, including for farm diversification.
172. Building on the Local Nature Recovery Strategy pilots, including in Northumberland, formal appointment of responsible authorities for Local Nature Recovery Strategies (LNRS) will be made following publication of relevant regulations and guidance and confirmation of funding. LNRSs will: map the most valuable existing habitat for nature; map proposals for creating or improving habitat for nature and wider environmental goals; and agree priorities for nature’s recovery. DEFRA agrees to consider the role of the

North East MCA in the LNRS including a review of relevant LNRS geographies once the combined authority is in operation.

173. In line with commitments made in the Borderlands Inclusive Growth Deal, the government, which is committed to increasing private investment in nature's recovery across England, will support the North East MCA to capture the economic benefits of its natural capital and attract private investment including to deliver priorities identified in LNRSs. This support may include: a proportion of revenue funding; specialist expertise; co-ordination of peer support and networking; and/or local partnership working with DEFRA's Arm's Length Bodies (Environment Agency, Natural England, Forestry Commission). Any funding provided remains subject to further agreement and approvals and will be conditional on participation in a programme of evaluation and shared learning.

## **North East's commitments underpinning the deal**

174. The North East Mayoral Combined Authority will work with government to develop a full implementation plan, covering each policy agreed in this deal, to be completed ahead of implementation. This plan must be approved by government prior to delivery. Any issues of concern with the subsequent delivery of this deal will be escalated to ministers and leaders to resolve, in keeping with the letter and spirit of devolution.
175. The North East Mayoral Combined Authority will be required to evaluate the impact of the North East Investment Fund. The North East Mayoral Combined Authority and government will jointly commission an independent assessment of the economic benefits and economic impact of the investments made under the scheme, including whether the projects have been delivered on time and to budget. This assessment will be funded by the North East Mayoral Combined Authority, but agreed at the outset with DLUHC and HM Treasury, and will take place every five years. The next five-year tranche of funding will be unlocked if government is satisfied that the independent assessment shows the investment to have met the objectives and contributed to economic growth. The gateway assessment should be consistent with the HM Treasury Green Book, which sets out the framework for evaluation of all policies and programmes. The assessment should also take into account the latest developments in economic evaluation methodology. Government would expect the assessment to show that the activity funded through the scheme represents better value for money than comparable projects, defined in terms of a benefit to cost ratio and considered in the strategic context of local ambitions for inclusive growth across the whole geography.
176. As part of the implementation of the deal, the North East Mayoral Combined Authority and government will agree a process to manage local financial risk relating to the deal provisions.
177. Prior to the first mayoral election, government will work with the North East to give the public and stakeholders – including Parliament – a clear understanding of the powers and funding that are being devolved to the North East, where accountability sits as a result of this deal and how decisions are made.
178. The North East Mayoral Combined Authority and its members will continue to adhere to their public sector equality duties, for both existing and newly devolved responsibilities.

## **Scheme setting out proposals for the creation of a new mayoral combined authority for the North East area**

### **Sections 109 and 112 of the Local Democracy, Economic Development and Construction Act 2009**

**This scheme has been jointly prepared by:**

- Durham County Council
- Gateshead Metropolitan Borough Council
- Newcastle City Council
- Northumberland County Council
- North Tyneside Council
- South Tyneside Metropolitan Borough Council,
- Sunderland City Council.

This scheme sets out proposals to change the governance arrangements for the area of the seven councils set out above by:

- i. the abolition of the two combined authorities which currently exist in the area of the seven councils; and
- ii. the creation of a single new mayoral combined authority to cover the area of all seven councils.

## Interpretation

In this Scheme:

“the 2008 Act” means the Housing and Regeneration Act 2008,

“the 2009 Act” means the Local Democracy, Economic Development and Construction Act 2009,

“the Combined Area” means the area of the Constituent Councils;

“the Constituent Councils” means:

- Durham County Council
- Gateshead Metropolitan Borough Council
- Newcastle City Council
- Northumberland County Council
- North Tyneside Council
- South Tyneside Metropolitan Borough Council, and
- Sunderland City Council

and a reference to a “Constituent Council” or “Constituent Councils” shall mean any one or more of the above;

“Constituent Council Member” shall mean a member appointed to NEMCA by a Constituent Council;

“Deputy Mayor” means a Constituent Council Member who is appointed by the Mayor to act as Mayor when the Mayor is unavailable or unable to act;

“Mayor” means the mayor for the Combined Area,

“Mayoral Function” means any function of NEMCA which is the responsibility of the Mayor;

“NEMCA” means the new mayoral combined authority which is to be established for the Combined Area and known as the North East Mayoral Combined Authority,

“NECA” means the Durham, Gateshead, South Tyneside and Sunderland Combined Authority which is also known as the North East Combined Authority;

“Non-Mayoral Function” means any function of NEMCA which is not a Mayoral Function,

“NTCA” means the Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority which is also known as the North of Tyne Combined Authority.

## 1. Introduction

- a) On 28th December 2022, the 7 North East Authorities (ie Durham County Council, Gateshead Council, Newcastle City Council, North Tyneside Council, Northumberland County Council, South Tyneside Council and Sunderland City Council) agreed a “minded to” devolution deal with HM Government.
- b) The devolution deal sets out £4.2bn of government investment, which will be subject to local influence and decision making, enabling spend on local priorities, together with a range of devolved functions. The devolution deal can be found at: <https://www.gov.uk/government/publications/north-east-devolution-deal--2>
- c) The devolution deal is subject to the 7 North East Authorities adopting the model of a directly elected mayor over the whole of their area.
- d) This will require the abolition of the two combined authorities which currently exist in the area of the North East Authorities, namely:
  - 1.d.1 NECA which is the combined authority covering the local government areas of Durham, Gateshead, South Tyneside and Sunderland; and
  - 1.d.2 NTCA which is the mayoral combined authority covering the local government areas of Newcastle upon Tyne, North Tyneside and Northumberland.
- e) A new mayoral combined authority will then be established across the area of all 7 North East Authorities.
- f) In order to deliver these changes, the North East Authorities must follow the statutory process in the 2009 Act.
- g) As the first part of the statutory process, the North East Authorities have conducted a governance review under sections 108 and 111 of the 2009 Act in relation to the changes set out above. Having considered the findings of the review, the North East Authorities have concluded that the proposed changes would be likely to improve the exercise of statutory functions in relation to their area. They have therefore resolved to publish this scheme under sections 109 and 112 of the 2009 Act regarding the proposed creation of a new mayoral combined authority for their area. The scheme sets out the statutory functions which the new mayoral combined authority would have and how it would make decisions on the use of its statutory functions.
- h) The proposals contained in this scheme will be subject to public consultation from [ ] January 2023 to [ ] March 2023. At the end of that period, the 7 North East Authorities, the existing combined authorities and the Mayor of NTCA will consider the responses to the consultation and whether they wish to pursue the proposed creation of a mayoral combined authority for their area. If they do, they will then submit the consultation responses to the Secretary of State who will consider whether the statutory requirements in the 2009 Act have been met.

If satisfied that the statutory tests have been met, the Secretary of State will prepare a draft of the necessary legal order to give effect to the changes, i.e. to

- a) abolish NECA and NTCA, and (ii) create the new mayoral combined authority for the area. Subject to necessary consents from authorities locally, the Secretary of State will lay the draft order before Parliament and seek Parliament's approval to make the order.



## **2. Proposed Mayoral Combined Authority for the North East**

### **2.1 Geography**

2.1.1 The area of the new mayoral combined authority shall be the Combined Area, ie the area consisting of the areas of the 7 North East Authorities (which are referred to in the remainder of this scheme as “the Constituent Councils”).

### **2.2 Name**

2.2.1 It is proposed that the name of the new mayoral combined authority shall be the **North East Mayoral Combined Authority (“NEMCA”)**.

### **2.3 Election of Mayor**

2.3.1 It is proposed that the first Mayor will be elected in May 2024. The Mayor will be elected by the local government electors for the Combined Area.

2.3.2 As set out in the 2009 Act, the Mayor is to be returned under the simple majority system (‘first past the post’).

2.3.3 It is proposed that the initial term of the Mayor will be 4 years and each subsequent mayoral term will also be 4 years.

2.3.4 The 2009 Act provides that the Mayor will be entitled to the style of “Mayor” and the title of the Mayor will be the North East Mayor.

### **2.4 Membership**

2.4.1 It is proposed that the membership of NEMCA will comprise 10 members.

2.4.2 The following members will be voting members for the purposes of making decisions on the exercise of Non-Mayoral Functions (see also section 2.6 below):

- the Mayor; and
- seven elected members, ie one appointed by each of the seven Constituent Councils (and these members are referred to as “Constituent Council Members”).

The above Members are collectively referred to as “the Voting Members”.

2.4.3 In addition to the Voting Members, the following individuals shall be non-voting members of NEMCA (unless NEMCA resolves to give these members a vote):

- the Chair of the Business Board (see section 3.7 below); and
- a representative of the Community and Voluntary Sector.

2.4.4 Where the members of NEMCA meet to make decisions on the exercise of the functions of NEMCA, these meetings will be referred to as Cabinet meetings.

2.4.5 Each Constituent Council shall be entitled to appoint a substitute member to act in the absence of its Constituent Council Member at a Cabinet meeting.

## **2.5 Role of the Mayor**

2.5.1 As provided by the 2009 Act, the Mayor by virtue of their office will be the Chair of NEMCA and chair Cabinet meetings.

2.5.2 The Mayor will be responsible for the exercise of those functions of NEMCA which are Mayoral Functions, as set out at section 3.1.4 below.

### **Deputy Mayor**

2.5.3 The 2009 Act requires the Mayor to appoint one of the Constituent Council Members of NEMCA as a Deputy Mayor, who will act in place of the Mayor if for any reason the Mayor is unable to act or the office of Mayor is vacant. The Deputy Mayor will chair meetings of the Cabinet in the absence of the Mayor.

## **2.6 Decision-making arrangements**

2.6.1 As set out in section 3 of this scheme, certain functions of NEMCA are Mayoral Functions. Decisions on the exercise of any Mayoral Function are to be made by the Mayor in accordance with the requirements set out at para 2.6.8. to 2.6.12 below.

### **Decision-making on non-mayoral functions**

2.6.2 All the other functions of NEMCA are Non-Mayoral Functions. Decisions on the exercise of Non-Mayoral Functions shall generally be made by the Cabinet. Cabinet may also delegate authority so that decisions on Non-Mayoral Functions can be made:

- by a committee or subcommittee of NEMCA;
- by an officer of NEMCA; or
- under joint arrangements with another local authority.

2.6.3 No business of the Cabinet will be transacted at a meeting unless the Mayor (or Deputy Mayor) and at least five Constituent Council members are present. It is proposed that the Cabinet will aim to reach decisions by consensus but, if it is not possible to reach a consensus on a matter that requires a decision, the matter will be put to the vote.

2.6.4 The Mayor and each Constituent Council Member will have one vote. The Mayor will not have a second or casting vote. Decisions of Cabinet will be decided by way of a simple majority of the Voting Members present except for those decisions outlined in paragraphs 2.6.6 and 2.6.7 below.

2.6.5 If the Mayor does not vote with the majority of Cabinet the Mayor may seek a review of the decision taken by the Cabinet (a "Mayoral Review"). Such a

review will cause the Cabinet decision to be re-considered by the Cabinet and the Cabinet may confirm or change its original decision. The reasons for the Cabinet's decision will be published. (NB: The opportunity for the Overview and Scrutiny Committee of NEMCA to call in certain Cabinet decisions will commence after the expiry of the deadline for a Mayoral Review or conclusion of a Mayoral Review process.) For the avoidance of doubt, decisions on Non Mayoral Functions identified in paragraphs 2.6.6 and 2.6.7 shall not be subject to a Mayoral Review.

2.6.6 Decisions at any meeting of the Cabinet on the following Non-Mayoral Functions will require the unanimous support of all Voting Members (ie the Mayor and all seven Constituent Council Members):

- Approval of, and any amendment to, NEMCA's annual budget excluding those elements of the annual budget which relate to Mayoral functions;
- Approval of, and any amendment to, the setting of any levy which NEMCA shall apply to any Constituent Council;
- Agreement to confer upon the Mayor a duty to produce a Spatial Development Strategy.

2.6.7 Decisions at any meeting of the Cabinet on non-mayoral transport functions (as set out in Part 3 of this Scheme) and other functions which are not presently held by NTCA and/or NECA will by way of a simple majority of the Voting Members present at the meeting provided that the Mayor must also have voted in favour of the proposal for it to be approved.

#### **Decision-making on Mayoral Functions**

2.6.8 In accordance with the 2009 Act, any Mayoral Function will be exercisable only by the Mayor. The Mayor may delegate such a function:

- to the Deputy Mayor,
- to another Constituent Council Member of NEMCA,
- to an officer of NEMCA, or
- under joint arrangements.

2.6.9 It is proposed that any member or officer of NEMCA may assist the Mayor in the exercise of Mayoral Functions, but that the Mayor cannot delegate a decision on a Mayoral Function to their political advisor.

2.6.10 The Mayor will be required to consult the Cabinet on any policy or strategy relating to the exercise of a Mayoral Function. The Mayor's exercise of Mayoral Functions will be subject to the following specific conditions:

- a) The adoption by the Mayor of any Spatial Development Strategy (or amendment thereto) will require the consent of at least four Constituent Council Members at a Cabinet meeting;
- b) Cabinet will be able to amend the Mayor's budget if at least five Constituent Council Members agree to do so at a Cabinet meeting;

- c) Cabinet will be able to amend the Mayor's transport strategy (including but not limited to the Local Transport Plan) if a simple majority of Constituent Council Members at a Cabinet meeting agree to do so.

2.6.11 It is also proposed that some decisions in respect of Mayoral Functions will require the consent of the Constituent Council Member appointed by a Constituent Council directly affected by the decision. This consent requirement applies to the following:

- a) The use of the highway powers listed in section 3.2.6 below;
- b) The compulsory purchase of land or buildings by the Mayor (see sections 3.4.1 and 3.4.3 below);
- c) The designation of any area of land as a Mayoral Development Area and/or the establishment of a Mayoral Development Corporation (NB: the consent of the relevant national park authority is also required if the land falls within a national park area) (see section 3.4.2 below);
- d) Any decision that could lead to a financial liability falling directly upon that Constituent Council; and
- e) Such other matters as may be contained in NEMCA's constitution and agreed with the Mayor.

2.6.12 It is proposed that in relation to the Mayoral Functions, joint arrangements under section 101(5) of the Local Government Act 1972 are provided for by Order, in accordance with section 107E of the 2009 Act.

## **2.7 Scrutiny Arrangements**

2.7.1 The Mayor and the Cabinet will be scrutinised and held to account by NEMCA's Overview and Scrutiny Committee.

2.7.2 In accordance with the 2009 Act, NEMCA will ensure that the Overview and Scrutiny Committee has power to:

- a) review or scrutinise decisions made, or other action taken, in connection with the discharge of any functions which are the responsibility of NEMCA;
- b) make reports or recommendations to NEMCA with respect to the functions that are the responsibility of NEMCA;
- c) make reports or recommendations to NEMCA on matters that affect the Combined Area or the inhabitants of the Combined Area.

2.7.3 NEMCA's arrangements must also ensure that the Overview and Scrutiny Committee has power to:

- a) review or scrutinise decisions made, or other action taken, in connection with the discharge by the Mayor of any Mayoral Functions;
- b) make reports or recommendations to the Mayor with respect to the discharge of any Mayoral Functions;
- c) make reports or recommendations to the Mayor on matters that affect the Combined Area or the inhabitants of the Combined Area.

- 2.7.4 The Committee shall have the power to “call-in” certain decisions taken by the Mayor or NEMCA (in which event the Committee can direct that (a) a decision is not to be implemented while it is under review by the Committee, and (b) recommend that the decision be reconsidered by the decision-maker).
- 2.7.5 Membership of the Overview and Scrutiny Committee shall consist of an equal number of members from each Constituent Council and such other independent persons as may be appointed by NEMCA. The appointment of members to the Overview and Scrutiny Committee shall reflect political balance across the whole of NEMCA’s area at the time of their appointment.
- 2.7.6 The Chair of the Overview and Scrutiny Committee will be an “Appropriate Person” within the meaning of sub-paragraph (5)(a) of Schedule 5A of the 2009 Act and will be an elected member of a Constituent Council but not a person who is a member of a registered political party of which the Mayor is a member. The Chair of the Overview and Scrutiny Committee will be appointed by the Committee as the first item of business of the Committee in any municipal year.
- 2.7.7 The Overview and Scrutiny Committee may appoint such Sub-Committees as it deems necessary to fulfil its functions.

## **2.8 Audit**

- 2.8.1 NEMCA will appoint an Audit Committee, which will carry out the statutory functions of an audit committee in accordance with the 2009 Act, which include:
- a) reviewing and scrutinising NEMCA's financial affairs;
  - b) reviewing and assessing NEMCA's risk management, internal control and corporate governance arrangements;
  - c) reviewing and assessing the economy, efficiency and effectiveness with which resources have been used in discharging NEMCA's functions; and
  - d) making reports and recommendations to NEMCA in relation to reviews the Committee has conducted.
- 2.8.2 Membership of the Audit Committee shall consist of an equal number of members from each Constituent Council and at least one independent person appointed by NEMCA who shall chair the Audit Committee. The appointment of members to the Audit Committee shall reflect political balance across the whole of NEMCA’s area at the time of their appointment.

## **2.9 Appointments - political advisors**

- 2.9.1 It is proposed that the Mayor may appoint one person as the Mayor's political adviser.

## **2.10 Standing Orders**

- 2.10.1 It is proposed that NEMCA will make standing orders for the regulation of its proceedings and business and may vary or revoke any such orders.

## **2.11 Remuneration**

2.11.1 NEMCA shall approve a scheme for allowances for Members, following consideration of a report from an Independent Remuneration Panel.

2.11.2 The Mayor shall be paid an allowance as agreed by the Constituent Council Members of Cabinet, following consideration of a report from an Independent Remuneration Panel.

2.12.3 The Independent Remuneration Panel for these purposes may be a panel appointed by NEMCA for this purpose or a panel already established by one of the Constituent Councils.

### **3 Functions of the Mayoral Combined Authority**

#### **3.1 General**

- 3.1.1 The prime purpose of NEMCA is to improve the exercise of statutory functions in relation to the Combined Area. In pursuit of this prime purpose, NEMCA will take on those functions set out in the “minded to” Devolution Deal (and retain those functions which were previously exercised by NECA and NTCA in respect of their areas).
- 3.1.2 Mayoral Functions will be the responsibility of the Mayor, and are exercisable only by the Mayor, unless delegated by the Mayor.
- 3.1.3 Where any Mayoral or Non-Mayoral Function is concurrent (ie shared) with any Constituent Council, then NEMCA and the Constituent Council shall agree arrangements for its exercise. NEMCA and the Constituent Councils will agree operating protocols for the exercise of these concurrent functions by NEMCA where considered appropriate. These protocols will recognise the strategic role of NEMCA and safeguard the role of the Constituent Councils in local decision making and delivery.
- 3.1.4 The following are Mayoral Functions:

#### **Transport**

- a) Power to draw up a Local Transport Plan and strategies
- b) Bus franchising powers
- c) Ability to pay grants to bus service operators.
- d) Ability to pay grants to the Constituent Councils for exercising transport functions.

#### **Housing and planning**

- a) Power to designate Mayoral Development Areas and establish Mayoral Development Corporations
- b) Housing and land acquisition powers (including compulsory purchase) to support housing, regeneration, infrastructure and community development and wellbeing
- c) Power to draw up a Spatial Development Strategy (subject to NEMCA agreeing to allocate the power to the Mayor)

#### **Finance**

- a) Power to set a precept on council tax to fund Mayoral Functions
- b) Power to charge business rate supplement (subject to ballot)

- 3.1.5 For the purposes of the discharge of Mayoral functions the Mayor may do anything that NEMCA may do under section 113A of the 2009 Act (functional power of competence) other than borrow money.

- 3.1.6 All other functions of the Combined Authority will be Non-Mayoral Functions.
- 3.1.7 In addition to the above, the Constituent Councils and NEMCA may enter into arrangements under section 101 of the Local Government Act 1972 and/or section 9EA of the Local Government Act 2000 and the Local Authorities (Arrangements for Discharge of Functions) (England) Regulations 2012 to allow the delegation of functions from a Constituent Council to NEMCA or vice versa. Any such delegation arrangement will require the agreement of NEMCA and the relevant Constituent Council.
- 3.1.9 NEMCA may also enter into joint arrangements with any Constituent Council or other local authority, in respect of Non-Mayoral Functions, in accordance with section 101(5) of the Local Government Act 1972



## **3.2 Transport**

### **Local Transport Authority and Local Transport Plan**

- 3.2.1 At present NECA is the Local Transport Authority for its area and NTCA is the Local Transport Authority for its area. Therefore, NECA and NTCA currently have transport functions for their respective areas. However, NECA and NTCA jointly exercise their transport functions through the Joint Transport Committee which comprises elected members from both NECA and NTCA.
- 3.2.2 If NEMCA is created it will be the Local Transport Authority for the Combined Area under the Transport Act 2000. As NECA and NTCA will be abolished, the Joint Transport Committee will also cease to exist. NEMCA will exercise the transport functions for the Combined Area which were previously held by NECA and NTCA.
- 3.2.3 The Mayor will be given the functions in Part 2 of the Transport Act 2000 to produce a Local Transport Plan and associated strategies. As set out at para 2.6.10 above, the Cabinet of NEMCA will be able to amend the Local Transport Plan and strategies if a majority of members agree to do so. All other transport functions of NEMCA will be Non-Mayoral Functions unless explicitly identified in this scheme as Mayoral Functions (see para 3.1.4 above).
- 3.2.4 It is proposed that the Mayor will be able to exercise the functions of a minister of the Crown contained in section 31 of the Local Government Act 2003 to pay grants to the Constituent Councils for exercising transport functions. This power would be devolved from government to enable funding from government to be paid to Constituent Councils.

### **Roads**

- 3.2.5 NEMCA will agree a Key Route Network (KRN) of those roads across the Combined Area which are maintained by the Constituent Councils as highway authorities for their respective areas. NEMCA will develop and agree a strategy for the Key Route Network. To support this, the allocation of all local roads maintenance funding will be determined by NEMCA within the context of its City Region Sustainable Transport Settlement (CRSTS).
- 3.2.6 NEMCA will also hold concurrently with the constituent authorities the following powers:
- section 6 of the Highways Act 1980 (enabling the Secretary of State or Highways England to delegate or enter into an agreement with NEMCA in relation to the construction, improvement or maintenance of trunk roads);
  - section 8 of the Highways Act 1980 (enabling NEMCA to enter into agreements with other such authorities in relation to the construction, improvement, maintenance etc. of a highway within the Combined Area);

- sections 33, 33A and 36 of the Traffic Management Act 2004 (which would allow NEMCA to operate a permit scheme for the carrying out of specified works in specified streets);
- section 39 of the Road Traffic Act 1988 (promotion of road safety)
- Bus Lane Contraventions (Penalty Charges, Adjudication and Enforcement)(England) Regulations 2005 (enforcement of bus lane contraventions)

The exercise of any of these powers by NEMCA will require the consent of the Constituent Council Member appointed by a Constituent Council directly affected by the decision.

3.2.7 Central government intends to legislate to give the mayor of each mayoral combined authority a power of direction (if the mayor agrees) to allow them to direct local authorities on exercising their powers in respect of the KRN.

### **Buses**

3.2.8 Following government reform of Bus Service Operator Grants, NEMCA will be granted powers under section 154 of the Transport Act 2000 to make grants to bus service operators.

3.2.9 NEMCA will become a franchising authority under the Transport Act 2000. This Act provides for the Mayor to carry out functions in relation to making, varying or revoking a bus franchising scheme.

### **Membership of Transport for the North**

3.2.10 It is proposed that NEMCA shall become a Constituent Authority of Transport for the North (“TfN”), which is the Sub-National Transport Body for the North of England

### **Nexus**

3.2.11 Nexus is the passenger transport executive for the Tyne and Wear area for the purposes of the Transport Act 1968 and an Executive Body of NECA and NTCA for the purposes of Part 5 of the Local Transport Act 2008 and Part 6 of the Local Democracy, Economic Development and Construction Act 2009. Nexus will continue in these roles in respect of NEMCA. Subject to the agreement of Nexus, NEMCA and the relevant County Council, the remit of Nexus may be extended to include Northumberland and/or Durham.

3.2.12 Nexus will be treated as if it is an officer of NEMCA in the application of section 101 of the Local Government Act 1972.

### **Tyne Tunnels**

3.2.13 The Tyne Tunnels (consisting of the vehicular, cycle and pedestrian tunnels and associated landholdings) will be transferred from the joint ownership of

NECA and NTCA to the MCA, as will all property, rights and liabilities held by NECA and NTCA.

### **3.3 Adult Education / Skills and Employment**

- 3.3.1 It is proposed that NEMCA will be given devolved functions in respect of Adult Education and will control the Adult Education Budget (AEB) from the academic year 2024/2025. (These arrangements will not cover apprenticeships training or persons subject to adult detention.)
- 3.3.2 These functions include those set out in the following sections of the Apprenticeships, Skills, Children and Learning Act 2009:
- a) section 86 (education and training for persons aged 19 or over and others subject to adult detention);
  - b) section 87 (learning aims for persons aged 19 or over: provision of facilities);
  - c) section 88 (learning aims for persons aged 19 or over: payment of tuition fees);
  - d) section 90 (encouragement of education and training for persons aged 19 or over and others subject to adult detention);
  - e) section 100 (provision of financial resources).

Sections 86 to 88, 90, 100, 101, 103, 115 and 121 of the Apprenticeships, Skills, Children and Learning Act 2009 will be modified to enable NEMCA to exercise the Adult Education/Skills and employment functions set out above.

- 3.3.3 In addition, NEMCA will also have the following authority functions to be held concurrently with the Constituent Councils:
- a) section 15ZA, 15ZB, 15ZC, 18A(1)(b), 514A and 560A of the Education Act 1996 (functions related to the provision of work experience);
  - b) sections 10 and 12 of the Education and Skills Act 2008 to ensure that its functions are exercised so as to promote the effective participation in education and training of relevant persons in its area aged 16 and 17, and to make arrangements to enable it to establish (so far as possible) the identities of such relevant persons;
  - c) sections 68, 70, 71 and 85 of the Education and Skills Act 2008 to make available to young persons and relevant young adults such support services as it considers appropriate to encourage, enable and assist the effective participation of such persons in education and training, and functions relating to co-operation with other authorities;
  - d) section 13A of the Education Act 1996 to ensure that their education and training functions are exercised with a view to promoting high standards, fair access to opportunity for education and training, and the fulfilment of learning potential;
  - e) section 51A of the Further and Higher Education Act 1992 to require relevant institutions in the further education sector to provide appropriate education to specified individuals aged between 16 and 18 years.

3.3.4 It is proposed that NEMCA and DWP will establish an Inclusive Economy Board for the Combined Area to promote local employment and sustainable supply chains.

## 3.4 Housing and Planning Functions

### 3.4.1 Housing

3.4.1.1 In order to exercise the functions outlined in the “minded to” Devolution Deal, it is proposed that NEMCA will be granted the following powers concurrently with the Constituent Councils or Homes England (which was formerly known as the Homes and Communities Agency) as appropriate.

3.4.1.2 It is proposed that NEMCA will be granted devolution of the objectives and functions of Homes England under section 2(1) of the Housing and Regeneration Act 2008 (to be exercised only in respect of the Combined Area) and the following powers contained in the 2008 Act will be exercised by NEMCA concurrently with Homes England (“HE”):

- a) section 3 (principal power);
- b) section 4 (general powers);
- c) section 5 (powers to provide housing or other land);
- d) section 6 (powers for regeneration, development or effective use of land);
- e) section 7 (powers in relation to infrastructure);
- f) section 8 (powers to deal with land etc);
- g) section 9 (acquisition of land);
- h) section 10 (restriction on disposal of land);
- i) section 11 (main powers in relation to, and for, statutory undertakers);
- j) section 12 (powers in relation to, and for, statutory undertakers);
- k) section 19 (power to give financial assistance);
- l) paragraphs 19 and 20 of Schedule 3 (powers in relation to burial grounds and consecrated land etc.);
- m) paragraphs 1,2,3,4,6,10 and 20 of Schedule 4 (extinguishment or removal powers for HE).

3.4.1.3 These functions will be Non-Mayoral with the exception of the specific HE compulsory purchase powers in section 9 of the 2008 Act (see below).

3.4.1.4 The objectives in section 2(1) of the 2008 Act are to provide NEMCA with the necessary powers:

- a) to improve the supply and quality of housing;
- b) to secure the regeneration or development of land or infrastructure;
- c) to support in other ways the creation, regeneration or development of communities or their continued well-being; and
- d) to contribute to the achievement of sustainable development and good design

with a view to meeting the needs of people living in the area.

3.4.1.5 The functions in this section include powers enabling the achievement of the above objectives. Such powers include the power of compulsory purchase contained in section 9 of the 2008 Act (subject to the authorisation of the Secretary of State). In order to achieve the objectives above, it is proposed

that NEMCA should also have the benefit of exemption from section 23 of the Land Compensation Act 1961, which is enjoyed by the HE under section 23(3)(d) of that Act.

3.4.1.6 As set out above, it is proposed that the exercise of the compulsory purchase power contained in section 9 of the 2008 Act, will only be exercisable by the Mayor with the consent of the Constituent Council Member(s) for the area(s) of land to be compulsorily acquired and the Secretary of State.

3.4.1.7 It is proposed that NEMCA should be granted the power to acquire land for the development of housing under section 17 of the Housing Act 1985 and the associated section 11, 12 and 18. It is proposed that the power to acquire land compulsorily under section 17(3) of the Housing Act 1985 will be a Mayoral function but will require the consent of the Constituent Council Member for the Constituent Council for the area(s) of land to be compulsorily acquired and the Secretary of State. The conferral of such powers on NEMCA will be entirely without prejudice to the exercise of those powers by the Constituent Councils which will exercise those powers as before.

### **3.4.2 Mayoral Development Corporation**

3.4.2.1 It is proposed that the Mayor will have the power to designate an area a Mayoral Development Area (“MDA”) and so create a Mayoral Development Corporation (“MDC”) to help drive regeneration and expedite housing delivery on complex schemes in the area. The advantage of MDCs is that they have most of the powers of an Urban Development Corporation but are controlled locally rather than by the Secretary of State.

3.4.2.2 It is proposed that Part 8, Chapter 2 of the Localism Act 2011 be modified so that references to the GLA, Greater London and the London Mayor would include NEMCA and the Mayor. This would enable NEMCA to have functions for the Combined Area corresponding to the following functions contained in the Localism Act 2011 that the Mayor of London has:-

- a) Section 197 (designation of Mayoral Development Areas);
- b) Section 199 (exclusion of land from Mayoral Development Areas);
- c) Section 200 (transfers of property etc to a Mayoral Development Corporation);
- d) Section 202 (functions in relation to town and country planning);
- e) Section 204 (removal or restriction of planning functions);
- f) Section 214 (powers in relation to discretionary relief from non-domestic rates);
- g) Section 215 (reviews);
- h) Section 216 (transfers of property, rights and liabilities);
- i) Section 217 (dissolution: final steps);
- j) Section 219 (guidance by the Mayor);
- k) Section 220 (directions by the Mayor);
- l) Section 221 (consents);
- m) Paragraph 1 of Schedule 21 (membership);

- n) Paragraph 2 of Schedule 21 (terms of appointment of members);
- o) Paragraph 3 of Schedule 21 (staff);
- p) Paragraph 4 of Schedule 21 (remuneration etc: members and staff);
- q) Paragraph 6 of Schedule 21 (committees); and
- r) Paragraph 8 of Schedule 21 (proceedings and meetings).

3.4.2.3 It is proposed that the Mayor's power to designate an area a MDA under section 197 of the Localism Act 2011 will require the consent of the Constituent Council Member(s) whose local government area contains any part of the MDA.

3.4.2.4 It is further proposed that the Mayor's power to exclude land from a MDA under section 199 of the Localism Act 2011 will require the consent of the Constituent Council Member whose local government area contains any part of the area to be excluded from the MDA.

3.4.2.5 It is also proposed that the London Mayor's power under section 202 of the Localism Act 2011 to decide that a MDC should have certain planning functions in relation to the whole or part of a MDA should be modified in relation to the Mayor so that the Mayor can only exercise this power with the consent of the Constituent Council Member(s) for the local government area concerned and (where appropriate) the Northumberland National Park Authority

### **3.4.3 Economic Development and Regeneration**

3.4.3.1 It is proposed that NEMCA shall have the functions of the Constituent Councils under section 1 of the Localism Act 2011 (local authority's general power of competence) so far as those functions are exercisable for the purpose of economic development and regeneration. This general power of competence, which will be a non-mayoral function, will be in addition to the powers given to NEMCA under Section 113A of the Local Democracy, Economic Development and Construction Act 2009.

It is proposed that NEMCA will have the power to exercise any of the functions described in subsection (1)(a) and (b) of section 88 of the Local Government Act 1985 (research and collection of information) whether or not a scheme is made under that section. For the purposes of section 88(1) of the Local Government Act 1985 references to "that area" are to be taken as a reference to the Combined Area.

3.4.3.2 It is proposed that NEMCA will be granted the power to exercise concurrently with the Constituent Councils the functions of the Constituent Councils to compulsorily acquire land for development and other planning purposes under section 226 of the Town and Country Planning Act 1990 and the associated powers under sections 227, 229, 230, 232, 233, 235, 236, 238, 239 and 241 of the Town and Country Planning Act 1990. NEMCA's exercise of such powers will in each instance be subject to the consent of the Constituent Council Member in whose area the property is located.



3.4.3.3 The conferral of such powers on NEMCA will be entirely without prejudice to the exercise of those powers by the Constituent Councils who will be able to exercise those powers as they did previously.

### **3.4.4 Strategic Place Partnership**

3.4.4.1 It is proposed that NEMCA and Homes England will establish a Strategic Place Partnership to work together to identify and develop key opportunities for housing delivery.

### **3.4.5 Planning**

3.4.5.1 It is proposed that, subject to Cabinet agreeing by way of a unanimous decision of all Voting Members (ie the Mayor and all seven Constituent Council Members), the Mayor will have the power to create a statutory Spatial Development Strategy for the Combined Area. If agreed, this will coordinate strategic land-use planning with strategic transport planning providing a framework to achieve a strategic level change in environmental planning policy to reduce carbon emissions and tackle the climate emergency.

3.4.5.2 The development of the scope and preferred approach to a Spatial Development Strategy will require an inclusive and collaborative approach to be taken by the Mayor together with other members of NEMCA and the Constituent Councils.

3.4.5.3 It is proposed that the Mayor will have the functions for the Combined Area corresponding to the following functions contained in the Greater London Authority Act 1999 ("the 1999 Act") which the Mayor of London exercises in relation to Greater London or where appropriate such sections will apply subject to appropriate modifications:

- a) Section 334 (the spatial development strategy);
- b) Section 335 (public participation);
- c) Section 336 (withdrawal);
- d) Section 337 (publication);
- e) Section 338 (examination in public);
- f) Section 339 (review of matters affecting the strategy);
- g) Section 340 (review of the strategy);
- h) Section 341 (alteration or replacement);
- i) Section 342 (matters to which the Mayor is to have regard);
- j) Section 343 (ability of the Secretary of State to make regulations);
- k) Section 344 (amendments to the Town & Country Planning Act 1990);
- l) Section 346 (monitoring and data collection);
- m) Section 347 (constituent councils to have regard to the strategy); and
- n) Section 348 (Mayor's functions as to planning around Greater London)

3.4.5.4 The exercise of any of the functions corresponding to the functions in sections 33(public participation), 336 (withdrawal), 337 (publication) and 341 (alteration or replacement) of the 1999 Act by the Mayor will require the consent of the Constituent Council Members of NEMCA.

### **3.5 VAT**

- 3.5.1 For the avoidance of doubt, NEMCA will be a body specified for the purposes of Section 33 of the Value Added Tax Act 1994. This will entitle NEMCA to claim refunds of Value Added Tax charged on supplies to, and acquisitions or importations by NEMCA.

### **3.6 Information Sharing**

- 3.6.1 It is proposed that sections 17A and 115 of the Crime and Disorder Act 1998 should be amended to give NEMCA the same standing as a Local or Public Authority for the purpose of information sharing.

### **3.7 LEP Integration**

- 3.7.1 In accordance with government policy on the integration of Local Enterprise Partnerships (“LEPs”), it is proposed that NEMCA will take on the functions and responsibilities of the North East LEP, including its staffing, assets and ongoing local growth funding streams. The relationship with business will be integral to the proposed arrangements. In order to carry on the work of the North East LEP’s Board, NEMCA will establish a business board comprising representatives from the business community and other relevant stakeholders to provide advice and challenge to the Mayor and Cabinet. The Chair of the Business Board will be a non-voting member of NTCA’s Cabinet.

### **3.8 Partnership Arrangements with the Police and Crime Commissioners**

- 3.8.1 The Mayor and NEMCA will work closely with the Police and Crime Commissioners for Durham and Northumbria to develop strong partnership arrangements, ensuring a joined-up approach between community policing and place-based services.

### **3.9 Continuity**

- 3.9.1 The staffing, assets, rights and liabilities of NTCA and NECA will transfer on their abolition to NEMCA.

### **3.10 Incidental Provisions**

- 3.10.1 NEMCA will be treated as a local authority for the purposes of:

- a) section 113 of the Local Government Act 1972 (placing staff at the disposal of other local authorities);
- b) section 142(2) of the Local Government Act 1972 (power to arrange for publication of information etc relating to functions of the authority);
- c) section 144 of the Local Government Act 1972 (the power to encourage visitors and provide conference and other facilities);
- d) section 145 of the Local Government Act 1972 (provision of entertainments);

- e) section 222 of the Local Government Act 1972 (power to prosecute and defend legal proceedings); and
- f) section 69 of the Local Democracy, Economic Development and Construction Act 2009 Act (duty to prepare an assessment of economic conditions).

## **4. Finance and Investment**

### **4.1 Levies**

4.1.1 NEMCA will have the power to issue to the Constituent Councils levies under section 74 of the Local Government Finance Act 1988 to meet the expenditure that is reasonably attributable to the exercise of its functions. It is proposed that NEMCA will be able to issue three transport levies (in accordance with the Transport Levying Bodies Regulations 1992) as is currently the case across the Combined Area, ie a levy for Durham, a levy for Northumberland and a levy for the Tyne and Wear area.

### **4.2 Precept**

4.2.1 It is proposed that the Mayor will have the power under section 40 of the Local Government Finance Act 1992 to issue a Council Tax Precept on behalf of NEMCA to provide for the costs of the Mayor that are incurred in, or in connection with, the exercise of Mayoral Functions.

4.2.2 Any precept in relation to Mayoral Functions will be subject to scrutiny and amendment under the procedure relating to the Mayor's budget.

### **4.3 Mayor's budget**

4.3.1 NEMCA will follow the procedure set out in the Combined Authorities (Finance) Order 2017 to approve the Mayor's budget. This provides that the Mayor must prepare a draft budget in respect of Mayoral Functions by 1 February each year, setting out the Mayor's spending plans for the forthcoming year and how the Mayor intends to meet the costs of Mayoral Functions, and including the relevant amounts and calculations to be used for the purpose of determining the precept. The Cabinet will be able to amend the Mayor's Budget on a vote passed by a majority comprising at least 5 [ie 2/3] of the Constituent Council Members.

### **4.4 Borrowing**

4.4.1 It is proposed that the Secretary of State make regulations pursuant to section 23(5) of the Local Government Act 2003 to provide NEMCA with borrowing powers for its Mayoral and Non-Mayoral Functions.

### **4.5 Business Rate Supplement**

4.5.1 It is proposed that the Mayor will have the power, with the agreement of NEMCA and in consultation with the business community, to raise a Business Rate Supplement to fund infrastructure investment. NEMCA will be a levying authority for the purposes of the Business Rates Supplement Act 2009 and the Constituent Councils shall be deemed to be acting jointly through NEMCA in accordance with section 2(3) of the Business Rates Supplement Act 2009.

### **4.6 Constituent Councils' funding of NEMCA**

4.6.1 Provision shall also be made for the Constituent Councils to meet the costs of NEMCA and how the costs are to be apportioned between the Constituent Councils.