Leadership Board

Tuesday 24 January 2023 at 2.00pm

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

www.northeastca.gov.uk

AGENDA

9. **Budget 2023/24 and Medium-Term Financial Strategy** **31-86**

10. **Capital Programme 2023/24 and Treasury Management Policy and Strategy** **87-170**

11. **North East Devolution** – *Report to follow* **171**

12. **Audit Completion Report 2021/22** – *Deferred till next meeting*

13. **Date and Time of Next Meeting:** 4 April 2023 at 2.00pm.

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North East Combined Authority

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Item 3

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 Council's 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 Coat 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.

8 **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.

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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.

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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.

Item 6

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.

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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 17th 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.

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

John Scott, Head of Economic Growth, South Tyneside Council john.scott@southtyneside.gov.uk

18.0 Sign off

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

21.0 Glossary

None.

Item 7

Leadership Board

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 re-opened. 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 2nd 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

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Item 8

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 local authority services, including Council Tax and locally retained business rates. The settlement confirms £2bn in additional grant funding for social case 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.

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 30th 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;

- 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

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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 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

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Item 9

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.

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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.

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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*

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	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
Total Expenditure	**122,630**	**787,245**	**89,670**	**98,441**
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
Total Income	**(120,000)**	**(783,924)**	**(89,000)**	**(98,000)**
Net deficit to fund from reserves	**2,630**	**3,321**	**670**	**441**

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*

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Leadership Board

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

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.

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

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 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, 0191 433 3860

17. Sign Off

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

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

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NORTH OF TYNE COMBINED AUTHORITY

Appendix 2

North East Joint Transport Committee

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
Total Transport Levies	**(87.201)**	**(50.867)**	**(87.201)**	**0.000**
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
Total Expenditure	**87.201**	**50.867**	**87.201**	**0.000**
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[1]
	£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
Total	**87.201**	**91.170**	**3.969**	

[1] ONS mid-2021 Population estimates, Population estimates for the UK, England, Wales, Scotland and Northern Ireland - Office for National Statistics (ons.gov.uk)

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:

	Durham	**Northumberland**	**Tyne and Wear**	**Total**
	£m	**£m**	**£m**	**£m**
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)
Transport Grant	**16.902**	**6.448**	**65.700**	**89.050**
JTC General Transport Costs and former TWITA Costs	0.010	0.010	2.100	2.120
Transport Levy	**16.912**	**6.458**	**67.800**	**91.170**

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:

	2022/23 Original Budget	Actual Spend to 31 Oct	2022/23 Forecast	2022/23 Variance	2023/24 Initial Budget
	£m	£m	£m	£m	£m
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
Net Expenditure / Levy	**15.619**	**7.474**	**16.166**	**0.547**	**16.912**

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

	2022/23 Original Budget	Actual Spend to 31 Oct	2022/23 Forecast	2022/23 Variance	2023/24 Initial Budget
	£m	£m	£m	£m	£m
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
Net Expenditure / Levy	**6.357**	**2.546**	**6.229**	**(0.128)**	**6.458**

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

	2021 Population	2022/23 Levy	2023/24 Proposed Levy	Change including population impact
		£	£	£
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
Total	**1,125,695**	**65,225,000**	**67,800,000**	**2,575,000**

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

	2022/23 Revised Budget	**Actual Spend to 31 Oct**	**2022/23 Forecast Outturn**	**2022/23 Variance**
	£m	**£m**	**£m**	**£m**
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)	-
Total Expenditure	**5.600**	**(2.879)**	**(0.451)**	**(6.051)**
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 of 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

	Actual	***Budget***	***Budget***	***Budget***	***Budget***
	2019/20	**2022/23**	**2023/24**	**2024/25**	**2025/26**
	£m	**£m**	**£m**	**£m**	**£m**
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
Total	**45.1**	**37.6**	**43.5**	**47.4**	**49.7**
Total as a % of 2019/20	**n/a**	**84%**	**97%**	**105%**	**110%**

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

	Gross Exp[2]	**Commercial Revenue[3]**	**Government Grant[4]**	**Net position**
	£m	**£m**	**£m**	**£m**

[2] Including central support service costs and overheads.
[3] This assumes fare revenue recovers to 97% of pre-Covid levels.
[4] 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
Total	**190.1**	**(50.8)**	**(65.6)**	**73.7**
JTC Grant from Levy				(65.7)
Deficit funded from Reserves				**8.0**

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

	Gross Exp.	**Comm. Revenue**	**Govt. Grant**	**Levy[5]**	**Net Budget**
	£m	**£m**	**£m**	**£m**	**£m**
Non-Metro Services	57.1	(4.3)	(1.5)	(51.3)	-
Metro Services	133.0	(46.5)	(64.1)	(14.4)	8.0
Total	**190.1**	**(50.8)**	**(65.6)**	**(65.7)**	**8.0**
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

[5] 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 form 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

2024/25	**Gross Exp**	**Comm. Revenue**	**Govt. Grant**	**Levy**	**Net Budget**
	£m	**£m**	**£m**	**£m**	**£m**
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
Total	**190.7**	**(54.5)**	**(64.4)**	**(68.2)**	**3.6**
Reserves					(3.6)

2025/26	**Gross Exp**	**Comm. Revenue**	**Govt. Grant**	**Levy**	**Net Budget**
	£m	**£m**	**£m**	**£m**	**£m**
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
Budget 2025/26	**194.8**	**(56.6)**	**(65.7)**	**(70.3)**	**2.2**

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 cust 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

	2022/23 Original Budget	Actual Spend to 31 Oct	2022/23 Forecast Outturn	2022/23 Forecast Variance	2023/24 Budget
	£m	£m	£m	£m	£m
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
Total Expenditure	**0.950**	**0.425**	**0.871**	**(0.079)**	**1.037**
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)
Total income	**(0.950)**	**(0.796)**	**(0.990)**	**(0.040)**	**(0.972)**
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

	2022/23 Original Budget	Actual Spend to 31 Oct	2022/23 Forecast Outturn	2022/23 Forecast Variance	2023/24 Budget
	£m	£m	£m	£m	£m
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
Total Expenditure	**3.069**	**6.123**	**34.443**	**31.374**	**40.654**
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)
Total Grants and Contributions	**(2.996)**	**(6.091)**	**(34.362)**	**(31.366)**	**(40.454)**
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

	2022/23 Original Budget	Spend to date 31 Oct 2022	2022/23 Forecast Outturn	2022/23 Variance	2023/24 Budget
	£m	£m	£m	£m	£m
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)
(Surplus)/Deficit on Tyne Tunnels revenue account	**(0.002)**	**(8.040)**	**0.101**	**0.103**	**0.412**

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

	1 April 2022	Forecast 31 March 2023	Movement in Year 2022/23	Forecast 31 March 2024	Movement in Year 2023/24
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
Total JTC Reserves	**(30.902)**	**(30.625)**	**0.163**	**(16.582)**	**14.043**

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, 0191 433 3860

17. Sign off

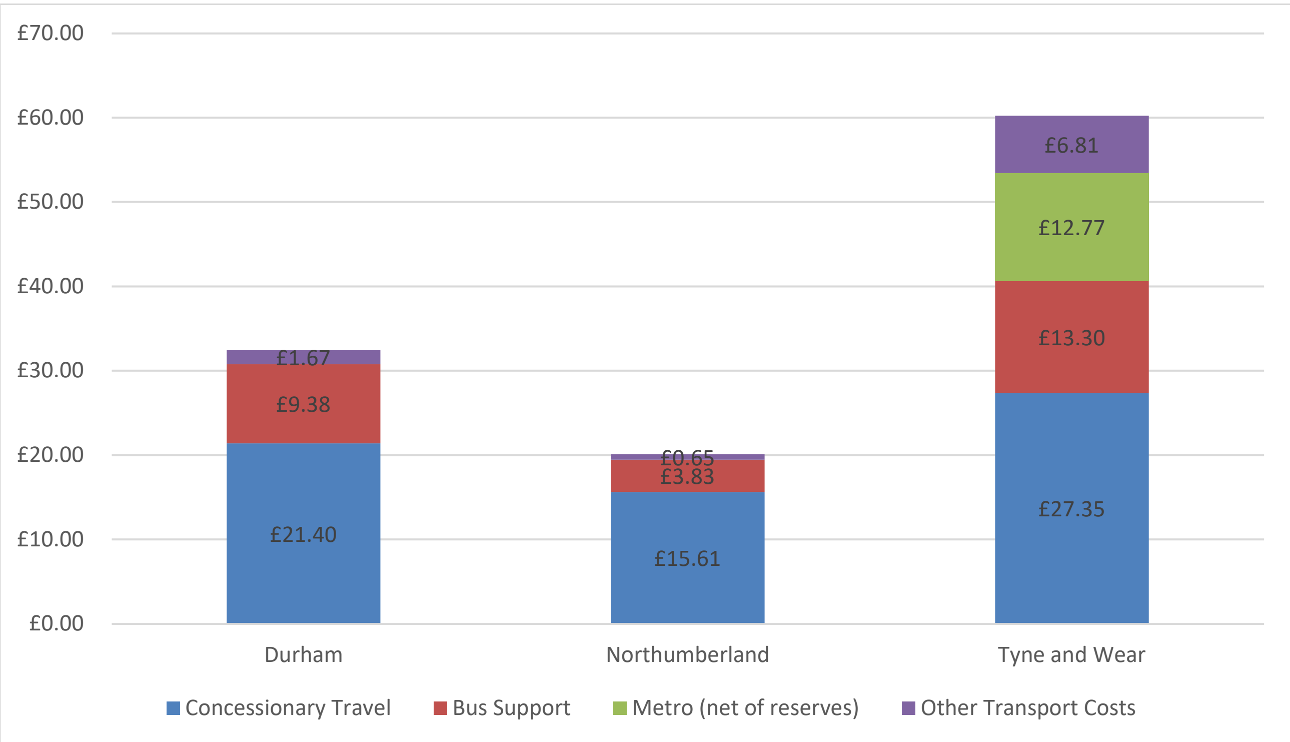
- The Proper Officer for Transport:
- Head of Paid Service:
- Monitoring Officer:
- Chief Finance Officer:

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%
Total Tyne & Wear	**1,146,624**	**1,125,695**	**-20,929**	-1.83%

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%
Total Tyne & Wear	**65,225,000**	**67,800,000**	**2,575,000**	**3.95%**

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
Total requirement	**165.525**	**(49.579)**	**115.946**	**21.980**	**(32.514)**	**1.384**	**(33.104)**	**73.692**
JTC Grant (levy)								(65.700)
Deficit								**7.992**

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
ENCTS	**27.303**	**-**	**-**	**-**	**-**	**-**	**27.303**
Discretionary CT	2.911	(0.588)	-	-	-	-	2.323
Discretionary CT	**2.911**	**(0.588)**	**-**	**-**	**-**	**-**	**2.323**
METRO							
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
Fare Collection & Revenue	**3.337**	**(44.261)**	**-**	**-**	**-**	**-**	**(40.924)**
MMA Management	9.499	-	-	-	-	-	9.499
Contracts & Commercial	14.098	(1.317)	-	-	-	-	12.781
Contracts & Commercial	**23.597**	**(1.317)**	**-**	**-**	**-**	**-**	**22.280**
Planning & Performance	1.442	-	-	-	-	-	1.442
Service Delivery	3.024	-	-	-	-	-	3.024
Operations Delivery	16.087	-	-	-	-	-	16.087
Metro Operations	**20.553**	**-**	**-**	**-**	**-**	**-**	**20.553**
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
Metro - Other	**38.472**	**-**	**-**	**-**	**-**	**-**	**38.472**
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
Infrastructure Management	**28.278**	**(0.013)**	**-**	**-**	**-**	**-**	**28.265**
Metro	**114.237**	**(45.591)**	**-**	**-**	**-**	**-**	**68.646**
Ferry	1.471	(0.371)	-	-	-	-	1.100
Ferry	**1.471**	**(0.371)**	**-**	**-**	**-**	**-**	**1.100**
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
Bus Services	**16.556**	**(2.447)**	**-**	**-**	**-**	**-**	**14.109**
Bus Infrastructure	2.490	(0.404)	-	-	-	-	2.086
Bus Infrastructure	**2.490**	**(0.404)**	**-**	**-**	**-**	**-**	**2.086**
Information	0.557	(0.178)	-	-	-	-	0.379
Public Transport Information	**0.557**	**(0.178)**	**-**	**-**	**-**	**-**	**0.379**
INDIRECT							
Pensions & Provisions	-	-	4.663	-	-	-	4.663
Investment Income	-	-	(0.400)	-	-	-	(0.400)
Democratic Services & Executive	-	-	1.306	-	-	-	1.306
Central Other	**-**	**-**	**5.569**	**-**	**-**	**-**	**5.569**
Media & Communications	-	-	0.456	-	-	-	0.456
Print & Distribution	-	-	0.211	-	-	-	0.211
Marketing	-	-	0.414	-	-	-	0.414
Customer Services	-	-	1.286	-	-	-	1.286
Customer Services & Communications	**-**	**-**	**2.367**	**-**	**-**	**-**	**2.367**
Human Resources	-	-	0.824	-	-	-	0.824
Learning & Development	-	-	2.182	-	-	-	2.182
Corporate Planning	-	-	1.400	-	-	-	1.400
People & Culture	**-**	**-**	**4.406**	**-**	**-**	**-**	**4.406**
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
Finance & Resources	**-**	**-**	**7.373**	**-**	**-**	**-**	**7.373**
ICT Projects	-	-	0.148	-	-	-	0.148
ISTP	-	-	0.250	-	-	-	0.250
Major Projects	**-**	**-**	**0.398**	**-**	**-**	**-**	**0.398**
Assurance & Safety	-	-	1.867	-	-	-	1.867
Assurance & Safety	**-**	**-**	**1.867**	**-**	**-**	**-**	**1.867**
Indirect	**-**	**-**	**21.980**	**-**	**-**	**-**	**21.980**
Loan Charges	-	-	-	-	1.384	-	1.384
Released from:							
Released from Capital Grants	-	-	-	-	-	(31.907)	(31.907)
Released from Capital Reserves	-	-	-	-	-	(1.197)	(1.197)
Asset Financing					**1.384**	**(33.104)**	**(31.720)**
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)
Grants	**-**	**-**	**-**	**(32.514)**	**-**	**-**	**(32.514)**

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

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

Item 10

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;

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

North East Combined Authority
DURHAM • GATESHEAD • SOUTH TYNESIDE • SUNDERLAND

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.

	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**
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

	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
Total Capital Programme	**272.737**	**251.408**	**(21.329)**	**124.670**	**238.994**

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.

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 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

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, 0191 433 3860

17. Sign Off

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

Appendix 1

North East Joint Transport Committee

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 outrun 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

	2022/23 Revised Budget	2022/23 Forecast Outturn	2022/23 Forecast Variance	Actual Spend to 31 Oct	2023/24 Initial Program me
	£m	£m	£m	£m	£m
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
Total Capital Programme	**272.737**	**251.408**	**(21.329)**	**124.670**	**238.994**

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:

TCF Tranche 2	2021/22 Outturn	2022/23 Forecast Outturn	2023/24 Initial Budget	Total Budget
	£m	£m	£m	£m
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
All Programme Level	**3.269**	**4.160**	**8.765**

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

<table>
<tr><th rowspan="2">ATF Tranche 3</th><th>2022/23 Forecast Outturn</th><th>2023/24 Initial Budget</th><th>Total Budget</th></tr>
<tr><th>£m</th><th>£m</th><th>£m</th></tr>
<tr><td>Brunton Road – Sandy Lane</td><td>0.000</td><td>2.500</td><td>2.500</td></tr>
<tr><td>Claremont Road</td><td>0.000</td><td>2.100</td><td>2.100</td></tr>
<tr><td>Coast Road Newcastle</td><td>0.000</td><td rowspan="2">3.100 (funding split TBC)</td><td rowspan="2">3.100 (funding split TBC)</td></tr>
<tr><td>Heaton Road Newcastle</td><td>0.000</td></tr>
<tr><td>North Tyneside Sea Front Sustainable Route (SFSR)</td><td>0.000</td><td>3.500</td><td>3.500</td></tr>
<tr><td>Ashington: North Seaton Road</td><td>0.000</td><td>1.497</td><td>1.497</td></tr>
<tr><td>Blyth Town Centre to South Beach</td><td>0.000</td><td>1.966</td><td>1.966</td></tr>
<tr><td>A183 Dame Dorothy Street – Segregated Cycle Lanes</td><td>0.000</td><td>2.100</td><td>2.100</td></tr>
<tr><td>All Programme Level</td><td>0.000</td><td>16.762</td><td>16.762</td></tr>
</table>

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

	Original Budget	**Revised Budget**	**Actual / Forecast**	**Variance**
	£m	**£m**	**£m**	**£m**
Cumulative to Period 8				
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)
Total	**108.923**	**118.841**	**109.908**	**(8.933)**
Outturn				
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
Total	**194.413**	**194.556**	**180.466**	**(14.090)**

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 down turned.

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

	Proposed Budget 2023/24	**Proposed Budget 2024/25**	**Proposed Budget 2025/26**
	£m	**£m**	**£m**
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
	43.897	**46.314**	**38.474**

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
	1.1	**29.2**	**46.1**	**44.0**	**78.6**	**117.7**	**43.6**	**1.5**	**361.8**

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
	1.5	**24.9**	**43.7**	**61.4**	**69.8**	**99.0**	**42.3**	**19.2**	**361.8**

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
	1.5	**24.9**	**43.7**	**59.2**	**59.2**	**115.2**	**44.3**	**13.8**	**361.8**

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
	115.236	**44.348**	**13.765**

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

	Proposed Budget 2023/24	**Proposed Budget 2024/25**	**Proposed Budget 2025/26**
	£m	**£m**	**£m**
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	-	-
	3.107	**10.399**	**0.340**

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

	Proposed Funding 2023/24	**Proposed Funding 2024/25**	**Proposed Funding 2025/26**	**Total**
	£m	**£m**	**£m**	**£m**
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
	140.101	**94.386**	**52.381**	**286.868**
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
	23.214	**6.675**	**0.198**	**30.087**
Total	**163.315**	**101.061**	**52.579**	**316.955**

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

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

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

Table 14: Capital Programme Financing 2023/24

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

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

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

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

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

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

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

north east combined authority

Leadership Board

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).

6 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.

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

Summary Treasury Position

8 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.

9 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
Total Debt	170.000	4.24	38.9	169.667	4.25	38.1
Total Investments	100.000	0.39	0.71	124.500	1.71	0.38
Net Debt	**70.000**			**45.167**		

Borrowing Strategy

10 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:

	1 April 2022	2022/23	31 March 2023	Average	31 March 2023

	Actual Balance £m	Estimated Movement £m	Estimated Balance £m	Interest Rate %	Average Life years
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
Total borrowing	**170.000**	**(0.667)**	**169.333**		

11 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.

12 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.

13 No new borrowing has been undertaken during 2022/23 to date and none is anticipated for the remainder of the financial year.

14 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)

15 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.

16 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

17 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.

18 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

19 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).

20 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

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

Cash Investment Strategy

22 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.

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

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

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

Specified Investments

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

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

Non-Specified Investments

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

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

Creditworthiness Policy

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

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

29 The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit these to the Leadership Board for approval as necessary. These criteria provides an overall pool of counterparties considered to be high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

30 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.

31 Typically the minimum credit ratings criteria used by the Authority will be a short term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally

lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available or other topical market information to support their use.

32 All credit ratings will be monitored regularly. The Authority is alerted to changes to ratings of all three agencies (Fitch, Moody's and Standard and Poor's) through its use of Link's creditworthiness service.

33 If a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

34 In addition to the use of credit ratings, the Authority will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in the downgrade of an institution or removal from the Authority's lending list.

35 Sole reliance will not be placed on the use of the service provided by Link. The Authority will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government. This additional market information, for example credit default swaps and negative rating watches / outlooks, will be applied to compare the relative security of differing investment counterparties. The relative value of investments will be reviewed in relation to the counterparty size to ensure an appropriate ratio.

Investment Criteria

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

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

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

	Fitch	Moody's	Standard & Poor's
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

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

- Banks 2 – Part nationalised UK banks - Royal Bank of Scotland. This bank can be included if it continues to be part nationalised or meets the ratings in Banks 1 above;

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

Time and Monetary Limits applying to Investments

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

Investment Type	Long Term Rating	Money Limit	Time Limit
Banks / Building Societies*	AA-	£15m	1 year
Banks / Building Societies*	A	£15m	1 year
Banks / Building Societies*	A-	£10m	6 months
Banks – part-nationalised*	N/A	£15m	1 year
Banks– Council's banker*	A-	£15m	3 months
DMADF / Treasury Bills	AAA	unlimited	unlimited
Local Authorities	N/A	£10m each	3 years
Investment Type	**Asset Size**	**Money Limit**	**Time Limit**
Building Societies	+£1 billion	£5m	6 months
Investment Type	**Fund Rating**	**Money Limit**	**Time Limit**
Money Market Funds	AAA	£30m total	liquid
Money Market Funds CNAV	AAA	£5m each	liquid
Money Market Funds LVNAV	AAA	£5m each	liquid
Money Market Funds VNAV	AAA	£5m 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 are unchanged from those used for 2022/23 with the exception of the total money limit for money market funds which it is proposed to increase from £20m to £30m. The Authority is dealing with a higher volume of cash balances relating to grant income and this would increase the flexibility available for very short term requirements.

UK Banks – Ring Fencing

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

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

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

Non-Treasury Investments

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

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

43 The Authority recognises that investments such as these, taken for non-treasury management purposes, require careful investment management and that it is

important that there are agreed processes to ensure there is effective due diligence and that the investments fit with the Authority's agreed risk profile.

Treasury Management Indicators

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

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

	2022/23 Limit
Upper limit on fixed interest rate exposure	100%
Upper limit on variable interest rate exposure	70%

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

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

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

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

a) Prudential Indicators

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

49 The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and

sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

50 Capital Expenditure – 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
Capital Programme	**113.112**	**251.408**	**238.994**	**101.061**	**52.579**
Financed by:					
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
Net borrowing financing need for the year	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

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

	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
Movement in CFR	(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)
Movement in CFR	(3.259)	(3.248)	(3.241)	(3.214)	(3.215)

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

	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)
Gross Debt at 31 March	**170.000**	**169.333**	**168.666**	**168.000**	**167.333**
Capital Financing Requirement	**183.611**	**180.363**	**177.122**	**173.908**	**170.693**
Under borrowing	**(13.611)**	**(11.030)**	**(8.456)**	**(5.908)**	**(3.360)**

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

	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

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

	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.

MRP Policy Statement

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

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

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

64 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.

55 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

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

Policy on use of external advisers

57 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

north east combined authority

Leadership Board

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.

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

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

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.

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 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 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 <u>CREDIT AND COUNTERPARTY RISK MANAGEMENT</u>

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

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

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

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

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 *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.

- 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.

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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:

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)

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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.

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.

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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.

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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.

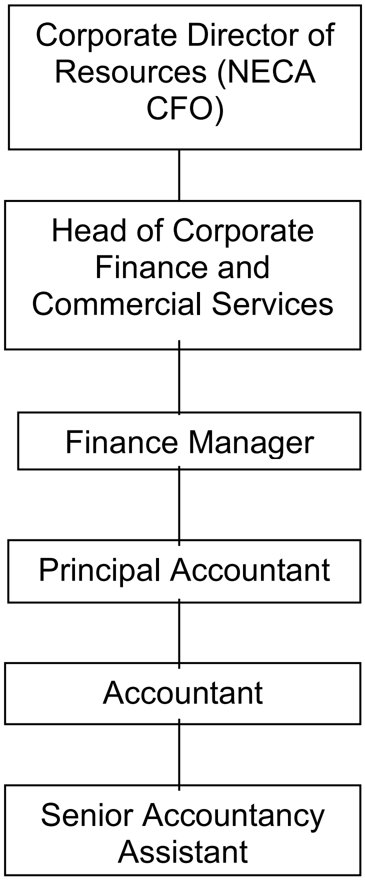
(b) The Chief Finance Officer will be responsible for amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices.

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.

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

- 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.

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

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

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 1st April 2020 it will also manage funds for the North East Combined Authority.

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TMP 6 REPORTING REQUIREMENTS AND MANAGEMENT INFORMATION ARRANGMENTS

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 30th 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;

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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.

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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.

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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.

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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).

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TMP 11 USE OF EXTERNAL SERVICE PROVIDERS

11.1 <u>DETAILS OF CONTRACTS WITH SERVICE PROVIDERS, INCLUDING BANKERS, BROKERS, CONSULTANTS, ADVISERS</u>

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

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There are none at present.

External Fund Managers and other consultancy services may be employed on short term contracts as and when required.

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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

Item 11

NECA Leadership Board

Date:	**24 January 2023**
Subject:	**North East Devolution**
Report of:	**Monitoring Officer**

Report to follow

Report to follow