



North East Combined Authority, Overview and Scrutiny Committee

Tuesday 9 December 2014 at 3.00pm

Meeting to be held: Newcastle Civic Centre, Newcastle

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

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To All Members

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North East Combined Authority

Overview and Scrutiny Committee

DATE: 9th December 2014
SUBJECT: NECA 2015/16 Budget Consultation
REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

At its last meeting the Committee received a report on the Budget Process for 2015/16. The purpose of this report is to provide information about the content of the draft budget for the Combined Authority for 2015/16 for consideration and comment. A copy of the Draft Budget Report to the NECA Leadership Board on 21st October report has previously been circulated to members for consideration (a further copy is attached with this report). Also attached to this covering report are the transport related Revenue Budget and Capital Programme reports which will be considered by the Transport North East Committee at it's meeting on 4th December.

The comments of Overview and Scrutiny Committee will be taken into account as part of the consultation process and reflected in the budget report to the NECA Leadership Board on 20th January 2015.

RECOMMENDATIONS

It is recommended that the Scrutiny Committee consider the reports on the developing draft budget for 2015/16, receive a verbal briefing from the Chief Finance Officer and agree any comments or points it would wish to make to the Leadership Board as part of the budget consultation process.

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Overview and Scrutiny Committee

1 Background Information

- 1.1 The process of setting the NECA budget and the role of scrutiny was set out in the report to this Committee on 15th October 2014.
- 1.2 A report that contains information about the draft budget proposals for 2015/16 was considered by the NECA Leadership Board on 21 October (see attached). The attached reports on the Transport Revenue Budget and draft Capital Programme will be considered by the Transport North East Committee on 4th December.
- 1.3 While the date of the final decisions on the budget will be 20th January 2015, there are a series of earlier meetings that will make important decisions or will make key recommendations to be considered by the Leadership Board. These included the Tyne and Wear Sub-Committee on 13 November, which made decisions on Metro Fares for implementation on 2nd January 2015 and Transport North East Committee on 4th December, which will make recommendations on the Transport Budget and Levy for consideration by the Leadership Board in January.
- 1.4 The Combined Authority is committed to working closely with the region's business community and on this basis other consultations currently taking place include a meeting with the Chair and Chief Executive of North East Chamber of Commerce (NECC) on 9th December.
- 1.5 Reports on the Budget will also be considered by Governance Committee, which will consider the robustness of financial controls and the fiduciary aspects of the budget, including the management of financial risks and levels of reserves.

2. Next Steps

- 2.1 The comments from Overview and Scrutiny Committee will be reported to the Leaders and Elected Mayor and will be taken into account alongside any other comments in preparing the final budget report to the NECA Leadership Board on 20th January 2015.

3. Potential Impact on Objectives

- 3.1 The revenue budget and the capital programme are aimed at achieving the objectives of NECA.

4. Finance and Other Resources

- 4.1 No additional financial or other resource implications are identified at this stage. The financial impact of any proposals or recommendations should be taken into account and any significant implications should be reflected in any considerations and comments made by the Scrutiny Committee.

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5. Legal

5.1 There are no specific legal implications arising from these recommendations.

6. Other Considerations

6.1 Consultation/Community Engagement

This report forms part of a consultation process.

6.2 Human Rights

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

6.3 Equalities and Diversity

Not applicable

6.4 Risk Management

Not applicable

6.5 Crime and Disorder

Not applicable

6.6 Environment and Sustainability

Not applicable

7. Background Documents

7.1 Reports to NECA Leadership Board (attached) and TNEC (attached).

8. Links to the Local Transport Plans

8.1 None

9. Appendices

9.1 None

10. Contact Officers

10.1 Karen Brown, Scrutiny Officer, karen.brown@sunderland.gov.uk

11. Sign off

- Head of Paid Service

North East Combined Authority

Overview and Scrutiny Committee

- Monitoring Officer
- Chief Finance Officer ✓

North East Combined Authority

Leadership Board

DATE: 21 October 2014

SUBJECT: North East Combined Authority Budget 2015/16

REPORT OF: Lead Chief Executive and Chief Finance Officer

1 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to set out the key budget issues, principles and proposals that are likely to be included in the 2015/16 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 20th January 2015. Identifying them in this report forms the basis for consultation on NECA's Budget as required in its constitution. Not all the information needed to complete the budget is currently available. Further information about the detailed content of the budget is currently being developed, including information still to be announced or confirmed about some funding from Government. As further information becomes available it will be included in future reports, including information provided to Overview and Scrutiny Committee. The more detailed information, once available, will be reflected in the January Budget report alongside points that emerge from consultation.
- 1.2 This is the first formal Budget process that is being undertaken since the new Combined Authority was established in April. It builds upon the budget that was inherited for the current transitional year. NECA is required by law to set its Revenue Budget and Transport levies for 2015/16 by 15th February 2015 at the latest, so that the constituent councils can take the levies into account in setting their own budgets for 2015/16. It has been agreed that the Leadership Board will set the Budget and levies at its scheduled meeting on 20 January 2015, which will provide the information about levies in good time for the seven constituent councils to include it within their budgets.
- 1.3 This budget report sets out the indicative level of resources planned to be used in 2015/16 to help deliver the Objectives of NECA and the North East Strategic Economic Plan, which have been agreed by the North East Local Enterprise Partnership (NELEP). It is a policy led budget, which has also to be set in the context of the national position of austerity, which requires further savings to be achieved in local authority revenue spending; while also making available additional capital funding and provide incentives to help deliver investment in transport and infrastructure and to help secure economic growth.

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1.4 At this point it is envisaged that –

- Capital Investment in transport, infrastructure and economic development appears likely to increase significantly in 2015/16, by almost £30m, potentially to around £130m or more, which is mainly the result of the region's success in the Growth Deal bids for Government Capital funding following the submission of the Strategic Economic Plan; investment relating to Enterprise Zones; and the continued investment in Metro's Asset Renewal Plan which attracts 90% grant funding from DfT;
- The budget is likely to include additional funding for investment in Skills, partly funded from a substantial allocation of almost £100m of European Social Funding to be available from 2015 to 2020 and a bid for Mental Health Skills funding of £1.7m that has been applied for;
- The provisional Transport Revenue Budget and Levies for 2015/16 are estimated to be almost £89m, which is a small cash reduction compared with the current year, to be delivered mainly through efficiency savings while seeking to maintain service outcomes; and
- The only significant fees or charges to be set by the NECA as part of the 2015/16 budget relate to Metro Fares, where an increase below RPI inflation is envisaged for implementation on 2 January 2015, and the Gold Card and Tyne Tunnel Tolls which will not change next year.

2 RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

- a) receive this report for consideration and comment;
- b) agree the budget approach of setting out a detailed budget for 2015/16, while seeking to develop a five year medium term plan to set the context for the detailed budget and developing a longer term infrastructure plan to support future funding bids, recognising that not all information will be available to enable the medium/long term plans to be completed in full by January 2015 and this will continue to be developed during 2015;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2015/16 Budget : -
 1. The Revenue Budget and Capital Investment Programme of the NECA and NELEP will be developed to deliver the Strategic Objectives of NECA and the Objectives set out in the Strategic Economic Plan, as highlighted in Section 3 of this report;

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2. Resources will be identified and secured to support the capacity of the NELEP and NECA to secure the resources and deliver the actions needed to deliver the SEP strategic objectives. Where possible, the revenue resources required to support the delivery of the objectives will be found from securing additional funding or offset by savings in existing budgets, in order to minimise the costs falling on the hard pressed revenue budgets of the seven constituent authorities;
3. The Transport Budget and Levy for Tyne and Wear is indicatively proposed to be set at £67.2m, which is a reduction of £1.0m (-1.5%), achieved by efficiency and other ITA cost savings and use of reserves. The grant to Nexus funded by the levy is proposed to be £64.5m, a saving of £0.42m achieved from efficiency savings in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource for the period of up to 10 years in line with the Bus Strategy. This will maintain service outcomes while improving value for money provided to districts and enabling them to help meet national funding cuts and fund any increase in contribution to non-transport NECA budgets;
4. The indicative Transport Budget and Levy for Durham County area is £16.057m, which is an increase of £0.467m (3%) on the original budget for 2014/15, due mainly to cost pressures in connection with concessionary Travel;
5. The current year's Transport Budget for Northumberland County area is £5.5m. Proposals about the level of the Budget and Levy for 2015/16 are still under consideration and will be circulated when available;
6. Proposals for the uplift in Metro fares to cover inflation cost pressures will be developed to constrain the average increase to less than the latest 2.4% RPI inflation index. No increase is envisaged in Gold Card prices. No increase in Tyne Tunnel Tolls is envisaged for January 2015, with the timing of the next increase to keep pace with inflation being subject to the level of future increase in the Retail Price Index;
7. The detailed budget report in January will include the outcome of consideration of proposals to enable the early release of potential benefits from the Enterprise Zones to support the Delivery of SEP objectives as determined by the NELEP. It will set out financing cost savings and funding flexibilities that NECA can provide to enable the

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NELEP to allocate additional resources to further support the achievement of the SEP objectives; and

8. NECA will set out a balanced budget for 2015/16, maintaining a sufficient but minimal level of reserves to manage risk and will set out a treasury management strategy for borrowing and lending which will comply with the Prudential Code;
- d) Agree that a narrative document be prepared from the content of this report and the comments and decisions of the Leadership Board, which will set out the budget proposals in an appropriate format for consultation.

3 THE POLICY CONTEXT

- 3.1 The Leadership Board have made clear the importance of a policy led budget, within the context of the national programme of austerity measures, to underpin the delivery of the NECA's policy priorities including the delivery of the Strategic Economic Plan.
- 3.2 The capital and revenue resources of the Combined Authority and the NELEP can secure will be targeted to achieve the priorities set out in the Strategic Economic Plan (SEP) and the Transport Levies that the Combined Authority will set will help meet the statutory transport responsibilities of the Combined Authority, which can also contribute to priorities in the SEP.
- 3.3 The Combined Authority has agreed three broad Policy priority areas –
- **Transport**
 - **Employability and Inclusion**
 - **Economic Development and Regeneration**
- 3.4 The North East Strategic Economic Plan 2014 which was published by the NELEP in April 2014 is aimed at delivering 'More and Better Jobs'. It identifies six strategic themes aimed at addressing the challenges facing the area and delivering the objectives of the SEP, these are –
1. **Innovation**, central to the ambition of better jobs and a more competitive business base, delivering medium term benefits as managers invest in new products, processes, markets and technologies supported by an ambitious open innovation system.
 2. **Business support and access to finance**: the key driver for more jobs and a strong private sector, addressing market failures to support a stronger indigenous businesses, with better access to finance, and able to progress expansion plans in national and international markets.

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3. **Skills:** providing a demand led system, reflecting the need of employers, including for high level skills in support of better jobs, with access to high quality training facilities for both general and specialist training.
 4. **Inclusion:** central to ensuring no one is left behind, providing targeted and tailored support to neighbourhoods and groups facing major challenges in accessing training and employment opportunities, which lets everyone fully share in the benefits of a growing economy.
 5. **Economic assets and infrastructure:** developing the places for business to invest and people to live, developing new opportunities with towns and cities, coast and country, and heritage assets.
 6. **Transport and digital connectivity:** which serves and connects people and businesses, letting people move around for both work and leisure, and connecting the North East to the national and international economy.
- 3.5 The Revenue Budget and Capital Investment Programme of NECA, will contribute to the achievement of these objectives, as illustrated below.

3.6 Innovation Theme

- 3.6.1 In the context of the Adonis Review challenge to develop the North East as “*an exemplar of smart specialization and open innovation systems and practice*”, and significant evidence work to understand our innovation assets and challenges, the SEP sets out a strategic approach to investment of Local Growth Fund (LGF), European Structural and Investment Fund (ESIF) and other resources to facilitate effective innovation activity.
- 3.6.2 It prioritises investment into building innovation leadership, developing the effectiveness of our hubs and networks and delivering strategic investment to foster innovative businesses, clusters and a wider innovation culture. Within the Innovation Theme the following specific projects investment are planned for commissioning in 2015/16:

Local Growth Fund

Project	Total value	2015/16 Investment
Centre for Innovation in Formulation, led by the Centre for Process Innovation (CPI), based at NetPark	£7.4 m	£0.75 m
Low Carbon Energy centre, to be based at Newcastle Science City	£5.6 m	£1.30 m
Newcastle Life Sciences Incubation Hub to be based at Newcastle University	£5.6 m	£5.50 m
NETPark Infrastructure Phase 3	£6.8 m	£0.47 m
Sunderland Enterprise and Innovation Hub, to be hosted at Sunderland University	£3.5 m	£1.50 m

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European Regional Development Fund (ERDF)

- 3.6.3 An Innovation programme is being developed which relies heavily on successful bidding for European Funding for delivery. Key projects include a North East Innovation Supernetwork, University Research Commercialisation and Innovation Project Support. Access to European Funding is anticipated from April 2015.
- 3.6.4 In addition, a key action will be the creation of the North East Innovation Board and capacity in the Executive Team to provide leadership. This will require the creation of a core budget for innovation which supports this work, which will also include resources for marketing and intelligence activity. The cost of this capacity is expected to be achieved from core budgets, European Technical Assistance funding and in-kind secondment(s).
- 3.6.5 Through this capacity, the Executive Team will support partners to develop a range of other activities and facilities aligned with the strategy set down within the SEP, securing investment from sources including Department for Business, Innovation and Skills (BIS), Innovate UK and its agencies, Horizon 2020, Research Councils and other available funding streams as well as leveraging private investment and inward innovation investment.
- 3.6.6 Innovation activities will be also supported from other key programmes in the SEP/ESIF through liaison with other theme leads - including from:
- Business support targeting innovation support to NE businesses
 - Access to finance, in particular the funds planned within Jeremie 2 for Proof of concept and prototyping
 - Low Carbon Innovation projects in areas like energy and low carbon vehicles
 - High level skills

3.7 Business Support Theme

Aims

- 3.7.1 The Business Support and Access to Finance Programme will, through the work of the NELEP, the Combined Authority and their partners, support a dynamic and entrepreneurial Combined Authority area in which businesses and individuals have the ambition and confidence to develop and grow.
- 3.7.2 The programme is intended to be delivered in the short and medium term through its three inter-related intervention areas. Each intervention area has its own programme management and governance arrangements. These arrangements need to link effectively with each other. They also need to link with the programme management approach for the Innovation and Skills Programmes.

The Programme

- 3.7.3 The programme has three strategic priorities for investing in and growing our businesses:

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1. **Access to finance:** Increasing GVA and employment in North East businesses through the provision of a high-quality, demand-led business development programme. Through this component, the NELEP, the Combined Authority and partners will ensure the right mix of financial products is available to support business formation and growth, generating additional employment and GVA in the Combined Authority area.
2. **Business Support:** Ensuring North East businesses have access to finance necessary to support their growth and expansion plans. Through this component, the programme will support business growth and increase entrepreneurial activity by providing businesses in the Combined Authority area with those services that enable them to improve productivity and increase employment and trade
3. **Trade & Tourism:** Increasing the economic benefits from external markets through exports and tourism. The programme will increase the number of businesses exporting and the North East's presence in key international markets.

Interventions and Projects

- 3.7.4 Within the North East LEP Business Support Programme, the following specific interventions and projects are planned for commissioning or delivery in 2015/16:

Local Growth Fund

Project	Total value	2015/16 Investment
North East Growth Hub	£0.5m	£0.5m

European Regional Development Fund (ERDF) and European Agricultural Fund for Rural Development (EAFRD)

- 3.7.5 In addition to the LGF Growth Hub award, the Business Support and Access to Finance theme programme is being developed and relies heavily on successful bidding for European Funding for delivery. Key projects for ERDF include Access to Finance from SMEs to support growth and innovation and coordinated business support. Key projects for EAFRD focus on tourism, market towns and the rural growth network.

Trade & Tourism

- 3.7.6 Whilst the trade element of the Business Support Programme is reasonably well defined, further work is underway to identify how best to promote our key regional assets.

Inter-relations with other SEP Programmes

- 3.7.7 Business support activities will be also supported from other key programmes in the SEP/ESIF including from:

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- Innovation support providing specific business support for NE businesses, particularly through activities to support bringing new products and business processes to the market and including development of incubation space (through ERDF).
- Support for Low Carbon and Sustainability projects which increase the role of the low carbon energy economy and energy generation sector, including programmes to support business energy efficiency, low carbon supply chains, resilience and renewable energy generation (all through ERDF).
- Support for intermediate, technical and high level skills (all through ESF) and including specific activities for start-up, entrepreneurship and self-employment.
- Enterprise Advisers, to be funded through the Local Growth Fund.
- Inward investment support provided by the local authorities, UKTI and coordinated through the Combined Authority.
- Programmes of employability and skills improvements to overcome barriers which prevent access to the labour market (all through the European Social Fund (ESF)).

3.7.8 Liaison between the Business Support Board and the Innovation, Skills and Employability and Inclusion Programmes (governance structures and executive support) is ongoing to ensure that the provision through these programmes is appropriate, joined up where necessary and contributes to SEP Business Support objectives.

3.8 Skills Theme

Aims

3.8.1 The Skills Theme aims to shift the skills market in the North East towards higher skill levels and greater demand for higher skills, with an emphasis on economic demand, be it existing employer needs, projected shortages, or new skills sets for emerging opportunities, and to create a landscape where companies (and individuals), realise the benefits of training and see the returns on their investment. The main objective of the programme is to deliver and investment plan against three key priority areas for Skills:

1. Oversee and influence investment in skills supply and demand to enable the skills system to deliver better economic outcomes. Establish clear, evidenced based policy priorities for investment and action on skills. The main activities for the NELEP will be to:

- Create and implement the investment framework for £113m of ESF, manage a complex set of Opt-in arrangements and commissioning routes for the skills programme. Direct and secure other resources to core priorities, e.g. Higher Education Funding Council for England (HEFCE), private sector.

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- Use the Skills pilot to shift provision funded through the National Adult Skills Budget to deliver more economically focussed outcomes for learners in the north east. Improve performance management of delivery of mainstream skills provision in the Area.
 - Direct working with employer groups and provider base to better link supply and demand and enable improved responsiveness to investment opportunities, in particular the increasing number of opportunities arising from the Skills Funding Agency (SFA).
2. Focus on Young people – deliver a North East Education Challenge to improve educational outcome and school quality. Deliver a programme of Enterprise advisers as an early adopter area for national policy.
 3. Skills Capital – Ensure high quality training facilities which help engage employers and learners are available to support a higher skilled workforce. On-going programme management of the LGF investment in the skills capital programme for the North East. Support the appraisal process for the 5 shortlisted skills capital projects and ensure a robust pipeline for slippage and future funding.

The Programme

3.8.2 The headlines to the Skills Programme in 2015/16 will be:

- Education Challenge
- Skills Pilot
- Deliver the LGF capital programme
- Enterprise Advisers Scheme

Project Title	Total project cost (£m)	LGF investment (£m)
Tyne Met College - STEM and Innovation Centre	1.20	1.00
Facilities for Marine and Offshore Engineering, South Tyneside College	3.35	1.10
Rural Skills Development, East Durham College	11.11	10.00
Newcastle College Group - Low Carbon Tech Centre	30.00	9.90
Port of Blyth Offshore and Wind Energy Training Facility (BEACH)	1.20	0.40

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3.9 Employability and Inclusion

3.9.1 Over the next year, the investment in Employability and Inclusion will be based on the roll-out of the initial phase of the next round of European Social Fund (ESF). This funding will:

- Provide additional and more intensive support to help people to develop the skills needed to move towards work, enter work (including self-employment), and to progress in work
- Help older workers, workless people and those facing redundancy to upgrade their skills, learn new skills or retrain to enter, re-enter or stay engaged with the labour market and adapt to new market conditions including through targeted apprenticeships linked to economic opportunities
- Support activities to reduce the number of young people not in employment, education or training and those at risk of disengaging and embed opportunities to raise ambition
- Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions
- Targeted activities to support bottom-up social inclusion through community focused actions in particular geographic locations with high levels of deprivation, poverty and exclusion
- Targeted activities for those with protected characteristics and from specific communities who face multiple barriers and facing high levels of exclusion from opportunities and/or poverty

3.9.2 As part of this initial phase, up to £1.7million will be released to support the delivery of the Mental Health Trailblazer. Announced as part of the North East Growth Deal, the trailblazer will work with Government to design and develop mental health and employment integration to inform future national and local support for people with mental health conditions. This represents a significant opportunity for NECA to demonstrate its capacity and capability to work in new ways with the Government and develop an initial platform of devolved powers.

3.9.3 Another strategic priority is to ensure that young people are equipped and qualified to access the opportunities which will be available in a successful modern economy. To this end, NECA is coordinating the North East Youth Contract. Five of the local authorities within the Combined Authority successfully secured £4.5 million from the Government's Youth Contract programme. This resource is being used to launch a high-profile campaign to encourage employers to provide a chance for young people to succeed; provide employers with dedicated advisers to help simplify the process of recruiting young people; developing a new and shared "Young People's Commitment" that will provide a clear offer of support to all young people who are unemployed or NEET for 3 months, in return for their commitment to fully

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engage with the scheme; and strengthening the network of Employment Advisers and Peer Mentors for those young people with the greatest needs.

3.10 Economic assets and infrastructure

3.10.1 Local authorities are continuing to invest resources in a variety of infrastructure projects that are essential if the region and its businesses are able to compete in an increasingly competitive global environment. Recently, significant resources have been applied to key developments across the region including the Enterprise Zones in Northumberland, Sunderland and on Tyneside all of which have attracted interest and investment from private sector users.

3.10.2 It is vital that we continue to make a very strong strategic case for further future investment in the region's economic assets and infrastructure. For this reason it is important that we progress our commitment to work with private sector partners towards the development of a strategic investment plan for the region. The aim will be to develop a plan that shows how resources will be used to build on the opportunities to grow the economy and demonstrate a clear alignment between the different planned investments including those associated with transport, housing and energy infrastructure.

3.10.3 The Growth Deal announced substantial infrastructure funding from 2015/16 and 2016/17. It is uncertain when there will be another round of Growth Deals but the proposed Investment Plan will enable the region to compete effectively for the other funding sources available. In addition, the Scotland Referendum has raised the possibility of increased devolution to the regions and the presence of a long term vision of how resources will make a difference to the region's economic future has the potential to greatly support the case for more autonomy over larger sums of the national spending programmes.

3.10.4 Government funding schemes and other programmed investments by government agencies continue to play a crucial role in supporting the efforts of local public and private sector partners to provide the environment in which businesses are able to grow and create the jobs needed in the local economy. The successful Growth Deal bid announced in July allocated a total of £298.3 to support economic growth in the region, including £24m towards three strategically important economic infrastructure projects that will enable the region to build on the opportunities such as those presented by Hitachi's investment in Newton Aycliffe and £28.9m towards five infrastructure developments that will support the growth of innovation in the region (listed in the table associated with paragraph 3.6.2 above).

Local Growth Fund (LGF) Projects

Project Title	Total Cost (£m)	LGF Allocation (£m)
Swans Wet Berth Infilling	18	8
Infrastructure for Merchant Park	10	10
North East Rural Growth Network	22	6
Totals	50	24

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3.10.5 The new European Structural and Investment Fund programme with an estimated £460m available over the programme period (2015-2023) will also provide resources that can be used to co-fund investment in the region's economic infrastructure, particularly that associated with the low carbon sector as well as strategic sites and premises for SMEs, and to support the wide policy programme of the SEP. An element of match funding for ESI funds will be required from other funds. A proposal to use up to £10m per annum of the European resources as a platform for a capital investment fund (building on the JESSICA model) supported by the European Investment Bank and private investors represents a significant opportunity for the future.

3.10.6 It is vital that the limited local resources available are used to best effect projects that make a demonstrable contribution to economic growth in the region within the context of an agreed plan and that opportunities to increase the level of available funding are explored and developed further to maximise the opportunities of future funding bids. It is therefore important that the governance arrangements established to make decisions on resource allocation are able to properly reflect the priorities of local people and businesses.

3.11 Transport and Digital Connectivity

3.11.1 Excellent transport links are fundamental to the economy of the North East Combined Authority area. The importance of transport connectivity is highlighted in the North East Local Enterprise Partnership's Strategic Economic Plan (SEP) as a crucial element in our growth agenda, helping to close the gap in the employment rate with other regions of England, link people to jobs and key services and enable businesses to move their goods quickly and efficiently.

3.11.2 The Combined Authority has a duty to ensure good public transport provision. Public transport plays an essential role in connecting people to jobs and key services. Promoting the use of more efficient modes of public transport also facilitates sustainable growth. Public transport accessibility in the north east is generally good. However, better connections to key employment sites from areas of deprivation and improved fares and ticketing options are required.

3.11.3 Nexus, the Tyne and Wear Passenger Transport Executive, along with Durham and Northumberland county councils aim to improve quality of life by creating better public transport networks. Nexus is currently pursuing three major programmes; the Bus Strategy, smart ticketing and Metro: all change.

3.11.4 The Combined Authority also has a key role to play in encouraging investment in our wider transport infrastructure. In addition to advocacy for a transatlantic connection from Newcastle International Airport Limited and close working with the Highways Agency and Network Rail to encourage further investment in our strategic road and rail networks a focused package of investment on local networks to facilitate further investment by

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government in our national infrastructure is a key component of our Strategic Economic Plan.

3.11.5 The transport proposals in the North East SEP contain investment for both the A1 and A19 corridors, with packages designed to complement existing investment such as the current A1 Western Bypass Lobley Hill to Coalhouse junction scheme, and to facilitate improvements to important trunk road junctions, such as the A19 at Testos and Silverlink.

3.11.6 Next year should see a significant increase in capital investment in Highway and Transport projects. The initial programme for 2015/16 is estimated to be at least £130m, which represents an increase of almost £30m (29%), which is mainly the result of successful Growth Deal Funding for major schemes. The growth deal also included an announcement of a further investment of £69.6m for schemes starting in the following year 2016/17 in addition to the Metro asset renewal programme and LTP funding programmes.

Indicative Growth Deal Transport Projects

Area / Promoter	Scheme	Total scheme cost	SEP Contribution (£m)	2015/16 Indicative grant
		£m	£m	£m
Durham	Horden (Peterlee) Station	7.00	3.34	3.34
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	8.70	5.84	2.94
Sunderland City Council	Low Carbon Zone Infrastructure	13.50	5.95	5.95
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	13.60	6.90	2.07
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	8.10	4.09	3.50
Gateshead Council	A167 Park and Ride corridor	7.46	4.99	2.46
Newcastle City Council	A1 corridor complementary local network works - Scotswood Bridgehead improvements	4.20	3.70	1.70
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	4.80	4.32	0.68
Newcastle City Council	Direct link from Newcastle Central station to the Stephenson Quarter regeneration site (£200m)	10.00	6.00	1.00
Nexus	Central Metro Station Refurbishment	7.88	2.51	2.51
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	4.93	4.43	0.50
South Tyneside Council	A194/A185 (The Arches) Junction	6.70	5.83	0.00
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	4.00	3.48	3.48
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	1.50	1.50	1.00
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	4.70	4.70	0.50
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	7.52	7.52	4.00
		114.60	75.10	35.63

Note figures are still indicative and will be updated in the January report.

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- 3.11.7 NECA is working with NELEP and the delivering councils to identify ways that funding flexibilities can enable early delivery of approved projects and the development of plans and bids for future projects.
- 3.11.8 While the Transport Revenue Budget and levies proposed for 2015/16 will reduce in cash terms, as they contribute to the delivery of national funding cuts, this will be achieved through efficiency savings and use of reserves to protect service outcomes, as well as meeting the increasing costs of statutory concessionary travel.
- 3.11.9 At a time when transport services are having to be cut in many parts of the country the protection of transport service outcomes alongside the investment in improvements to transport and highways infrastructure will help contribute to the outcomes of Inclusion, Transport and Connectivity.
- 3.11.10 We have an existing broadband improvement project covering much of the North East through the Broadband Delivery UK (BDUK) initiative. The Combined Authority will be looking to support this to maximise its coverage by using money from the European Programme from 2015.

4 BACKGROUND INFORMATION – BUDGET PROCESS

- 4.1 Levying Bodies regulations require Transport Authorities to set their Budgets and Levies by 15th February each year. Traditionally levies have been set in January to ensure that this statutory deadline is met, but also to give constituent councils information about the transport levies as early as possible to enable them to reflect it in their budgets. As well as transport levies the Budget will set out any contributions from Councils to meeting the non transport costs of the Combined Authority and will set out information about the Capital Investment Programme of the Combined Authority and how the programme is to be funded.
- 4.2 As the accountable body for the North East Local Enterprise Partnership (NELEP) the Budget will include information about the funds available to NELEP and the NELEP's proposed Budget for 2015/16. Further guidance is expected shortly about the monitoring, accounting and governance requirements to be required from LEPs and Accountable Bodies as part of the grant conditions relating to the release of the additional Growth Deal Funding secured from Government next year. The budget will need to reflect the guidance and the resource requirements needed to meet the grant conditions.
- 4.3 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2015/16 Budget for NECA in the context of as much information as possible over a five year Medium Term Plan period. For NECA this would involve developing a revenue budget and capital programme for Highway/Transport; Economic Development (including LEP activity); Skills; and a Corporate Budget. This will need to reflect the latest announcements on new external funding for

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2015/16 onwards and any new announcements over the coming months. While as much information as possible will be collected to present the MTFS in January, more information is likely to be available for Transport services and it is likely that additional information about funding and spending priorities for skills and economic development will be needed in order to fully develop the plan for these areas over a five year period.

- 4.4 A five year period is considered appropriate because it would cover a sufficiently long period to show how the current revenue deficit within the Nexus Budget for transport activity in Tyne and Wear could be addressed and show the planned use of reserves over the period. It would also reference events in the later years of the MTFS period, which could have an uncertain but potentially material impact on the Budget in those years, for example changes in national insurance contributions, the 2016 pension valuation and re-letting the Metro Concession together with confirmation of DfT funding for Metro operations effective from 2019 when the current 9 year arrangement, established in 2010 is renewed.
- 4.5 The capital investment programme will include schemes that have been approved so far with funding secured. It would also be appropriate to identify resources that may be available and potential schemes in development for future funding bidding rounds. The detailed capital programme is a dynamic document that will be updated on a regular basis as information about projects and funding approvals is received. It will be considered and updated in periodic monitoring reports to the Leader's Board.
- 4.6 Major transport and infrastructure projects can have a very long planning, design and implementation period, with future ambitious plans, such as the replacement of the Fleet of Metro cars, and potential Metro system extensions, covering a period of 15 years or longer. Early identification and development of potential projects to help achieve the Strategic Long Term policy objectives of the Combined Authority can help with the development of project plans, business cases and preparing funding plans and bids. It is proposed that a longer term view of investment over a 15 to 20 year period be developed. It is anticipated that this will take time and resources to put in place, so an update on the process will be given in January. Developing longer term plans will assist with future bids to secure the additional resources needed to achieve the SEP objectives.
- 4.7 A key decision in the Revenue Budget is what the level of the Transport Levy will be for 2015/16 and future years for Tyne and Wear and for Durham and Northumberland and the level of the contribution from the 7 councils for non-transport costs, including the contribution to fund capacity and corporate costs.
- 4.8 The constitution of the Combined Authority requires an early consultation on Budget Proposals, giving at least two months for the consultation process to be completed. This report will start the consultation process, which will include

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consideration of the budget report by Overview and Scrutiny Committee, the seven constituent councils, consideration by NELEP and a consultation with the North East Chamber of Commerce.

- 4.9 To ensure that a Budget Report is prepared for the Leaders Board in January which can secure unanimous approval from Leaders it is necessary to ensure that the budget is policy led and that any issues that need to be taken into account are highlighted during the early stages of the preparation of the Budget in the next few months, with any issues resolved by mid December so that a final report can be drafted for circulation on 9th January. The budget proposals need to be considered by the NELEP and by the Transport Committees as well as the Overview and Scrutiny Committee.
- 4.10 Leaders have made clear the need for a policy led budget to underpin the delivery of policy priorities including the delivery of the Strategic Economic Plan, which must also take into account the constraints on revenue budgets imposed by national austerity measures. Initial technical briefings and discussions on the budget process and timetable have taken place with all councils and this has resulted in the high level proposal for 2015/16 in this report. Further details will be developed and fine tuned in partnership with the NELEP; councils and delivery organisations over the next few months. This additional detailed work and the feedback from consultation will then be reflected in a detailed 2015/16 Budget Report for consideration in January 2015.
- 4.11 The timetable for developing the 2015/16 Budget and the Medium Term Financial is very tight and involves a number of steps for discussion, consultation and development of the Budget, as can be seen from the draft timetable set out in Appendix A. Further consideration needs to be given to the various steps in the process and the route through the various Officer/Leaders meetings' NECA Transport Committees, Overview and Scrutiny Committee; NELEP Board and the NECA Leadership Board. The consultation process itself needs to be considered in more detail and set out in the report to the October Board. In some case meeting dates have still to be confirmed and these will be confirmed and included in the schedule when they are known.

5 CONTEXT OF AUSTERITY MEASURES

- 5.1 The budget is being developed in the context of significant revenue funding cuts for local government as part of the delivery of the national austerity measures. While final Government Revenue grant levels have not yet been confirmed, the Government's provisional funding allocations for 2015/16 announced earlier this year indicated a significant extra cash cut in total revenue spending power for the seven councils in the NECA area in 2015/16 of -£64m, which is around 80% higher than the headlined national average cut in spending power.

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5.2 The Government has made more resources available nationally to help deliver improvements to infrastructure transport and economic development through Growth Deal Funding and the bid submitted by NELEP and NECA was particularly successful, with indicative funding amounted to £289m from 2015/16 onwards announced in July, including £93.1m of previously committed funding. The grant approval letters are expected to be signed off in the next few months in time to be fully reflected in the January Budget report.

6 BUDGET PROPOSALS

6.1 Capital Investment / Expenditure

6.1.1 The capital investment programme in the current year is estimated at £100.6m, mainly made up of Metro asset renewal investment programme and Local Transport Plan capital investment, summarised in Appendix 3. Initial estimates for 2015/16 indicate that this is likely to rise to over £130m, mainly as a result of the additional funding for transport and infrastructure announced as part of the Growth Deal.

6.1.2 The substantial programme of Metro asset renewal and improvement works is continuing with an increase programme of £41m envisaged for 2015/16.

6.1.3 The Local Transport Programme Integrated Transport Block has been announced for 2015/16 at £13.95m. This represent a reduction of -£10.67m (-43%) compared with the £24.62m programme in the current year, mainly as a result of the 43% national topslice in this funding block to help finance the Growth Deal. Effectively the loss of this general funding has partly funded the new Growth Deal projects.

6.2 Transport Revenue Budgets and Levies for 2015/16

6.2.1 Revenue transport budgets in 2014/15 amounted to £89.34m. Indicative changes identified so far for Durham and Tyne and Wear would involve a net reduction in this budget of £0.540m (-0.6%). Give the significant national higher pressures of funding cuts, this demonstrates the importance and high priority given to Transport in the region.

6.2.2 The 2015/16 budget will need to reflect the requirement to maintain the Regional Transport Team. The team is currently resourced using a mix of funding sources, including a topslice of the allocation received for Local Transport Plan activity, the out-going Tyne and Wear Integrated Transport Authority (TWITA) Service Level Agreement and contributions from individual local authorities and the LEP. The Combined Authority Transport Group is developing a proposition on the level of resource required for the team and the way in which it should be funded. This will reflect the new governance and working arrangements established for the Combined Authority and the range of transport responsibilities it now holds. This work will be used to inform the

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detailed budget proposal that will be considered by the Leadership Board in January.

Durham County Council

6.2.3 The Budget and Levy for public passenger transport activity in County Durham is expected to be in the region of £16.057m for 2015/16. This compares with a budget of £15.590 in 2014/15.

6.2.4 Following a recent retendering exercise there has been a reduction in overall tendered bus service costs. However, this is being offset by continued pressure on concessionary fare reimbursement to operators, in line with fares inflation and a general increase in the number of concessionary travel journeys.

6.2.5 After a number of years of major changes in the commercially operated bus services, the overall bus network in County Durham appears to have now stabilised. There is a modest growth in passenger numbers over the past 12 months and this trend is forecast to continue over the coming year. There is not expected to be any significant commercial changes in 2015/16 and only a very small number of planned contract renewals. The focus of our spend will therefore be on maintaining the current contracts, which provide a level of accessibility in rural and semi-rural areas and supplement the daytime commercial network with early and later journeys.

6.2.6 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport budget. This will continue to involve working closely with schools, our education colleagues and our transport operators with a focus on developing the interface between scholar services and the public transport network.

Northumberland County

6.2.7 The revenue Transport Budget in 2014/15 is £5.5m. In the context of the requirement for significant savings over the next 3 years the Council is currently reviewing all areas of discretionary spending and this includes supported bus services. Any proposals to amend the Council's existing policy will be consulted upon during the next few months as part of the budget setting process. In respect of concessionary travel the council will continue to enforce an effective application of the policy for the issue of concessionary passes.

Tyne and Wear

6.2.8 A proposal is being developed in more detail for consideration by Tyne and Wear Sub Committee which would see the Transport Budget and Levy for Tyne and Wear being set at £67.2m. This is a reduction of £1.007m on the budget in 2014/15, achieved by efficiency and other cost savings in the ITA and Nexus Budgets and the use of ITA reserves. This will maintain service

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outcomes while improving value for money provided to districts and help them to meet national funding cuts, as well as fully funding any increase in contribution to non-transport NECA budgets.

6.2.9 The distribution of the Levy within Tyne and Wear is based upon population and the levy will reflect changes in population as well as the cut in the overall amount. The indicative levy for 2015/16 for each of the Tyne and Wear districts is shown below.

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change	Levy Reduction	Total	
	£	£	£	£	£	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
Tyne & Wear	£68,207,132	£67,200,000	£0	-£1,007,132	-£1,007,132	-1.5%

6.2.10 This reduction would bring the overall annual transport levy reduction to £10.3m, plus £1.4m of retained grant annually since 2010/11, achieved through efficiency savings and use of reserves, whilst protecting service outcomes. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of concessionary Travel and outcomes in other regions around the country where there have been some significant cuts in services.

6.2.11 The levy is used to fund ITA costs as well as providing a grant to Nexus to fund transport services. The allocation of the levy is proposed as follows.

	2014/15	2015/16	Change
	£	£	£
ITA Costs	3,287,132	2,700,000	-587,132
Grant to Nexus	64,920,000	64,500,000	-420,000
	68,207,132	67,200,000	-1,007,132

6.2.12 Savings on the former ITA budget include savings in pension and capital financing costs, reduction in support costs following the creation of NECA and some use of reserves. The Nexus savings will be achieved by efficiency savings in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource in cash terms for the period of up to 10 years in line with the Bus Strategy.

6.2.13 The Nexus Budget is balanced by use of £2.8m planned use of reserves to fund bus costs pending the delivery of further efficiency savings in future

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years while maintaining service outcomes. Further details of the ITA and Nexus Budgets will be reported to Tyne and Wear Sub Committee for consideration.

6.3 Economic Development / NELEP Capacity

6.3.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has announced a continuation of their £250k grant in 2015/16. Match funding will continue to be provided and is funded by equal contributions from the seven constituent authorities. It is important to secure greater certainty about the available funding over the medium term period of up to 5 years, to ensure that effective capacity can be put in place to deliver the SEP project and programme related activity. Additional funding sources are also being identified to cover project and programme related activity.

6.3.2 The NELEP has significant loan funds and an update on the estimated level of funds available next year will be reported to the January meeting.

6.4 NECA Corporate Costs

6.4.1 When NECA was established the LA7 support budget was increased by around £60k to create a small corporate budget of £140k for the transitional year (£20k for each council). It is now clear that the corporate costs are higher than this and an exercise is underway to identify the revised estimate of costs in 2014/15 and the level of the capacity required from 2015/16, including the additional accountable body responsibilities that will be placed on NECA as part of the Growth Deal funding and its grant conditions, which are due to be received shortly.

6.4.2 The main areas of cost relate to support and input from the Lead Chief Executive, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs continued from previous years and other operating costs. At this stage an indicative budget of up to £300k (an extra £160k - £22.8k for each authority) is suggested for planning purposes. As more information is collected on capacity requirements this will be considered and evaluated in more detail over the next month, with details of the final proposals reported in January. Given the scale of the organisation and its responsibilities, this level of costs is relatively low.

6.4.3 In Tyne and Wear compensating savings have been found in the transport budget, but it is not simply possible to transfer the funds between transport and corporate budgets. This is because separate accounts must be kept in for transport, with is funded by the transport levy and non-transport costs which are funded by separate contributions. The reductions in the Tyne and Wear transport levies produce significant savings of between £75k and £311k per council, some of which can fund the increase in corporate costs for Tyne

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and Wear authorities. Opportunities for offsetting savings are being explored in Durham and Northumberland and at this stage there appear to be opportunities for savings relating to treasury management costs through a pooled mechanism, which could offset the increase in corporate costs. Further details of this are current being considered by Directors of Finance / Treasurers and the Chief Finance Officer of NECA.

6.5 NECA funding Flexibilities

6.5.1 A number of opportunities have been identified following the creation of NECA to deliver improved funding flexibilities to help achieve economic objectives within the SEP; to deliver treasury management savings for constituent authorities and to boost resources availability to help achieve the SEP objectives.

6.5.2 A report commissioned by NELEP from DTZ about the Enterprise Zones is in the final stages of completion and will be reported to the NELEP Board, after which its content can be included in the January Budget report. The flexibilities of treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives; provide capacity to support delivery and the development of major projects and future funding bids. These proposals are currently subject to consideration by Directors of Resources.

6.5.3 NECA should also be able to assist with more flexibility cash flow management of funding to enable capital investment to be accelerated where this is possible to help achieve the earlier delivery of SEP objectives.

6.6 Fees and Charges

6.6.1 The main fees and charges that feature as part of the NECA / Nexus Budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.

6.6.2 In the past, in order to meet budget targets and to align with national rail fare increases, Metro fares have traditionally been reviewed with changes coming into effect from January. At this stage, the proposal being worked up for consideration by the Tyne and Wear Sub-Committee is to increase Metro fares from 2nd January 2015 by a weighted average of 2.2%; this figure is slightly below the level of the Retail Price Index of 2.5% (as at July 2014).

6.6.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Strategy and will build on the improvements identified as part of the January 2014 fares review. In particular, it is anticipated that there will be proposals to introduce new customer benefits associated with the roll out of smart ticketing technology; notably the 'Pop Pay As You Go' product and daily price capping for multiple

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journeys using a smartcard. In addition, the review is exploring ways of further enhancing the offer to young people, particularly 16 to 18 year olds as well as freezing the fare for one zone single journeys.

6.6.4 No increase is planned for the Gold Card next year, with the cost of the Card having been significantly reduced earlier this year

6.6.5 In terms of the Tyne Tunnel Tolls, the toll for cars of £1.60 was set in January 2013 and the tolls for Heavy Good Vehicles (HGV) of £3.20 was set in January 2014. The tolls are due to rise to keep pace with inflation as measured by the Retail Price Index (RPI), with increases limited to whole 10p figures and the ratio between HGV and Car tolls being preserved at 2:1. RPI figures for August 2014, are such that no increase is needed in January 2015. The date of future toll increases will depend in the increase in inflation as measured by RPI each year. Payments to the operator also rise with inflation. Based on forecast future RPI increases the next date for a toll increase looks likely to be January 2016, when tolls for cars may rise by 10p and tolls for HGVs may rise by 20p. Any increase in future years will be reflected in the budget consultation for 2016/17 onwards.

6.7 Reserves and Contingencies

6.7.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. It looks likely that this reserve will be drawn upon to fund corporate costs. The revised estimate of the likely outturn reserves at the end of 2014/15 is currently being assessed and is likely to be between £200k and £250k. The required level of Corporate Reserve will be reassessed based upon a risk assessment taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level.

6.7.2 The Tyne and Wear Transport budget also include a contingency. It is estimated that this will amount to £388k by the end of 2014/15. This will be reduced over the next three years to part fund the proposed cut in the Levy from 2015/16. Other significant reserves are ringfenced for the financing of the Tyne Tunnels, for capital investment or being held on behalf of the Region for the North East Smart Ticketing Initiative (NESTI).

6.7.3 Nexus are planning to use some of their general reserves help balance their budget over the next three years.

7 Potential Impact on Objectives

7.1 The budget and Medium Term Financial Strategy will reflect the Policy Objectives of the Combined Authority including the delivery of the Strategic Economic Plan. Future reports will set out revenue and capital budget proposals that will help deliver the Objectives on the Combined Authority

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8 Finance and Other Resources

- 8.1 The financial and other resources are summarised in this report, where they are known. Further detail will be identified in time for the January Budget Report, including an update on the available funding sources following the NELEP Board meeting in November.

9 Legal

- 9.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before 15 February preceding the commencement of the financial year in respect of which it is issued.
- 9.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculations on the Revenue Budget and transport levy are required to be finalised, the Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny Committee. The accompanying information will include details of how it is intended to consult with the Constituent Authorities, stakeholders and residents as well as the timetable for the consultation and preparation of the final proposals. The Overview and Scrutiny Committee, after considering the consultation proposals and timetable can make appropriate recommendations to the Leadership Board in that regard.
- 9.3 Once the consultation process has been completed, details of the final proposals in relation to the Revenue Budget and levy will be referred to the Overview and Scrutiny Committee. The Leadership Board when considering the final proposals will take into account the recommendations and/or observations of the Overview and Scrutiny Committee. The Leadership Board must approve the final proposals unanimously.

10 Other Considerations

10.1 Consultation/Community Engagement

- 10.1.1 The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. It is proposed that the 2015/16 Budget Proposals be reported to the Leaders Board on 21 October to start a consultation process, which will include the Overview and Scrutiny Committee and the North East Chamber of Commerce.
- 10.1.2 NELEP will be considering its budget from November to January. Consultation on any specific Transport proposals with service impact in Durham, Northumberland and Tyne and Wear will be undertaken by individual councils/delivery organisations. Overview and Scrutiny Committee will consider the budget process and the key proposals at its meetings on 15th

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October, November (if it wishes to do so, date to be confirmed) and 9th December.

10.1.3 In order to assist with the consultation process, it is proposed that a narrative document be prepared from the content of this report and the comments and decisions of the Leaders board of 21 October, which will set out the budget proposals in an appropriate format for consultation.

10.1.4 With recommendation for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 30th November if they are to be reflected in the reports to the Transport North East Committee and by Durham and Northumberland County Councils. Comments on all budget proposals should be received by 24th December 2014 in order to be taken into account in producing the Budget report for the NECA Leaders Board meeting in January. Additional comments received after these dates could be taken into account by the Leaders Board in taking their decision on 20th January.

10.2 Human Rights

Any human rights issues will be reflected in the future reports on budget proposals.

10.3 Equalities and Diversity

There are no specific issues arising directly from this report.

10.4 Risk Management

10.4.1 Appropriate risk management arrangements will be put in place and reported as part of the Budget Report in January. Key issues will be the level of reserves and mitigation measures that can be put in place.

10.5 Crime and Disorder

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

10.6 Environment and Sustainability

There are no specific issues arising directly from this report. The Budget reports will set out environment and sustainability implications.

11 Background Documents

11.1 NECA constitution. Growth Deal announcement – July 2014. NECA 2014/15 Budget Report – April 2014.

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12 Links to Plans in the Policy Framework

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

13 Appendices

- 13.1 Appendix 1 : Updated Budget Timetable (note the diagram is being updated to reflect latest information about dates of meetings);
Appendix 2 : Summary of Headline Budget Figures.
Appendix 3 : Summary of Capital Investment Indicative Figures
Appendix 4 : Summary of NELEP / European Funding

14 Contact Officers

- 14.1 Paul Woods, Chief Finance Officer. Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

15 Sign off

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

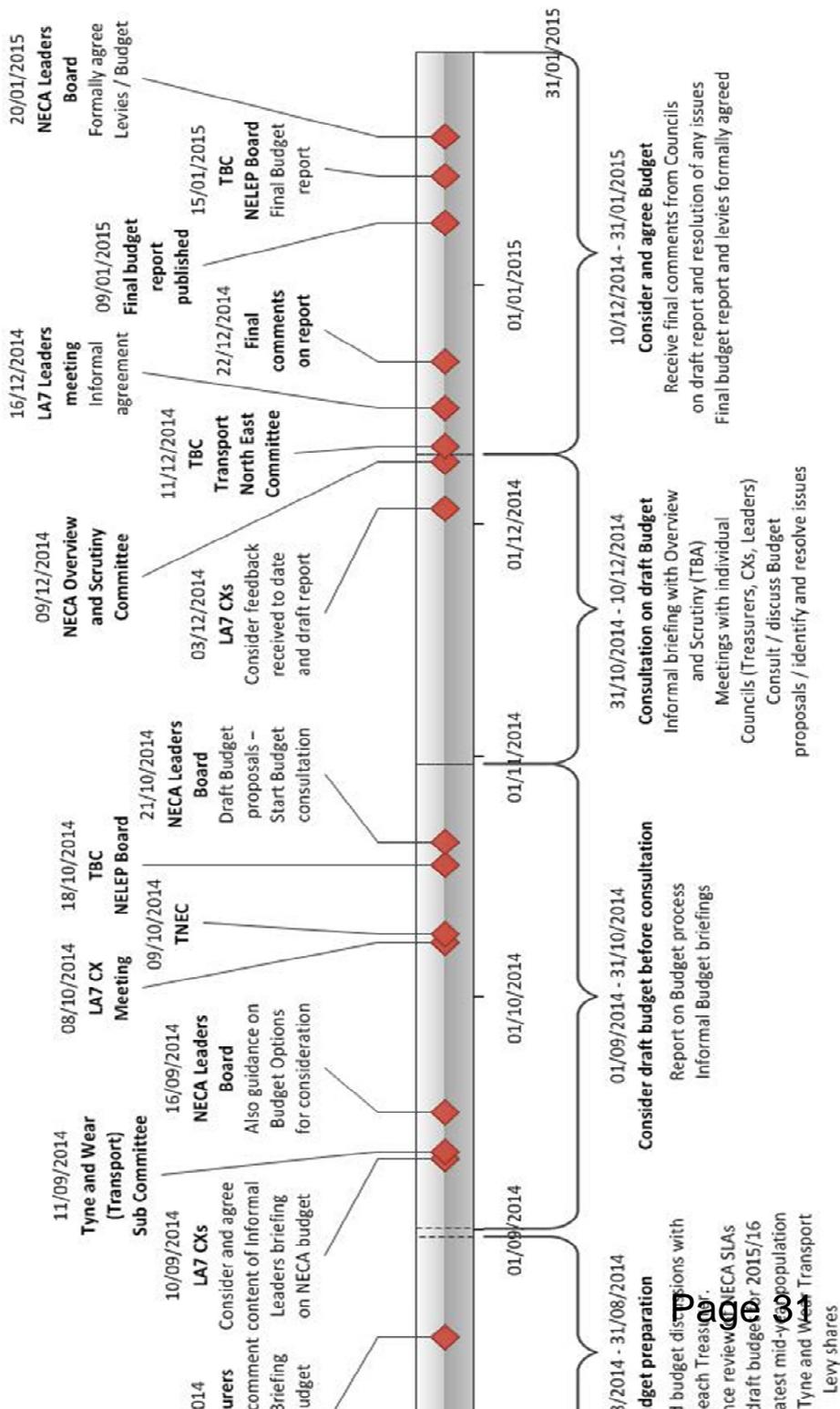
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Appendix 1 : Budget Timetable

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Appendix 2 : Summary of Headline Revenue Budget Information 2014/15 and 2015/16 (Indicative)

	2014/15			2015/16
	Total Gross Revenue Expenditure	External Income / Direct Grants / Reserves	Net Revenue Expenditure	Indicative Figures – Net Revenue Expenditure
	£000	£000	£000	£000
Transport				
Tyne & Wear (Grant to Nexus)	115,318	-50,398	64,920	64,500
Tyne & Wear (non-Nexus)	3,287	0	3,287	2,700
Northumberland	5,543	0	5,543	Tbc
Durham	15,590	0	15,590	16,057
Transport Sub Total	139,738	-50,398	89,340	Tbc
NELEP				
LEP Executive Core Team	525	-275	250	250
Growth Strategy Development	250	-250	0	0
Regional Improvement and Efficiency Partnership	190	-190	0	0
ERDF Policy Strategy and Co-ordination	28	-28	0	0
NELEP Skills Advice	55	-55	0	0
Growing Places Fund Administration	90	-90	0	0
Regional Growth Fund Admin.	294	-294	0	0
NELEP Sub Total	1,432	-1,182	250	250
Core Team & Admin.				
Combined Authority Corporate Costs Budget	140	0	140	Up to 300
Total	141,310	-51,580	89,730	Tbc

Note that some of the figures for 2015/16 are not yet available. Figures exclude Tyne Tunnel Gross Expenditure and Income. The NELEP are considering their

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budget figures next month and the figures for use if NELEP funds will be updated when information is available. Detailed figures will be included in the January report

Appendix 3 : Summary of Headline Capital Expenditure Estimates 2014/15 and 2015/16 (Indicative)

	2014/15 Programme	2015/16 Indicative
	£m	£m
Local Growth Fund – Transport Schemes	n/a	40.15
Local Growth Fund – other	n/a	Tbc
Metro Capital Programme (excluding LTP ITB contribution for match funding, shown below)	36.05	38.36
LTP Integrated Transport Block, (including the match funded contribution to secure the DfT Metro Capital Funding - £2.64m in 2014/15, which also needs to be continued in 2015/16.)	24.62	13.95
LTP Highways Maintenance Block	33.54	33.54 *
Tyne Tunnels Capital Programme	3.50	4.00
Other Capital Grants	2.91	n/a
Total	100.62	130.00

* LTP Highway Maintenance Block figures for 2015/16 are still to be confirmed.

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Appendix 4 : Summary of NELEP / European Funding

North East Investment Fund

The North East Investment Fund is a £55m loan fund. Managed by the North East LEP the fund includes £25m of Growing Places Fund (GPF) and £30m of Regional Growth Fund (RGF). Local Partners including the local authorities play an important role in securing and delivering European funded projects. The fund supports capital projects that encourage economic growth and create jobs in the North East LEP area.

Growing Places Fund £25m

All of the £25m has now been allocated with projects drawing down funds in line with their agreed profiles of spend. Loan repayments have already commenced for some projects and will continue in 2015/16 and beyond. Projects supported cover, private and public sector led developments including North East Enterprise Zone infrastructure investment.

Regional Growth Fund £30m

As part of the government's RGF Round 3, the NELEP secured funding of £30m, which jointly funds the NE Investment Fund. The 2 year RGF funding covered the financial years, 2013/14 and 2014/15. £20.5m has been approved towards schemes to date with the remaining balance to be recommended for approval shortly following completion of the necessary due diligence.

NE Growth Deal 2015/2021

The North East LEP has secured £289.3 m from the Government's Local Growth Fund to support economic growth in the area – with £47.9m of new funding confirmed for 2015/16 and £69.6 for 2016/17 to 2021. This includes:

- As part of the Government's on-going commitment to the North East LEP a provisional award of a further £78.7m of funding for projects starting in 2016 and beyond; and
- £ 93.1m of funding which the Government has previously committed as part of Local Growth Deal funding to the area.

Please note the headline figures above cover funding for the North East area. Clarity is being sought from central government as to the exact funds which will be managed by the NELEP.

Further guidance from central government is expected shortly on the monitoring and evaluation requirements linked to the Growth Deal Funding award. The necessary systems and processes will be developed and put in place by NELEP and Combined Authority officers once this guidance is received.

A full summary of the North East Growth Deal is available from the following link on the NELEP website;

<http://www.nelep.co.uk/media/7313/north-east-growth-deal.pdf>

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European Funding Summary

The North East LEP has received a notional allocation of €550.5m worth of European Structural and Investment Funds resource (covering European Regional Development Fund, European Social Fund and European Agriculture Fund for Rural Development). This represents approximately £470.6m¹ of investment and is accompanied by a further £7.7m for the Youth Employment Initiative in County Durham providing significant opportunities.

European Structural and Investment Funds are focused on reducing disparities in economic performance between higher and lower performing areas by driving local growth. In contrast to 2007-13, the programmes for 2014-2020 will be organised at the national level but informed and delivered through a LEP area strategic framework. This is set out in the North East LEP European Structural and Investment Strategy which aligns the local priorities set out in the Strategic Economic Plan to the European objectives of smart, sustainable and inclusive growth. The strategy therefore addresses a wide range of potential activities including innovation, business support and access to finance, sustainable and low carbon growth, employability and inclusion and skills.

The strategy, currently in draft form, has been developed in consultation with, and engagement of, local partners and stakeholders. It is currently in the process of being finalised in tandem with the national negotiations on the Partnership Agreement and Operational Programmes. The Agreement and Programmes will be agreed by the UK Government and the European Commission and set the boundaries for local strategies. Subject to the successful completion of these negotiations, expected in early 2015, local strategies and the resultant project calls will be launched. Preparations for implementation are being taken forward in line with those for the Strategic Economic Plan.

Funding for the preparation and delivery of the European Structural and Investment Funds is provided through Technical Assistance. This is established through articles 58 and 59 of the Common Provisions (1303/2013) which set out a series of parameters for the use of the funding. As with other European funding sources, Technical Assistance requires match funding from local partners. This is separate to project-level delivery funding which should be considered in the development of applications.

Within the 2007-2013 European Regional Development Fund programme Technical Assistance is currently used to support two full time members of staff in the NELEP team to prepare for and implement the 2014-2020 European Structural and Investment Funds programme as well as officers and discrete projects across local partners to support project development and delivery. Current LEP-level arrangements will end once the new programme is approved (TA currently ends Dec 2014) with the wider support due to end by September 2015. Technical Assistance

¹ Please note this represents the fixed exchange rate used by Government in the planning process and the actual figure will be subject to currency fluctuations over the period of the programme.

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through European Social Fund (ESF) has been more limited in its availability but has also supported some locally based activities.

As part of the UK Government's approach to the 2014-2020 funding period up to half of the Technical Assistance budget (approximately 5% of total spend) is to be made available to local partners to support the delivery of the programme. Local Enterprise Partnerships and local areas will not receive any specific allocation for this funding, but at a proportional rate would represent around £9.2m for the North East LEP area over the programme up to the end of 2023. The resource would include both ERDF and ESF funding, require local match funding and be accessed through an application to the national Technical Assistance allocation. The process for this has yet to be established by national government.

Technical Assistance provides a significant potential resource; however it will require both careful development in response to the need for match funding and the tightly defined framework for eligible activity. Project development and delivery support programme management and strategic support will need to demonstrate differentiation and alignment as appropriate with Managing Authority functions. This is particularly relevant in relation to strategic oversight and support work for the local sub-committee for European Structural and Investment Funds.



Transport North East Committee

Thursday, 4th December 2014 at 2.00 pm

Members' Pre-meeting at 1.30pm

Meeting to be held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

www.northeastca.gov.uk

SUPPLEMENTAL AGENDA

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3. Transport Budget 2015/16	
(a) Transport Revenue Budget and Levies 2015/16	1 - 26
(b) Transport Capital Programme 2015/16	27 - 42

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To All Members

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North East Combined Authority

Transport North East Committee

DATE: 4 December 2014

SUBJECT: Transport Revenue Budget and Levies 2015/16

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report provides the Transport North East Committee with a progress update in relation to the transport related budgets for the delivery agencies for 2014/15. It also sets out the latest information about the draft transport budgets and transport levies for 2015/16 for consideration and comment in order to inform the recommendations to be made in the report to the NECA Leadership Board meeting on 20 January 2015. A separate report on this agenda covers the capital programme and this will be considered alongside this report as part of the NECA budget when it is reported to the Leadership Board in January.

RECOMMENDATIONS

Transport North East Committee is recommended to:

- a) Consider the contents of this report;
- b) Agree that the contents of this report should form the basis for an overall draft budget for the North East Combined Authority for 2015/16, for consideration by the NECA Leadership Board in January, taking into account any comments that may be received from the budget consultation.

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Transport North East Committee

1 Executive Summary

- 1.1 This report provides a progress update in relation to the transport related revenue budgets for the delivery agencies for 2014/15, which is estimated at £89.3m, slightly less than the original budget. It also sets out the proposed Transport Revenue Budget and Levies for 2015/16 in order that recommendations can be agreed for inclusion in the budget report to the 20 January Leadership Board meeting. This is a requirement of the NECA constitution and needs to comply with regulations relating to the allocation of Transport Budgets and Levies.
- 1.2 In the current year 2014/15, the overall budget position is broadly in line with the original budget, with some additional pressure on concessionary fare costs in Durham and Northumberland and savings in Tyne and Wear costs. The revised estimate of net expenditure is £89.28m, which is slightly lower than the original budget of £89.34m. In Tyne and Wear, the grant to Nexus is fixed for the year so there is no change compared with the original budget. However, there is a significant improvement within the Nexus Budget for the year, where the estimated deficit to be funded by use of reserves has reduced from £4.77m to £2.98m as a result of reduction in costs and higher income from Metro fares. The ringfenced Tyne Tunnels account also shows a slight improvement.
- 1.3 For 2015/16, Transport net revenue budgets are proposed to slightly reduce in overall terms by £0.7m, with a further reduction in the Tyne and Wear levy of just over £1.0m, a small increase of £0.49m in the budget in Durham County and a small reduction of £0.18m in Northumberland. All budgets are facing inflationary and demand pressures on concessionary travel costs, with savings having to be found in other budget areas. For the first time transport levies are being set in Durham and Northumberland under the requirements of the new Combined Authority as set out in the Order. Details of the proposed budgets and levies for each area for 2015/16 are set out in section 3 below.

2 Transport Revenue Budgets for 2014/15

- 2.1 At its meeting on 29 April 2014, the Combined Authority received a report from the Chief Finance Officer setting out the Authority's proposed base net revenue budget of £89.73m for 2014/15, of which £89.34m related to transport activity.

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- 2.2 In 2014/15, revenue expenditure will be accounted for within a range of existing transport budgets as follows:

Table 1: Summary of original Gross and Net Revenue Budget 2014/15

Original budget for 2014/15	Gross Revenue Expenditure	External Income/ Grants/ Reserves	Net Revenue Expenditure
	£000	£000	£000
<u>Transport</u>			
Tyne & Wear (Nexus Grant)	171,922	(107,002)	64,920
Tyne & Wear (non-Nexus)	3,287	-	3,287
Tyne & Wear (Tyne Tunnels)	25,146	(25,146)	-
Northumberland	6,522	(979)	5,543
Durham	17,076	(1,486)	15,590
Total	223,953	(134,613)	89,340

- 2.3 The latest budget monitoring statements indicated slight pressures on concessionary travel budgets; a reduced pressure on expenditure and use of reserves within the Nexus accounts. The revised estimate for 2014/15 is summarised below.

Table 2: Summary of revised Net Revenue Budget 2014/15

Revised budget for 2014/15 (forecast outturn)	Net Revenue Expenditure	Variance from Original Budget
	£000	£000
<u>Transport</u>		
Tyne & Wear (Nexus Grant)	64,920	0
Tyne & Wear (non-Nexus)	2,942	(345)
Tyne & Wear (Tyne Tunnels)	0	0
Northumberland	5,567	24
Durham	15,854	264
Total	89,283	(57)

- 2.4 The Grant to Nexus is fixed for the year and adjusted in the following year. Within the Nexus budget for 2014/15 there is a significant improvement with the planned deficit of £4.77m being reduced to around £2.98m, as described in section 3.4.6 below. The position in respect of the Tyne Tunnels account has also improved slightly due to additional income.

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3 Transport Revenue Budgets 2015/16

3.1 The overall total proposed net revenue budget for transport in 2015/16 is £88.6m. This represents a net reduction of £0.698m (-0.8%) on the overall transport net revenue budget for 2014/15. Information about the draft budget and the levy for each of the three areas in NECA are summarised in the table below and set out in more detail in the following sections and in the appendices.

Table 3: Summary of transport budgets and levies 2015/16

Area	Transport Budget and Levy £	Change from 2014/15 £
Durham	16,076,449	486,449
Northumberland	5,366,079	(176,921)
Tyne and Wear	67,200,000	(1,007,230)
Total	88,642,528	(697,702)

3.2 Durham

3.2.1 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £16.076m for 2015/16. This compares with a budget of £15.590m in 2014/15. The budget and levy for 2015/16 is summarised in the table below.

Table 4: Durham Transport Budget and Levy 2015/16

	Gross Expenditure £	Gross Income £	Net Expenditure £
Grant to Durham			
Concessionary Fares	11,901,730	(10,500)	11,891,230
Subsidised Bus Services	5,114,380	(1,885,895)	3,228,485
Bus Stations	476,906	(293,100)	183,806
Bus Shelters	80,000	0	80,000
PT Information	171,119	(92,159)	78,960
Staffing	629,251	(20,222)	609,029
Total Grant	18,373,386	(2,301,876)	16,071,510
Share of NECA Transport Costs	4,939	0	4,939
Transport Levy	18,378,325	(2,301,876)	16,076,449

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- 3.2.2 Following a recent retendering exercise there has been a reduction in overall tendered bus service costs. However, this is being offset by continued pressure on concessionary fare reimbursement to operators, in line with fares inflation and general increase in the number of concessionary travel journeys.
- 3.2.3 After a number of years of major changes in the commercially operated bus services, the overall bus network in County Durham appears to have now stabilised. There has been a modest growth in passenger numbers over the past 12 months and this trend is forecast to continue over the coming year. There are no significant commercial changes anticipated in 2015/16 and only a very small number of planned contract renewals. The focus of spend will therefore be on maintaining the current contracts, which provide a level of accessibility in rural and semi-rural areas and supplement the daytime commercial network with early and later journeys.
- 3.2.4 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport budget. This will continue to involve working closely with schools, education colleagues and transport operators with a focus on developing the interface between scholar services and the public transport network.

3.3 Northumberland

- 3.3.1 The budget and levy for public transport activity in Northumberland is £5.366m in 2015/16 as shown in the table below. This compares with a budget of £5.543m in 2014/15.

Table 5: Northumberland Transport Budget and Levy 2015/16

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Northumberland			
Concessionary Fares	4,378,630	(12,940)	4,365,690
Subsidised Bus Services	1,479,940	(696,340)	783,600
Bus Stations	-	-	-
PT Information	36,300	-	36,300
Staffing	175,550	-	175,550
Total Grant	6,070,420	(709,280)	5,361,140
Share of NECA Transport Costs	4,939	-	4,939
Transport Levy	6,075,359	(709,280)	5,366,079

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- 3.3.2 The change is largely based on a forecast saving within the Subsidised Bus Services budget due to a forthcoming retendering exercise, with the efficiencies being derived through a better alignment to the equivalent processes for Home to School Transport. This review will also explore the current criteria by which bus service routes are selected for inclusion in the tender. It is hoped that following this exercise, the overall bus network in Northumberland will become more stable.
- 3.3.3 With regard to the Council's approach to Home to School travel, the Council has in the current financial year agreed to remove the previous free Post-16 travel scheme whilst continuing to provide support to students on low incomes. The current provision of free home to school transport will continue for mainstream students and we will continue to carry out a rolling programme of route reviews to ensure provision of an efficient service.
- 3.3.4 The Concessionary Travel budget remains at broadly the same level, but it is recognised that there is increasing pressure in this area, due to fares inflation and a general increase in the number of concessionary travel journeys.
- 3.4 **Tyne and Wear**
- 3.4.1 It is proposed that the Transport Budget and Levy for Tyne and Wear be set at £67,200,000. This is a reduction of £1,007,132 on the 2014/15 levy. The reduction will be achieved by efficiency and other cost savings of £0.511m in the former ITA budget; £0.420m in the Nexus Budget and the use of £0.076m former ITA reserves in 2015/16. This will maintain service outcomes while improving value for money provided to the districts and help them to meet national funding cuts, as well as fully funding any increase in contributions to non-transport NECA budgets for Tyne and Wear councils. A summary of the budget for 2014/15 and 2015/16 is set out below, with more detail provided for the Tyne and Wear (non-Nexus) budget elements at Appendix C and more detail about the Nexus budget elements set out at Appendix B. A summary of the Tyne and Transport Budget is set out below.

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Table 6 : Summary Tyne and Wear Revenue Budget 2014/15 and 2015/16

	2014/15 Original Budget	2014/15 Revised Estimate	2015/16 Proposed Budget
	£	£	£
ITA and NECA Transport Costs	3,287,132	2,942,430	2,776,450
Revenue Grant to Nexus	64,920,000	64,920,000	64,500,000
Contribution to/ (from) Reserves	0	344,702	(76,450)
LEVY / Expenditure	68,207,132	68,207,132	67,200,000

3.4.2 The ITA element of the Budget amounts to £2,776,450, which is 4% of the Tyne and Wear Transport budget. This is a reduction of -£510,682 (-16%) from the original 2014/15 budget, with savings in pension, support services and subscription costs and a reduction in the contingency budget. To balance the budget in 2015/16 £76,450 will be drawn from the ITA transport reserve. The largest single element of the ITA transport budget is £2,236,450 of capital financing costs relating to historic transport capital infrastructure investment.

3.4.3 The distribution of the Levy within Tyne and Wear is based upon population as required by regulations and the levy will reflect changes in population as well as the cut in the overall levy amount. The indicative levy for 2015/16 for each of the Tyne and Wear districts and the population statistics used is shown in the Table below and described in more detail in Appendix A.

Table 7 : Tyne and Wear Levy - Population Based Distribution

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change £	Levy Reduction £	Total £	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
Tyne & Wear	£68,207,132	£67,200,000	£0	-£1,007,132	-£1,007,132	-1.5%

Nexus Budget Proposal

3.4.4 The Nexus budget proposal for 2015/16 is being formulated taking into account the recommendation made to the Leadership Board when it agreed the report that set out the key issues, principles and proposals that are

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likely to be included in the NECA's 2015/16 budget. For Nexus, this will mean a reduction in its grant funding from the NECA by £0.420m from £64.92m in 2014/15 to £64.5m in 2015/16. The gross expenditure of Nexus before fare income and Government Grants is £176.2m.

- 3.4.5 This continues the budget strategy previously agreed whereby £9.229m (a cumulative 12.5% cash reduction) has been removed from the grant payable to Nexus from the Tyne and Wear transport levy since April 2011, which together with a further reduction in the form of £1.435m of concessionary fares funding redirected to the five districts, is being managed through a combination of efficiency savings and use of reserves. This strategy has been adopted in order to protect service outcomes in the medium term, subject to a more sustainable package of savings linked to the delivery of the bus strategy being achieved. In this regard, NECA took a key decision in October 2014 to proceed to the Bus Quality Contract Scheme Board.

2014/15 Forecast Budget

- 3.4.6 As reported to TNEC in October 2014, the Nexus budget deficit for 2014/15 has reduced from the original budget estimate of £4.770m and is currently forecast to be £2.983m, a positive variance of £1.787m. The main reasons for this variance are summarised below:

Table 8 : Summary of Nexus 2014/15 Budget Variations

	<u>£000</u>	<u>£000</u>	<u>£000</u>
Budgeted deficit			4,770
Metro Revenue	-1,000		
Secured Bus Services	-679		
Bus Infrastructure	-208		
Loan interest	-103		
Metro Concession	<u>-96</u>		
		-2,086	
Investment Income	100		
Smart Ticketing	78		
Rates	71		
Metro Rail Grant	39		
Other	<u>11</u>		
		<u>299</u>	
			-1,787
Latest Forecast Deficit			<u>2,983</u>

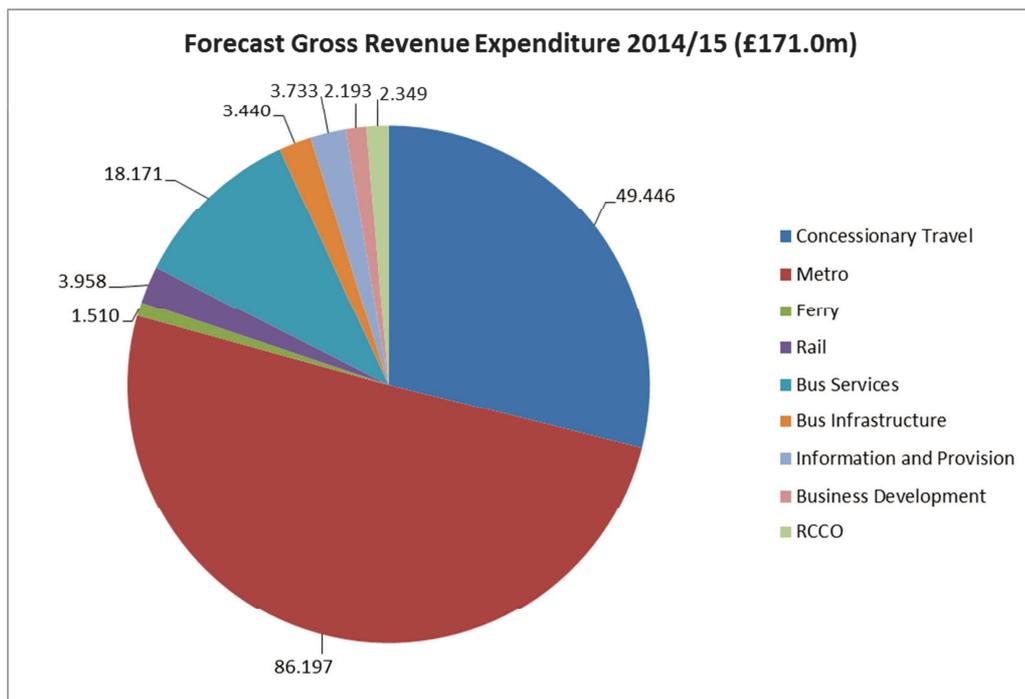
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3.4.7 As far as savings being made during the current year are concerned, it should be noted that some of these variances are one-off in nature and do not carry forward to 2015/16. This is particularly apparent in relation to Secured Bus Services, where although savings have been made during 2014/15, in the interests of maintaining service outcomes, cost pressures will have to be accommodated in 2015/16.

3.4.8 In terms of the net costs to be met from the Levy funded Grant of £64.92m, the largest single element continues to be Concessionary Travel costs (£47.6m – 73%), followed by the costs of supported bus services and bus infrastructure (£14.7m – 23%), which together account for 96% of the Levy funding received by Nexus.

3.4.9 Nexus' current forecasted gross revenue expenditure requirement for 2014/15 is set out in the pie chart below:

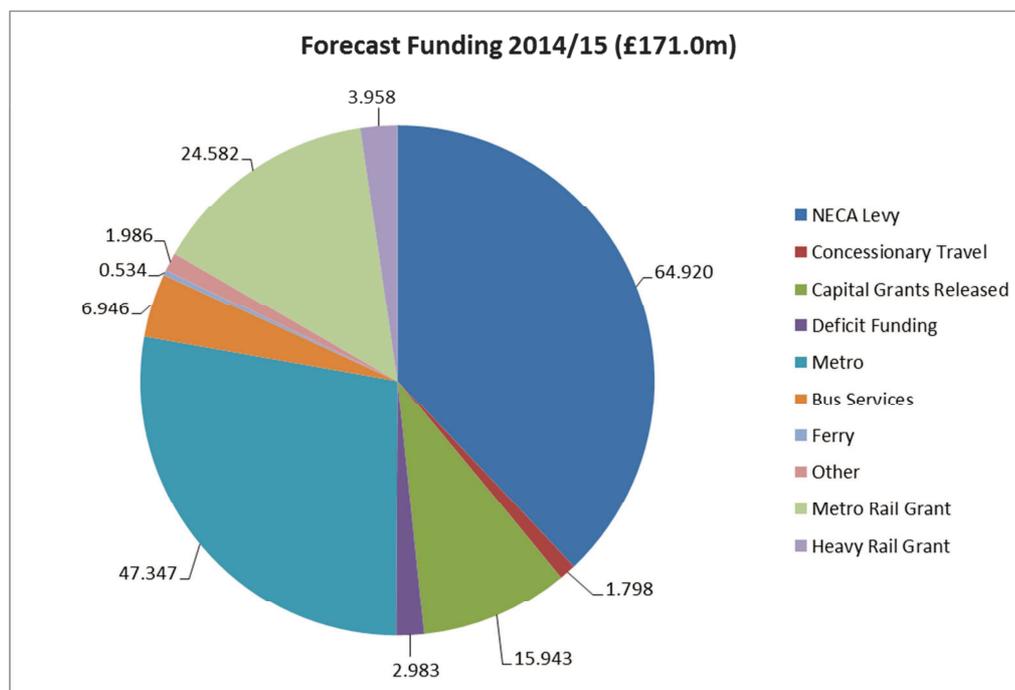


3.4.10 This shows that the largest areas of gross expenditure are in relation to Metro and Bus services including concessionary travel. The majority of this £171.0m is funded by £103.1m of fare income and external grants; £64.9m of Levy funded Grant, leaving a £3.0m budget deficit to be funded from reserves.

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3.4.11 The funding for this Gross Revenue Expenditure is summarised in the chart below:



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

3.4.13 Services which are most impacted by the volatility in the grant paid by NECA are concessionary travel, which is a largely statutory service relating to bus, secured bus services, bus infrastructure, the provision of public transport information and the cross Tyne ferry service. The sustainability of the reduction in the grant paid by NECA to Nexus is therefore heavily dependent on being able to deliver long term savings in the cost of the bus network for which a strategy was initially agreed at the November 2011 meeting of the Tyne and Wear ITA. Due to the improved position being reported in 2014/15, there is a reduced call on usable revenue reserves across the medium term which therefore allows the continuation of this strategy in line with the decision of the NECA to proceed to the Bus Quality Contract Scheme Board.

3.4.14 The Government has chosen to provide national grant funding to support transport services in Tyne and Wear in two different ways. Metro rail grant is paid directly to Nexus, which reduced the net cost of Metro to a small

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revenue surplus. Government funding for concessionary travel, bus support and capital financing costs is paid to the Metropolitan District councils as part of their unringfenced general revenue grant. In recent years the changes to the grant system has meant that it is no longer possible to identify the level of grant received specifically for transport services. The levy charged to districts is therefore funded by national grant as well as by local taxpayers.

- 3.4.15 Nexus have updated the information previously provided about the analysis of activity provided in the area of each district and this will be circulated to councils and will be the subject of a future policy seminar for Tyne and Wear Sub-committee members.

2015/16 Base Budget

- 3.4.16 The Nexus 2015/16 budget has been formulated so that pay and price inflationary pressures will be offset by a combination of increased commercial revenues and further efficiency savings as well as ensuring that the proposed further reduction in grant from the NECA of £0.420m becomes a permanent feature of the base budget requirement. In this regard, a further review of staffing arrangements is being planned, including a review of senior management structures.
- 3.4.17 Table 9 illustrates that the provisional estimates used to determine the Nexus budget for 2015/16 is currently forecasting an estimated deficit of £3.103m. It should be noted that this is consistent with earlier forecasts presented to Treasurers prior to the NECA deciding to proceed to the Quality Contracts Scheme Board at its meeting held on 21 October 2014.

Table 9 : Summary of Movement in Nexus Base Budget

	<u>£m</u>	<u>£m</u>
Base deficit 2014/15		4.770
Contractual inflation	1.035	
Employees	0.690	
Committed growth	0.217	
Changes to grants	0.502	2.444
	<hr/>	
Full year effect of staff changes	-0.198	
Commercial income	-2.521	

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Corporate savings	-1.392	-4.111
Base deficit 2015/16		3.103

- 3.4.18 Contractual inflation mainly relates to the Metro Concession payment due to DB Regio Tyne and Wear Limited, which is currently forecast to increase by £0.366m as a result of the terms of the concession agreement between Nexus and its contractor. There is a £0.500m pressure in respect of HV Power and the rating demand (most of which relates to the Metro infrastructure) is estimated to increase by £0.110m during 2015/16.
- 3.4.19 There is small a provision for pay inflation and incremental progression within the 2015/16 budget.
- 3.4.20 Committed growth relates to the second phase of the Metro re-launch campaign as well as the planned increase in the number of apprentices from twenty to thirty in the autumn of 2015.
- 3.4.21 A net reduction in grant income of £0.502m is estimated. This takes into account the proposed £0.420m reduction in grant paid from NECA together with a marginal decrease in Metro Rail Grant paid by the Department for Transport.
- 3.4.22 Notwithstanding the proposed review of senior management structures, there is an estimated £0.198m reduction in staffing budgets (when comparing the April 2014 staffing establishment with that of the establishment currently expected to be in place for 2015/16). This reduction in employee costs largely reflects the full year effect of the net loss of a number of posts in retail sales as a result of the closure of three Nexus travel shops in September 2014.
- 3.4.23 Commercial revenues are estimated to be some £2.521m higher in 2015/16 than the 2014/15 base. This is largely in respect of Metro revenue where members will recall that the second quarter monitoring report to TNEC in October 2014 estimated that the Metro fare box was expected to be some £1.0m better than the 2014/15 base (this is also depicted in table 8 above). Additional growth in fare income is anticipated in the remainder of 2014/15 and this will be reported as part of the third quarter monitoring report later in the year. This, together with the fares review which the Tyne and Wear Sub-Committee agreed to at its November 2014 meeting which (outside of targeted growth resulting from the introduction of new smart products, the Metro re-launch referred to in paragraph 4.22 and other marketing activities) is expected to yield an additional £0.7m in 2015/16, which all results in an estimate of fare box revenue that is estimated at £2.7m over

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the 2014/15 base. Elsewhere within this particular budget, Nexus will need to accommodate a loss of income estimated at £0.3m as a result of a reduction in the sale of scholar's passes to those local authorities that have elected to cut these budgets in response to government austerity measures. A compensating increase in gold card income of £0.3m will help offset lost income in relation to sales of local authority scholars passes.

3.4.24 Nexus continues to examine ways in which it can reduce its cost base, whilst looking to protect and preserve service outcomes. A saving in its pension deficit payment of £0.9m accounts for most of this saving. A further £0.5m will be saved from a reduction in 'controllable costs' where all Heads of Service will be required to deliver cash savings in 2015/16, thereby continuing a strategy initially adopted when the levy was first cut in 2011.

3.4.25 A summary of the 2015/16 provisional Budget figures is set out in Appendix C, which shows the provisional estimated use of the £64.5m Levy funded Grant to Nexus from the NECA. The majority of this grant (95%) funds the costs of concessionary travel and supported Bus Services. The draft 2015/16 budget assumes a continued draw on reserves of £3.1m, which is consistent with previous estimates contained within the financial modelling for the Bus Quality Contracts Scheme.

Impact on Usable Reserves of Nexus

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

	£000
Balance at 31st March 2014	15,265
Forecast Deficit 2014/15	<u>-2,483</u>
Balance at 31st March 2015	12,782
Forecast Deficit 2015/16	<u>-3,100</u>
Balance at 31st March 2016	9,682

3.4.27 Usable capital reserves held by Nexus are earmarked for current and future investment purposes. In the short term, residual costs relating to the Metro

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Ticketing and Gating scheme, a provision for match funding for capital works associated with Nexus projects receiving support from the Strategic Economic Plan, the Bus Strategy project, Metro re-launch and above ground works at Sunderland railway station are all currently earmarked to be met from usable capital reserves. In the medium to longer term, Nexus has also earmarked usable capital reserves in order to provide for developmental costs associated with the Metro Strategy 2030.

3.4.28 As with its usable revenue reserves, Nexus have also established the need to provide £5.0m as a strategic balance in order to accommodate any unforeseen and uninsurable losses across its estate.

3.4.29 In addition, £11.425m was held on behalf of Nexus by the Tyne and Wear ITA and earmarked for the Metro Asset Renewal Plan as at 31 March 2014. This is now held by the NECA on Nexus' behalf (as agreed by the Tyne and Wear ITA at its January 2014 meeting) and is necessary to part fund the required 10% local contribution (with the remainder coming from the LTP).

3.5 Tyne and Wear (non-Nexus)

3.5.1 This budget relates to activity inherited from the former Tyne and Wear ITA. The vast majority (around 80%) relates to financing charges on historic debt. Additionally, there is budget provision to pay for support services/Transport SLAs, other supplies and services, the external audit fee and a repayment to the Tyne Tunnels for use of reserves in 2013/14 to pay off the pension deficit.

3.5.2 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £574k at the start of 2014/15 to £479k at the year end. The budget for 2015/16 shows a planned reduction in reserves of £76k to £403k.

3.5.3 Further details are set out in Appendix C.

3.6 Tyne Tunnels

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

3.6.2 The forecast for 2014/15 shows an increase in toll income as traffic has been higher than predicted (some of the recent increase appears to be due to roadworks affecting the Tyne Bridge and the A1). This increased income

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is largely offset by increased payments to the concessionaire, TT2 Ltd., as their payments are calculated based on the traffic figures. The forecast deficit position is likely to be largely in line, or slightly below, the original estimate, and will be met from the Tyne Tunnels reserves which have been built up from tolls income.

3.6.3 The annual deficit on the account to be met from the Reserves balance is expected to increase slightly in 2015/16. This is because although tolls are due to increase from January 2016, the shadow toll paid to the concessionaire increases by inflation with effect from January 2015, so there is a full year inflationary cost pressure while only a quarter year inflationary increase in toll income. As a result the draw on the Tyne Tunnel Financing Reserve will increase in 2015/16 to up to £1.5m

3.6.4 Further details are set out in Appendix D.

3.7 NECA Highway and Strategic Transport Team and Capacity

3.7.1 The NECA transport agenda needs to sustain sufficient capacity to support its functions, to influence external partnerships and investment decisions by national government, to coordinate funding opportunities and assess projects, to deliver collectively-agreed projects, and to provide policy advice to members of the Leadership Board, LEP and Transport North East Committees. This capacity is transitioning from disparate support arrangements working at different levels of geography and on behalf of different governance arrangements, to a coordinated team working on behalf of the North East Combined Authority. A NECA Transport Officers Group has been established to oversee this work programme, and access to programme funding for project development and delivery. The current cost of this capacity is £1m, and NECA Transport Officers are in the process of reviewing the resource requirements.

3.7.2 This capacity be funded through a combination of charges against the capital programme, as part of the topslice of the Local Growth Fund (which has a substantial transport element) that has already been proposed, and through a top-slice of resources provided by the DfT through the Local Transport Plan (LTP) arrangements. This would continue the topslice arrangement principle applied in Tyne and Wear in previous years. It is anticipated that the top-slice should be set at a level of no more than 4% of the Tyne & Wear element of the LTP block (which is the current level of the topslice), with the costs which apply across the NECA as a whole being assigned to Northumberland and Durham on a basis to be agreed.

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3.7.3 The LTP IT allocation has been announced by DfT for Northumberland (£1.695m), Durham (£2.789m) and Tyne & Wear (£9.465m); although in practice we expect these sums to be paid as a single grant into the Combined Authority, together with the maintenance allocation which this yet to be confirmed. The current practice is to assign the majority of this funding to the individual districts (after the top-slice described above), to fund local priorities, and to provide match-funding for Local Growth Fund projects. It would be appropriate to use the DfT's own allocation formula to determine the funding for the two counties, (with separate figures having already been announced) and for Tyne & Wear an existing formula can be applied, updated where new data is available. This includes an allocation to Nexus, which would need to be sufficient to meet commitments to part-fund the Metro Reinvigoration Project.

3.7.4 Once the details have been finalised through the Transport Officer Group discussions and discussions with each council, they will be included in the final report to the Leadership Board in January.

3.8 Value for Money Analysis – Transport Budgets

3.8.1 The relative levels of the levies are shown in the Chart in Appendix A, with relatively low cost per head of population in Northumberland and Durham.

3.8.2 The costs per head of population in Tyne and Wear are higher because they reflect a significantly higher level of concessionary travel activity and the support for secured bus services to provide accessible transport services across the county.

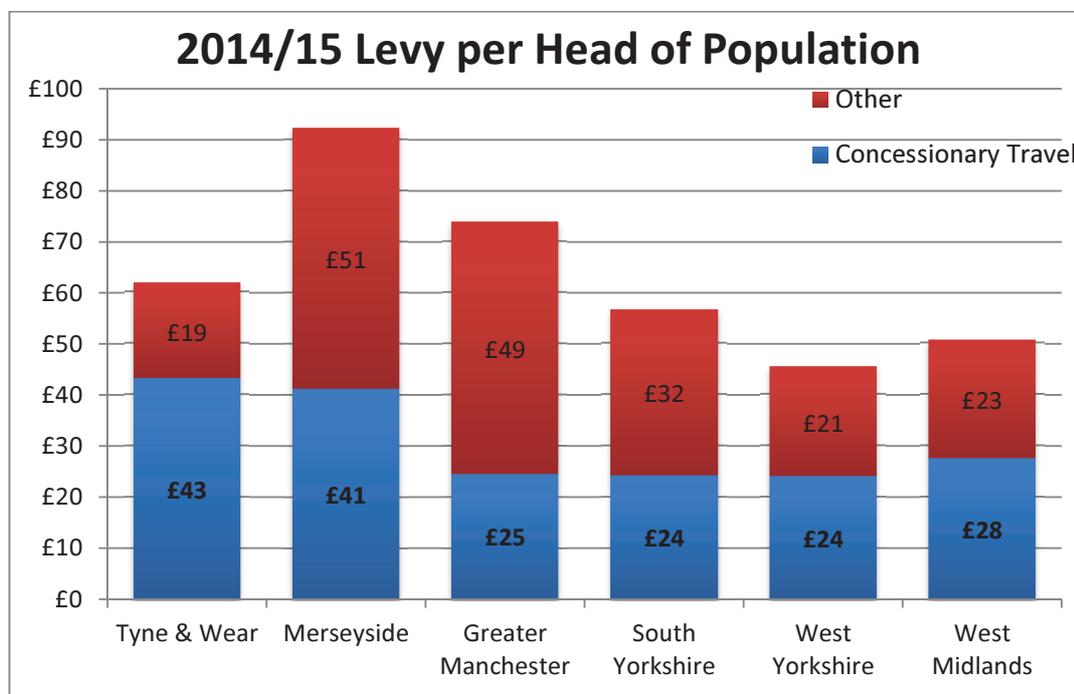
3.8.3 In recent years the significant saving to districts from reductions in the levy and retention of concessionary travel grants have resulted in total annual savings of £10.7m (12.5% in cash terms and over 20% in real terms) since 2011, with no material reduction or detrimental impact on service outcomes. At the same time population has risen slightly by 0.6%. A reduction of £10.7m is equivalent to a reduction in the levy per head of population of £10 per person, which is a significant improvement in recent years.

3.8.4 A comparison of levy per head of population in 2014/15 for the other metropolitan ITAs shows that while Tyne and Wear has the 3rd highest levy per person at £60.15, this is due to the higher volume of concessionary travel, which means that Tyne and Wear has the higher cost per head of population for concessionary travel but the lowest cost per head of population for other transport costs.

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Table 10: Relative Cost per Head of Population 2014/15



4 Next Steps

4.1 Further consultation on the 2015/16 budget proposals will be taking place during December. The Leadership Board will meet to agree the 2015/16 NECA Budget and Transport Levies on 20 January, taking into account the recommendation from this committee as well as any comments made during the consultation process.

4.2 The revenue budgets of the Delivery Agencies will be monitored and reported to the Transport North East Committee on a quarterly basis during 2015/16

5 Potential Impact on Objectives

5.1 The report sets out the proposed transport finance and resourcing of the Combined Authority to support the delivery of its objectives.

6. Finance and Other Resources

6.1 The finance implications are set out in detail in the body of the report. The reserves identified in the report are considered to be appropriate to manage risks relating to transport activities of NECA. The transport budget proposals for Tyne and Wear are consistent with the Bus Strategy proposals for a quality contract scheme. The reduction in the Tyne and

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Wear levy, while protecting services outcomes reflects a further improvement in value for money for residents in Tyne and Wear.

7 Legal

7.1 The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an Authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

7.2 The treatment of transport costs and their funding through levies are set out in the NE Combined Authority Order and in the Transport Levying Bodies (amendment) Regulations 2014.

8 Other Considerations

8.1 Consultation/Community Engagement

The budget proposals for 2015/16 are currently subject to a period of consultation which includes the North East Leadership Board, Treasurers/Finance Directors meetings, Chief Executives meetings, meetings with individual Councils to discuss detailed budget points, consultation with the North East Chamber of Commerce and consideration by Overview and Scrutiny Committee.

8.2 Human Rights

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

8.3 Equalities and Diversity

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

8.4 Risk Management

Financial risks associated with the authority's transport activities, and actions taken to mitigate these, will be factored into strategic risk management processes for the Combined Authority. Reserves will be set to help manage risk and will take into account potential risks.

8.5 Crime and Disorder

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

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8.6 Environment and Sustainability

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

9 Background Documents

9.1 Report on the 2014/15 Budget for the Combined Authority – NELB 29 April 2014

TWITA Budget and Levy 2014/15 report – NELB 23 January 2014

Revenue Budget 2014/15 – Q1 Monitor – TNEC 29 July 2014

Revenue Budget 2014/15 – Q2 Monitor – TNEC 9 October 2014

10 Links to Plans in the Policy Framework

10.1 This report has no direct link to plans in the Policy Framework.

11 Appendices

11.1 Appendix A – Transport Levy Arrangements 2015/16

Appendix B – Nexus 2015/16 budget

Appendix C – Former Tyne & Wear ITA Budget Elements 2014/15 forecast and 2015/16 budget

Appendix D – Tyne Tunnels 2014/15 forecast and 2015/16 budget

12 Contact Officers

12.1 Paul Woods, Chief Finance Officer, paul.woods@northtyneside.gov.uk, 07446936840

13 Sign off

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

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Appendix A – Transport Levy Arrangements – 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 District concerned (the relevant date being 30 June in the financial year which commenced two years previous to the levying year).

For the 2015/16 levy, this is the 2013 Mid-Year estimates published by the Office for National Statistics. The population estimate figures for 2012 and 2012 are set out below.

	2012 MYE	2013 MYE	Change	
	No.	No.	No.	%
Gateshead	200,153	199,998	-155	-0.1%
Newcastle	282,442	286,821	4,379	1.6%
North Tyneside	201,446	202,152	706	0.4%
South Tyneside	148,428	148,526	98	0.1%
Sunderland	275,743	276,080	337	0.1%
Total Tyne & Wear	1,108,212	1,113,577	5,365	0.5%

Apportioning the proposed levy of £67.2m gives the following figures for Tyne and Wear:

	2014/15 Levy	Indicative 2015/16 Levy	Change			
	£	£	Population Change £	Levy Reduction £	Total £	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
Tyne & Wear	£68,207,132	£67,200,000	£0	-£1,007,132	-£1,007,132	-1.5%

Background to Levy Arrangements

Public Transport has traditionally been seen as a County-wide level service, due to the wider geographic nature of transport services. County-wide precepts for Transport costs were replaced in 1993 with levying arrangements, which reflected Government decisions about how the public transport grant support was to be provided – within the Revenue Support Grant paid to metropolitan districts as opposed to revenue support grant paid directly to PTAs. The levying arrangements

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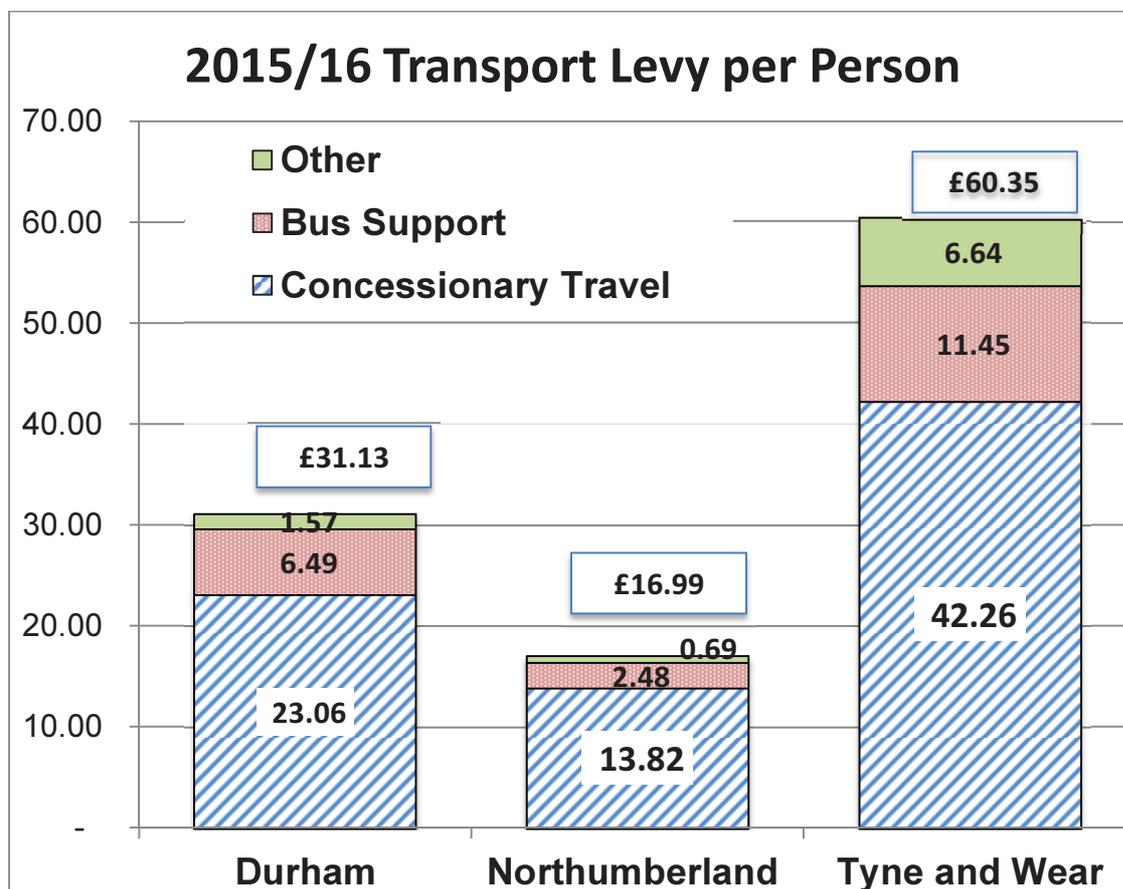
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which specified a population apportionment were set out in the Levying Body Regulations 1992 and reflected the principle that all residents in a county area should contribute equally to access to transport services. In recent years concessionary travel costs have also been classified by DCLG and DfT as a countywide level service.

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

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

Chart : NECA Transport Levies per Head of Population



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

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

The Tyne and Wear charge is a slight reduction on the charge in previous years and reflects the complexity and volume of the Tyne and Wear activity and accounts, including the Tyne Tunnel accounts and the incorporation of the Nexus accounts into the NECA group accounts.

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Appendix B – Nexus Budget

The following table sets out the (provisional) estimated net expenditure of Nexus that is funded by the Levy or Reserves in 2015/16:

Cost centre	Gross Costs £m	Comm. Income £m	Net Costs (1) £m	Govt. Grants £m	Net Costs (2) £m	Capital Adjust £m	Locally Funded £m
Concessionary Travel	48.891	(1.833)	47.058	0.000	47.058	0.000	47.058
Metro	90.461	(48.936)	41.525	(24.503)	17.022	(19.756)	(2.734)
Ferry	1.488	(0.497)	0.991	0.000	0.991	(0.206)	0.785
Northern Rail	2.932	0.000	2.932	(2.901)	0.031	0.000	0.031
Bus Services	19.198	(6.437)	12.761	0.000	12.761	(0.009)	12.752
Bus Infrastructure	3.354	(0.637)	2.717	0.000	2.717	(0.282)	2.435
Information/Promotion	4.380	(0.786)	3.594	0.000	3.594	(0.335)	3.259
Business Development	3.149	(1.396)	1.753	0.000	1.753	(0.085)	1.668
TOTAL OPERATIONS	173.853	(60.522)	113.331	(27.404)	85.927	(20.673)	65.254
Revenue Contributions to Capital	2.349	0.000	2.349	0.000	2.349	0.000	2.349
Net Movement in Capital Reserve	0.000	0.000	0.000	(20.673)	(20.673)	20.673	0.000
TOTAL NEXUS REQUIREMENT	176.202	(60.522)	115.680	(48.077)	67.603	0.000	67.603
GRANT from NECA							(64.500)
DEFICIT							3.103

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Appendix D – Tyne Tunnels Account Estimates

	2014/15 Original Budget £000	2014/15 Revised Budget £000	2015/16 Original Budget £000
Tolls Income	-24,720	-25,315	-27,100
Contract Payments to TT2	18,400	19,040	21,907
Employees	35	35	36
Pensions	50	50	50
Support Services	130	130	120
Supplies & Services	50	50	50
NTC Community Fund	10	10	10
Financing Charges	6,861	6,812	6,793
Interest Income	-150	-150	-200
Repayment from ITA for use of reserves	-240	-240	-240
(Surplus)/Deficit on Tyne Tunnels Account	426	422	1,426
Tyne Tunnels Reserves b/f	-28,171	-28,171	-27,749
Tyne Tunnels Reserves c/f	<u>-27,745</u>	<u>-27,749</u>	<u>-26,324</u>

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North East Combined Authority

Transport North East Committee

DATE: 4 December 2014

SUBJECT: Transport Capital Programme 2015/16

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report outlines to the Transport North East Committee the proposals for the Capital Programme during 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and initiatives.

This represents the latest information about the capital programme. It is important to note that the budget report to January would need to reflect the latest information available, including any new information that may be received after this report has been circulated. Any material changes will be circulated to members of TNEC in advance of the report to the Leadership Board being finalised.

RECOMMENDATIONS

Transport North East Committee is recommended to:

1. Recommend the transport capital programme as set out in the body of this report to be included in the NECA capital programme to be recommended to the Leaders Board on 20 January 2015;
2. Recommend the distribution of the Tyne and Wear share of the LTP Integrated Transport Block grant to the Tyne and Wear Districts. Further details will be circulated at the meeting;
3. Agree to receive a further report following delivery of the 2014/15 programme, ensuring that any variations during the remainder of the current financial year are accommodated in the capital programme.
4. Note that for planning purposes, Nexus has received verbal confirmation that the DfT investment board resolved at its 11 November meeting, that full (100%) funding for the Metro Asset Renewal Plan for 2016/17 is to be confirmed with an increase from 50% to 75% funding for years 2017/18 and 2018/19 also confirmed. In addition, Nexus has had positive feedback from a recent DfT commissioned audit and full (100%) funding for years 2017/18 and 2018/19 is expected to be confirmed, subject to a further review as part of Spending Review 2015 in late 2015.

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1 Executive Summary

- 1.1 This report outlines to the Transport North East Committee the proposals for the Capital Programme during 2015/16 and the funding sources identified to deliver the programme, which covers a wide range of transport improvements and initiatives.

2 Background Information

- 2.1 The capital programme for transport includes a wide range of schemes which are summarised in the detail below and the attached appendices.
- 2.2 Funding shown as available for the programme is based on reasonable assumptions and existing approvals. However, the programme will continue to be subject to continuous review to ensure commitments do not exceed available resources, after allowing for a reasonable level of overprogramming to ensure programme delivery.

3 Capital Programme 2015/16

3.1 Summary

Current estimates indicate that a total of up to £91m capital investment will be delivered by NECA in 2015/16 on the following elements of the Transport programme:

Table 1: Summary of NECA Transport Capital Programme 2015/16

	2015/16 Programme
	£m
Metro Asset Renewal Programme	43.220
Nexus Major Projects – Sunderland Station	3.500
Tyne Tunnels Capital Programme	3.100
LTP Integrated Transport Block (less Metro ARP local contribution included above)	11.309
Local Growth Deal Transport Schemes	30.150
Total	91.279

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Work on refining these estimates is still ongoing, and changes to the proposed programme, particularly taking into account delivery of the 2014/15 programme, will be reported back to this committee.

3.2 Tyne and Wear Metro Asset Renewal Programme (ARP)

During the 2015/16 financial year Nexus will be continuing with Year 6 of the ARP. As in previous years this will cover a wide range and large number of projects spread across all asset groups. However, there are a number of significant projects planned to be delivered that are worthy of particular mention and these are detailed below. More detail is provided in Appendix 1.

3.2.1 Permanent Way

Re-railing of the Queen Elizabeth II Bridge is planned to take place over two weekends in May 2015. This will be followed in July/August by the replacement of switches and crossings at Regent Centre then similar work in the tunnels at St. James station in October. These latter two projects are also planned to be completed during weekend closures. During the course of the year planning and preparation work for major track renewal between Tynemouth and Northumberland Park will take place. The first phase is due to be delivered in spring 2016 during a two week blockade of the line. The second phase is due to be delivered in October 2016.

3.2.2 Communications

During 2015/16 the project to install a new radio system across the network will continue and is due to be completed. This is a safety critical system and whilst not obvious to the travelling public is a fundamental part of Metro operations. The project involves fitting equipment to the metro cars as well as installing new transmission masts and antennae around the system and also new equipment at the Metro control centre in South Gosforth and Network Rail's Tyneside Integrated Electronic Control Centre in Gateshead.

3.2.3 Signalling

Another system which is not obvious to the passenger is the PTI (Positive Train Identification) system. This system uses a variety of technologies to route trains around the system, automatically set signals and measure train performance. A project to replace the existing, obsolete, bespoke system will commence and progress throughout the next two years with completion anticipated in 2017 at the earliest.

3.2.4 Overhead Line

Works to replace the overhead line are planned commence in 2015/16. This will be carried out by the internal Capital Delivery Team and is expected to take around four years to complete. The process of purchasing specialist equipment for this project is already underway.

3.2.5 Stations

Refurbishment projects at Gateshead Stadium, Felling and Heworth are planned to be completed. Work to refurbish Central Station is due to commence in October 2015 and take about one year to complete. In conjunction with work on the ground, designs for Cullercoats, Monkseaton, West Monkseaton, Manors and Gateshead will be progressed. Furthermore, Nexus will continue working with South Tyneside Council and their development partner on a new Bus/Metro interchange at South Shields.

3.2.6 Bridges and Structures

Works to install collision protection measures to three low bridges in South Tyneside is due to take place over the summer of 2015. This will ensure that Metro services can continue to run in the event that these bridges are struck by road vehicles and hence reduce delays to passengers. Designs for a major bridge replacement project at Killingworth Road in Gosforth will be progressed. The construction work for which is scheduled for 2017.

3.2.7 Metro Cars

The Metro Cars refurbishment programme is due to be concluded. The final 6 cars are planned to be completed by July 2015.

3.2.8 Sunderland Station

Nexus is working with Sunderland City Council and Network Rail to progress the redevelopment of the above ground part of Sunderland Station. The scheme will focus on redeveloping the concourse area with improved access, retail offering and passenger information. The exterior of the building will provide a light and bright focal point for the area incorporating artwork. Wider public realm improvements are being considered by the City Council as a second phase to the scheme. Design work is underway and it is anticipated that construction will commence during 2015/16. The scheme is estimated to cost in the region of £6-7million with Nexus contributing £3.5m.

The programme is being established at a level that is in excess of the 2015/16 total available funding (including the 10% local contribution) of £37.900m. Experience shows that effective management of the programme requires a degree of re-profiling and re-phasing of planned works in order to keep within prescribed funding levels.

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Table 2: Indicative Metro ARP Capital Programme 2015/16

Capital Scheme	Indicative Programme 2015/16 £
Civils	12,071,262
Permanent Way	8,108,939
Overhead Line	1,928,915
Stations	3,378,873
Communications	3,836,006
Signalling	4,404,870
Level Crossings	18,550
Plant	1,058
Mechanical and Electrical	1,246,450
Metro Cars	1,380,941
Capital Maintenance	1,786,499
Miscellaneous	2,756,343
PM Costs	2,301,000
Total ARP Programme Funding	43,219,705
Major Projects – Sunderland Station	3,500,000

3.3 Tyne Tunnels Capital Programme

3.3.1 New Tyne Crossing - £0.600m

There are a small number of pieces of work still underway on the New Tyne Crossing project which are included in the project budget requirement for 2015/16.

The main outstanding item of spend included within the programme is the contribution to the Hexham Fish Pass works agreed with Northumberland County Council. This was a requirement under the environmental obligations of the approval for the project.

There remain a number of outstanding Part 1 Land Compensation Claims. These relate to properties where the owners feel the value of the property has been detrimentally affected by the project. Budget provision is included for anticipated claims to be settled during 2015/16.

There is some work ongoing in relation to land transfers with North and South Tyneside Councils and other organisations. Professional fees and costs associated with this work and work on variations to the Project Agreement are also included within the 2015/16 budget.

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3.3.2 Tyne Pedestrian and Cycle Tunnels - £2.500m

2015/16 will be the final year of this project, as the refurbishment works and installation of the new inclined lifts are due to be completed and the tunnels re-opened to the public.

A full review of the project and programming is currently underway by the contractors and the project team. The results of this review and any impact on the budget and programme will be reported in detail to the next meeting of the Tyne & Wear Sub Committee. The costs of this scheme will be funded from the Tyne Tunnels reserves.

3.4 **Local Transport Plan Integrated Transport Block**

3.4.1 Core Local Transport Plan (LTP) funding is made available by the Department for Transport (DfT). Changes have been made to the funding formula for the Integrated Transport block for the 2015/16 to 2020/21 period (with a “break point” after three years at 2017/18, where the formula will be recalculated across the authorities using updated data)

The grant has been awarded by DfT to NECA in three blocks comprising Durham, Northumberland and Tyne and Wear.

Total confirmed allocations for the NECA area are as follows:

Table 3: LTP IT Block Allocations 2015/16-2017/18

	2015/16	2016/17	2017/18
	£m	£m	£m
Durham	2.789	2.789	2.789
Northumberland	1.695	1.695	1.695
Tyne & Wear	9.465	9.465	9.465
Total	13.949	13.949	13.949

3.4.2 Tyne & Wear LTP IT Block Distribution

The overall level of the Integrated Transport block award from DfT has been reduced significantly as a result of a cut in the total amount available nationally in order to partly fund the increased allocations for the Growth Deal and a change to the distribution formula. The 2015/16 allocation for Tyne and Wear is £9.465m, compared with £17.426m in 2014/15.

The Tyne and Wear allocation was previously distributed across the Districts and Nexus according to a locally agreed formula. The formula used several

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data sources that have been superseded by more recent data sets. The proposal is that the Tyne and Wear grant is distributed using the previous formula updated for current data sets. Options for the distribution between the Tyne and Wear Districts and Nexus are currently being discussed by officers, with a recommendation to be updated at the meeting on 4 December.

It is recommended that allocations be agreed for an initial three year period, after which new data will be used to refresh the calculation, in line with the “break point” after which DfT will re-examine the overall grant award. Such three year allocations will also allow districts certainty of capital funding for the planning of their capital programmes.

3.5 Local Growth Deal Capital Schemes

3.5.1 The North East Growth Deal announced in July included funding for a number of transport schemes, including the devolution of Local Major Schemes funding previously agreed.

3.5.2 The following schemes are proposed for a 2015/16 start:

A1 Local Junctions Improvement Package

A1 Corridor Scotswood Bridgehead Improvements – Improvements will ensure access over this crucial river crossing bridge for all modes to the employment opportunities on both sides of the river Tyne. This scheme will support the development of Metro Green in Gateshead (850 new homes and 15000sqm of office accommodation) and the Scotswood Masterplan site (1300 new homes). It will also benefit from being upgraded to support traffic from housing developments in the West of Newcastle, including Callerton (approx. 3000 homes); Dinnington (approx. 250 homes); Newcastle Great Park (up to 1200 homes) and Newcastle International Airport (50ha development site).

A1056/A189 Weetslade Roundabout and A1/A19 Link – Improvements to flows in the A188/A189 corridor and linkages to future employment development at Weetslade and existing employment sites in Killingworth. Facilitates Indigo Park, an 82 acre strategic employment site with the potential for 1000 new jobs.

Central Gateway Regeneration Initiative

Newcastle Central Station to Stephenson Quarter – Direct link from Newcastle Central Station to the Stephenson Quarter regeneration site. This proposal addresses a major physical barrier that currently reduces accessibility from the main rail station in the North East LEP area to a major regeneration site. The scheme is designed to accelerate development in

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Newcastle's historic Stephenson Quarter. The Stephenson Quarter is a development that will create 2,431 gross additional jobs in the local economy, resulting in a net GVA contribution per annum of £97.3m.

Central Metro Station – Central Metro station is based in the centre of Newcastle and is a key transport interchange between Metro and heavy rail as well as providing connections to local bus services for the region. This scheme proposes the complete refurbishment of the station concourse and platforms in a style in keeping with the recently refurbished Haymarket Metro station.

Haddricks Mill Strategic Junction Improvement

Northern Access Corridor (Phase 2) Osborne Road to Haddricks Mill – The Haddricks Mill junction is located approximately 2km to the north of Newcastle City Centre close to the Newcastle/North Tyneside district boundary. The junction is a major pinchpoint on the boundary of several major employment sites, including the large employment site at Benton Park View (home of HMRC and DWP), the Freeman Hospital and Quorum Business Park. It is proposed to remove the existing mini roundabout junctions and provide a roundabout with a larger circulatory. This will be signalised and will incorporate the full signalisation of secondary junctions.

A19 Local Junctions Improvement Package

A19 Lindisfarne Roundabout - South Tyneside Council are intending to undertake a carriageway improvement scheme that will improve traffic movements at Lindisfarne Roundabout thus providing improved connectivity (economic growth opportunities) to the Port of Tyne and South Shields town centre. South Tyneside Council will also deliver localised improvements to the A1300/A194 roundabout, as well as improving access to the Strategic Highway Network.

A191 Junctions Coach Lane and Tyne View Park - Improved access to Tyne View Park employment site and improved flows in A191 corridor. The Tyne View Park junction currently operates at 124% of capacity in the AM peak and 121% in the PM peak. The planned improvements to flows will have benefits for the wider A19 corridor.

A19 access improvements Silverlink North - Facilitates economic development in the A19 corridor including the occupation of the remaining units at Cobalt Business Park (former Enterprise Zone site), a regionally significant location for skilled employment. It will address capacity issues in the area (the roundabout of A191 and The Silverlink North currently operates at 94% of capacity in the AM peak): significant additional traffic is expected from committed development as remaining units on the business park are occupied.

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Local Sustainable Transport Fund Capital Interventions

LA7 LSTF 2015/16 Capital Package – Comprehensive upgrade to Durham and Tyne and Wear Urban Traffic Management and Control systems, with linked functionality in order to provide improved journey time reliability for public transport and to reduce instances of congestion. ‘Gateway Improvements’ to four major heavy rail station and improved linkages between Newcastle International Airport and the Tyne and Wear Metro, Strategic Cycle package linking to key public transport gateways.

- 3.5.3 The revised programming for 2015/16 and 2016/17 is currently with DfT for review, so the split of these figures is not yet confirmed.

Appendix 2 shows details of the schemes planned for a 2015/16 start.

3.6 Capital Programme Financing

The proposed financing of the 2015/16 programme is summarised in the table below. This shows that the majority of the programme (around 86%) is to be funded from external grant.

Table 4: Proposed Financing of Capital Programme

Financing	2015/16 Total (£m)
Grants from Central Government	78.198
Reserves	7.750
Overprogramming*	5.331
Total	91.279

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

4 Next Steps

- 4.1 The capital programme for 2015/16, including non-transport elements, will be further refined during December and reported to the North East Leaders Board meeting on 20 January 2015 for agreement.

- 4.2 Progress against the 2015/16 capital programme will be reported regularly throughout the year and monitored carefully by officers at the various delivery

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bodies.

5 Potential Impact on Objectives

- 5.1 The capital programme and proposed financing set out above will enable the North East Combined Authority to make a positive impact on its objectives, particularly in relation to Transport connectivity.

6. Finance and Other Resources

- 6.1 The finance implications are set out in detail in the body of the report.

7 Legal

- 7.1 The Authority has a duty to ensure it can deliver a balanced budget. The Local Government Act 2003 imposes a duty on an Authority to monitor its budgets during the year and consider what action to take if a potential deterioration is identified.

8 Other Considerations

8.1 Consultation/Community Engagement

This report forms part of the consultation period for the 2015/16 budget and capital programme, which has included reports to the Leaders Board, Governance Committee, Overview and Scrutiny Committee and the North East Chamber of Commerce.

8.2 Human Rights

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

8.3 Equalities and Diversity

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

8.4 Risk Management

Financial risks associated with the authority's transport activities, and actions taken to mitigate these, will be factored into strategic risk management processes for the Combined Authority.

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8.5 Crime and Disorder

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

8.6 Environment and Sustainability

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

9 Background Documents

9.1 Budget report to NELB 21 October 2014.

10 Links to Plans in the Policy Framework

10.1 This report has no direct link to plans in the Policy Framework.

11 Appendices

11.1 Appendix 1 – Indicative Metro ARP Schemes 2015/16

Appendix 2 – Local Growth Deal Transport Schemes starting in 2015/16

12 Contact Officers

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13 Sign off

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

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Appendix 1 – Metro Capital Programme 2015/16

Project	Capital Scheme	Indicative Programme 2015/16 £
	Civils	
BC201	Earthworks - North Shields to Howdon	22,847
BC204	Earthworks - South Gosforth to Jesmond	1,826,211
BC971	Earthworks - TYN-NPK & NPK-SGF	627,530
BC209	Bridges - TYN to MWL (1157 1156 1168 1171) Hud St. + Wvlle Rd	30,897
BC211	Bridges - Hadrian Road to Walkergate (1197 1198 1200)	725
BC212	Bridges - Wallsend to Walkergate (1201 1203 1204 1206)	549,774
BC213	Retaining Walls	30,000
BC214	Bridges - Monkseaton, Cullercoats (1124 1137 1144) Marmion Tce only	32,410
BC215	Bridges - Benton (1114 1115B)	336,500
BC216	Bridges - Gateshead (1059 1062)	585,934
BC217	Bridges - Bede, Shiremoor (1024 1024A)	454,925
BC972	Bridges GHD-SSS (Scope)	2,990,000
BC488	Felling Flooding Remedial Works	51,040
BC283	Bridges PCM to SGF	1,651,705
BC400	Bridges BYK-MAN	507,766
BC407	Asbestos revisited works- Central area tunnels	643,758
BC634	DC power cable ducting	194,541
BC666	Gosforth Depot - Roof & Gutter repairs	16,000
BC974	Drainage - TYN -NPK	1,000,392
BC975	Drainage for Plain Line	210,000
BC227	Duct Route - South Gosforth to Airport	451
BC229	Duct Route - Gateshead Stadium to South Shields	138,598
BC230	Duct Route - South Gosforth to Tynemouth	110,811
BC290	Ground Investigation - Rest of System	53,655
BC811	Benton Station Footbridge	4,790
	Total Civils	12,071,261
	Permanent Way	
BC232	Plain Line - South Gosforth to Jesmond	111,762
BC233	Plain Line - Jesmond to Gateshead Stadium	1,281,111
BC976	Plain line- TYN-NPK	2,667,128
BC978	Plain Line NPK-SGF	77,283
BC410	Plain line Gateshead Stadium to South Shields	50,000

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BC412	Plain line Manors to St James	50,000
BC236	Switches & Crossings - South Gosforth	30,370
BC237	Switches & Crossings - Benton	38,967
BC238	Switches & Crossings - St James	442,461
BC967	Switches & Crossings- Regent Centre	1,859,859
BC979	Switches & Crossings (TBC)	1,500,000
	Total Permanent Way	8,108,939
	Overhead Line	
BC240	OLE - System Development	1,928,915
	Total Overhead Line	1,928,915
	Stations	
BC242	Station - North Shields	4,277
BC243	Station - Meadow Well, Percy Main and Howdon	2,147
BC244	Station - Hadrian Road and Wallsend	1,379
BC245	Station - Walkergate and Chillingham Road	79,224
BC246	Station - South Gosforth	-9,496
BC247	Station - Ilford Road	865
BC981	Interchange station package SSS	197,385
BC982	Halt Station Package e.g. FEL, GST	517,306
BC983	Station- Heworth Interchange- Construction	1,691,366
BC988	Halt Station Package E.G. WMN, CUL, MSN (design)	300,000
BC989	City Station- Manors - (design)	250,000
BC990	Interchange Station - GHD - (Design)	300,000
BC530	Kingston Park	7,746
BC100	Simonside	17,452
BC721	Pelaw	19,222
	Total Stations	3,378,874
	Communications	
BC250	Fibre Cable Replacement - Tynemouth to Manors	23,713
BC252	Fibre Cable Replacement - South Gosforth to Airport	85,704
BC253	Fibre Cable Replacement - Jesmond to Gateshead Stadium and Manors to St. James (tunnels)	45,497
BC254	Fibre Cable Replacement - Gateshead Stadium to South Shields	40,981
BC256	Radio	2,928,450
BC257	Telephony	73
BC259	IP Network	310,025
BC840	CCTV / PA Access	94,307
BC956	PA	307,255

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	Total Communications	3,836,006
	Signalling	
BC260	Signalling - Bankfoot Interlocking Area	6,427
BC262	Signalling - Benton Interlocking Area	27,155
BC264	Signalling - North Shields Interlocking Area	66,124
BC267	Signalling - Manors Interlocking Area	31,209
BC272	Signalling - Depot Interlocking Area	207,216
BC273	Signalling - PTI	3,890,635
BC274	Future Signalling System- Development	125,000
BC970	Signalling- Replacement point motors (critical locations)	51,104
	Total Signalling	4,404,870
	Level Crossings	
BC277	Level Crossings - Highway works - Howdon, Fawdon, Kingston Park, Bank Foot, Callerton Parkway	18,550
	Total Level Crossings	18,550
	Plant	
BC280	Tamper	1,058
	Total Plant	1,058
	Mechanical and Electrical	
BC281	Escalator - Central	1,898
BC282	Escalator - Monument	1,643
BC992	Escalators - Heworth	78,569
BC993	Escalators - Gateshead 1-2 (previously 1-3)	37,983
BC995	Escalator - Gateshead 3-6 (previously 4-6)	1,472
BC940	Escalator- Four Lane Ends	744,488
BC973	Lift - St. James	1,018
BC996	Lift- Regent Centre	2,157
BC997	DC Feeder Cable	220,191
BC805	Otn-Ups Support Power Supply	157,030
	Total Mechanical and Electrical	1,246,450
	Metro Cars	
BC288	3/4 Life Refurbishment	1,280,941
BC527	Metrocar further life extension study	100,000
	Total Metro Cars	1,380,941

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	Capital Maintenance	
BC550	Rail Grinding	100,000
BC587	Vehicle Replacement Programme	135,000
BC617	Lifts Refurbishment/Major Items	55,194
BC703	Plain Line Renewal	400,001
BC929	OHL Capital Maintenance	169,810
BC954	Capital Maintenance Concession	875,369
BC532	Stations Refurbishment - Escalator Imps/Major Items	51,125
	Total Capital Maintenance	1,786,498
	Miscellaneous	
BC947	Nexus Document Control System	5,825
BC960	Asset Knowledge	50,518
BC296	Metro Service	500,000
	Bus costs	1,400,000
	Dayworks	600,000
	Blockade Resources	200,000
	Total Miscellaneous	2,756,343
	PM Costs	
	PM Costs	2,301,000
	Total PM Costs	2,301,000
	Total ARP Programme Funding	43,219,705

Funding	
DfT Grant (maximum available)	34,444,444
10% Nexus Contribution	3,444,445
Overprogramming	5,330,816
Total ARP Funding	43,219,705

Minimum/Maximum Spend (assuming no b/f or c/f)	
Minimum Spend	31,000,000
Maximum Spend	37,888,889

ARP Target Spend	34,444,444
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Other	
Sunderland Station (Nexus Contribution)	3,500,000

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Appendix 2 – Local Growth Deal Transport Schemes

Promoter	Description	Expenditure profile (NECA SEP contribution only) (£m)		
		2015/16	2016/17	2017/18
Durham	Horden (Peterlee) Station	0.67	2.67	
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	4.84	1.00	
Sunderland City Council	Low Carbon Zone Infrastructure	2.75	3.20	
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	2.07	4.83	
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	3.50	0.59	
Gateshead Council	A167 Park and Ride corridor	1.00	3.99	
Newcastle City Council	A1 Corridor Scotswood Bridgehead Improvements	1.70	2.00	
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	0.68	1.40	2.24
Newcastle City Council	Newcastle Central Station to Stephenson Quarter	1.00	3.00	2.00
Nexus	Central Metro Station Refurbishment	2.51		
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	0.50	3.93	
South Tyneside Council	A194/A185 (The Arches) Junction	0.50	5.33	
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	2.93	0.50	
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	0.80	0.70	
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	0.70	2.20	1.80
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	4.00	3.52	
		30.15	38.86	6.04