

Tuesday, 15th November 2016 at 2.00 pm

Meeting to be held in a Committee Room, County Hall, Durham, DH1 5UQ

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AGENDA

	Page No
1. Apologies for Absence (Members)	
2. Declarations of Interest	
Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.	
3. Minutes of the Previous Meeting Held on 20 September 2016	1 - 6
4. Minutes of the Extraordinary Meeting Held on 6 September 2016	7 - 10
5. Updates from Thematic Leads	
(a) Economic Development and Regeneration	11 - 20
(b) Employability and Inclusion	21 - 32
(c) Transport	33 - 42
6. Treasury Management Mid-Year Update	43 - 50
7. North East Combined Authority 2016/17 Financial Update	51 - 72
8. North East Combined Authority Budget 2017/18	73 - 96

9. **NHS Sustainability and Transformation Plan Process**

Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985

10. **Date and Time of Next Meeting**

Tuesday, 17 January 2017 at 2pm at North Tyneside Council

11. **Exclusion of Press and Public**

Under section 100A and Schedule 12A Local Government Act 1972 because exempt information is likely to be disclosed and the public interest test against disclosure is satisfied.

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|-----|---|------------------|
| 12. | Confidential Minutes of the Previous Meeting Held on 20 September 2016 | 97 - 100 |
| 13. | North East Enterprise Zone Update | 101 - 122 |
| 14. | Tyne Tunnels - Update | 123 - 128 |

Contact Officer: Victoria Miller Tel: 0191 211 5118 E-mail: victoria.miller@northeastca.gov.uk

To All Members

North East Combined Authority

Leadership Board

20 September 2016

Meeting held: Committee Room, Sunderland Civic Centre, Burdon Road, Sunderland, SR2 7SN

Present:

Councillor: P Watson (Chair)

Councillors N Forbes, M Gannon, S Henig and A Kerr, Mayor N Redfearn and Ms G Hall

HEAD OF PAID SERVICE

The Chair welcomed H Golightly to her first meeting as the Head of Paid Service of the North East Combined Authority (NECA), who was also the Chief Operating Officer of the North East Local Enterprise Partnership (NE LEP), welcoming closer links between NECA and NE LEP.

46 APOLOGIES FOR ABSENCE (MEMBERS)

Councillor G Davey, Councillor D Ledger, Councillor I Malcolm and Mr A Hodgson.

47 DECLARATIONS OF INTEREST

None.

48 MINUTES OF THE PREVIOUS MEETING HELD ON 19 JULY 2016

The minutes of the previous meeting held on 19 July 2016 were approved as a correct record and signed by the Chair.

49 DEVOLUTION UPDATE

Members received a verbal update from P Melia, the Chief Executive of North Tyneside Council and previously Acting Head of Paid Service. It was noted that whilst the Leadership Board had decided not to proceed with the consultation on the devolution deal and the Secretary of State had consequently expressed that the deal was off the table, and there would not be election of mayor in 2017 due to the timetables involved, discussions between the North East Combined Authority and the government on devolution for the North East should and would continue.

During the ensuing discussion, Members:

- expressed commitment to devolution for the North East;
- commented on the importance of further negotiations;

- noted concern of the business community with regard to the position with the devolution deal, particularly in relation to the impact on funding;
- noted that the timetable for next steps was yet to be confirmed;
- commented on the uncertain long-term position of the £30m of funding that had been proposed as part of the devolution deal;
- commented on the importance of continuing to demonstrate to the government the need for funding for the region notwithstanding the devolution position; and
- noted that the North East Combined Authority, as a statutory body, would continue to be in existence, with its functions and responsibilities, delivering on its priorities.

Councillor M Gannon asked that Gateshead Council's commitment to and passion for devolution for the North East be recorded.

Members also noted that Gateshead Council was dissatisfied with the nature of the government-lead, top-down process and intended to ask the Combined Authority to establish a wider North East communication network consisting of business community, local authorities and other partners in order to have a more powerful voice in negotiating with the government on the North East priorities.

RESOLVED – That the verbal update be noted.

50 **UPDATES FROM THEMATIC LEADS**

(a) **Economic Development and Regeneration**

Submitted: An update report of the Thematic Lead for Economic Development and Regeneration (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

The Chair asked that the future report should set out comparison information on the position pre and post the referendum on the UK membership of the European Union, including impact on investment.

RESOLVED – That the report be noted.

(b) **Employability and Inclusion**

Submitted: An update report of the Thematic Lead for Employability and Inclusion (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on progress in delivering the Employability, Inclusion and Skills theme of the Strategic Economic Plan.

RESOLVED – That the report be noted.

(c) Transport

Submitted: An update report of the Thematic Lead for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on key developments within the Transport theme of the Combined Authority.

Congratulations were offered to Nexus and DB Regio Tyne and Wear for the flawless operation of Metro on the day of the Great North Run and the extensive contingency planning that had been undertaken to prepare for the event.

In discussion, Members noted the importance of HS2 for the North East in providing capacity for freight and passenger transportation, connecting major urban areas and providing a 21 century, fit for purpose railway network; and commented on the slow progress of this area of work by the government. Comments were also made on the importance of understanding priorities for the North East and communicating those well to the public.

RESOLVED – That the report be noted.

51 GO SMARTER 2016-17 - APPOINTMENT OF DELIVERY PROVIDERS

Submitted: A report of the Chief Executive Officer for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which sought their approval to appoint contractors as delivery providers for elements of the 2016-17 Go Smarter programme, following a competitive procurement process.

As an amendment to the information set out in the Executive Summary of the report, it was noted that the proposed providers for the elements of the programme set out below should read as follows:

- “Go Smarter to Work Business Engagement – delivery providers: JMP Consultants Limited and WSP UK Limited; and
- Schools Active Travel Promotion – delivery provider: PWLC Projects LLP.”

RESOLVED – That the appointment of the above contractors to enable Go Smarter activities in schools and workplaces to be progressed be approved.

52 ANNUAL REPORT AND ACCOUNTS

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which presented the final accounts for approval and summarised the findings of the audit. The report was introduced by P Woods, the Chief Finance Officer. The findings of the audit were introduced by Mr C Waddell of Mazars LLP.

Clarification was received on the following matters:

- timescales with regard to the completion of the two outstanding audit matters;
- audit risks;
- staffing capacity in preparing annual accounts;
- the Authority's reserves; and
- the nature of the Authority's assets.

Thanks were offered to Mazars LLP for their work and also to officers of the Combined Authority who had been working to prepare the final accounts.

The Chair and Chief Finance Officer confirmed that the Authority would respond positively to the Auditor's recommendations.

RESOLVED – That:

- i. The report of the External Auditor (Appendix 1) be noted;
- ii. The Chief Finance Officer be authorised to sign the Letter of Representation on behalf of the Authority;
- iii. The final NECA Accounts for 2015/16 (Appendix 3), taking into account views from the Governance Committee, be approved;
- iv. The Chair of the Leadership Board and the Chief Finance Officer be authorised to sign the NECA and Group Accounts;
- v. The Annual Governance Statement (Appendix 4) be approved; and
- vi. The Chair of the Leadership Board and the Head of Paid Service be authorised to sign the Annual Governance Statement.

53 **DRAFT BUDGET 2017/18 AND TRANSPORT LEVIES - PROCESS AND TIMETABLE**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which set out the process and timetable for the preparation, consultation and approval of the 2017/18 budget and indicative medium term financial strategy.

As an update, it was noted that the Transport North East (Tyne and Wear) Sub-Committee at its recent meeting had asked that consideration should be given to developing a 3-year budget; and work was in progress with partners to identify if this was feasible.

In discussion, it was also noted that the work to consult on the 2017/18 budget would include matters such as options around transport levies.

RESOLVED – That:

- i. The detailed budget for 2017/18 be prepared for approval at the Leadership Board's meeting on 17 January 2017;
- ii. The draft budget be presented to the Leadership Board on 15 November 2016 as a basis for consultation on the 2017/18 budget; and
- iii. The intention to present a report to the Combined Authority's next meeting which would provide an update on the 2016/17 Revenue Budget be noted.

54 **GENERATION NE PROGRESS UPDATE**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the progress made in the delivery of the Generation NE programme. In discussion, clarification was provided on the position with future funding which might require further consideration.

Members welcomed the achievements of the programme, congratulated officers and partners for their work and asked that consideration be given to publicising this progress.

RESOLVED – That the report and general direction of travel with regard to the Generation NE programme be noted.

55 **NORTH EAST JEREMIE 2 FUND**

Submitted:

- (i) A report of the Head of Paid Service, Chief Finance Officer and Monitoring Officer (previously circulated and copy attached to Official Minutes); and
- (ii) A supplemental report of the Chief Finance Officer with an updated set of recommendations (previously circulated and copy attached to Official Minutes).

Members considered the report, and the supplemental report with an updated set of recommendations, which sought their agreement to the proposed structure and governance arrangements for the implementation of the JEREMIE 2 Investment Fund and provided an update on the procurement of fund managers for the programme.

Thanks were offered to Mr J Middleton and all those involved in the work to date.

RESOLVED – That:

- i. Agreement be given to the establishment of the Special Purpose Vehicle, as set out in the main report "North East JEREMIE 2 Fund";

- ii. The principles on which the governance of the Special Purpose Vehicle was proposed as set out in the report be agreed, and delegated authority be given to the Head of Paid Service in consultation with the Chief Finance Officer, Monitoring Officer and the Chair of NECA and working with representatives of the Constituent Authorities (as members of the Special Purpose Vehicle) to finalise the Governance arrangements for the Special Purpose Vehicle, including the Articles of Association;
- iii. Agreement be given, subject to a successful European Regional Development Fund application, that the funding received from the Department for Communities and Local Government was passported to the Special Purpose Vehicle;
- iv. The Leadership Board would support the Leaders (or their nominees) of the Constituent Authorities in overseeing the establishment and activity of the Special Purpose Vehicle, and agreement be given that an officer of NECA or its Constituent Authorities might be members of the shadow Special Purpose Vehicle Board, together with the appointment of a suitably experienced Board member as a “key responsible person” to satisfy funder requirements, until the full board of the Special Purpose Vehicle could be appointed; and
- v. The implementation arrangements be delegated to the Head of Paid Service in consultation with the Chief Finance Officer, the Monitoring Officer and the Chair of NECA.

56 DATE AND TIME OF NEXT MEETING

Tuesday, 15 November 2016 at 2pm at County Hall, Durham.

57 EXCLUSION OF PRESS AND PUBLIC

RESOLVED – That by virtue of Paragraphs 3 and 5 of Part 1 of Schedule 12A of the Local Government Act 1972 press and public be excluded from the remainder of the meeting during the consideration of agenda items 12, 13, 14 and 15 (Confidential Minutes of the Previous Meeting held on 19 July 2016; Local Growth Fund – Project Approval; Going Ultra Low Electric Vehicles ERDF Bid; and Tyne Tunnels – Update) because exempt information was likely to be disclosed and the public interest test against the disclosure was satisfied.

North East Combined Authority, Leadership Board

(Extraordinary Meeting)

6 September 2016

Meeting held Committee Room, Sunderland Civic Centre, Sunderland, SR2 7SN

Present:

Councillor P Watson (Chair)

Councillors G Davey, M Gannon, S Henig, I Malcolm and J McCarty, Mayor N Redfearn and Ms G Hall

40 **APOLOGIES FOR ABSENCE (MEMBERS)**

Councillor N Forbes and Mr A Hodgson.

41 **DECLARATIONS OF INTEREST**

None.

42 **DESIGNATION OF THE HEAD OF PAID SERVICE**

Submitted: A report of the Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which invited them to agree the designation of Helen Golightly as the Head of Paid Service of the North East Combined Authority (NECA) with immediate effect.

RESOLVED – That agreement be given to the designation of Helen Golightly as the Head of Paid Service for the North East Combined Authority until the appointment to the new role of Managing Director was made and the successful candidate came into post.

43 **DEVOLUTION UPDATE**

Submitted: A report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the assurances sought from Government following the Leadership Board meeting on 19 July 2016 and sought agreement to associated recommendations.

In discussion, Members commented on the importance of devolution for the North East and confirmed their full commitment to real devolution but expressed concern about a number of issues arising from the current position, including in relation to the following:

- fair funding;
- the financial position of the local authorities in the North East as a result of a significant withdrawal of funding from the region in recent years;
- the post Brexit position, including the lack of certainty as to whether the government would target resources to the areas of the biggest need;
- inadequate assurances from the government with regard to funding for future years;
- additional costs of the mayoral model of governance for the local tax payers, including a potential introduction of the mayor's council tax precept; and
- the current deal not being a good deal for the region.

Members also commented on other matters such as the following:

- the importance of going ahead with the next steps and being at the negotiation table;
- the importance of having a united front to negotiate further commitment and assurances from the government;
- risks of not going ahead with the next steps, including lost chances, the challenge to achieve balanced budgets, risks to projects, including transport projects, and the potential imposition of a more powerful mayor on the region;
- the lack of likelihood of a better deal from the government;
- the importance that the North East was in a position to decide on its priorities; and
- the importance of going ahead with the consultation.

During the consideration of the report Members also received advice from the Chief Finance Officer on the financial risks associated with the option of not proceeding with the devolution deal.

Members also noted the outcome of the meeting of Gateshead Cabinet who had met earlier this morning.

Members then proceeded to vote on the recommendations set out in the report. By a majority vote of four to three, it was:

RESOLVED – That:

- (i) The report be noted; and
- (ii) Recommendations (2) and (3) be not carried.

44 **ACCESS FUND**

Submitted: A report of the Chief Executive Officer for Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an overview of a bid that was being developed for submission to the Access Fund.

RESOLVED - That

(i) the contents of the report be noted; and

(ii) the proposal for submission to the Department for Transport be approved.

45 **DATE AND TIME OF NEXT ORDINARY MEETING**

Tuesday, 20 September 2016 at 2pm.

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North East Combined Authority

Leadership Board

Date: 15 November 2016

Subject: Economic Development and Regeneration Theme Update

Report of: Economic Development and Regeneration Thematic Lead

Executive Summary

The purpose of this report is to provide an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.

Recommendations

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

North East Combined Authority

Leadership Board

1 Background Information

- 1.1 This report provides an update on activity and progress under the Economic Development and Regeneration theme of the Combined Authority.
- 1.2 The Leadership Board is recommended to receive the update for information.

2.0 Inward Investment

2.1 Inward Investment 2016/17 (Quarter 1) Successes

In Quarter 1 (April-June), in total there were 16 inward investments into the NECA area which will lead to the creation of 2,435 jobs. These were made up of :

a) Foreign Direct Investment

There were ten investments leading to the creation of 880 new jobs. Investors included:

- Teleperformance (Call centre outsourcer)
- Accenture (Software ICT)
- Janus international (Manufacturing)
- Unipress (Automotive)

b) Investments by UK-owned Companies from Outside of the Region

There were six investments leading to the creation of 1,555 jobs. Companies announcing investments included:

- ResQ (Contact Centre)
- Estover Energy (Energy)
- Fermeda (Life Sciences)

Successes in Quarter 2 (July-September) are currently being compiled. One major success confirmed in this quarter is Convergys who have taken occupation of 'the Rocket' in Newcastle's Stephenson Quarter, creating 600 jobs.

2.2 Enquiries

There continues to be significantly fewer enquiries coming through to the Invest North East England (INEE) Team than last year. This is mainly down

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to fewer enquiries from UKTI (INEE are the single point of contact for new enquiries from UKTI in the NECA area). The impact of Brexit is one possible cause of this. INEE is working closely with UKTI to gain a better understanding of what is happening and to ensure that enquiry levels recover in the second half of 2016/17.

Current enquiries on the INEE pipeline include both UK and foreign owned enquiries in a number of sectors from Life sciences (R+D), software, contact centres, and advanced manufacturing.

2.3 Invest North East England Website

One way in which the INEE team is planning to increase the size and quality of its investment enquiry pipeline is by becoming a proactive service, actively generating new investment enquiries. A key element of this new approach is the launch of the new INEE website, which launched at the end of October 2016.

To complement the website launch, an associated social media campaign is taking place, aimed at generating enquiries from key sectors. New investment leads are also to be sourced through lead generation contracts in key markets. In the first instance UK and overseas companies based in London will be targeted.

2.4 MIPIM UK

INEE had a coordinated stand presence at the UK's largest property investment event, MIPIM UK, which was held in London on 19-21 October. Six private sector partner sponsors attended from the North East along with representatives from NECA's constituent local authorities. As part of the event, there was a business showcase event held with a private/public sector panel discussing key recent property deals and new opportunities available to investors in North East England.

2.5 Economic Development and Regeneration Inward Investment Workshop – 26 July 2016

Building on the discussion and presentations at the EDRAW meeting in March and a 'UKTI Summit' on the development of the Northern Powerhouse in April, an Inward Investment Workshop took place on 26th July 2016.

Alongside EDRAW members (supported by economic development officers from each local authority), UKTI and private sector representatives took part in the workshop.

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A debate took place on the future of Inward Investment services and activity in the NECA area. Presentations were received from UKTI and Pricewaterhouse Coopers, property development sector representatives and the Director of Invest North East England.

The Deputy Director of Global Operations for UKTI updated the group on the changes to UKTI including the new dedicated, north-focused team. It was stressed that 'co-delivery' with partners is key in the climate of limited resources. PWC had been commissioned by UKTI to undertake work on the development of the Northern Powerhouse and it was outlined that this would involve an online survey to gather factual evidence over the summer to understand where opportunities exist, followed up with face to face interviews with key stakeholders. The report is expected by the end of the year.

Adam Serfontein, the Managing Director of Hanro Group and Chair of Developing Consensus, along with other private sector colleagues (Tim Evans from Knight Frank and Michelle Percy from Clouston Group), provided perspectives on investing in the North East. They identified some of the experiences of investors and the private/property sector. Discussion focused on the need to promote the region coherently 'at the point of entry' and to better understand the benefits to all of each single investment. A call was made for more resource into the Invest North East team and an offer was made for the private sector to input funding to grow the team if matched by local authority funding.

The workshop concluded with a presentation from the Director of Invest North East England focusing on the issues in attracting investment to the North East, specifically the organisation of local capacity and resources. The group discussed how best to target these.

The Director of INEE is preparing an options paper that will outline a range of delivery models that will include how the private sector can engage more and the future resource implications

3.0 Regional Investment Plan / Project Pipeline

The Economic Development and Regeneration theme has the lead responsibility for coordinating efforts to enhance the region's important economic assets and to develop new ones that will promote growth.

A pipeline of both employment sites and housing sites has been developed to underpin this approach. The sites identified illustrate a brief overview, type of investment, planned output/outcomes, whether or not public investment is

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required, delivery timescales, planning status and barriers to development. This pipeline informed the North East Local Enterprise Partnerships (NELEP) submission to round 3 of the Local Growth Fund.

The NELEP has advised that the programme bid submitted has been considered by civil servants and assessed alongside the other LEP bids. There are many positive factors that the NELEP should stress at every opportunity with Government ahead of the autumn statement. NECA needs to emphasise the qualities and relevance of our project pipeline and investment plans:

- Our strong evidence base
- Inclusive approach and good level of partnership working and collaboration
- Relatively good delivery performance to date on Growth Deal 1 and 2.

Given that the North East devolution deal is not progressing at this time, the Government have advised that the North East can no longer have a Local Growth Deal 3 programme with devolved funding. Instead the North East LEP was requested to submit its LGF3 prioritised list of projects to Government for consideration, this was done at the end of October following engagement with NECA and other key partners.

4.0 North East Strategic Economic Plan

Background

The North East LEP and NECA agreed to a refresh of the SEP to respond to

- National and regional economic performance and issues
- Progress, and experience of delivery plan
- Changing policy environment since the Election
 - National and European policy changes
 - Devolution
 - The North

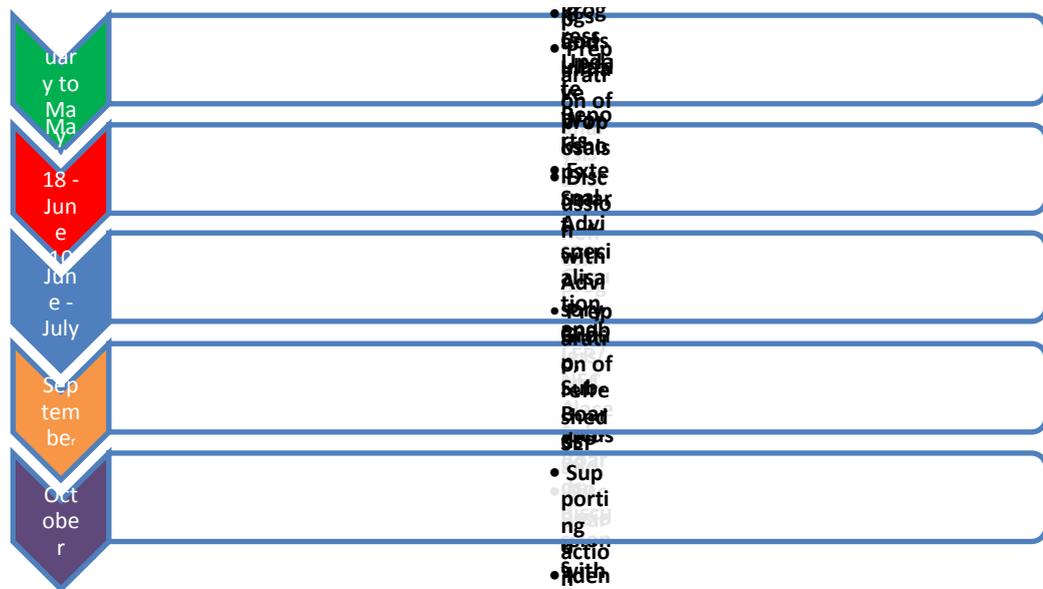
The aim has been to produce a new, forward looking document on a timetable aligned with agreement of the devolution deal, with strong continuity from the leading ambitions of the Adonis Review and the 2014 SEP, but which updates and communicates clearly to the above developments.

Process

The process to date is set out in the chart below:

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Engagement

As per the timeline, engagement has been phased and includes:

- Discussion of the economic analysis and progress review with the Task Group, Advisory Group and sub-Boards to identify key issues and questions
- Stakeholder engagement through different channels
- Feedback of emerging comments and findings to the Task Group, Advisory Group and sub-Boards

A summary of deliverables through the process includes:

- 3 Documents published
(See - <http://www.nelep.co.uk/whatwedo/refreshing-the-strategic-economic-plan/>)
- 8 high level Engagement events focused on future approaches to four smart specialisation areas, 3 key enablers and on an agenda around 'place'
- Regular meetings of the Task Group
- 2 Advisory Groups to date
- Range of partner meetings
 - eg EEF, TUC, Culture Partnership, Durham Economic Partnership
- 2 rounds of engagement with LEP Sub-Boards, NECA Planning Leads, Employability Leads
- Discussion with Transport Team

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- Range of written responses
- 40 on-line survey responses

Feedback

Feedback from the engagement process has provided a significant steer in a number of areas:

- Smart specialisation areas and key enablers:
 - Future market trends impacting on these key areas of the North East economy
 - The position of the North East in these markets
 - Must do's to support business growth in these areas
 - Longer term visions
- Place
 - Input about priorities for place development linked to innovation, infrastructure, transport, and wider planning issues
- Structure and role of the SEP and general programme actions in areas including economic evidence and communications

A slide pack is available which summarises this input.

Structure of the SEP going forward

Having received this input, the Task Group have proposed that the refreshed SEP document should be positioned as a shorter document which communicates clearly about the North East economy and ambitions, and seeks to differentiate and connect to opportunities in the context of Industrial Strategy. It should be supported by, and linked to, other key documents and process in the region.

The overall structure is envisaged as including the following:

- Chair/leaders introduction and positioning statement
- Background statement – history, SEP 2014 ambitions, Refresh rationale
- Short summary of 2014 progress emphasising delivery
- Summary of economic analysis leading to key directions
- Spatial narrative – emphasising assets, linkages and economic change, supported by mapping
- Key differentiating sections - focused around key opportunity areas, enablers and place including NE capability narrative and proposed group of interventions – build on LGF bid approach
- Programme delivery sections – with priorities for the 6 programmes showing continuity from 2014 SEP, additional priorities and links to

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- other processes eg Transport Strategy, ABR, Duty to co-operate
- Evaluation plan
- Accountability, roles and communications

5 Potential Impact on Objectives

5.1 The report sets out issues that will support the Authority in meeting its objectives.

6 Finance and Other Resources

6.1 There are no additional financial implications arising directly from this report.

7 Legal

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

8 Other Considerations

8.1 Consultation/Community Engagement

There are no issues arising from this report for consultation.

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

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

8.5 Crime and Disorder

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

8.6 Environment and Sustainability

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

9 Background Documents

9.1 North East Strategic Economic Plan – More and Better Jobs

10 Links to plans in the Policy Framework

10.1 This report links to the Strategic Economic Plan and other plans in the Policy Framework.

11 Contact Officers

11.1 John Scott, Corporate Lead – Business, Employment and Skills.
Email: john.scott@southtyneside.gov.uk Tel: (0191) 424 6250

12 Sign off

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

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North East Combined Authority

Leadership Board

Date: 15 November 2016

Subject: EMPLOYABILITY AND INCLUSION UPDATE

Report of: Thematic Lead for Employability and Inclusion

Executive Summary

This report provides an update as to the latest progress being made in delivering the Employability and Inclusion; and Skills themes of the Strategic Economic Plan (SEP) for the North East.

Recommendations

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

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1 Employment Support

Intelligence

1.1 The Labour Market Intelligence (LMI) Portal for the North East continues to be delivered and developed. Discussions about future developments are taking place with the North East LEP and a number of digital partners who are designing some innovative tools to present data and information to various audiences.

1.2 The work to produce a number of Careers Videos to promote our key priority sectors is near to completion. An initial launch will take place at an event in November (see below) with a formal launch in January 2017. The videos, which involve local employers and younger employees (apprentices) who can talk about what it is like to work in a particular industry, will be supplemented by information packs and lesson plans for teachers. The videos will also be publically available so that they can be embedded into other useful websites to ensure a wide audience has access.

1.3 CfBT (the North East provider for the National Careers Service) is finalising the programme for a North East LMI Event, which will take place in Durham on Thursday 17 November 2016. The event's objectives are to:

- Gain an understanding of the North East labour market
- Gain an insight into some of the key sectors in the North East and the skills demands for these
- Understand the challenges and opportunities facing the North East labour market
- Understand the routes to accessing and using LMI to better understand the Labour Market

The event will include keynote speakers in the morning followed by a choice of workshops in the afternoon.

1.4 Work is ongoing to support various initiatives with their LMI needs including the Good Career Guidance Benchmarks, development of Devolution proposals and support to ensure that ESF proposals meet our strategic priorities.

DWP European Social Fund (ESF) Opt-In for the North East

- 1.5 The DWP 'Opt-In' programme is utilising £6m European Social Fund to test a local approach to help long term unemployed residents into work, focusing on those with significant barriers to work, including mental and/or physical health

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conditions. Integration of employment support with both physical and mental health treatments will be the key delivery driver.

- 1.6 Following a tendering process, Working Links has been awarded the contract and is currently working with DWP to prepare for a contract 'go live' date of 9 January 2017 for a three year period. The contract target is to support 2,500 residents between January 2017 and December 2019.
- 1.7 NECA and NELEP officers are meeting DWP in early November to determine local input into performance management arrangements and facilitating integration with other services at each LA level. This will include coordination with the wider European Social Investment Fund programme. An inception meeting with DWP and Working Links in late November will establish how the provider will work with local supply chains and meet need across each NECA LA area. This will involve determining how they will integrate with local services (particularly health provision) and how facilitation and monitoring of integration will be supported by each LA in their respective areas.

NE Mental Health Trailblazer

- 1.8 The North East Mental Health Trailblazer is about to launch as a pilot to integrate employment support with Increasing Access to Psychological Therapies (IAPT) services in each NECA LA area. As noted in previous reports, the programme has been delayed by DWP, in part due to departmental and ministerial change. Issues around data sharing agreements and referral processes have now been resolved and DWP has agreed a launch in the last week of November.
- 1.9 Staff are being appointed and placed in IAPT teams to begin a phased approach to receiving referrals from late November/early December.
- 1.10 The aim remains to support 1,500 participants across the NECA area by October 2018.
- 1.11 The Trailblazer's purpose and design is consistent with the North East Commission for Health and Social Care Integration recommendation that *'commissioners of IAPT services should work with their service providers to ensure employment support is included as part of the IAPT offer on a sustainable basis', 'as part of a consistent approach across the area'*. Implementation of the trailblazer will provide evidence of the efficacy of this approach and performance will be reported as part of governance arrangements between LAs and the NHS to implement recommendations.

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- 1.12 The Behavioural Insights Team is managing the programme evaluation and will provide interim findings at the mid-point in late 2017.
- 1.13 The multi-agency steering group which developed the model will be reconstituted (including LA, NHS, CCG and DWP representation) to monitor performance and ensure effective implementation in each area, reporting to Health and Wellbeing Boards. A report to the Clinical Commissioning Group forum will request CCG representation to ensure complementarity with implementation of the Commission for Health and Social Care Integration recommendations.

2 Youth employment

Generation NE

2.1 Generation NE is now fully operational and the programme has supported in excess of 2500 young people, of which over 1200 have moved into employment and over 250 have gained work experience to date, 650 of those gaining employment have now sustained employment for 6 months or more.

2.2 The programme is continuing to deliver very good value for money compared to original expectations and this has been highlighted in a 'mid-term review' of the programme; a full report of the review findings was presented at to Leadership Board on 20th September 2016.

2.3 Delivery of Generation NE has now extended to cover the full NECA geography, with the programme manager involved in an active dialogue with officers and Jobcentre Plus representatives to ensure successful implementation.

2.4 Generation NE is demonstrating the impact that can be achieved through a programme that is locally led, both strategically and operationally and that can impartially 'make sense' of a complex and fragmented system. In order to continue to contribute to tackling our local economic challenges it is suggested that Generation NE should be extended and widen its focus, delivering support for those young people that do not claim benefit and are generally ineligible for much of the mainstream government support. In principle agreement has been given by DCLG and DWP to this proposal.

2.5 Funding is currently available to support this extension under Investment Priority 1.2 of the European Social Fund or the equivalent

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domestic funding to replace it. It is recommended that the principle of aligning some of this available funding to Generation NE should be further explored, which will allow the lifetime of the programme to be extended for up to 3 years and also the impact of the programme to be broadened to support a wider cohort of young people outlined above. Support will continue to be delivered to the existing eligibility group of young people who claim Jobseekers Allowance and Universal Credit.

Durham Youth Employment Initiative (DurhamWorks)

- 2.6 DurhamWorks registered 1464 participants to the end of September 2016. The DWP requirement that evidence of a participant's eligibility (residency, NEET status, age and eligible to take part in an ESF programme) must be collected before a participant can be counted against outputs, is still proving very challenging. Self-declaration is only available as a last resort. The processes to make this happen have taken longer than expected to put in place, however these are now running and should make the verification of evidence much easier in the coming months.
- 2.7 An Employer Engagement Strategy has been finalised and sets out the targets of jobs and apprenticeships which need to be created in order to enable DurhamWorks participants to progress into the labour market.
- 2.8 Work is progressing to support businesses in receipt of the DurhamWorks Learning Working Earning grant. Following employer feedback, slight adjustments have been made to the application process to make it more employer friendly. A range of case studies using photographs and videos of participants are being developed. It is anticipated that these case studies will be utilised on an ongoing basis to support key messages and positive PR.
- 2.9 Using the Council's data, mapping has taken place of SMEs across the county and this is being used to support the development of targeted routeways and initiatives. A mapping exercise has also taken place across the Council to identify apprenticeships, traineeships and volunteering opportunities for DurhamWorks participants and a corresponding event has been held with senior managers to promote the benefits of employing young people and how DurhamWorks can help.
- 2.10 The subcontractor Framework was procured earlier in the year and this will be used during the next quarter when "mini competitions" will be run following the identification of gaps in existing DurhamWorks provision. At least 3 will be run, with delivery starting in January 2017. In order to support this process, a workshop has been held with the providers who are on the Sub-contractor

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Framework to inform them about DurhamWorks, the Framework and how the mini competitions will run.

- 2.11 The Evaluation methodology for the DurhamWorks programme is taking shape and the procurement of the Evaluation service will be run during the next quarter with activity beginning in February 2017.
- 2.12 The first DurhamWorks marketing campaign began w/c 17th October and will run for 4 weeks. Its' focus will be on areas of the county with the highest NEET/unemployed numbers and will include the use of bus streetliners, bus stop adshel panels, radio adverts on Metro Radio and Facebook. The focus is on making the DurhamWorks brand more recognisable and targeted at potential participants. DurhamWorks participants will feature in all the publicity.

Good Career Guidance Benchmarks

- 2.13 From June 2015 and in partnership with The Gatsby Foundation, North East LEP has been supporting the application of the Good Career Guidance benchmarks. This provides the opportunity to test the benchmarks in action; lead the development of practice which will have local impact and national profile; and improve the quality of provision and opportunity for young people.
- 2.14 The re-audit of schools in August and September 2016 and the independent evaluation highlights that Schools and Colleges are making rapid progress towards fully achieving the high standards of the benchmarks.
- 2.15 The average progress in one year is +2 i.e. 'fully achieving 2 further benchmarks compared to starting points'. Every school and college now fully achieves at least one benchmark (previously 50% schools/colleges fully achieved 0 benchmarks). 15/16 schools and colleges now partially achieve every benchmark.
- 2.16 25% of schools and colleges now fully achieve 5 benchmarks (making them comparable with the best seen nationally). This compares positively to starting points, where previously no school or college fully achieved more than 3 of the benchmarks. The results also demonstrate that it is possible to make significant progress in one year - using the benchmarks as a framework to carefully target improvements. These are documented in focused action plans with measurable targets.
- 2.17 New, strategic, relationships with employers now exist and schools have clear action plans for further improvement. New delivery structures have also

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emerged in schools, maximising the impact of the benchmarks. Wider collaboration between schools, schools and colleges, teachers and industry professionals and between independent and state schools has emerged as part of our work and is a key indicator of initial impact.

- 2.18 Schools and colleges participating in the pilot are significantly closer to providing 'good career guidance' for 'each and every' young person than they were at the outset.
- 2.19 The LEP team have produced over 40 case studies of innovative and pioneering practice from the first year, with potentially a further 50 this academic year. We are working with the Gatsby Foundation to share these with every school in the country.
- 2.20 The new Minister for Apprenticeships, Skills and Careers, Robert Halfon MP, visited a pilot at Churchill Community College on Monday 26th September where he was able to meet school leaders, teachers, students, parents, governors, employers, enterprise advisers, LA staff and the North East LEP to witness impact directly. He then visited Unipres, where again he was able to hear about a company using the benchmarks to improve their engagement with education. Further information has been sent to the Minister, who recently (at The Edge Foundation Annual Lecture), referred to the benchmarks as 'the eight commandments'.
- 2.21 Apprenticeship Vision 2020 - The Independent Panel, headed by Lord Sainsbury, looked at reforms to technical and professional routes into work, including apprenticeships, and how students are prepared. 34 recommendations were made, which were all accepted by government. Recommendations 29-31 relate to careers guidance. Rec 29, states "We recommend the Government adopts the Gatsby benchmarks as the basis of a common national approach for careers education and guidance, and sets an expectation for schools and colleges to use the benchmarks when developing their careers provision.
- 2.22 The benchmarks have gained significant national traction and the LEP team are receiving requests every week from organisations who are interested in the model. The LEP is hosting a practice sharing event with The Edge Foundation on 22nd November and will host a visit by the Department of Education on 29th November. The North East LEP team are also delivering the keynote address at the National Careers Education Summit on 3rd November.

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Enterprise Advisors

2.23 This key Government-backed initiative was initiated in September 2015. The Careers & Enterprise Company (CEC) is an employer-led organisation that has been set up to inspire and prepare young people for the fast-changing world of work. Its role is to take an umbrella view of the landscape of careers and enterprise, supporting programmes that work, filling gaps in provision and ensuring coverage across the country.

2.24 The North East LEP has taken the opportunity to shape and adapt the original CEC model to enhance the opportunities for school and business engagement. A dedicated coordinator was recruited in November 2015 and another in May 2016.

2.25 To date there are 64 Enterprise Advisors and 53 schools and colleges engaged along the process. 24 schools now have dedicated Enterprise Advisors working at a strategic level with the senior leadership team. Through external evaluation schools we are seeing tangible

3. Apprenticeships

3.1 The North East has a strong and active part to play in meeting the Government's target of three million apprentices by 2020. However, there is also a recognition that there is still much to be done to deliver the stretching targets that the region has set itself within the Strategic Economic Plan (SEP).

3.2 The Apprenticeship Growth Partnership (AGP) continues to meet on a quarterly basis with a remit to support businesses, to encourage the development of apprenticeship vacancies, to promote higher level apprenticeships and to engage sector groups to develop standards and liaise and promote the development of high quality apprenticeships.

3.3 The latest and final rules and guidance to the apprenticeship reforms were published on 25th October including further information for employers about the way apprenticeship funding is changing and final details about the apprenticeship levy being introduced from 2017.

3.4 In September 2016, three organisations were awarded contracts by Government to raise awareness levels of apprenticeship opportunities in schools. In the North the contract was awarded to BL Training and during October, they have been proactive in contacting schools. A meeting with the LEP has been scheduled and local authorities have been invited to attend.

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3.5 The LEP will be issued with a new version of the SFA data cube in November and an additional data dashboard. Training is being provided and we are led to believe that we will be able to access data about apprenticeship take-up by individual organisation, therefore by default we will be able to identify those organisations who currently do not engage.

3.6 From November 2016 to March 2017, the Get In, Go Far Media Campaign will switch focus from young people to SME businesses to encourage the development of apprenticeship opportunities. All marketing and social media material will be shared with NECA and local authorities.

4. Skills – capital investment

4.1 2015/16 was the first full year of the North East Growth Deal LGF Capital Programme. Ensuring the annual budget was effectively committed was a major challenge and through the efforts of delivery partners 96% of budget was spent which is regarded by Government as a positive achievement.

4.2 Most projects in the programme still remain at the pipeline or construction phase; however two skills projects were fully completed in 2015/16. It is not until later years of the programme that contracted outcomes are forecast to increase and targets for 2015/16 were largely met.

4.3 Proposals for the Growth Fund Round 3 and Large Transport Scheme were submitted in mid-July 2016. The pausing of the NECA Devolution Deal has implications for the scale and nature of the NELEP submission to Government and a re-submission of a prioritised project list is now required by November. Skills Capital remains a high priority for the region and the outcome of the ABR could determine the skills priority areas.

5 Potential Impact on Objectives

5.1 The work being taken forward is consistent with the Combined Authority's stated objectives

6 Finance and Other Resources

6.1 Financial plans will be developed and reported to the Board as appropriate.

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7 Legal

7.1 The legal implications of the work will be considered as delivery progresses.

8 Other Considerations

8.1 Consultation/Community Engagement

No consultation or community engagement has been undertaken at this stage in the work programme.

8.2 Human Rights

There are no specific issues arising from this report.

8.3 Equalities and Diversity

There are no specific issues arising from this report.

8.4 Risk Management

Appropriate risk management arrangements will be put in place as delivery progresses.

8.5 Crime and Disorder

There are no specific issues arising from this report.

8.6 Environment and Sustainability

There are no specific issues arising from this report.

9 Background Documents

9.1 None

10 Links to the Local Transport Plans

10.1 Accessibility to employability, inclusion and skills provision is a key challenge for the North East that is appropriately reflected in the emerging Local Transport Plan.

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11 Appendices

11.1 None

12 Contact Officers

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13 Sign off

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

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North East Combined Authority

Leadership Board

DATE: 15th November 2016

SUBJECT: Transport Thematic Lead Update Report

REPORT OF: Thematic Lead for Transport

EXECUTIVE SUMMARY

This report gives details of developments and announcements since the last update report was provided to the Leadership Board on 20th September 2016, reporting under the following headings:

- Transport Manifesto and Plan
- Transport for the North
- Rail
- Public Transport (Buses, Metro and Smart Travel)
- Aviation
- Freight Transport
- Go Smarter 2016-17

The report also includes an update on digital connectivity, reflecting the inclusion of this topic alongside transport within the Strategic Economic Plan's 'connectivity' priority.

RECOMMENDATIONS

It is recommended that the Leadership Board note the contents of this report.

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1. Transport Manifesto and Plan

- 1.1 A draft final version of the Transport Manifesto, incorporating consultation responses, was approved at the November 3rd meeting of Transport North East Committee. It will now be designed up and placed on the NECA website.
- 1.2 We have been working with Transport Portfolio Holders and Transport North East Committee (TNEC) members to develop the Transport Plan. Officers will now produce a revised draft in time for consideration at the Leadership Board and TNEC early in 2017.

2. Transport for the North (TfN)

- 2.1 TfN is developing a Transport Strategy and Investment Plan. Our involvement in this work stream is critical to make sure that our aspirations for key strategic transport links are taken into account.
- 2.2 TfN's work continues on 'Northern Powerhouse Rail', to provide transformational journey times, capacity and frequency between the largest cities in the North. In order to achieve the desired journey-time target of 60 minutes between Newcastle and Leeds, three broad options are emerging:
- i) A wholly new direct line between Leeds and Newcastle
 - ii) Utilising the planned HS2 route from Leeds to the ECML, and then line improvements north of York with some 'cut offs' to improve journey time and the reopening of the Leamside Line.
 - iii) As option (ii) but upgrades out of Leeds rather than utilising HS2 planned infrastructure.

All of these options achieve the journey time target, but all would require significant engineering works. Further work is now taking place to take account of economic and other impacts such as station capacity.

- 2.3 A strategic study is under way to improve strategic road links across the Pennines. Interim findings suggest that dualling the A69 would generate significant journey time savings but have a high cost. Dualling the A66 across its entire length would generate around half the journey time savings of the A69 dualling, but would be less costly. Further work will take place to refine these options, taking into account wider economic benefits, with a final report due to be completed by the end of 2016. NECA officers attend the Programme Board for the study on behalf of TfN.

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2.4 TfN published a 'Northern Region Freight and Logistics Report' on 7th September 2016, and a further report, incorporating a series of LEP-area studies, is in the process of being commissioned. The freight sector in this area will continue to be kept informed via the North East Freight Partnership.

2.5 We are expecting to publish a report later this Autumn that will identify opportunities to expand into new international markets via the north's airports and major ports.

2.6 A specification for an 'Intelligent Back Office' is being developed by TfN to enable new ticketing technologies such as contactless bank card payment.

3. Rail

3.1 The North East Rail Management Unit (NERMU) Board had its first meeting on 4th October 2016. Part of the responsibility of the NERMU is to oversee performance of the Train Operators. Over the first 5 months both Northern and TransPennine have generally performed well against the Franchise performance targets.

3.2 As part of its franchise commitment to spending £22.6m on stations across the north, Northern will deliver the following improvements in the North East over the next four years, the details of which will be developed with the NERMU:

- 19 new passenger shelters
- 21 new seating schemes
- 9 Customer Information Screens and 2 Public Address systems
- 13 Equalities Act induction loops
- 22 new help points
- 32 CCTV schemes
- 62 new Ticket Vending Machines (TVMs)

3.3 Network Rail is combining work on the East Coast Main Line (ECML) Route Study (from London to the Scottish Border) with development work for Northern Powerhouse Rail (as reported in section 2.2 above). As work progresses, it is becoming more apparent that significant improvements to the East Coast Main Line will be required to meet the expected impact of growth on the route up to 2023 and 2043.

3.4 Officers are therefore working with Network Rail to press for a programme of progressive improvements to the East Coast Main Line to ensure that improvements over the coming years are complementary. Both the outcomes of the Route Study and the preferred options for NPR are due to be known by the end of the calendar year.

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- 3.5 In a speech to the Transport Times HS2 Conference on 12th October, Secretary of State for Transport Chris Grayling re-affirmed the government's commitment to proceed with HS2. The decision on the final route of Phase 2 of HS2 from the West Midlands to Leeds and Manchester is due to be announced shortly.
- 3.6 Close engagement continues with the rail industry, local communities and funding bodies to ensure that our regional rail network can play an even greater role in supporting economic growth and providing better connectivity for our residents.
- 3.7 We are actively working to secure development funding for the Ashington, Blyth and Tyne line, with funding being sought through the DfT's Large Local Major Schemes Fund, and Northumberland County Council's Cabinet recently approved the progress of the project through to Network Rail GRIP Stage 3. This scheme would greatly enhance connectivity for a number of communities with forecasted passenger use of 360,000 per annum by 2034.

4. Public Transport

- 4.1 A region-wide bus strategy will be prepared, which will be used by TNEC to guide future decisions about delivery options for buses. Officers continue to monitor the Bus Services Bill as it passes through the House of Lords and into the Commons. Royal Assent is still anticipated by spring 2017.
- 4.2 Following Leadership Board approval of the new Metro and Local Rail Strategy, Nexus has launched a consultation to seek views from passengers on the interior design and layout of the future Metro fleet and is holding a series of discussions with the government to discuss investment in the Metro fleet.
- 4.3 Punctuality on the Metro has been above 85.5% for the last four reporting periods (up to September), an improvement compared to the recent position but slightly below the target set by Nexus. Passenger numbers have dipped slightly below the peak of 40 million seen at the start of 2016 primarily due to a fall in leisure travel.
- 4.4 The Great North Run is an important event for this region, with Metro playing a key role in its success by transporting over 80,000 runners and spectators on the day. Following a poor performance by Metro in 2015 a full review has been undertaken, and significant changes put in place. This resulted in an excellent service being provided for the event in 2016 demonstrated by positive customer feedback.

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- 4.5 Works associated with the Asset Renewal Programme continue, with Central Station refurbishment and replacement of the track between Jesmond Station and the QEII Metro Bridge due for completion shortly. Nexus has commenced planning for major modernisation projects in 2017, including the replacement of the bridge over Killingworth Road.
- 4.6 A task and finish group will be established to investigate the Concessionary Ticketing offer across the region and to see if there are ways to improve the attractiveness of what is on offer. A report has been provided to TNEC to explain the current situation, as well as drawing attention to a couple of specific issues, including the current youth ticketing offer and the impact of the rise in the age at which people qualify for the national concessionary travel scheme on local residents' access to services and amenities.
- 4.7 Pop Pay As You Go can now be used as payment for all services provided by the three major bus operators (Arriva, Go North East and Stagecoach); on Metro (with a daily price cap); the Shields Ferry; and a range of small operators, including the Park and Ride service in Durham. Uptake has increased sharply since Pop Pay As You Go Cards became available on-line.
- 4.8 To reduce fraudulent use of Concessionary Travel Cards, cards that have been reported lost or stolen are now being automatically blocked ("hotlisted").

5. Aviation

- 5.1 On 25th October, the government made the long-awaited announcement that it supported a new runway at Heathrow Airport – the first full length runway in the south-east since the second world war. The scheme will now be taken forward in the form of a draft 'National Policy Statement' (NPS) for consultation.
- 5.2 The NECA, the North East LEP and Newcastle International Airport have all previously expressed support for the delivery of a third runway at Heathrow. The additional runway capacity provided will safeguard the future of regional flights from the NECA area and enable further services to be introduced. In addition to the existing links to Newcastle, the government has announced that another 6 new services will be added after expansion, including a new service to Durham Tees Valley.

6. Freight Transport

- 6.1 The Fleet Operators Recognition Scheme (FORS) is a national accreditation scheme designed to help operators raise standards and contain costs, whilst also improving safety and cutting carbon emissions. It is promoted in this region by the North East Freight Partnership and is enjoying growing support, with 164 accredited operators in the region (accounting for a total of over

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5,500 vehicles), compared to 98 a year ago – an increase of 67%. Work is continuing to further increase take-up, and a number of NECA's constituent authorities are discussing the benefits of scheme membership for their own vehicle fleets.

- 6.2 The Freight Partnership's Safe Urban Driving courses are aimed at raising the HGV and van driver's awareness of the vulnerable road user in shared road space and thus reducing accidents involving lorries/vans and cyclists. These courses have been very well received and, in response to a request from Fleet Managers in a number of individual NECA authorities, additional funding has been secured from the FORS Community Partnership to run 20 additional courses in this region, to be aimed specifically at local authority lorry and van drivers. With 24 places available on each course, training for up to 480 drivers can be provided and we are presently liaising with Fleet Managers regarding course venues, dates and staff to be targeted for training.

7. **Go Smarter 2016-17**

- 7.1 Whilst a decision is awaited on the Access Fund (expected in December 2016), Go Smarter continues to deliver the three projects under the Go Smarter Brand; Go Smarter to Work, Ways Into Work and Schools Go Smarter. Activities are continuing under each programme.

- 7.2 'Make the switch' was a radio campaign that ran for two weeks from 10th October, encouraging commuters to consider more sustainable modes of transport. Ways into Work is piloting career travel projects in each Local Authority offering young people the opportunity to travel by bike and public transport to employment sites and gain insight into potential job prospects. Schools across the NECA area have been provided with Smarter Parker campaign leaflets and 60 primary schools are taking part in the 'Fancy Feet Whirly Wheels Challenges' in November to promote walking and cycling.

8. **Digital Connectivity Update**

- 8.1 The North East Digital Leads group is currently developing investible propositions to sustain and grow the region's competitiveness in the Digital Economy. The NECA Digital Leads group are working closely with the North East LEP to ensure strategic and collaborative opportunities are not missed, and to present a co-ordinated and coherent vision of our strengths and potential to external partners.

- 8.2 The group has worked with the NELEP Innovation Board's Smart Specialisation Group and Nexus, to promote the region as an 'Internet of Things' (IOT) test-bed. This work reaffirms that the North East Digital Economy is growing and provides an opportunity to underpin the development of sectoral strengths in areas where the region has competitive advantage. We are currently working with the National Centre for Excellence

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at Surrey University to deliver on this objective on a nationally-significant scale.

8.3 On October 2nd the NECA / NELEP Partnership submitted an investible proposition to Innovate UK, at the request of the National Digital Catapult. This is currently being considered by HM Treasury and DCMS, and has significant potential to secure and embed private capital and expertise as part of a wider public-private partnership. Our work is not taking place in isolation, but in coherence with our aspiration to ensure we deliver the inclusive growth which enables our people, businesses and communities to play a prominent role in the Digital Economy.

8.4 Our progress on 5G technology reflects a commitment to developing the infrastructure and creating the conditions which North East businesses need to make the most of emerging opportunities. This is consistent with our aspiration that the North East is increasingly seen, not only nationally but globally, as a location of choice for testing, refining and rolling out Digital products and services.

9. Next Steps

9.1 It is anticipated that, before the next meeting of Leadership Board:

- A revised draft of the Transport Plan will have been produced.
- A freight study, focused on local LEP areas, will be under way to follow up publication of the Northern Region Freight and Logistics Report
- Work will have commenced on a new NECA Bus Strategy
- A fresh range of Go Smarter activities will be in progress within schools for the winter term.

9.2 By the end of the calendar year:

- A preferred infrastructure package for the Leeds – Newcastle rail corridor will have been approved, enabling more detailed design and economic appraisal work to commence
- The strategic study exploring the case for dualling the A69 and/or A66 will have been published setting out recommended options
- Results and recommendations from the TfN International Connectivity workstream will be available
- Nexus will have met with the Department for Transport to discuss the business case for government investment in the Metro fleet
- A “Task and Finish” group will have been set up to discuss the issues regarding Concessionary ticketing
- An enhanced programme of Safe Urban Driving courses, aimed at local authority staff, will have been set up

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- 9.3 In addition, work will continue to:
- Participate in TfN workstreams and the Network Rail Long Term Planning Process
 - Engage with Network Rail and TfN to develop options for NPR and start the refining of options to be recommended for more detailed design and economic appraisal
 - Monitor the progress of the Bus Services Bill through Parliament
 - Promote the Fleet Operators Recognition Scheme and further increase membership in this region
 - Refine the Digital Connectivity Strategy and develop investible propositions alongside partners

10. Potential Impact on Objectives

- 10.1 Successful delivery of the various transport and digital connectivity schemes and investment proposals outlined in this document will assist the Combined Authority in delivering its objective to maximise the area's opportunities and potential.

11. Finance and Other Resources

- 11.1 The report includes information on funding and financial opportunities. There are no specific additional financial implications for NECA arising from this report.

12. Legal

- 12.1 There are no specific legal implications arising from this report.

13. Other Considerations

13.1 Human Rights

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

13.2 Equalities and Diversity

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

13.3 Consultation / community engagement

Many of the transport programmes outlined in this report have been the subject of consultation, at either a regional or national level.

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13.4 Risk Management

This report is for information only and there are no specific risk management implications arising from it.

13.5 Crime and disorder

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

13.6 Environment and Sustainability

Delivery of the various rail and public transport measures listed in this report should assist in meeting our objectives for a more sustainable transport system and improved air quality.

The Go Smarter programme referred to in section 7 is specifically aimed at the reduction of carbon emissions and the promotion of active, sustainable travel.

14. Background Documents

None.

15. Links to plans in the policy framework

The various transport schemes and programmes listed in this report link to the forthcoming Transport Plan for the North East that is covered in section 1 of this report.

16. Appendices

None

17. Contact Officers

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18. Sign off

Head of Paid Service ✓

Monitoring Officer ✓

Chief Finance Officer ✓

North East Combined Authority

North East Leadership Board

Date: 15 November 2016
Subject: Treasury Management Mid-Year Update
Report Of: Chief Finance Officer

Executive Summary

The purpose of this report is to summarise treasury management activity in the first six months of 2016/17 and to update the prudential indicators agreed by the Leadership Board in January 2016, in the light of the most up to date available information on capital expenditure and financing and actual performance for 2015/16.

The report also sets out proposed changes to the method for calculating Minimum Revenue Provision (MRP), which if agreed will be used to frame the MRP Statement for 2017/18 that will be presented with the Budget report to the Leadership Board in January 2017.

Recommendations

It is recommended that the Leadership Board:

1. Note the investment criteria and limits set out in section 2.10;
2. Note the updated 2016/17 prudential indicators set out in section 2.11;
3. Agree that the proposed changes to the method for calculating MRP set out in section 3 be used for the preparation of the 2017/18 budget and MRP Statement.

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1 Background Information

- 1.1 In line with the CIPFA Code of Practice on Treasury Management in the Public Services: Code of Practice, the Authority is required to approve a treasury management strategy (including a range of prudential indicators) before the start of each financial year and to monitor / report performance against these prudential indicators during the year. This includes a mid-year review, and a review following the year end.

2 Proposals

Borrowings

- 2.1 External interest rates payable in the first six months of the 2016/17 financial year were at the level assumed in the treasury management strategy. All borrowing currently relates to Tyne and Wear, and the costs of this borrowing are charged to the Tyne and Wear transport levy; the Tyne Tunnels budget and the Nexus budget as appropriate.
- 2.2 No new loans have been taken out during the year to date. The following table shows the movement between opening and closing level of external loans during the first six months of the year and known repayments to the year end.

Table 1: External Loans

Figures in £m	Actual	Authorised
Level of external loans as at 1 April 2016	170.000	240.000
New loans taken out in first six months of year	-	-
Loans repaid in first six months of year	(1.333)	-
Level of external loans as at 30 September 2016	168.667	240.000
Estimated further net decrease in external loans	(0.334)	-
Estimated level of external loans as at 31 March 2017	168.333	240.000

- 2.3 As can be seen from the above table, the overall level of borrowing has slightly decreased to just over £168.6m (from £170.0m) in the first six months of the year. This is due to regular scheduled repayments on Equal Instalment of Principal (EIP) loans. This level of borrowing is well under the authorised limit for the year, as the Authority has used internal funds in place of external borrowing to part fund its capital financing requirement. The authorised limit has been retained at a consistent level despite repayment of external borrowing, to allow the flexibility to undertake external borrowing if required later in the year.
- 2.4 The Authority strives to minimise the interest rate risk it faces and maintain stability by seeking to maintain an appropriate debt maturity profile (i.e. the profile of when external loans need to be repaid), which is shown in Table 2 below.

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Table 2: External Debt Maturity Profile

Loans repayable:	01/04/2016 (actual) £m	30/09/2016 (actual) £m	31/03/2017 (estimate) £m
In less than one year	1.667	0.667	0.667
Between one and two years	0.667	0.667	0.666
Between two and five years	2.000	2.000	2.000
Between five and ten years	3.333	3.333	3.000
In more than ten years	162.333	162.000	162.000
Total	170.000	168.667	168.333

- 2.5 As can be seen from the above table, the profile is weighted heavily towards long-term borrowing. This is because most of the borrowing relates to the New Tyne Crossing Project, where long-term borrowing was preferable to provide certainty of payments to enable accurate financial modelling over the period of the operating concession; and due to the fact that as shorter-term loans have matured, they have not been replaced.
- 2.6 The current average rate of external interest payable (i.e. 4.28%) is in line with the assumptions made when the 2016/17 budget was set and total external interest charges to the year-end will be within budget.

Investments

- 2.7 At 30 September 2016 the Authority had £66m externally invested in short term deposits, plus short term bank current account balances.
- 2.8 Due to the receipt of £79.402m Local Growth Deal funding in April 2016, the Authority has had a higher level of cash during 2016/17 than in previous years and the level of external investments has therefore increased. This requires additional flexibility and options to manage investments. Based on the current level of planned capital expenditure and the expected profile of LGF grant payments, which is weighted towards the year end, the level of external investments is expected to be between £20m to £40m by the end of the financial year.
- 2.9 The rate of external interest receivable ranges from 0.4% on short term balances to 1.25% on external investments held for longer periods. Investments of cash balances will be extended to periods of up to 12 months in order to secure an increased average rate of return, with increased interest income used to help fund the costs of the Authority.
- 2.10 The primary objective of the Authority's investment strategy is to ensure the security of the funds invested, and to achieve a reasonable rate of return commensurate with the level of security required. No changes are proposed at this time to the current investment and counterparty limits, and these will be reviewed in advance of setting

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the limits for 2017/18, which will be presented to the Leadership Board in January 2017.

Table 3 : Investment Limits

Type of institution	Financial Limit	Time Limit
UK central government (Debt Management Office)	Unlimited	Unlimited
UK banks with AAA, AA+, AA, AA-, A+, A credit ratings	£15m each	1 year
UK banks with A- credit ratings	£10m each	1 year
UK Local authorities	£10m each	3 years
UK building societies whose lowest published long-term credit rating is BB <u>and</u> societies without credit ratings with assets greater than £250m	£5m each	1 year
UK money market funds and similar pooled vehicles whose lowest published credit rating is AAA	£5m each	1 year
Local Authority controlled companies in the NECA area	£10m each	20 years

Prudential indicators

- 2.11 The treasury management strategy agreed by the Leadership Board in January 2016 included a range of indicators to ensure the prudent use of the Authority's borrowing powers set out in the Local Government Act 2003. The Authority's borrowing powers extend to Transport related activity and, as a result, the prudential indicators are currently focused on that area of NECA activity. These prudential indicators have been revised based on the most up to date capital expenditure / financing position and are set out in the following table.

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Table 4 : Prudential Indicators

	2015/16 actual	2016/17 estimate	2017/18 estimate	2018/19 estimate
Capital expenditure (Transport capital programme) ¹	70.476	85.898	75.000	70.000
Financing costs to Net Revenue Stream				
Tyne & Wear Transport levy	67.200	65.120	63.040	61.800
Tyne & Wear Transport financing costs	2.091	2.063	1.529	1.506
%	3.1	3.2	2.4	2.4
Nexus levy plus direct grants	92.034	90.000	88.390	87.200
Nexus financing costs	3.764	3.623	3.481	3.345
%	4.1	4.0	3.9	3.8
Tunnels tolls income	28.396	29.633	29.800	30.809
Tunnels financing costs	6.404	6.901	6.900	7.000
%	22.6	23.3	23.2	22.7
CFR at end of year				
Tyne Tunnels and Tyne & Wear Transport	158.808	156.685	154.574	152.471
Nexus	43.403	41.637	39.938	38.302
Total	202.211	198.322	194.512	190.773
Incremental impact of CF decisions (impact on Transport levy)	(0.179)	(0.028)	(0.534) ²	(0.023)
Operational Boundary for External Debt	235	235	235	235
Authorised Limit for External Debt	240	240	240	240
Actual External Borrowing	170	168	168	167

¹ Figures are included here for the Transport capital programme only, since the Authority only has borrowing powers under the Prudential Code in relation to Transport related activity.

² Significant reduction is due to proposed changes to method of calculating MRP set out in section 3.

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Treasury Management Activity in 2017/18

- 2.12 Treasury Management activity in 2017/18 will be focused on minimising interest costs and trying to maximise returns, which continues to prove challenging in the current market.
- 2.13 The level of the Authorised Limit for future years will need to reflect the infrastructure requirements for Enterprise Zones, which involve infrastructure funding which could be funded by additional borrowing in future years and by use of temporary revenue balances in the short to medium term. This will be reflected in future reports as the level of the potential borrowing requirement is confirmed.

3 Review of Policy for Minimum Revenue Provision

- 3.1 Minimum Revenue Provision (MRP) is a charge to the Authority's revenue account to make a provision for the repayment of the Authority's outstanding capital debt liabilities. The Authority is required by law to annually "determine for the current financial year an amount of minimum revenue provision which it considers to be prudent". Guidance is issued to local authorities to aid them in determining the "prudent" level of MRP, but this is not prescriptive and, while authorities must have regard to the Guidance, they must make their own judgement about what is considered prudent provision.
- 3.2 Like many local authorities, the North East Combined Authority has reviewed its MRP policy in the light of changing circumstances. All of the Authority's debt relates to the activities of the former Integrated Transport Authority, and is charged against the Tyne and Wear and Tyne Tunnels budgets accordingly. The current policy is to use the "Regulatory Method" (4% reducing balance) for "supported borrowing" debt, the annuity method for debt associated with the New Tyne Crossing, and a 25 year straight line method for prudential borrowing debt taken out after 2008. "Supported borrowing" debt is debt held by the former ITA, for which the government provided revenue grant to the constituent authorities to fund the borrowing costs, as part of the revenue support grant.
- 3.3 The current reducing balance formula used by the Regulatory Method has the characteristic that the debt is never entirely repaid. As the local government finance system has evolved it is no longer possible to relate revenue support grant received to any particular level of annual debt repayment. Revenue Support grant has been cut back significantly in recent years and the level of supported principal repayment costs is likely to have been cut to less than 2%, indeed, revenue support grant itself is being withdrawn by 2020/21, irrespective of the level of "supported" borrowing which is outstanding. It is therefore proposed to move to a 2% fixed method of calculating MRP, which will mean the debt is completely provided for in 50 years.

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- 3.4 The proposed 2% fixed method initially has a lower debt repayment than the 4% reducing balance method, but is more consistent with the Guidance's aims over the longer term. It is therefore considered that it would be appropriate, affordable and reasonable for the Authority to move to such a provision for 2017/18 onwards.
- 3.5 The proposal has been discussed with the constituent local authorities in Tyne and Wear and will be discussed further with the Authority's external auditors and details will be presented as part of the MRP statement for 2017/18 which will be included with the Budget report for the Leadership Board in January 2017.
- 3.6 No change is currently proposed to the method of calculation for MRP either in relation to debt charged to Nexus or the New Tyne Crossing, which will ensure that the Tyne Tunnel costs are fully funded by toll income during the current concession period. No retrospective changes to MRP for the current or previous financial years are proposed – the revised policy will apply for MRP for the years 2017/18 onwards.

4 Next Steps

- 4.1 Proposals for the 2017/18 strategy will be developed further by officers and discussed with Governance Committee during December, and presented for agreement by the Leadership Board with the budget report in January.

5 Potential Impact on Objectives

- 5.1 Effective treasury management enables financing charges to be minimised and interest income maximised while maintaining security of the Authority's liquid assets. This supports the Authority's overall budget position which enables it to deliver all of its objectives more effectively.

6 Finance and Other Resources

- 6.1 There are no additional direct financial implications arising from this report, other than the potential for reduction in minimum revenue provision.

7 Legal

- 7.1 There are no direct legal implications arising from this report.

8 Other Considerations

8.1 Consultation/Community Engagement

There are no consultation or community engagement implications arising from this report.

8.2 Human Rights

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

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8.3 Equalities and Diversity

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

8.4 Risk Management

The main risk consideration relates to external interest rates. This is being mitigated by maintaining a balance of predominantly longer-term borrowing, while seeking to minimise interest charges through reducing the total level of external borrowing as opportunities are presented. The risk of investments being lost due to the financial difficulties of a third party is being mitigated by revising the Authority's investment criteria to reflect the most up to date information on credit worthiness from external treasury management advisers.

8.5 Crime and Disorder

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

8.6 Environment and Sustainability

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

9 Background Documents

9.1 CIPFA Treasury Management in the Public Services: Code of Practice

10 Links to the Local Transport Plans

10.1 There is no direct link to the Local Transport Plans.

11 Appendices

11.1 None.

12 Contact Officers

12.1 Eleanor Goodman, Principal Accountant – North East Combined Authority,
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13 Sign off

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

14 Glossary

CIPFA – Chartered Institute of Public Finance and Accountancy

PWLB – Public Works Loans Board

North East Combined Authority

Leadership Board

Date: 15th November 2016

Subject: North East Combined Authority 2016/17 Financial Update

Report of: Chief Finance Officer

1. EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to provide an update of the 2016/17 Capital Programme and Revenue Budget for the NECA Leadership Board.
- 1.2 This sets out information about capital spending at the end of September 2016 and an update on the current year's capital programme, where the latest forecast expenditure is £135m, together with information about actions being considered to maximise use of Local Growth Fund grant this year.
- 1.3 The report sets out the current position with regard to the £119.1m Revenue Budget for 2016/17. The transport revenue budget is the largest element of the revenue budget at £117.7m and spending is estimated to be within budget for the year. In terms of operating budgets of transport delivery partners, Nexus have achieved significant in year savings in their base budget to address the underlying deficit of £3.6m that was due to be funded from reserves. The report sets out proposals to fund expenditure relating to the costs of devolution activity from savings in transport budgets. Spending on all other budget areas is expected to be within budget.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Leadership Board –
 - a) receive this report for consideration and comment;
 - b) approve the revised capital programme for the year estimated to be £148m, as set out in section 4 and the appendices 1 and 2;
 - c) note the approach to maximising the use of Local Growth Fund grant this year, set out in section 4.2.3 of this report, subject to the approval of the North East LEP;
 - d) note that revenue expenditure for the year is expected to be £118.3m within the £119m revenue budget set out in the July update report in overall terms;
 - e) agree the proposal to fund devolution costs of £0.474m from savings in transport budgets for 2016/17; and
 - f) note that the third Financial Update for the year will be reported to the NECA Leaders Board meeting in January 2017.

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3. BACKGROUND INFORMATION

- 3.1 The Leadership Board receives regular finance updates on the progress of the capital programmes and revenue budget during the year, which is a requirement of the constitution. Detailed reports on the Transport capital programme are provided to TNEC. The last update to the Leadership Board was on 19th July and the next update is on 17th January 2017.

4. CAPITAL PROGRAMME UPDATE

- 4.1 A summary of the Capital Programme for 2016/17 is shown in the table below. The latest estimate of capital expenditure for the year is £134.8m, compared with the approved programme amounts of £147.6m. At the mid point of the year, expenditure is around £36m, or 24% of the latest approved programme. Further options are being explored to maximise the use of Local Growth Fund grant this year by increasing the level of expenditure that could be funded by LGF grant by around £8m towards the £81m of grant that been received.

	Original Approved Programme £m	Latest Approved Programme £m	Spend at end Sept 16 £m	Forecast 2016/17 £m
Local Growth Fund	76.830	86.658	6.250	72.630
<u>Other Grants (RGF/GPF)</u>	2.022	2.022*	1.931	5.072
<u>Other Transport Programmes</u>				
Metro Asset Renewal	41.192	44.314	19.798	42.455
Nexus Non-Metro**	0.650	0.842	0.011	0.838
Tyne Tunnels	0.000	1.199	0.686	1.199
Other Transport Grants**	12.240	12.616	7.342	12.616
Total Capital Programme	132.934	147.651	36.018	134.810

* Latest approved programme shows current contracted schemes. There are further projects under development, which are likely to draw down this financial year and are shown in the forecast column on the right.

**Less grant funding shown in other programme lines

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4.2 Local Growth Deal Capital Schemes 2016/17

- 4.2.1 The total current Local Growth Fund (LGF) programme for 2016/17 amounts to £86.658m. The latest estimate of expenditure for the year is now £72.630m, as set out in the Appendix 1.
- 4.2.2 At the end of the second quarter, a total of £6.25m had been drawn down by projects. This is relatively low against the current programme. It reflects the much higher level of activity planned in the second half of the year, and officers are exploring options to maximise expenditure and use of LGF grant in the current year. The programme contains several complex projects, including some at pipeline stage and some at the stage of completion of the Final Business Cases for approval. This is reflected in the stage of activity on the ground and the level of expenditure to date. Over-programming was included in the 2016/17 programme in June to help achieve spending in line with the available grant, which would be a significant achievement.
- 4.2.3 Given the slippage in planned spending that has occurred since June, further options to achieve spending and use of LGF grant are being explored for consideration and approval by the North East LEP Board. These include re-profiling and accelerating the use of LGF grant on approved schemes from future years into 2016/17; funding swaps with approved Enterprise Zone works being carried out this year; and the temporary funding of the works on the Tyne Pedestrian and Cyclist Tunnels from LGF grant. This last option also has the benefit of the revenue nature of funding from the Tyne Tunnel reserves, when this is returned to pay back the temporary use of the LGF grant. All options would be subject to approval by the LEP Board and will be the subject of future reports as required.

4.3 Metro Asset Renewal Plan (ARP)

- 4.3.1 The Leadership Board approved the Metro Asset Renewal Plan (ARP) capital programme for 2016/17 in January 2016 totalling £41.192m. This is the seventh year of Nexus' ambitious eleven year programme to renew the Metro network where investment is directed towards those assets where there is greatest need, according to both asset condition and a risk based approach that ensures future operational requirements are fully considered.
- 4.3.2 The budget for any particular year should be seen in the context of the long term funding commitment from government where the following factors are a key feature of how Nexus delivers its renewal programme:-
- i. The requirement from DfT that Nexus achieves at least a minimum level of expenditure and no more than a maximum level of expenditure in any one financial year (which for 2016/17 were set at £31.913m and £38.802m respectively);

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- ii. A recognition that logistical and other planning processes play a significant role in determining where resources are deployed in fulfilling the objectives of Nexus' three year rolling programme, which at any particular time involves the delivery of around 100 individual projects;
 - iii. The flexible way in which grant funding can be vired between financial years with up to 10% being carried forward into the following year or 10% being brought forward from the following year; and
 - iv. The need for each individual project comprising the overall programme to deliver value for money.
- 4.3.3 The 2016/17 ARP capital budget therefore included an over programming level of approximately 20%. This was necessary because experience has shown that over-programming levels reduce during the course of the year as efficiencies are delivered and/or specific projects are re-phased in order that expenditure levels are contained within the agreed DfT funding envelope.
- 4.3.4 A key benefit of this approach is that it gives Nexus the ability to actively manage the scheduling and delivery of projects to drive efficiencies without a risk of falling below minimum expenditure levels. This includes obtaining procurement savings through consolidating packages of work to increase market interest and competitiveness, and ensuring that the necessary disruption to the Metro service is minimised (by avoiding key events and making best use of school holidays and lower patronage windows).
- 4.3.5 At the end of the sixth of 13 periods (ending 17 September 2016), the Metro capital budget for the current year, has been revised to £44.314m.
- 4.3.6 The increase in the budget for this year is due to the re-profiling of individual projects, some of which were brought into the current year when the 2015/16 year was closed down, some of which have been moved into future years and some of which have been accelerated i.e. delivered earlier than previously planned. All of these movements in budget are within the context of the agreed three year programme. Examples include:
 - i. Rail Traffic Management projects, reflecting the need to re-schedule elements of the programme into future years in order to successfully deliver this complex project in conjunction with the radio project;
 - ii. Radio, where the overall delivery programme is now revised following delays in finalising some detailed designs and completing works on site;
 - iii. Track works carried out at Easter 2016 which were delivered in 2015/16 to a greater extent than originally forecast;
 - iv. Central Station works re-profiled from 2015/16 to 2016/17 to reflect the contractor's timescales and additional works required; and

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- v. Other station works re-profiled from 2015/16 to 2016/17 following DfT funding reductions.

4.3.7 These examples reflect the dynamic nature of the programme and also helps ensure spending targets are achieved. The £3.1m movement between the original budget for 2016/17 and the latest budget for 2016/17 can be summarised as follows:-

Movement between original budget and latest budget, 2016/17

	£m
Re-phasing from 2015/16, increasing 2016/17 budget	8.2
Accelerated projects (from 2016/17 to 2015/16), reducing 2016/17 budget	(1.9)
Re-phasing from 2016/17 to future years, reducing 2016/17 budget	(6.6)
Accelerated projects (from 2017/18 to 2016/17), increasing 2016/17 budget	1.0
Other changes (largely proposed changes to financing of projects)	2.4
TOTAL	3.1

- 4.3.8 Expenditure as at the end of Period 6 is £19.798m. This represents 62% of the £31.913m minimum expenditure level required by DfT for this financial year.
- 4.3.9 The latest forecast to the year end is now £42.455m; lower than budgeted largely because of reduced expenditure forecasts in the phasing of works relating to a number of projects and anticipated efficiencies in the need to use contingency budgets.
- 4.3.10 An evaluation of the risks to delivery in this year's programme together with several options to undertake managed re-profiling of expenditure will ensure that the final outturn falls within the DfT's prescribed funding tolerance (which as previously indicated, is required to be between £31.913m and £38.802m).
- 4.3.11 At this stage any variation in expenditure against the revised budget that is not forecast to be incurred in the current year will be carried forward into the 2017/18 programme, unless projects are sufficiently advanced to allow efficiency savings to be handed back to the overall programme.

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4.3.12 To the end of the sixth four week period of 2016/17, the following key projects have been progressed:

- i. The Newcastle Central Metro Station refurbishment works are nearing completion with the new escalator installed in advance of the Great North run as planned. The final weekend closure will take place from 8:00pm on 7th October, reopening as normal on the morning of 10th with the contractual completion of the scheme expected to be in mid-November 2016.
- ii. The track renewal scheme from Tynemouth to Northumberland Park is now largely complete with the conclusion of the second 15 day line closure in August. A final weekend possession is scheduled for 8th & 9th October together with continuing non-disruptive works overnight works until final completion in November.
- iii. Track re-railing within the North / South central area tunnels commenced in June and is progressing to programme with completion planned for November 2016. Work is being undertaken outside of track access in the early hours by the Nexus Capital Delivery team to avoid disrupting the Metro service.
- iv. A further track renewal work package has been awarded to renew track between St James and Chillingham Road Stations. This will commence in December with completion planned for late March 2017. A further work package to renew track between Northumberland Park and South Gosforth Stations is also being finalised. This will be delivered in summer 2017, together with the replacement of Killingworth Road Bridge between South Gosforth and Longbenton stations, which will be carried out at this time in order to deliver efficiencies and minimise disruption by maximising the work being carried out during this significant line closure.
- v. The Railway Traffic Management System (RTMS) project is now temporarily paused in order to accommodate dependencies with Radio infrastructure. Design work is complete together with substantial site installation of equipment.
- vi. Design work is at an advanced stage for Four Lane Ends, Regent Centre and Chichester Stations. Whilst not currently planned to be delivered within the current ARP funding envelope, the completion of the design works will assist in advancing these particular projects to the 'start line' should external funding be made available.
- vii. Installation of the new radio equipment infrastructure is continuing and is planned for completion by December. Planning for Metrocar radio equipment installation and staff training continues and is expected to be underway from March 2017. The overall delivery programme is now revised and agreed in light of delays in finalising some detailed designs and completing works on site where access and ownership issues have been encountered. This is impacting on the Rail Traffic Management System scheme which as

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highlighted above, has been temporarily paused in agreement with the contractor.

- viii. Nexus continues to engage with South Tyneside Council and its developer, Muse in relation to the South Shields Transport Interchange where a CPO inquiry is planned for December.
 - ix. Preparation for the system wide renewal of the overhead line continues. Specialist plant has been procured and vehicle acceptance is underway. Procurement of the conductor wire is complete and a further contract for design and supply of the connecting components will be awarded in November. Survey work and installation of the system will follow.
- 4.3.13 Over the next 3 four week periods of 2016/17, the Metro ARP cost loaded programme shows the following expenditure profile:

	Year to Date	Period 7 Forecast	Period 8 Forecast	Period 9 Forecast
	£m	£m	£m	£m
In Period Spend		2.3	2.7	2.7
Cumulative Spend	19.8	22.1	24.8	27.5

The forecast expenditure for 2016/17 is financed as follows:-

	Latest Approved Funding £000	Projected Funding £000
ARP		
Metro Rail Grant (MRP)	31,821	31,821
Local Contribution 10%		
• Local Transport Plan (LTP)	2,640	2,640
• Reserves	896	896
Over-programming	7,233	5,513
Total - ARP	42,591	40,870
Other Schemes¹		
• Reserves/Other funding	1,724	1,585
Total – Other Schemes	1,724	1,585
Total	44,314	42,455

¹ Other schemes include Killingworth Road Bridge, South Shields Station and Metro Maintenance and Renewals Skills Centre

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4.4 Nexus Non-Metro

4.4.1 The latest revised budget for 2016/17 is £0.842m, with forecast expenditure at £0.838m, as set out below:-

Nexus Non Metro Programme	Latest Approved Budget 2016/17	Projected Outturn 2016/17	Period 6 Spend 2016/17
	£000	£000	£000
Cycling	166	154	-
Real Time Gateway Project	261	261	-
Wi-Fi	61	59	-
Ferry works	354	364	11
Total Nexus Non Metro	842	838	11

The Cycling project will be completed in 2016/17 and it is planned to procure a concession for the utilisation of Nexus communications infrastructure with the provision of Wi-Fi facilities by the end of the financial year.

4.4.2 Nexus has now received the approval of its business case submission for the Real Time Gateway Project where expenditure, budgeted at £0.261m will now be incurred in 2016/17.

4.4.3 Non-Metro Capital Programme Financing

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The following table sets out how the Nexus Non Metro capital programme for 2016/16 will be financed:-

	Latest Approved Funding 2016/17 £000	Projected Funding 2016/17 £000
Grant		
Local Transport Plan (LTP)	77	77
Local Sustainable Transport Fund (LSTF)	261	261
Nexus Contribution		
Reserves	438	434
Other	66	66
Total	842	838

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4.5 Tyne Tunnels Capital Programme 2016/17

	Original Approved Budget 2016/17 £m	Revised Budget 2016/17 £m	Spend End Q2 September £m	Projected Outturn 2016/17 £m
Tyne Pedestrian and Cyclist Tunnels	-	0.947	0.601	0.947
New Tyne Crossing	-	0.252	0.085	0.252
Total Tyne Tunnels	-	1.199	0.686	1.199

4.5.1 Tyne Pedestrian and Cyclist Tunnels

At the time of setting the capital programme in January 2016, no programme was set for the Tyne Tunnels. The revised budget for the year is based on slippage from the previously approved programme into 2016/17.

Since the last update, works to remove asbestos containing materials in the tunnels has been ongoing. A report was taken to the Tyne and Wear Sub Committee in September, and the Committee agreed to recommend to the Leadership Board that the project budget be increased by £2.89m to enable the project to be completed. The budget requirement for the completion of the Tyne Pedestrian and Cyclist Tunnel refurbishment following the asbestos removal works and the main contractor entering Administration has been assessed at £11.92m, an increase of £2.59m. It is also recommended that a further contingency allowance of £300k is made on the project. This gives a total additional budget allowance of £2.89m. If this is agreed by the Leadership Board it will be included in the programme for 2017/18.

In the absence of any allocations from other funding sources at this point in time, it is recommended that approval is given for the additional costs to be met from the Tyne Tunnels Reserve, which currently stands at £27.1m. It is important to note that this reserve is currently ring-fenced for use on the tunnels. If a source of grant funding for the works can be identified, this will be used and reduce the call on reserves. Temporary funding from Local Growth fund grant is an option, which would delay the call on reserves. The completion of the project is currently scheduled for Spring 2018.

4.5.2 New Tyne Crossing

Approvals were given at the May meeting of the Leadership Board for the progression of easements with the Port of Tyne Authority and Virgin Media, and the contribution to the Tyne Rivers Trust for the Hexham Fish Pass. These are expected to be paid during the next few months of this financial year, along with some professional fees and expenses associated with finalising legal

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agreements in relation to Bilton Hall Bridge, water ingress and land transactions.

4.6 Other Transport Grants 2016/17

4.6.1 LTP Integrated Transport Block grant is a flexible source of capital funding which is awarded to NECA by the DfT. This grant is provided to NECA's constituent authorities and Nexus, to deliver transport capital schemes, and is paid on a quarterly basis. In the case of Nexus, the grant provides match funding to the Metro Capital grant funding the Metro Asset Renewal Programme.

4.6.2 NECA acts as accountable body for the North East Smart Ticketing Initiative (NESTI), which is a programme of investment in smart ticketing infrastructure across the wider North East. The programme is delivered by Nexus and the works are funded by NESTI contributions held and managed centrally by NECA. This will be drawn down towards the year end.

	Original Approved Budget £m	Revised Budget 2016/17* £m	Spend to Q2 September £m
Local Transport Plan (less Metro ARP Local Contribution shown above)	11.309	11.685	6.960
North East Smart Ticketing Initiative	0.931	0.931	0.382
Total	12.240	12.616	7.342

* The revision to the budget was to update the figures to include carried forward grant from 2015/16, which is permitted under the grant conditions.

5. REVENUE BUDGET

5.1 At the Leadership Board meeting on 19 January, the Leadership Board agreed budgets totalling £118m. Following the 2015/16 year end, these budgets were revised and an updated expenditure forecast of £119.1m was reported to the Board in July. The latest summary is set out in the table below, showing the latest budget forecast to the year end of £118.3m, which is a net saving of £0.79m and actual expenditure to the end of the second quarter (September 2016) of £58.878m.

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REVENUE BUDGET – NOVEMBER UPDATE	July Update	Latest Estimate	Spend to September
	£000	£000	£000
Expenditure			
NECA Transport Retained budget	2,626	2,583	1,327
Grant to Durham	15,435	15,435	7,718
Grant to Nexus	62,500	62,500	31,250
Grant to Northumberland	6,329	6,329	3,165
Tyne Tunnels – Gross Expenditure	30,789	30,093	14,654
Corporate Budget	550	450	206
Devolution Budget	360	474	443
Inward Investment Budget	505	439	115
Total Expenditure	119,094	118,303	58,878
Income			
Transport Levy	(86,894)	(86,894)	(14)
Tyne Tunnels – Gross Income	(30,540)	(29,973)	(15,039)
Council Contributions – Corporate	(300)	(300)	(150)
Contributions – Inward Investment	(140)	(140)	(70)
Contributions from NELEP	(140)	(140)	(70)
Interest	(465)	(177)	(88)
Total Income	(118,479)	(117,624)	(58,878)
Contribution from NECA Reserves (including prior year underspends)	545	679	14

5.2 Transport Budgets

5.2.1 Although the transport grants from NECA to our service delivery partners do not change during the year, there are estimated savings within all the main transport delivery budgets. The saving in transport costs are estimated to be £37k in Durham; £40k in Northumberland; £43k in the Tyne and Wear centrally held budget and a £169k net saving in the Tyne Tunnel Budgets. Nexus have made significant savings in their budget following a detailed base budget review exercise, which has eliminated the £3.659m deficit planned to be funded from

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reserves, with minimal impact on services, with an estimated small surplus for the year now estimated at £0.2m. It is also estimated that part of the NESTI contingency can be released back to constituent authorities.

- 5.2.2 The estimated £37k net saving in Durham is due to savings in the costs of subsidised services (£26k); Public Transport Information (£37k) and staffing cost (£19k), with additional spending on Bus shelters and Bus stations of £43k.
- 5.2.3 The estimated £40k net saving in Northumberland is due to savings in the costs of concessional travel (£48k) offset by a small increase in the costs of subsidised bus services (£8k).
- 5.2.4 The original budget for Nexus included a cut a grant from NECA of £2m in order to deliver a levy saving to Tyne and Wear councils, which involved a £3.659m use of reserves to enable Nexus to set a balanced budget for the year, with a major base budget review to be undertaken in year and reported to Tyne and wear Sub Committee. The base budget review has been completed and significant cost savings of £3.583m have been identified and have been removed from the budgets for secured services (£1.8m); staffing (£0.58m); High Voltage Power (£0.5m); concessionary travel (£0.55m) and Business change and technology budgets (£0.148m); with no significant impacts on passenger service. This would reduce the underlying deficit to £0.076m. Based on the latest inform at the end of quarter 2, additional one off costs and savings in the current year have been identified resulting in a potential small surplus of £0.2m. This is a major achievement.
- 5.2.5 There is an estimated saving in the centrally held Tyne and Wear transport budget of £43k relates mainly to savings in capital financing costs (£33k) and staffing costs (£10k).
- 5.2.6 In terms of the Tyne Tunnels budget, Toll income is now forecast at £29.6m. Increased payments to the concessionaire reflecting higher vehicle usage and a net saving in financing costs means that the estimated deficit of £0.289k is now estimated to reduce by £0.169m to £0.120m.

5.3 Other Non-Transport Budgets

- 5.3.1 **The Corporate Cost Budget** was originally estimated to be £0.550m, which was funded by a £0.300m contribution from the seven constituent authorities and an estimate of interest income of up to £0.250m. The estimate of costs has reduced to £0.450m, partly because NECA has been unable to appoint full time statutory officers and partly due to a reduced estimate of activity in the second half of the year. The level of estimated interest on revenue balances and cash flow has also reduced due to a delay in the ability of NECA to earn higher interest rates on its revenue and cash flow balances through treasury management activities and lower levels of cash balances as a result of the devolution decision. The estimate of corporate interest has fallen to £0.177m, of which £0.150m will be

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used to fund corporate activity and the balance of £0.027m will be used to help fund devolution costs.

- 5.3.2 **Devolution preparation costs** for the year are estimated to be £0.474m, which includes staffing costs and external costs on activity such as the Health and Social Care Commission activity and report and the updating of the Assurance Framework for grant funding. In November 2015 the Leadership Board agreed to allocate £0.5m for devolution preparation costs in 2015/16 and activity that would carry over into the first few months of 2016/17. Rather than seeking contributions from individual councils at that stage it was agreed that NECA would incur the costs by way of a temporary use of reserves, which would be restored from the Devolution funding if devolution proceeded. The delay in reaching a decision on devolution resulted in additional activity and costs in relation to the extended use of external staff and secondments.
- 5.3.3 In the absence of Devolution funding the general reserves of NECA need to be replenished. The devolution costs of £0.474m will be partly funded from interest receipts of £0.027m, leaving a net cost of £0.447m to be recovered. If this was to be recovered equally from all seven councils it would mean a contribution of just under £0.064k each. Options for funding this cost from savings in other NECA budget have been examined and it is proposed that the costs be funded by savings in transport budgets and the release of transport reserves.
- 5.3.4 This approach would minimise the net cost to councils in 2016/17 of funding devolution preparation costs. It would restore the general reserve of NECA to its opening position in 2016/17 of £208k.

Inward Investment

- 5.3.5 In recent years an Inward Investment Team has been established to help co-ordinate Inward Investment Activity across the NECA area. The Team was increased to three people this year, with a gross budget of £505k. This was funded in part from a contribution of £20,000 from each authority and this £140,000 was matched by funding from the LEP, other one off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting enterprise zones. The latest estimate of the outturn position for this budget is set out in the table below.

	Original Budget	Revised Estimate	Spend to September
Expenditure	£k	£k	£k
Staffing	165	155	78
Marketing / Communications / Events	133	133	28

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Other activity	207	151	9
Total Costs	505	439	115
Funding			
Council Contributions*	140	140	-
LEP Contributions (funded from LGF interest)*	140	140	-
LEP One off Contribution*	20	20	-
Private Sector Contribution*	10	10	-
Balance carried over from 2015/16*	123	123	115
Enterprise Zone contribution	72	6	-
Total	505	439	115

*Contributions will be invoiced for in November.

Enterprise Zones

- 5.3.6 The four Round 1 Enterprise zones are generating income to help fund capital infrastructure costs and contribute to the revenue cost of the zones including a contribution to inward investment marketing. The latest estimate of business rate income for the year is at least £1.3m, which is lower than the previous projection established in 2014. A full base review of Enterprise Zone cost and income in this year and future years is currently underway and the detail will be reported in January to the LEP Board and the Leadership Board. Revenue costs for the year are estimated at £0.9m, which is also lower than the previous estimate, due to the temporary use of Local Growth Funding, which defers capital financing costs. This means that the net surplus for the year is estimated to be £0.45m, which is higher than the previous projection. This will be added to the surplus of brought forward from previous years giving a cumulative surplus of £2.8m, which is £1m higher than the previous projection.

North East LEP Budget

- 5.3.7 Details of the LEP budget will be reported to the LEP Board and included in the next update. Spending is within the budget for the year.

6. RESERVES AND CONTINGENCIES

- 6.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. This fell to £279k at the end of 2014/15 and to £208k at the end of

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2015/196. This General reserve has been temporarily used in year to fund Devolution costs in 2016/17 and must be replenished in year. The required level of the Corporate Reserve will be reassessed based upon a risk analysis taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level, which could be achieved by use of additional interest on revenue balances next year.

7. POTENTIAL IMPACT ON OBJECTIVES

7.1 The NECA budget reflects the policy objectives of the Combined Authority including the delivery of the Strategic Economic Plan. Future reports on the 2017/18 Budget will set out revenue and capital budget proposals that will help deliver the objectives of the Combined Authority in future years.

8. FINANCE AND OTHER RESOURCES

8.1 The financial implications are set out in the report.

9. LEGAL

9.1 The NECA is required by virtue of the constitution to monitor and report on its financial affairs during the year.

10 OTHER CONSIDERATIONS

10.1 Consultation/Community Engagement

10.1.1 The original Budget was subject to consultation. Significant additional public consultation was undertaken during the year in respect of the NECA Transport Manifesto and in relation to Transport priorities in Tyne and Wear. The results of this consultation are being taken into account in decisions about changes to transport budgets.

10.2 Human Rights

There are no specific issues arising directly from this report.

10.3 Equalities and Diversity

There are no specific issues arising directly from this report.

10.4 Risk Management

Appropriate risk management arrangements have been taken in respect of the current year's budget. The risk to service delivery has been mitigated by the savings and action that has been taken, particularly in respect of the Nexus Transport Budget. Options for funding the devolution costs have been identified in the report, which will restore the NECA general reserve which

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needs to be restored to help manage unforeseen risks. A key issue is sustaining the level of NECA corporate reserves at a basic level and the actions set out in this report will help achieve this.

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.

11. **BACKGROUND DOCUMENTS**

- 11.1
 - NECA Constitution
 - NECA 2016/17 Budget Report – January 2016.
 - NECA 2016/17 Financial Update report – July 2016.

12 **LINKS TO THE LOCAL TRANSPORT PLANS**

- 12.1 The financial issues in this report that relate to Transport budgets are linked to achieving the Transport Objectives of NECA.

13. **APPENDICES**

- 13.1 Appendix 1 : Local Growth Fund Programme
- Appendix 2 : 2016/17 Revised Capital Programme

14. **Contact Officers**

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

15. **SIGN OFF**

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

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Appendix 1 : Local Growth Fund Capital Programme

Project Title	SEP Theme	Approval Status	2016/17 Allocation	2016/17 Forecast
Infrastructure for Forrest Park	Economic Assets	Approved	4,700	1,036
North East Rural Growth Network**	Economic Assets	Approved	2,506	2,506
Swans Wet Berth Infilling	Economic Assets	Approved	1,081	1,000
Sunderland Central Business District	Economic Assets	Approved	9,208	5,100
River Tyne Economic Development	Economic Assets	Approved	2,231	1,400
East Sleekburn Site Reclamation & Dock Works	Economic Assets	Pipeline	4,441	4,441
Explorer - NetPark	Economic Assets	Pipeline	2,558	2,558
Auckland Castle Welcome	Economic Assets	Pipeline	2,020	2,020
Phase II, Intersect 19, Tyne Tunnel Trading Estate	Economic Assets	Pipeline	0	680
Monkton South	Economic Assets	Pipeline	253	253
Durham City Incubator	Economic Assets	Pipeline	1,250	1,250
Centre for Innovation in Formulation	Innovation	Approved	3,855	3,855
Newcastle Laboratory and Life Science Incubation Hub	Innovation	Approved	1,900	1,900
Sunderland Enterprise & Innovation Hub	Innovation	Approved	2,749	2,749
Low Carbon Energy Centre and Heat Network Newcastle Science Centre	Innovation	Approved	384	384
Netpark Infrastructure Phase 3	Innovation	Approved	2,385	1,357
National Centre for Healthcare Photonics - Stage 1	Innovation	Approved	340	340
Northern Centre for Emerging Technologies	Innovation	Pipeline	2,000	969
Medicine Manufacturing & Medical Technology Innovation Infrastructure	Innovation	Pipeline	250	250

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Rural Skills Development (East College Durham)	Skills	Approved	2,500	2,500
Development of a STEM Specialist Skills Centre (Northumberland College)	Skills	Approved	2,130	2,130
Beacon of Light - World of Work	Skills	Pipeline	1,793	1,793
Eagles Community Arena	Skills	Pipeline	1,100	486
Smart @ Pendower Hall	Skills	Pipeline	761	761
Lindisfarne Roundabout	Transport	Approved	2,509	2,852
Northern Access Corridor Phase 3 - Osborne Road to Haddrick's Mill - Stage2	Transport	Business Case	2,154	2,154
Northern Access Corridor Phase 3 - Osborne Road to Haddrick's Mill - Stage 1	Transport	Approved	346	346
Local Sustainable Transport Fund Package**	Transport	Approved	3,822	3,822
A19 employment corridor access improvements (North Tyne)	Transport	Approved	1,750	1,750
A191 junctions including Coach Lane and Tyne View Park	Transport	Approved	1,333	1,333
Newcastle Central Station to Stephenson Quarter - Stage 2	Transport	Pipeline	2,810	0
Newcastle Central Station to Stephenson Quarter - Stage 1	Transport	Approved	190	190
A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	Transport	Approved	3,031	3,031
Scotswood Bridgehead - Stage 2	Transport	Business Case	2,160	2,161
Scotswood Bridgehead - Stage 1	Transport	Approved	139	139
Six Majors - South Shields Transport Hub - Stage 1	Transport	Approved	873	873

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Six Majors - Sunderland Low Carbon Zone	Transport	Approved	4,583	4,583
Six Majors - A1058 Coast Road	Transport	Approved	3,730	3,730
Six Majors - Northern Access Corridor Phase 2 (Cowgate to Osborne Rd) Stage 1	Transport	Business Case	410	410
Six Majors - Northern Access Corridor Phase 2 (Cowgate to Osborne Rd) Stage 2	Transport	Approved	68	68
Six Majors - Horden Rail Station	Transport	Pipeline	750	750
Traffic movements along A185/A194/A19 (The Arches)	Transport	Pipeline	720	720
A19 North Bank Tyne (Swans)	Transport	Pipeline	300	100
Blyth Cowpen Road	Transport	Pipeline	600	600
Programme Management	Prog Mgmt	Approved	1,985	1,300
Total			86,658	72,630

** Mini programme with projects contained within

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Appendix 2

2016/17 Revised Capital Programme

	Original Approved Programme (£m)	Latest Approved Programme (£m)	Forecast 2016/17 (£m)
Local Growth Fund (See Appendix 1 for details)	76.830	86.658	72.630
North East Investment Fund	2.022	2.022	5.072
Metro Asset Renewal			
- Civils	1.715	2.240	2.103
- Communications	3.650	4.632	3.668
- Level Crossings	0.000	0.005	0.014
- Mechanical & Electrical	0.335	0.603	0.291
- Metro Cars	1.365	1.880	1.421
- Miscellaneous	0.715	0.659	0.558
- Project Management Costs	0.000	0.000	0.000
- Inflation Allowance	0.000	0.000	0.000
- Overhead Line	3.650	4.424	4.663
- Permanent Way	19.470	18.390	19.681
- Plant	0.000	0.012	0.007
- Power	0.000	0.305	0.322
- Signalling	6.685	5.003	4.474
- Stations	2.505	4.440	3.669
Total ARP Programme	40.090	42.590	40.870
- Major Projects	1.102	1.724	1.585
	41.192	44.314	42.455
Nexus Non-Metro			
- Cycling	0.166	0.166	0.154
- Real Time Gateway Project	0.261	0.261	0.261
- Wi-Fi	0.061	0.061	0.059
- Ferry Works	0.354	0.354	0.364
Total Nexus Non-Metro	0.842	0.842	0.838
Tyne Tunnels			
- New Tyne Crossing	0.000	0.947	0.947
- Tyne Pedestrian and Cyclist Tunnels	0.000	0.252	0.252
Total Tyne Tunnels	0.000	1.199	1.199

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Other Transport Grants			
- Local Transport Plan	11.309	11.685	11.685
- North East Smart Ticketing Initiative	0.931	0.931	0.931
	12.240	12.616	12.616
Total Capital Programme	133.126	147.651	134.810

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Date: 15th November 2016

Subject: North East Combined Authority Budget 2017/18

Report of: Head of Paid Service 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 2017/18 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 17th January 2017. The issues identified in this report and the comments at the meeting will form the basis for consultation on NECA's Budget, as required in its constitution. Not all of the information needed to complete the budget is currently available, in particular the details of Government grant funding, which should be announced between the time of the Autumn Statement on 23th November and the end of December.
- 1.2 The responsibilities and role of NECA in future years will depend on the outcome of devolution discussions and any subsequent governance review. In the absence of a devolution agreement to be implemented by NECA in 2017/18, it is intended that costs in 2017/18 be kept to the minimum level necessary for NECA to fulfil its statutory responsibilities. The revenue budget for 2017/18 will reflect the Transport responsibilities of NECA and functions relating to economic development and the delivery of NECA's responsibilities as the accountable body for the North East LEP and for the use of Government grants. The capital programme will include Transport capital investment programmes and the Local Growth Fund (LGF) grant funded projects and programmes.
- 1.3 Further information about the detailed content of the budget is currently being developed in discussion with constituent authorities. The outcome of these discussions and the information to be announced in the Autumn statement about grant funding will be reflected in the report to the Leadership Board in January, together with any comments that emerge from consultation. As further information becomes available it will be included in future reports, including information provided to Overview and Scrutiny Committee.
- 1.4 NECA is required by law to set its Transport budget and levies for 2017/18 by 15th February 2017 at the latest. It is also necessary to agree the level of any contributions from constituent councils towards non-transport costs,

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so that the councils can take the levies and contributions into account in setting their own budgets for 2017/18.

- 1.5 It is intended that the Leadership Board will set the Base Revenue Budget, and the Initial Capital Programme and Transport levies at its meeting on 17th January 2017. This will provide the information about transport levies and contributions to the NECA budget in good time for the seven constituent councils to include it within their budgets. Further consideration will need to be given over the next few months to how activity relating to Skills and Adult Education devolution in future years will be managed and funded. As any additional revenue and capital funding for 2017/18 and future years is confirmed, the Leadership Board can agree revisions to its Revenue and Capital Budget at its future meetings.
- 1.6 This budget report sets out the indicative level of resources planned to be used in 2017/18 to help deliver the Objectives of NECA and the North East Strategic Economic Plan. The budget has also to be set in the context of the national position of austerity, which is expected to require further savings to be achieved in local authority revenue spending over the next four years; as well as reflecting any new capital investment opportunities presented by the Autumn statement.
- 1.7 At this point it is envisaged that –
- The provisional Transport Revenue Budget and Levies for 2017/18 are estimated to be £84.8m, which is a cash reduction of -£2.09m (-2.4%) compared with the current year. This is to be delivered mainly through efficiency savings and use of reserves with no significant cuts in transport services in 2017/18. Potential cuts in transport services that may be needed to balance the budget in future years are explored, with consultation in 2017 for implementation from 2018 onwards;
 - The match funding contribution of £250k for the cost of the North East LEP is proposed to continue in 2017/18. The level of other contributions towards corporate costs and inward investment will be subject to the outcome of discussions with constituent councils;
 - Capital investment in transport, infrastructure and economic development is expected to be lower than in the current year, with an indicative programme of around £80m, plus any new capital grants announced in the next few months; and
 - The only significant fees or charges to be set by the NECA as part of the 2017/18 budget relate to Metro Fares, where a weighted average increase of 1.4% (which is less than RPI inflation) including another freeze in Child fares, maintaining the discounts that are offered to students and young people aged 16 to 18 and increasing the price differential for Pay As You Go products, has been agreed by the Tyne

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and Wear Sub-Committee for implementation on 2 January 2017. No increase in the Tyne Tunnel Tolls is proposed 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 revenue budget for 2017/18 as another transitional year, while the future role and responsibilities of NECA are clarified. This will take into account the need to meet the statutory responsibilities of NECA that will continue in 2017/18 as well as the need to achieve savings to help constituent authorities deal with cuts in their funding as part of the Government's continuing austerity measures. Indicative transport budgets will be set out over a three year period, where it is possible to do so;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2016/17 Revenue Budget : -
 1. The Transport Budget for Tyne and Wear is indicatively proposed to be set at £63.04m, which is a further reduction of £2.08m (- 3.2%) compared with the budget this year. The cost saving to councils is proposed to be delivered by way of a combination of a repatriation of reserves and a sustainable reduction in the levy. The budget savings needed to deliver this are expected to be made in 2017/18 without any significant impact on transport services, through efficiencies and further temporary use of Nexus reserves. The delivery of further savings in future years is likely to require cuts in services from 2018 and options to achieve sustainable savings and a balanced budget by 2019/20 will be consulted upon during 2017.
 2. The indicative Transport Budget and Levy for Durham County Council area is expected to be £15.482m, which is a small net increase of £0.042m. No reductions in services are envisaged for 2017/18.
 3. The indicative Transport Budget and Levy for Northumberland County area is likely to be around £6.286m, which is a reduction of £0.048m on the current year's budget. No reductions in services are envisaged for 2017/18.
 4. The £250k contribution to fund the North East LEP, which is required to match fund the Government Grant, is proposed to be continued in 2017/18;
 5. NECA will need to maintain sufficient capacity to meet its statutory requirements. Savings in the Corporate costs are being

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investigated and discussed with constituent councils and the outcome in terms of the level of corporate contributions (currently £300k is contributed towards a gross corporate budget cost of £550k) will be included in the January Budget report;

6. The contribution to the Inward Investment Team are also subject to discussion with constituent councils and the North East LEP. The current contributions of £140k part fund a budget of £505k in 2016/17, with an estimated outturn spend of around £439k. Options are being developed for inclusion in the January budget report.
 7. Proposals for the uplift in Metro fares to cover inflation cost pressures have been developed to constrain the weighted average increase to 1.4%, which is 0.5% less than the annual increase in the July 2016 RPI inflation index. Detailed proposals were agreed by the Tyne and Wear Sub-committee at its 3rd November meeting, which included a further freeze in child fares, with a potential implementation date of 2 January 2017. No increase in the Tyne Tunnel Tolls is proposed for 2017/18.
 8. The North East LEP Budget is being prepared to reflect its responsibilities and the estimated available resources for 2017/18. A draft budget will be considered by the LEP Board later in November and more information will then be included in the January Leadership Board.
 9. NECA will need to set out a balanced budget for 2017/18, 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.

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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 its Transport responsibilities and the delivery of the Strategic Economic Plan.
- 3.2 The capital and revenue resources of the Combined Authority and the NELEP 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 which was published in April 2014 was focused on delivering 'More and Better Jobs'. A refresh of the Strategic Plan has been undertaken and the updated strategy is due to be published shortly.
- 3.5 The Revenue Budget and Capital Investment Programme of NECA will contribute to the achievement of these objectives.
- 3.6 The fact that the proposed NECA Devolution agreement with Government will not be implemented in the current year, and the ongoing discussion about the potential for a Devolution agreement covering part of the NECA area will have an impact on the scope of the responsibilities of NECA in 2017/18 and future years. The NECA budget will need to take into account the outcome of these discussions. The opportunity for cost savings in 2017/18 is being explored and this will be reflected in the January Budget report.
- 3.7 The result of the referendum vote to leave the EU will have an impact on the local economy and on the availability of European Funding. NECA has sought assurances from the Government about the future of European and equivalent regional funding from the UK Government after the exit from the EU. Limited assurances have been received about the EU funding in the current period to 2020, with no assurances about the level of regional support in future years. Further information about the Government's response to the impact on the economy is expected to be included in the Autumn Statement, which should also include an announcement about the bids for the third round of Local Growth deal funding.

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European Funding

- 3.8 While there is no European funding as part of the NECA revenue budget, European funding is particularly important to the region in supporting training and employment initiatives, helping to fund capital investment and a major programme of Access to Finance for businesses, for example through the JEREMIE 2 programme. An update on EU funding will be included in the January report.

Local Growth Deal

- 3.9 The North East LEP and NECA have submitted a programme of projects for consideration for Local Growth Fund grant. The level of LGF round 3 capital grant funding over the next four years is expected to be announced about the time of the Autumn Statement on 23rd November. The results of the announcement will be combined with the current programme and will be presented as part of the new Capital Programme for 2017/18 to 2020/21 to be reported to the North East LEP and the NECA Leadership Board in January.

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 2017/18. The budget will need to reflect Spending Review decisions about the level of grant given to support LEP costs as well as the guidance and the resource requirements needed to meet 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 2017/18 Budget for NECA in the context of as much information as possible over a three to five year Medium Term Plan period. In recent years the uncertainty over Government funding and the transitional position of NECA itself has not made this possible. The potential for more certainty over the revenue grant for constituent councils and the level of cuts that they need to achieve to deliver

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the Government's austerity programme over the next three years, make a three year indicative revenue transport budget possible and this is being explored. With the announcement for LGF round 3 funding a four year capital programme can be produced. The uncertainty over the scope of NECA responsibilities in future years will mean that the small corporate budget and other contributions from constituent councils will need to continue to be set on an annual basis.

- 4.4 Ambitious bids for major transport and infrastructure projects and programmes supported by funding secured from DFT national funding continue to be made and the results of these will be reflected in the capital programme as announcements are made.
- 4.5 A key decision in the Revenue Budget is what the level of the Transport Levy will be for 2016/17 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.
- 4.6 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 consideration of the budget report by Overview and Scrutiny Committee, Transport North East Committee, the seven constituent councils, consideration by NELEP and a consultation with the North East Chamber of Commerce.
- 4.7 The timetable for developing the 2017/18 Revenue Budget and the Capital programme 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. 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 2016/17 set out 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 2017/18 Budget Report for consideration in January 2017.

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, which is expected to require significant cuts over the next four years. The revenue support grant and indicative spending power figures for local government over the next three years was announced earlier this year.

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The announcement envisaged a reduction in spending power for the constituent councils of NECA next year of £52m (excluding the increase in the better care fund and the extra permitted social care precept uplift). The spending power for councils will also depend on the projections of business rate income, which is uncertain due to the level of appeals and the results of the recent Business Rate revaluation. The detailed allocations of grant for councils including information about business rates adjustment for the impact of the revaluation is expected to be announced later in December.

5.2 Councils are also facing significant spending pressures, in particular in their social care budgets. This means that councils will have to find significant additional revenue budget savings over the next three to four years. At present the seven constituent councils in NECA are expecting to have to achieve around £180m of revenue budget savings next year to set a balanced budget.

5.3 The implications of the announcement of cuts in funding for Transport and NECA will be analysed and reported to the Leadership Board in January.

6. REVENUE BUDGET PROPOSALS

6.1 Transport Revenue Budgets and Levies for 2017/18

6.1.1 The overall total proposed net revenue budget for transport in 2017/18 is currently £84.808m. This represents a net reduction of £2.086m (-2.4%) on the overall transport net revenue budget for 2016/17. 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. Three separate Levies are required because the cost per person varies greatly between each area, ranging from £19.94 per head in Northumberland to £29.79 per head in Durham and £56.18 per head in Tyne and Wear. This reflects higher concessionary travel usage (including Metro) in the urban areas of Tyne and Wear and other transport costs e.g. the cross Tyne ferry as well as pensions and capital financing costs which are not included in the levies in Durham and Northumberland.

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Table 1: Summary of proposed transport budgets and levies 2017/18

Area	Transport Budget and Levy	Change from 2016/17	Levy per Person
	£	£	£/person
Durham	15,482,424	42,381	£29.79
Northumberland	6,285,980	(47,949)	£19.94
Tyne and Wear	63,040,000	(2,080,000)	£56.18
Total	84,808,404	(2,085,568)	

Durham County Council

- 6.1.2 The budget and levy for public passenger transport activity in County Durham is expected to be in the region of £15.482m for 2017/18. This compares with an original budget of £15.440m for 2016/17 and a revised forecast for 2016/17 estimated at £15.399m. The budget and levy for 2017/18 is summarised in the table below.

Table 2: Draft Durham Transport Budget and Levy 2017/18

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Grant to Durham			
Concessionary Fares - Statutory	11,746,934	(9,000)	11,737,934
Concessionary Fares - Discretionary	537,000	0	537,000
Subsidised Bus Services	4,119,971	(1,806,551)	2,313,420
Bus Stations	457,791	(314,211)	143,580
Bus Shelters	31,350	(12,120)	19,230
PT Information	184,440	(95,514)	88,926
Staffing	637,334	0	637,334
Total Grant	17,714,820	(2,237,396)	15,447,424
Share of NECA Transport Costs	5,000	0	5,000
Transport Levy	17,719,820	(2,237,396)	15,482,424

- 6.1.3 The overall bus network in County Durham remains fairly stable and we are not aware of any significant commercial changes planned for 2017/18. The total number of bus passenger boardings in the County has seen a further modest decline over the past twelve months; this is considered to be

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generally in line with national trends.

- 6.1.4 The budget for subsidised bus services was reduced by £400,000 in 2016/17 through a combination of efficiency savings and a reduction in costs following contract retendering. Although there are no confirmed plans to make further reductions, it will be necessary to keep this area of the budget under review in line with Durham County Council's Medium Term Financial Plan requirements.
- 6.1.5 The majority of the council's subsidised service contracts are due to be retendered in July 2017. This creates a degree of budget uncertainty and we are anticipating some modest pressure on contract costs in line with the recent introduction of the National Living Wage. The focus of spend on subsidised services will continue to be on maintaining the level of accessibility in rural and semi-rural areas and supplementing the daytime commercial network with early and later journeys.
- 6.1.6 The budget for concessionary fares continues to be subject to pressure from commercial fare increases. However, these impacts are largely being mitigated by a combination of the effects of the rise in entitlement age and a stabilisation of concessionary travel journeys.
- 6.1.7 In addition to public transport services, the transport team in Durham will continue to focus on integration and efficiency in the delivery of home to school transport and adult social care transport across the County.

Northumberland County Council

- 6.1.8 The draft budget and levy for public transport activity in Northumberland is expected to be in the region of £6.286m for 2017/18. This compares with a budget of £6.334m for 2016/17. The budget and levy for 2017/18 is summarised in the table below.

Table 3: Draft Northumberland Transport Budget and Levy 2017/18

	Gross Expenditure	Gross Income	Net Expenditure
	£	£	£
Concessionary Fares	4,802,940	(12,940)	4,790,000
Subsidised Bus Services	1,999,740	(696,340)	1,303,400
PT Information	3,400	0	3,400
Staffing	184,180	0	184,180
Total Grant	6,990,260	(709,280)	6,280,980
Share of NECA Transport Costs	5,000	0	5,000
Transport Levy	6,995,260	(709,280)	6,285,980

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- 6.1.9 The indicative budget for 2017/18 has reduced slightly compared to the levy agreed by the Leadership Board in January 2016. This had been set higher than the figures reported to the Transport North East Committee in November 2015 due to Northumberland increasing its 2016/17 Concessionary Fares budget. This was due to a perceived pressure around the number of people that would be using their passes and therefore the reimbursement that would be due to the operators resulting in the budget being insufficient to cover the forecast expenditure.
- 6.1.10 The budget for Bus Services is unchanged to its current level with no significant investment in the county's bus stations planned for 2017/18. The final budget will be agreed at the Council's Cabinet on 6th December 2016 and ratified at the full County Council meeting on 7th December 2016.

Tyne and Wear

- 6.1.11 Figures for the Tyne and Wear levy have been prepared on the basis of the potential Budget and Levy approach and figures discussed with local authorities earlier in 2016, which involved a proportionate saving broadly in line with the reduction in Spending Power of the Tyne and Wear authorities (excluding the social care precept increase). In headline terms this would involve a cash saving to constituent councils of £2.080m (-3.2%) in 2017/18, £3.32m (5.1%) in 2018/19 and £3.92m in 2019/20.
- 6.1.12 The distribution of the Levy within Tyne and Wear is based on population and the levy will reflect changes in population as well as the cut in the overall amount. The indicative levy for 2017/18 for each of the Tyne and Wear districts is shown below, assuming that a sustainable levy reduction can be made. The saving to councils of £2.080m in 2017/18 will be achieved through a combination of a sustainable levy reduction and a repatriation of reserves, with a full sustainable levy reduction being made once budget savings have been agreed.

Table 4: Draft Tyne and Wear Transport Budget and Levy 2017/18

District	Population (2015 Mid Year Estimates)	2017/18 Proposed Contribution	Saving compared to 2016/17
Gateshead	200,996	11,291,085	(380,260)
Newcastle	292,883	16,452,899	(418,323)
North Tyneside	202,494	11,375,236	(426,441)
South Tyneside	148,671	8,351,693	(306,425)
Sunderland	277,150	15,569,087	(548,551)
Total	1,122,194	63,040,000	(2,080,000)

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- 6.1.13 This reduction would bring the overall annual transport levy reduction since 2010 to £15.08m, which has largely been achieved through efficiency savings and use of reserves, whilst protecting service outcomes to date. 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.
- 6.1.14 Proposals for the Nexus budget are set out in detail for consideration by Tyne and Wear Sub Committee as part of their agenda. They have taken into account consultation on service priorities undertaken during 2016. The proposals for 2017/18 involve the achievement of the saving through further efficiency measures; savings in capital financing costs; some temporary use of reserves and changes which have a minimal impact on services and no impact on services considered to be a higher priority. The potential for a further reduction in the levy in future years is also being considered by the Tyne and Wear Sub Committee. The achievement of this further saving and the delivery of a balanced budget over the next three years is likely to have an impact on Transport services in Tyne and Wear and this will be the subject of further consultation in 2017 before services changes are implemented in 2018. The detailed recommendations agreed by the Tyne and Wear Sub Committee will be reflected in the Budget report to the Leadership Board and in any consultation. The proposed allocation of the Tyne and Wear Levy between the Grant to Nexus and the non-Nexus Tyne and Wear Transport budget is set out in the table below:

Table 5: Allocation of the draft Tyne and Wear Levy/Contribution for 2017/18

	2016/17	2017/18	Change
	£	£	£
Levy budget (non-Nexus)	2,620,000	2,150,000	(470,000)
Grant to Nexus	62,500,000	60,890,000	(1,610,000)
Total Levy	65,120,000	63,040,000	(2,080,000)

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6.1.15 Proposals for the Nexus budget have been set out in detail for consideration by Tyne and Wear Sub Committee as part of their agenda. The proposed 2017/18 budget for Nexus is summarised in the table below:

	Direct Costs	Income	Net Direct Costs	Indirect Costs	Grants	Loan Interest	Capital Adjustments	2017/18 Net Budget
	£m	£m	£m	£m	£m	£m	£m	£m
ENCTS	35.941	(1.094)	34.847	0.925	0.000	0.000	0.000	35.772
Discretionary CT	11.713	(7.599)	4.114	0.109	0.000	0.000	0.000	4.223
Metro	82.747	(46.053)	36.694	12.482	(24.974)	1.437	(21.738)	3.901
Ferry	1.383	(0.441)	0.941	0.593	0.000	0.020	(0.209)	1.344
Local Rail	0.161	0.000	0.161	0.280	(0.240)	0.020	0.000	0.221
Bus Services	15.023	(3.791)	11.232	1.641	0.000	0.016	(0.005)	12.884
Bus Infrastructure	2.415	(0.580)	1.834	0.685	0.000	0.359	(0.450)	2.429
Public Transport Information	0.884	(0.090)	0.794	1.196	0.000	0.007	(0.256)	1.741
Major Projects	2.280	0.000	2.280	0.000	(0.931)	0.000	0.000	1.349
Total Requirement	152.546	(59.650)	92.896	17.911	(26.145)	1.858	(22.658)	63.863
NECA Grant (Levy)								(60.890)
Reductions to base								(1.363)
Deficit Funded from Reserves								1.610

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Tyne and Wear Transport Budget (non-Nexus)

- 6.1.16 This budget primarily relates to activity inherited from the former Tyne and Wear ITA along with central transport activity funded by the levy. The vast majority (89%) 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.
- 6.1.17 The Tyne and Wear (former ITA) Transport Revenue reserves are estimated to reduce from £0.563m at the start of 2016/17 to £0.499m at the year end, prior to any repatriation of reserves in the current year. The indicative overall position for 2017/18 is largely breakeven. The indicative budget for 2017/18 is summarised in the table below.
- 6.1.18 The reduction in the contribution from the levy has largely been achieved through a proposed change to the method for calculating the Minimum Revenue Provision (MRP) which is the set aside from reserves to meet debt repayments in future years. For Tyne and Wear, this debt is historic supported borrowing taken out by the former Passenger Transport Authority, where the constituent Tyne and Wear authorities receive government grant. The proposal would involve moving from a 4% reducing balance method of calculating MRP, to a 2% straight line basis. This will be discussed in more detail in a report to the Leadership Board in November.

Table 6: Draft Tyne and Wear centrally held Transport Budget 2017/18

	2016/17 Revised Estimate	2017/18 Estimate	Change
	£000	£000	£000
Support Services / Staffing	230	230	-
Administration and Governance	40	43	3
Financing Charges	2,303	1,769	(534)
Contingency / Devolution	110	110	-

Tyne Tunnels

- 6.1.19 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.
- 6.1.20 In 2016/17 the original budget for the Tunnels account had a small planned deficit of £0.289m to be funded from the Tyne Tunnels Reserves. Increased

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traffic flow in year has resulted in increased income, and along with savings in financing costs, the net outturn for the account in 2016/17 is estimated to be a reduced deficit of £0.120m.

6.1.21 The indicative budget for 2017/18 is set out in the table below.

Table 7: Draft Tyne Tunnel Budget 2017/18

	2016/17 Revised Estimate	2017/18 Estimate	Change
	£000	£000	£000
Tolls Income	(29,633)	(29,800)	(167)
Contract payments to TT2	22,968	23,097	129
Employees	37	39	2
Pensions	52	53	1
Support Services	90	90	-
Supplies and Services	35	35	-
Community Fund	10	10	-
Financing Charges	6,901	6,900	(1)
Interest/Other Income	(100)	(100)	-
Repayment from TWITA reserves	(240)	(240)	-
Contribution (to)/from reserves	120	84	(36)

Regional Transport Team

6.1.22 The Regional Transport Team budget supports NECA and NELEP as a whole, on a seven authority wide basis. The budget includes salary costs and the items required to ensure a functional central resource across the NECA area including the development of the new NECA Transport Manifesto and Plan and various research projects where value can be added at a NECA level including modelling works, major schemes bid development, the Freight Quality Partnership and NECA based studies.

6.1.23 The table below provides a summary of the forecast expenditure for 2016/17 and indicative budget for 2017/18, which is still subject to further discussions about the level of activity needed in 2017/18. The outcome of these discussions will be reflected in the January 2017 budget report.

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Table 8: Indicative Regional Transport Team Budget for 2017/18

	2016/17 Forecast	2017/18 Indicative Estimate
Staffing	489,300	519,100
LTP4 Development and LGF Business Case Assessment	332,700	220,000
Research and Development	178,600	150,000
Miscellaneous (e.g. Travel & meetings)	8,000	8,000
	1,008,600	897,100
Funded by:		
NECA Integrated Transport Block	(500,000)	(500,000)
LGF Programme Management	(400,000)	(200,000)
Prior Year balances carried forward	(315,595)	(200,000)
	(1,215,595)	(900,000)

6.2 Economic Development / NELEP Capacity

- 6.2.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has previously announced the continuation of their £250k grant in 2017/18, subject to match funding from the local authorities. It is proposed that the current match funding contribution of £250k will continue to be provided next year and this is funded by equal contributions of £35,714 from the seven constituent authorities. Part of the LEP costs of managing the LGF programme is funded from a 2.5% top slice from the LGF grant. The reduction in the value of this capital programme next year means that this funding contribution will reduce in cash terms over the next few years, with the contribution in 2017/18 falling to around £1.0m compared to the current year's contribution of £1.3m. The LEP budget is being prepared to reflect the latest estimate LGF grant funding.
- 6.2.2 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. The Loans funds will be used to help businesses with a view to increasing the number of jobs and support economic growth. NECA can help the NE LEP accelerate and increase the level of Loans funds available to support businesses. The NE LEP has also been working with the seven local authorities to establish a major new five year JEREMIE 2 fund provide access to finance for businesses and

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this will be launched early next year.

Inward Investment

- 6.2.3 In recent years an Inward Investment Team has been established to help co-ordinate Inward Investment Activity across the NECA area. The Team was increased to three people this year, with a gross budget of £505k. This was funded in part from a contribution of £20,000 from each authority and this £140,000 was matched by funding from the LEP, other one off funds and contributions from Enterprise Zone surpluses for activity supporting and promoting enterprise zones. Options for the level of activity and funding for 2017/18 are currently being discussed with the constituent councils and the North East LEP and a specific proposal will be included in the January report on detailed budget proposals for 2017/18. The latest estimate of the outturn position for this budget is set out in the table below.

Table 9 : Inward Investment budget 2016/17 update

	2016/17 Original Budget	2016/17 Forecast
	£000	£000
Employees	165	155
Staff Training	2	2
National travel and subsistence	10	7
Overseas travel	10	-
Web, telecoms, computers	15	5
Marketing/Comms/Events	133	133
Membership Fees	5	5
Visit hospitality costs	15	10
Professional consultancy	30	30
Lead generation / representation (overseas)	40	-
Lead generation / representation (London)	45	45
Research resource licenses	25	18
Propositions refresh	10	10
Total Estimated Cost	505	439
Funding		
Local Authority Contribution	140	140
LEP matching Contribution	140	140
LEP One off Contribution	20	20
Private sector contributions	10	10
Balance carried forward from 2015/16	123	94
Contribution from Enterprise Zone funding	72	35
Total Estimated funding	505	439

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6.3 NECA Corporate Costs

6.3.1 The NECA budget for Corporate Costs in 2016/17 was £550,000, which was part funded by council contributions of £300,000, funded equally by a £42,857 contribution from each of the constituent authorities, which was the same contribution as in the previous year. The balance was to be funded by interest on revenue balances and treasury management cash flow activity in 2016/17. In the absence of devolution, corporate costs are expected to be lower, but interest income is also expected to be lower this.

6.3.2 For 2017/18 an exercise is underway to identify a reduced level of corporate cost needed for NECA to meet its statutory obligations. The estimate of income is also being revised and the net cost will form the proposed contribution from councils in 2017/18. The results of the discussions with councils are expected to be reflected in the January budget report.

6.3.3 The main areas of cost relate to support costs in relation to Head of Paid service, Monitoring Officer and Legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs, communications costs and scrutiny costs, which continue from previous years and other operating costs. It is important that the Combined Authority is able to fulfil its statutory and corporate functions effectively and that reasonable costs are funded appropriately. Options are being explored to minimise the gross and net costs and the outcome will be reported in the January Budget report.

7. FEES AND CHARGES

7.1 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.

7.2 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. Detailed proposals were reported to the Tyne and wear Sub Committee at its meeting 3rd November, where a weighted average increase of 1.4% (which is less than RPI inflation) including another freeze in Child fares, maintaining the discounts that are offered to students and young people aged 16 to 18 and increasing the price differential for Pay As You Go products, was agreed for implementation on 2 January 2017.

7.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Forecast.

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7.4 No changes are proposed to the Tyne Tunnel tolls in 2017/18.

8. RESERVES AND CONTINGENCIES

8.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. This fell to £279k at the end of 2014/15 and to £208k at the end of 2015/16. Reserves were temporarily being used to fund Devolution costs in 2016/17 and are expected to be will replenished in 2016/17. The required level of the Corporate Reserve for 2017/18 will be reassessed based upon a risk analysis taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level, which could be achieved by use of additional interest on revenue balances.

9. POTENTIAL IMPACT ON OBJECTIVES

9.1 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 of the Combined Authority

10. FINANCE AND OTHER RESOURCES

10.1 The financial and other resources are summarised in this report, where they are known. Further detail that are known about the impact of the Spending Review in terms of funding cuts and additional funding to be available under the Devolution Agreement and successful bids for Enterprise Zones will be identified in the January Budget Report.

11. LEGAL

11.1 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.

11.2 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.

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- 11.3 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 overall budget proposals unanimously.

12 OTHER CONSIDERATIONS

12.1 Consultation/Community Engagement

- 12.1.1 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 2017/18 Base Budget Proposals be reported to the Leaders Board on 15 November to start a consultation process, which will include the Overview and Scrutiny Committee and the North East Chamber of Commerce. New proposals to be considered as potential budget increases later in the year would also be subject to a consultation process.
- 12.1.2 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 1st December.
- 12.1.3 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 15 November, which will set out the budget proposals in an appropriate format for consultation.
- 12.1.4 With recommendations for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 20th December if they are to be reflected in the consideration by the Transport North East Committee and by Durham and Northumberland County Councils. Comments on all budget proposals should be received by 4 January 2017 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 17th January.
- 12.1.5 The late confirmation of funding means that new funding for 2017/18 will have to be reported to future meetings of the NELB and a consultation process for the use of that funding will need to be put in place.

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12.2 Human Rights

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

12.3 Equalities and Diversity

There are no specific issues arising directly from this report.

12.4 Risk Management

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.

12.5 Crime and Disorder

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

12.6 Environment and Sustainability

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

13. BACKGROUND DOCUMENTS

- 13.1
 - NECA Constitution
 - Growth Deal announcement – July 2014
 - NECA 2016/17 Budget Report – January 2016.

14 LINKS TO THE LOCAL TRANSPORT PLANS

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

15. APPENDICES

- 15.1 Appendix 1 : Updated Budget Timetable

16. Contact Officers

- 16.1 Paul Woods, Chief Finance Officer. Paul.Woods@northeastca.gov.uk, Tel: 07446936840

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17. SIGN OFF

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

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Appendix 1 Budget Timetable

DATE	EVENT	ACTION
26? January 17	NELEP Board	Final Budget Report
17 January 17	NECA Leaders Board	Formally Agree Levies / Budget
9 January 17	Paper circulation	Final Budget report Published
22 December 16	Deadline	Deadline for comments from Councils etc for inclusion in the final report
14 December	NECA Overview and scrutiny Committee	Consider Budget Report as part of Consultation Process date to be confirmed
w/c 12 December	Meeting with North East Chamber of Commerce	Consultation on Budget and Levy Proposals for January 2017 Meeting
6 December	Governance Committee	Consider Budget Report as part of Consultation Process date to be confirmed
24 November	North East LEP Board	Consider/Agree Draft Budget Proposals
15 November	NECA Leaders Board	Consider and agree Draft Budget Report for Wider Consultation

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