



Transport North East Committee

Thursday 28th April 2016 at 3.00 pm (or following the conclusion of the Transport North East (Tyne and Wear) Sub-Committee, whichever is later)

Meeting to be held at the Civic Centre, Barras Bridge, Newcastle upon Tyne, NE1 8QH

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SUPPLEMENTAL AGENDA 2

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To All Members

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North East Combined Authority

Transport North East Committee

DATE: 28th April 2016

SUBJECT: Capital Programme 2015/16 Update

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report provides the Transport North East Committee with a monitoring update on delivery of the 2015/16 Transport capital programme. At the time of writing this report, the final outturn position had not yet been finalised. Draft outturn figures are included where available. Detailed information regarding expenditure to the end of Period12 on the Metro Asset Renewal Programme is included in the report, and an update on the outturn position will be provided at the meeting.

RECOMMENDATIONS

It is recommended that the Committee notes the content of this report.

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1 Executive Summary

- 1.1 This report provides the Transport North East Committee with the fourth monitoring update on the 2015/16 Transport capital programme. This is a requirement of the NECA constitution and is a function delegated to TNEC. The overall position is a forecast outturn of around £77m against a revised transport capital programme of £79.8m. This would be a significant achievement. At the time of writing this report the outturn position for the year had not yet been finalised, so figures are provisional at this stage.
- 1.2 Details of the various elements making up the capital programme are presented in the narrative below with further detail in the appendices.

2 Background Information

- 2.1 At the Leadership Board meeting on 20 January 2015, the base transport capital programme for 2015/16 was agreed, which included an element of overprogramming. The revised estimate for the year was previously approved at £79.8m.

3 Transport Capital Programme 2015/16

- 3.1 The latest approved budget of £79.8m agreed at the Leadership Board in January 2016 reflected the progress of schemes at that point. The forecast outturn position for the year across the Transport programme is set out in the table below, with a latest estimate of spending of £77.6m.

	Revised Budget 2015/16 £m	Forecast Outturn 2015/16 £m	Forecast Variance £m
Local Growth Deal Transport Schemes	21.370	21.174	(0.196)
Metro Asset Renewal Programme	42.985	42.677	(0.308)
Nexus Non-Metro	0.342	0.204	(0.138)
Tyne Tunnels Capital Programme	3.100	1.997	(1.103)
LTP Integrated Transport Block Grant	12.083	11.527	(0.556)
Total	79.880	77.579	(2.301)

4.2 Local Growth Deal Capital Schemes 2015/16

- 4.2.1 The North East Growth Deal announced in July 2014 included funding for a number of transport schemes, including the devolution of Local Major Schemes funding previously agreed. NECA received £53.910m on 10 April 2015,

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comprising the 2015/16 allocation of the growth deal, made up of transport and non-transport schemes.

- 4.2.2 The final approved grant offers confirmed for 2015/16 totalled £21.174m, compared with a revised budget of £21.370m as set out in the table below.

Scheme	Approved 2015/16 Grant
	£m
Lindisfarne (STC)	0.919
Nexus – Central Metro Refurb	2.510
Northern Access Corridor Phase 2 (Stg 1) (NCC)	0.635
LSTF – Package of Schemes	3.587
A19 Corridor (NTC)	0.526
A191 Corridor (NTC)	0.620
Stephenson Qtr Phase 1 (NCC)	0.660
A1056 Weetslade (NTC)	1.016
Scotswood Bridgehead Phase 1 (NCC)	0.500
South Shields Interchange Phase 1 (STC)	1.600
Low Carbon Zone (SCC)	2.653
A1058 Coast Road (NTC)	2.900
Northern Access Corridor Phase 2	3.048
Total LGF Transport Schemes	21.174

- 4.2.3 At the time of writing the report, all accrual claims are being assessed. An update on the final level of expenditure for 2015/16 will be provided at the meeting.

4.3 Metro Asset Renewal Plan (ARP) 2015/16

- 4.3.1 This is the sixth 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 2015/16 were set at £33.692m and £40.581m respectively);
- ii. 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;
- iii. A recognition that logistical and other planning processes play a significant role in determining where resources are deployed in fulfilling

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the objectives of Nexus' three year rolling programme, which at any particular time involves the delivery of around 100 individual projects; and

- iv. The need for each individual project comprising the overall programme to deliver value for money.

4.3.3 The 2015/16 capital budget therefore included an over programming level of over 30%. 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 12th of 13 periods (ending 27 February 2016), the Metro capital budget has been subsequently revised to £38.475m.

The reduction 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 2014/15 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. Examples include:

- i. Radio project, reflecting the need to re-schedule elements of the program into future years in order to successfully deliver this complex project;
- ii. Bridges, which have been re-profiled to future years in conjunction with Network Rail timescales; and
- iii. St James Escalators which were delivered ahead of schedule in 2015/16, to take advantage of procurement efficiencies

These examples reflect the dynamic nature of the programme and also helps ensure spending targets are achieved.

4.3.6 The £6.8m movement between the original budget for 2015/16 and the latest budget for 2015/16 can be summarised as follows:-

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	£m
Re-phasing from 2014/15, increasing 2015/16 budget	4.4
Accelerated projects (from 2015/16 to 2014/15), reducing 2015/16 budget	(1.1)
Re-phasing from 2015/16 to future years, reducing 2015/16 budget	(15.4)
Accelerated projects (from 2016/17 to 2015/16), increasing 2015/16 budget	4.1
Other changes (largely increased costs from new framework contract for track works)	1.2
TOTAL	(6.8)

Table 1: movement between original budget and latest budget, 2015/16

4.3.7 Expenditure as at the end of Period 12 is £26.309m. This represents 78% of the £33.692m minimum expenditure level required by DfT for this financial year. Planned expenditure in the thirteenth period is high, largely due to the major line closure in North Tyneside where significant track and drainage works were scheduled.

The latest forecast to the year end is now £36.557m; lower than budgeted largely because of reduced expenditure forecasts in the phasing of works to Network Rail bridges, radio and CCTV projects.

4.3.8 An evaluation of remaining risks in the 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 at least £33.692m).

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 2016/17 programme; the implications of this will be further assessed at the year end when the 2015/16 outturn is actually known.

4.3.9 To the end of the twelfth four week period of 2015/16, the following key projects have been progressed:

- Essential earthworks to ensure long term stability of embankments and cuttings in the South Gosforth to Jesmond corridor continue and are now expected to complete in May 2016.
- Newcastle Central Metro Station refurbishment continues with installation of new internal cladding. Electrical switchboards have been renewed and the

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replacement escalator has been manufactured for delivery to site in April. Expenditure targets for the Local Growth Fund grant claim are expected to be met in full.

- The establishment of compounds and delivery of materials continue in preparation for the first phase of the permanent way renewals scheme from Tynemouth to Northumberland Park.
- Renewal of the St James' Switches and Crossings (in tunnel) was completed successfully over the weekend of 13th/14th February
- The Railway Traffic Management System (RTMS) project is continuing to programme with associated survey work and the progression of detailed requirements and design documentation.
- The tendering process is now underway for Killingworth Road Bridge as a design and build contract – the commencement of the tender evaluation exercise is scheduled for mid-May.
- Installation of radio infrastructure is continuing and integration testing is underway. Planning for Metrocar radio equipment installation and staff training continues. The overall delivery programme is being reviewed.
- Planning approval has been granted for the South Shields Transport Interchange. The Council is progressing with the assembly of the necessary land.
- The remaining escalators at St James Station have been replaced - this completes the escalator replacement programme network wide.
- Preparation for the system wide renewal of the overhead line continues. Manufacture of specialist plant and equipment is advanced and tendering for overhead line conductor and materials is in progress. A design contract has been awarded and work is now underway.

4.3.10 Over the remaining period (the thirteenth four week period) of 2015/16, the Metro ARP cost loaded programme shows the following expenditure profile, as detailed in Appendix A:

	Year to	Period 13
	Date	Forecast
	£m	£m
In Period Spend	-	10.248
Cumulative Spend	26.309	36.557

- The Newcastle Central Metro Station refurbishment works will continue and are expected to complete in Autumn 2016.
- Track renewal from Tynemouth to Northumberland Park started on site in March with 54 hour possessions on 5th/6th and 12th/13th followed by a 15 day major line closure which commenced on 19th March.
- Design work will continue for the refurbishment of Four Lane Ends, Regent Centre, Chichester and Tyne Dock Metro Stations.
- Collating the full requirements for the RTMS system will be finalised for agreement with stakeholders, following which detailed design, development and implementation planning will be progressed.

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- The Overhead line renewal programme will start to mobilise following delivery of plant, equipment and materials in quarter 1 of 2016/17.

4.3.11 The forecast expenditure for 2015/16 is financed as follows:-

	Latest Approved Funding 2015/16 £000	Projected Funding 2015/16 £000
ARP		
Metro Rail Grant (MRP)	33,423	32,901
Local Contribution 10%		
• Local Transport Plan (LTP)	2,640	2,640
• Reserves	1,074	1,016
Over-programming	1,338	-
Total - ARP	38,475	36,557
Major Schemes		
• Single Local Growth Fund	2,510	2,510
• Reserves	3,610	3,610
Total – Major Schemes	6,120	6,120
Total	44,595	42,677

4.4 Nexus Non-Metro Capital Programme 2015/16

4.4.1 The latest revised budget for 2015/16 is £0.282m, with forecast expenditure at £0.204m, as set out below:-

Expenditure	Latest Approved Budget 2015/16	Projected Outturn 2015/16	Period 12 Spend 2015/16
	£000	£000	£000
Nexus Non Metro Programme			
Cycling	82	15	15
Metro Maintenance and Renewals Skills Centre	123	112	93
Wi-Fi	77	17	14
Asset Knowledge	60	60	13
Total Nexus Non Metro	342	204	135

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4.4.2 The Metro Maintenance and Renewals Skills Centre, which will be reliant on £7m of Local Growth Funding has not yet received approval from the NECA. Expenditure on designing and developing the proposition, including the business case, is being met from Nexus' own resources.

4.4.3 The Cycling and Wi-fi projects will be completed in 2016/17 whilst the collation of asset knowledge as it relates to Nexus' non-Metro infrastructure will be complete by the year-end. This will help inform investment need across the medium term away from the Metro network.

4.4.4 Nexus is also awaiting the approval of its business case submission for the Real Time Gateway Project where expenditure, budgeted at £0.3m will now be incurred in 2016/17 if the project is approved.

4.4.5 Non-Metro Capital Programme Financing

The following table sets out how the Nexus non-Metro capital programme for 2015/16 will be financed:-

	Latest Approved Funding 2015/16 £000	Projected Funding 2015/16 £000
Grant		
Local Transport Plan (LTP)	66	66
Local Sustainable Transport Fund (LSTF)	-	-
Nexus Contribution		
Reserves	149	138
Other	67	-
Total	282	204

4.5 Tyne Tunnels Capital Programme 2015/16

	Original Approved Budget 2015/16 £m	Revised Budget 2015/16 £m	Forecast Outturn 2015/16 £m	Variance 2015/16 £m
Tyne Pedestrian and Cyclist Tunnels	2.500	2.500	1.655	(0.845)
New Tyne Crossing	0.600	0.600	0.342	(0.258)
Total Tyne Tunnels	3.100	3.709	1.997	(1.103)

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4.5.1 Tyne Pedestrian and Cyclist Tunnels

The Tyne Pedestrian and Cyclist Tunnels closed to the public in May 2013 to allow for a full refurbishment, installation of inclined lifts to replace the old wooden escalators, and structural works to be completed.

There will be further slippage against the programme into 2016/17. The main contractor for the refurbishment, GB Building Solutions Limited, entered into administration in March 2015. NECA has assumed project management responsibilities including contracting directly with the specialist sub-contractor for the inclined lift installation, to enable the project to progress to completion. However, this has caused significant delays to the programme. A procurement exercise is being undertaken for a specialist contract for the asbestos removal works which are required before the refurbishment of the tunnels can be completed.

A detailed report on options regarding the completion of this project is on the agenda for the Tyne and Wear Sub Committee meeting and will be discussed with a view to recommending an option to the Leadership Board. The 2016/17 programme will be determined by the option selected.

Costs of the works are funded from Tyne Tunnels reserves so there will be no funding lost as a result of programme slippage.

4.5.2 New Tyne Crossing

There are a small number of pieces of work still underway in relation to the New Tyne Crossing: namely the contribution to the Hexham Fish Pass works agreed with Northumberland County Council, (which was a requirement of the environmental obligations as part of the project) which has now slipped to 2016/17; provision for outstanding Part 1 Land Compensation Claims; and ongoing work in relation to land transfers with North and South Tyneside. Professional fees and costs associated with this work and work on variations to the Project Agreement were also included within the 2015/16 budget.

These costs are funded from Tyne Tunnels reserves.

4.6 Local Transport Plan (LTP) Integrated Transport Block 2015/16

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.

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	Original Approved Budget 2015/16 £m	Revised Budget 2015/16* £m	Draft Outturn 2015/16 £m
Durham	2.789	2.789	2.789
Northumberland	1.695	1.695	1.695
Tyne and Wear (less ARP contribution included in section 4.3 above)	6.825	7.599	7.043
	11.309	12.083	11.527

* The revision to the budget was to update the figures to include carried forward grant from 2014/15 which is permitted under the grant conditions.

- 4.6.2 The underspend against the Tyne and Wear element represents the Public Transport allocation to the constituent authorities, which is held by NECA and claimed by authorities at the year end. Two authorities have not yet claimed their full allocation, which will therefore be carried forward to 2016/17 as permitted under the grant conditions.

5 Initial Capital Programme for 2016/17

- 5.1 The Leadership Board on 19 January 2016 agreed an initial capital programme of £129.3m for 2016/17, of which £94.513m related to Transport schemes. This is summarised in the table below.

	2016/17 Programme
	£m
Local Growth Fund Programme – Transport	42.012
Metro Asset Renewal Programme	41.192
LTP Integrated Transport Block (less Metro ARP local contribution included above)	11.309
Total	94.513

This programme will be update once the outturn for 2015/16 is finalised.

6 Next Steps

- 6.1 Once finalised, the outturn position on the capital programme for 2015/16 will be reported to the next meeting of this Committee. Regular progress reports will be brought to the committee during the financial year, reporting delivery against the 2016/17 programme.

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7 Potential Impact on Objectives

7.1 The report sets out the transport capital programme of the Combined Authority which supports the meeting of its objectives.

8 Finance and Other Resources

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

9 Legal

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

10 Other Considerations

10.1 Consultation/Community Engagement

The Authority's capital programme for 2015/16 comprises previously approved budgets which were subject to consultation as part of the approval process.

10.2 Human Rights

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

10.3 Equalities and Diversity

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

10.4 Risk Management

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

10.5 Crime and Disorder

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

10.6 Environment and Sustainability

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

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- 11.1 Capital Programme 2015/16 – Leadership Board 20 January 2015
Capital Programme Monitoring Update 2015/16 P2 – TNEC 9 July 2015
Capital Programme Monitoring Update 2015/16 Q3 – TNEC 24 November 2015
Capital Programme 2016/17 – Leadership Board 19 January 2016
Capital Programme Monitoring Update 2015/16 – TNEC 26 February 2015

12 Links to Plans in the Policy Framework

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

13 Appendices

- 13.1 Appendix A – Metro Asset Renewal Plan

14 Contact Officers

- 14.1 Eleanor Goodman, Principal Accountant – NECA,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

15 Sign off

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

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Appendix A – Metro Asset Renewal Plan

Asset Category	Budgets			Forecasts		
	Original Approved Budget (DfT submission) 2015/16	Latest Approved Programme 2015/16	Approved Programme 2016/17	Quarter 4 (Period 12) Projection 2015/16	Quarter 4 (Period 12) Projection 2016/17	Quarter 4 (Period 12) Commitments 2017/18
	£000	£000	£000	£000	£000	£000
Civils (Note 1)	9,490	5,149	2,265	4,364	3,662	0
Communications	4,643	3,894	4,500	2,907	4,428	439
Level Crossings	2	64	0	61	4	0
Mechanical & Electrical (Note 3)	1,938	3,783	435	3,509	178	0
Metro Cars	2,148	2,144	1,365	2,130	1,395	0
Miscellaneous	435	519	715	248	747	0
Overhead Line (Note 2)	1,986	2,704	4,130	2,680	4,589	0
Permanent Way (Note 1)	12,304	12,991	20,120	14,091	12,910	0
Plant	0	84	0	73	1	0
Power	0	93	100	102	149	0
Signalling	4,652	5,398	7,050	5,056	5,612	794
Stations	7,673	1,653	3,485	1,337	6,981	0
Total ARP Programme (Note 4)	45,271	38,475	44,165	36,557	40,656	1,233
Major Projects	3,500	6,120	1,102	6,120	1,102	0
TOTAL	48,771	44,595	45,267	42,677	41,758	1,233

Note 1

Civils works relating to Easter 2016 blockade included within Permanent way.

Note 2

Overhead line costs now include the specialist plant, re-profiled from 2014/15. The first procurement exercise resulted in no tender submissions. Contracts have now been awarded and specialist plant manufactured.

Note 3

The Mechanical and Electrical category now includes further escalators at St James stations to maximise procurement efficiencies under the existing framework contract.

Note 4

2016/17 Approved Programme includes various projects that formed part of the original budget for 2015/16 but were subsequently carried forward for delays into future years (Table 1 refers)

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Transport North East Committee

DATE: 28th April 2016

SUBJECT: Revenue Budget 2015/16 Update

REPORT OF: Chief Finance Officer

EXECUTIVE SUMMARY

This report provides the Transport North East Committee with a monitoring update on the 2015/16 Transport budget. This is a requirement of the NECA constitution and is a function delegated to TNEC. At the time of writing the report, the outturn position for the year had not yet been finalised, so the report provides provisional outturn figures as a progress report with the final outturn figures being reported to the next meeting. The draft outturn position indicates that expenditure will be within the revised budget for the year.

RECOMMENDATIONS

It is recommended that the Committee notes the content of this report.

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1 Executive Summary

- 1.1 This report provides the Transport North East Committee with a progress update in relation to delivery of the transport related revenue budget for 2015/16. This is a requirement of the NECA constitution and is a function delegated to TNEC.
- 1.2 The overall budget position is positive, with savings being made against the Tyne and Wear Transport Budget and a small surplus on the Tyne Tunnels account and the provisional outturn position estimated to be within the budget set for the year.
- 1.3 The grants paid to Durham County Council, Northumberland County Council and Nexus are fixed for the year, with each organisation managing their spending within this budget with variations being dealt with through their revenue balances. Expenditure against the grants for the full year will be reported to the next meeting of this committee once the final year end position has been established.
- 1.4 Detailed budget information for Nexus to the end of Period 12 is included at Appendix 1. This shows a further improvement on the position previously reported, with a budget surplus now expected in 2015/16, which will improve the reserves position of Nexus. This will be taken into account in revising the forecast for 2016/17 and in the development of the budget proposals for future years.

2 Background Information

- 2.1 At its meeting held on 20 January 2015, the Combined Authority received a report from the Chief Finance Officer setting out the Authority's proposed base net budget for Transport activity of £89.244m and total levies of £89.177m.
- 2.2 This report provides an update on expenditure to the end of March 2016 which will be updated when final figures are confirmed and then reported in the annual accounts of the Combined Authority.

3 Transport Levy and Grants

- 3.1 A summary of the outturn against the NECA Transport budget for 2015/16 is set out in the table below. 2015/16 is the first year of the seven authority transport levies.

	2015/16 Original	2015/16 Forecast	2015/16 Draft Outturn
	£000	£000	£000
Transport Levies	(89,177)	(89,177)	(89,177)

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Grant to Durham	16,072	16,072	16,072
Grant to Nexus	64,500	64,500	64,500
Grant to Northumberland	5,896	5,896	5,896
NECA Transport Retained budget	2,786	2,797	2,737
Contribution from NECA Reserves	77	97	27

Expenditure to the year end within Durham, Northumberland and Nexus against the transport grant provided by NECA will be reported to the next meeting of this committee.

3.2 Retained NECA Transport Budget

Retained budget	2015/16 Original	2015/16 Forecast	2015/16 Draft Outturn
	£000	£000	£000
Service Level Agreement	256	250	230
Training, Travel & Subsistence	3	3	1
Members Allowances	5	5	5
Supplies & Services	22	22	21
Audit Fee	17	13	13
Contingency	10	-	-
Financing Charges	2,236	2,159	2,120
Repayment to Tyne Tunnels reserves	240	240	240
Devolution	-	110	110
Interest Income	(3)	(5)	(3)
Levy Income	(2,709)	(2,709)	(2,709)
Contribution from NECA Reserves	77	97	27

3.2.3 At the time of writing this report, the outturn position is still to be finalised. However, provisional outturn figures indicate that expenditure within the NECA retained transport budget is within budget, with savings achieved against the financing charges budget and the budget for officer support. This means a lower contribution from reserves is projected - £27k as compared with the revised budget of £97k.

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3.3 Tyne and Wear – Tyne Tunnels

3.3.1 The budget for 2015/16 is set out in the table below, with the draft outturn results for income and expenditure to the year end.

	2015/16 Original	2015/16 Forecast	2015/16 Draft Outturn
	£000	£000	£000
Income			
Tolls	(27,100)	(27,457)	(28,401)
Interest / Other Income	(200)	(234)	(170)
Repayment from TW Transport reserve	(240)	(240)	(240)
Expenditure			
Contract Payments	21,907	21,658	22,033
Employees	36	36	36
Pensions	50	56	52
Support Services	120	100	106
Supplies & Services	50	35	32
Community Fund	10	10	10
Financing Charges	6,793	6,419	6,206
Net (Surplus)/Deficit	1,426	383	(336)
Contribution to/(from) Tunnels reserve	(1,426)	(383)	336
Total	-	-	-

3.3.2 A small surplus of £336k is now projected against this budget, as compared with a revised budget of a deficit of £383k. This is primarily the result of higher than forecast traffic flow leading to increased toll revenues, (partly offset by resulting higher contract payments to the concessionaire) and substantial savings on financing charges resulting from restructuring of debt during the year.

3.3.3 The surplus will be added to the Tyne Tunnels reserves, which are being drawn down in year to support capital expenditure on the New Tyne Crossing and Tyne Pedestrian and Cyclist tunnels.

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4 Next Steps

- 4.1 The detailed outturn position will be reported to the next meeting of this committee, once the final outturn has been established.

5 Potential Impact on Objectives

- 5.1 The report sets out the transport revenue budget of the Combined Authority which supports the meeting of its objectives.

6 Finance and Other Resources

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

7 Legal

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

8 Other Considerations

8.1 Consultation/Community Engagement

The Authority's revenue budget for 2015/16 comprises previously approved budgets which were subject to consultation as part of the approval process.

8.2 Human Rights

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

8.3 Equalities and Diversity

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

8.4 Risk Management

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

8.5 Crime and Disorder

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

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8.6 Environment and Sustainability

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

9 Background Documents

- 9.1 Revenue Budget 2015/16 – Leadership Board 21 January 2015
- Revenue Budget 2015/16 – Leadership Board 17 February 2015
- Revenue Budget 2016/17 – Leadership Board 19 January 2016
- Revenue Budget 2015/16 P9 Update – TNEC 26 February 2016

10 Links to Plans in the Policy Framework

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

11 Appendices

- 11.1 Nexus Period 12 Update.

12 Contact Officers

- 13.1 Eleanor Goodman, Principal Accountant – NECA,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

13 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Section 151 Officer ✓

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Appendix 1 - Nexus Budget Update

The forecast outturn for the 2015/16 year for Nexus at the end of period 12 (27th February 2016) is a surplus before taxation of £1.545m. This compares with the original budgeted deficit of £3.103m, a positive variance of £4.648m.

The major variations between the original budget and the forecast outturn are set out below and in the subsequent table.

EXPENDITURE

Metro

Metro Concession

The concession payments to DB Regio are partly determined with reference to inflation indices that are unpublished at the time the original budget for the year is set and therefore an estimate is made. Once the appropriate indices became available the payment was recalculated, resulting in additional costs of £94^k.

Previous Financial Reports have noted the level of penalties being imposed on DB Regio as a result of performance failures over the current year. The current Forecast takes account of all penalties imposed to date together with an estimate of the total amount that will arise relating to the final period of the year. As a result, the forecast in penalty deductions has increased to £891^k, against an amount originally included in the Budget for the year of £200^k, a positive variance of £691^k.

The net effect of the increase in the Concession payment and in penalties charged is to reduce the overall payment to DB Regio by £597^k as compared to budget.

High Voltage Power

The budget for high voltage power costs was originally set with regard to advice that the Government's Electricity Market Reform ("EMR") would be introduced during the year, resulting in an increase in power costs. The implementation of the EMR was subsequently delayed until late 2016 and the forecast for HVP costs was accordingly reduced by £250^k earlier in the year.

The use of HVP depends to some extent on the weather during the winter period, where cold and wet conditions can lead to an increase in consumption. The extremely mild weather during the last four months has resulted in continued savings in energy consumption and it is now anticipated that total costs for the year will be £5.99m against a budget of £6.64m. The total saving of £650^k represents an additional £400^k saving from that previously included in the Forecast for the year.

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Asset costs

At the time the budget for 2015/16 was set, the full extent of expenditure under the Metro Asset Renewal Plan (“ARP”) during 2014/15 was not certain and the budget was prepared on the basis of estimates of the full year’s expenditure available at the time. As part of the 2016/17 budget setting process a full review of asset capitalisation and associated depreciation costs was carried out, taking into account actual capital expenditure during 2014/15 and also the impact of a review of fixed assets carried out at March 2015 and incorporated into the financial results for the 2014/15 year. This has reduced the actual charge for the current year by £769^k against budget. However, since the ARP is largely financed through the receipt of related Government grants, the fall in depreciation charges results, as is noted below, in a reduction in the level of grants released from reserves of £663^k, a net saving against budget of £106^k.

Bus

Previous budget updates noted that substantial savings against budget have been achieved during the renewals of the current year’s secured bus service contracts. These savings, currently amounting to £1.264m have arisen from a combination of factors including lower than budgeted contract price inflation, driven by a fall in fuel prices, the entry of new operators into the market which has driven prices down and a more efficient way of configuring contracts.

The Committee should note that during the establishment of the base budget for 2016/17, the favourable variation in year was taken into account and the base budget for secured bus services was adjusted accordingly.

Concessionary Travel

Because the current Concessionary Travel agreements with bus operators cover a two year period, a number of savings, particularly with regard to the costs of consultancy services which will not be required to any significant extent during this year, have been achieved, resulting in an overall cost reduction of £94^k.

The standard agreements with bus operators provide for a clawback of concessionary travel payments if passenger numbers are more than 5% below anticipated levels. The calculations for the 2014/15 were completed earlier in the year and a clawback of £250^k has been agreed with the affected operator.

Employees

Following the reorganisation of management posts following the appointment of the new Director General at the beginning of 2015 the Forecast expenditure on staff costs was reduced by £420^k, reflecting the resulting permanent changes to the Establishment and the base budget.

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Throughout the year there has been a conscious effort to manage staffing budgets with Corporate Management Team approval being sought to fill any resulting vacancy and, as a result, it is estimated that total salary costs, including national insurance and pension contributions, will be £500^k below the revised estimate, a total saving of £920^k.

Bus Service Delivery Plan

It was originally intended that the costs of the Bus Service Delivery Plan would not be included in the current year's revenue results but would instead be met directly from reserves. In view of the savings that have been made in Nexus operations to date, and the fact that further costs are unlikely to be incurred in the immediate future, it has now been decided to include these costs in the Forecast Outturn. As a result, costs of £596^k have been included in the current Forecast.

Employment Claim

A claim by the RMT union concerning the calculation of shift allowances was recently upheld by an Employment Appeals Tribunal, a decision which, if fully implemented, could give rise to a substantial back payment to affected staff. Although an appeal against the decision has been filed, a provision of £500^k, reflecting the estimated potential liability, has been incorporated into the Forecast Outturn for the year. To partially offset the costs arising from the claim a contingency provision of £416^k previously included in the Budget has been released, reducing the net overall cost increase to £84^k.

Pension payments

In addition to the main Tyne and Wear Pension Fund, of which the majority of current employees are members, there is a further scheme including a small number of pensioners who were employed by the former PTE a number of years ago. That scheme is unfunded and, although it is administered alongside the main fund, payments to pensioners are recharged in full to Nexus.

As the number of pensioners in the scheme reduce because of deaths during the year, the cost to Nexus which was originally budgeted for at £480^k is now expected to be £437^k, a reduction of £43^k.

INCOME

Metro Rail Grant

As with the concession payments to DB Regio, the level of the Metro Rail Grant ("MRG") received from the DfT is partly determined by inflation indices unavailable at the time the budget for the year is set. Once the actual indices became available

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the MRG receivable over the course of the year was reduced by £47^k from the level included in the budget.

Metro Income

Metro fare revenue income for the 12 periods to 27th February amounted to £45.653m, against a budget of £43.836m, a positive variance of £1.817m. As a comparison, the income for the first 12 periods of 2014/15 was £43.620, £2.033m lower than the current year's figure.

The forecast for the year has previously been increased by £1.099m and, with the inclusion of the Metro element of the NTL dividend of £539^k noted below, Metro fare revenue income is now currently forecast at £1.638m above budget. No further adjustment to the Forecast Outturn has been made in view of the potential effect of the major engineering works at end of March which is currently being evaluated.

The Committee should note that during the establishment of the base budget for 2016/17, the favourable variation in year was taken into account and the base budget for Metro revenue was adjusted accordingly.

Network Ticketing Limited (“NTL”) Income

Earlier in the current year income totalling £392^k was received from NTL representing a distribution of “retained” income from the prior year ending June 2015. Historically, NTL have always retained an element of the income distributed to operators during the year as a precaution against any unexpected events at the year-end or arising during their audit and the Nexus Budget for the year was prepared in anticipation of such a receipt. The board of NTL have now resolved to end this practice and starting from financial year 2015/16, no retention will be kept with all monies being distributed within the year to which they relate.

In addition, and as part of their assessment of how retained monies are to be distributed moving forward, the NTL Board also reviewed its cash balances and determined that a further distribution of £1.5m should be made in respect of earlier years. The Nexus share of this further distribution, amounting to £580^k (which was not included in the budgeted income for the year), has now been received and is included in the updated Forecast Outturn for the year.

Concessionary Travel

Sales of Metro Gold Cards have been consistently lower than budgeted levels throughout the year. As a result, the Forecast for the year as a whole has been reduced by £226^k from the Budget of £1.18m to £949^k.

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Bus

As noted above, a net saving on the secured bus budget of £1.264m is now being forecast. The reduction in income shown in the appendix is offset by a bigger reduction in costs and this is driven in part by a more efficient configuration of contracts including the transfer of risk in relation to fare revenue on some contracts to bus operators.

Asset Financing

As noted above, there has been a reduction in the level of depreciation charges associated with the Metro ARP as compared with the budget for the year, with the result that there have been corresponding reductions in releases from the Reserves amounting to £663^k over the year.

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Nexus Revenue Budget Report				Appendix 1
Cumulative to 27th February 2016				
	Original Revenue Budget	Forecast to Year End	Variance (Budget v Forecast)	
	£m	£m	£m	
EXPENDITURE				
Metro				
DB Regio Concession Payment	37.108	36.511	(0.597)	
Asset Costs	22.632	22.191	(0.441)	
Nexus Rail	12.313	11.496	(0.817)	
HV Power, Rates and Insurances	9.443	8.667	(0.776)	
Concessionary Travel				
ENCTS	37.632	37.264	(0.368)	
Metro	6.357	6.392	0.035	
Under 16s	4.748	4.738	(0.010)	
Bus				
Secured Bus Services	18.136	16.117	(2.019)	
Bus Infrastructure	1.948	1.760	(0.188)	
Bus Service Delivery Plan	0.000	0.596	0.596	
Other				
Northern Rail	2.907	2.904	(0.003)	
Ferry	1.230	1.210	(0.020)	
Customer Services	5.038	4.780	(0.258)	
Support Services	8.093	7.571	(0.522)	
Pensions & Provisions	5.012	5.655	0.643	
Loan Interest	1.927	1.927	0.000	
	174.524	169.779	(4.745)	
INCOME				
Grant Income				
Local Authority Grant	(64.500)	(64.500)	0.000	
Metro Rail Grant	(24.503)	(24.456)	0.047	
Heavy Rail Grant	(2.901)	(2.901)	0.000	
Commercial Income				
Metro	(48.695)	(50.333)	(1.638)	
Bus	(6.726)	(5.996)	0.730	
Ferry	(0.570)	(0.545)	0.025	
Concessionary Travel	(1.828)	(1.602)	0.226	
Other	(1.117)	(1.073)	0.044	
Other				
Asset Financing	(20.251)	(19.588)	0.663	
Investment Income	(0.330)	(0.330)	0.000	
	(171.421)	(171.324)	0.097	
(Surplus) / Deficit	3.103	(1.545)	(4.648)	