



## Tyne and Wear Integrated Transport Authority



---

Meeting to be held on Thursday 24 January 2013 at 10.00 am in a Committee Room, Civic Centre, Newcastle upon Tyne, NE99 2BN

Contact Officer: Victoria Miller (0191) 211 5118 [victoria.miller@newcastle.gov.uk](mailto:victoria.miller@newcastle.gov.uk)

This agenda is available at [www.twita.gov.uk](http://www.twita.gov.uk)

---

### SUPPLEMENTAL AGENDA

|  | Page   |
|--|--------|
| 4. ITA Budget 2013/14 and Medium Term Financial Strategy | 1 - 22 |

This page is intentionally left blank



**DATE:** 24 January 2013

**SUBJECT:** ITA Budget 2013/14 and Medium Term Financial Strategy

**REPORT OF:** Acting Clerk and Treasurer, ITA and Director of Finance and Resources, Nexus

---

## PURPOSE OF REPORT

This report sets out the Budget and Levy requirements for the ITA in 2013/14 and indicative funding requirements for 2014/15.

Following discussion with the five Metropolitan District councils in Tyne and Wear, a cash freeze in the levy is proposed for 2013/14, as previously planned for the third year of the medium term plan 2011/12 to 2013/14. It is also proposed to extend the cash freeze in principle for 2014/15, pending the outcome of a review of budget options in the summer.

The Authority is therefore asked to consider the draft Budget for 2013/14 and to set its levy for 2013/14 at £70,207,132. The Authority is also asked to agree a Revenue Grant of £66,921,500 to Nexus for 2013/14.

In recognition of the financial pressure on Districts as a result of further reductions in grant funding, a proposal has been developed to deliver an additional £2m of added value and savings to the five councils in both 2013/14 and 2014/15, by way of a grant to fund transport and highways related expenditure.

## RECOMMENDATIONS

The ITA is recommended to:

1. Approve the ITA and Nexus Revenue budgets for 2013/14 as set out in this report;
2. Approve a levy of £70,207,132 for 2013/14:
  - a. The levy to be apportioned between the five District councils in accordance with the Transport Levying Bodies Regulations 1992 made under the Local Government Act 1988, which uses the 2011 mid-year population estimates as the basis of the levy allocation, as set out in paragraph 3.2;
  - b. The Districts to pay in twelve equal instalments, each instalment to be received by the Treasurer to the ITA on or before the last working day of each month;



3. Approve the amount of Revenue Grant to Nexus of £66,921,500 from the levy for 2013/14;
4. Note that in order to facilitate the £2m payments to the Districts for specified transport initiatives in both 2013/14 and 2014/15, it might be appropriate for the ITA to withhold revenue support to Nexus. The decision to do this will be jointly determined by the ITA Acting Clerk and Treasurer and Nexus Director of Finance and Resources if for tax planning purposes, this is determined to be the most appropriate way forward (paragraph 6.4 refers);
5. Approve a price freeze in relation to the Metro concessionary Gold Card (to remain at £25.00);
6. Agree to receive a further report in May 2013 in order to determine the price of the Nexus child concessionary tickets (paragraph 5.2 refers);
7. Approve the statement on minimum revenue provision repayments for borrowed capital expenditure for 2013/14 as set out in Appendix C.

#### **BACKGROUND DOCUMENTS**

Held by the contact officers.

#### **CONTACT OFFICERS**

|                        |  |               |
|------------------------|--|---------------|
| <i>Eleanor Goodman</i> | <a href="mailto:eleanor.goodman@newcastle.gov.uk">eleanor.goodman@newcastle.gov.uk</a> | 0191 277 7518 |
| <i>John Fenwick</i>    | <a href="mailto:john.fenwick@nexus.org.uk">john.fenwick@nexus.org.uk</a>               | 0191 203 3249 |

#### **IMPACT ON OBJECTIVES**

|  |         |
|--|---------|
| To support economic development and regeneration | Neutral |
| To address climate change                        | Neutral |
| To support safe and sustainable communities      | Neutral |



## **1 Executive Summary**

---

- 1.1 This report sets out the Budget and Levy requirements for the ITA in 2013/14 and indicative funding requirements for 2014/15.
- 1.2 It is recommended that the ITA agree a cash freeze in the levy for 2013/14, as previously agreed, and also agree in principle to extend the cash freeze for 2014/15.

## **2 Introduction and Background**

---

- 2.1 When the Districts and the ITA approved its Medium Term Financial Strategy for the period 2011/12 to 2013/14, it was agreed to deliver a 10% (£7.151m) reduction in the levy over the first two years, with a cash freeze in 2013/14. A further £1.435m of grant was retained by the Districts in 2011/12, giving a total saving to Tyne and Wear Districts of £8.606m over the period.
- 2.2 The front-loaded levy saving was delivered through a combination of efficiency savings, including reduced staffing in Nexus, and by using revenue reserves to support expenditure while sustainable and permanent cost savings were implemented. Sustainable savings were planned through a combination of a) the Bus Strategy project to develop either a Voluntary Bus Partnership or Quality Contract scheme; and b) further efficiency savings within the ITA and Nexus. An increase in the grant paid by central government to Districts in respect of the national statutory concessionary travel scheme is being sought, where the grant distribution arrangements currently in place result in a significant and growing underfunding of the costs of the statutory scheme.
- 2.3 While further savings in Nexus costs have been achieved and more are being explored, the extent of savings from the Bus Strategy will not be known for several months and the concessionary travel funding gap has not yet been resolved. It is therefore recommended that at this time the previously agreed cash freeze in the levy is implemented for 2013/14. This will allow for continued use of reserves to protect core transport services while a sustainable funding and transport service is explored and developed for future years.
- 2.4 For 2014/15 a further cash freeze is proposed, in principle at this stage. The actual levy for 2014/15 and future years will be determined next year following a review during 2013 to take into account the extent of financial savings from a Voluntary Bus



Partnership or Quality Contract arrangement, the outcome of the review of Nexus and the outcome of any further actions that the ITA, Nexus and Tyne and Wear Districts may take to secure better funding for the statutory Concessionary Travel scheme.

- 2.5 The need to secure an increased share of the funding available for the statutory concessionary travel scheme has been made even more pressing by announcements in the Chancellor's Autumn Statement and the Local Government finance settlement. On 19 December, the Secretary of State for Communities and Local Government announced the 2013/14 Revenue Support Grant and provisional grant figures for 2014/15. An extra 2% cut in local government grant for 2014/15 was announced, which is applied across funding for all services, including funding for the costs of the statutory Concessionary Travel scheme and for bus support.
- 2.6 The shortfall in central government funding for the statutory concessionary travel scheme that is paid to each of the five District councils is an issue that has been raised consistently with Government since 2006. Once again, Ministers agreed that DCLG and DfT officials would re-examine the way the funding for concessionary fares would be allocated between councils as part of the establishment of the baseline funding for 2013/14 onwards. Ministers have consulted upon a proposal to revise slightly the current funding distribution using an alternative model for transport boardings, which did not result in a closing of the funding gap. Tyne and Wear pressed for the use of actual information on boardings and costs to be more directly taken into account in the allocation for funding but this has not been accepted.
- 2.7 As well as the inadequate distribution of the funding for concessionary transport resources around the country, the overall national level of funding appears to have been cut by 13% from the level of 2011/12 to 2013/14. From 2014/15 the funding will be merged within the Business Rates Baselines and Revenue Formula Grant, which appears to be subject to a further cut of around 10%, with the potential for further cuts in subsequent years. The considerable complexities of the grant funding arrangements means that the funding that was made available is not visible within the grant paid to each District. The position will be further complicated next year with the introduction of a completely new funding system. The ITA's concerns about the adequacy of funding for Tyne and Wear to be able to sustain the statutory concessionary travel scheme have not resulted in any improvement in the distribution of funding. Indeed the further cut in total funding from 2014/15 will increase the funding gap still further. The ITA will raise this issue again as part of the formal consultation process and if it is not resolved will then need to consider what further course of action can be taken.



### 3 ITA Levy

3.1 Under the Transport Levying Bodies regulations 1992, the ITA is required to issue a levy proportioned by reference to the total resident population at the relevant date of the area of each District concerned (the relevant date being 30 June in the financial year which commenced two years previous to the levying year).

3.2 Table 1 below sets out the proposed levy for 2013/14. In total this is a cash freeze from 2012/13, however changes in the population figures result in a change in the share of the levy between the five Districts in 2013/14.

| District       | 2012/13 Levy       | 2011 Mid-Year Population | 2013/14 Proposed Levy | Variance   |
|----------------|--------------------|--------------------------|-----------------------|------------|
| Gateshead      | £12,020,996        | 200,300                  | £12,736,607           | £715,611   |
| Newcastle      | £18,323,084        | 279,100                  | £17,747,316           | (£575,768) |
| North Tyneside | £12,447,406        | 201,200                  | £12,793,536           | £346,430   |
| South Tyneside | £9,638,117         | 148,200                  | £9,423,691            | (£214,426) |
| Sunderland     | £17,777,529        | 275,300                  | £17,505,682           | (£271,847) |
| <b>TOTAL</b>   | <b>£70,207,132</b> | <b>1,104,100</b>         | <b>£70,207,132</b>    | -          |

3.3 The change in the levy is taken into account in calculating whether a council exceeds the Council Tax Referendum Limit. This is an issue of concern that has been raised with DCLG to no effect so far. It results in a difference between Metropolitan areas and unitary authorities and shire areas which do not have ITA transport levies. Maintaining the cash value of the levy avoids any additional restriction on the decisions each District council has over the level of their council tax in 2013/14.



#### **4 The ITA Budget**

---

4.1 More than 95% of the ITA levy is paid as a revenue grant to Nexus to fund transport expenditure. The retained element is used to meet the ITA's own expenditure, primarily made up of relatively fixed pension and historic debt financing costs.

#### **4.2 ITA Support – Service Level Agreement**

Newcastle City Council provides staffing support to the ITA through SLAs, including Management Support, Legal Advice, Financial Services, Audit and Risk, Administration of the Democratic Process and Policy Advice.

Savings have been achieved on this area of the budget in 2012/13 due to revised ITA Clerk arrangements from August 2012 (with the ITA Treasurer taking on the Acting Clerk role until the new Clerk is in post). An element of this saving has been used to fund additional policy support to the ITA for work on Major Schemes funding devolution.

#### **4.3 ITA Administration and Governance**

Savings in respect of this budget area have been delivered in 2012/13 on the external audit fee (set by the Audit Commission) and the website SLA paid to Nexus, as ITA officers have taken on more responsibility for updating and maintaining the ITA's website. The SLA is set to be maintained in 2013/14 to fund work which aims to bring together various ITA and Nexus related sites under one improved and refreshed site.

#### **4.4 Pension Deficit Payments**

The ITA currently meets the cost of pension fund liabilities in respect of pensions for former Busways employees. Under the 2010 triennial actuarial valuation of the Pension Fund, payments are set to increase by 5.3% in 2013/14, representing an agreed phasing of the additional costs of meeting the pension deficit liability.

Results of the next triennial valuation for March 2013 are anticipated in late 2013 or early 2014 and will determine payments required for 2014/15 onwards.

#### **4.5 Financing Costs**

The majority (around 75%) of the ITA's budget is used to meet Financing Charges relating to capital investment on approved transport schemes funded by borrowing in previous years. In 2012/13 this is forecast to total £2.568m. This is made up of historic debt and transport supported borrowing debt granted by Government in previous years. While the ITA holds the debt, borrowed to fund capital transport schemes, the





Districts receive the Government grant to support the costs of this borrowing, as part of their Revenue Formula grant.

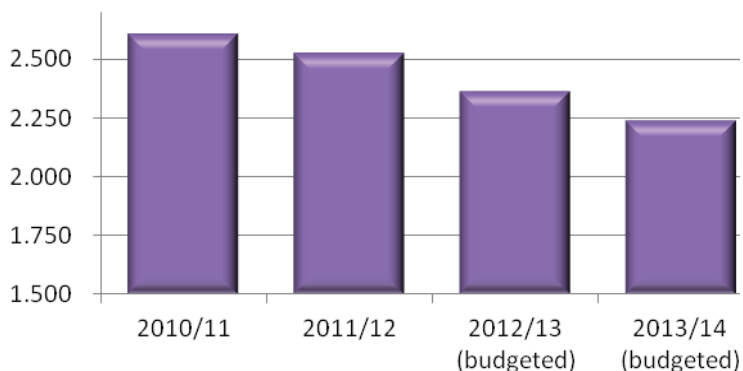
As principal is paid off and through careful treasury management, Financing Charges are budgeted to reduce to £2.475m in 2013/14.

#### 4.6 ITA Reserves

In setting the budget for 2012/13, £0.191m of ITA revenue reserves were allocated in order to support expenditure. Additional savings in year mean that the likely use of reserves forecast for 2012/13 is £0.162m. A further £0.122m is proposed for 2013/14.

As set out in the chart below, the effect of this use of reserves will be to reduce ITA unearmarked revenue reserves to approximately £2.2m at the end of 2013/14. A minimum working level of £2m is considered a prudent balance, taking into account the nature and extent of risks faced by the Authority. Separate earmarked reserves are held in relation to the Tyne Tunnels and Metro Reinvigoration.

**ITA Unearmarked Reserves (£m)**



#### 4.7 Tyne Tunnels Revenue Budget

The revenue budget for the Tyne Tunnels, including the costs of borrowing repayments on the New Tyne Crossing and Tyne Pedestrian and Cycle Tunnel works, is ringfenced and completely funded from toll income, not from the levy.

The outturn position on the Tyne Tunnels trading account is forecast to be in line with the original agreed budget. Costs arising in year for the official royal opening ceremony in July 2012 have been met from savings elsewhere in the revenue account.

In line with the long term financing strategy for the New Tyne Crossing, a planned deficit is forecast for 2012/13 and 2013/14 as the construction element of the project is now complete and repayments on the borrowing costs have begun. This will mean a gradual reduction in Tyne Tunnels revenue reserves which have been built up during



the construction phase of the project.

In line with the arrangements agreed with all 13 North East local authorities for the funding of the North East Smart Ticketing Initiative (NESTI), Tyne Tunnels reserves are being used to meet expenditure on the programme over the next two years. This is to replace a total of £7.178m contributions which were used to meet capital expenditure on the New Tyne Crossing in 2010.

## **5 The Nexus Budget**

---

- 5.1 At its October 2012 meetings, the Nexus Executive considered its budget strategy for 2013/14 to 2014/15 and has taken into account guidance from the discussions with the Tyne and Wear District councils.
- 5.2 The Nexus budget proposals have therefore been predicated on the following basis:
- Continuation of the budget strategy previously agreed whereby a cumulative 10% reduction in the levy with effect from 1 April 2012 is being managed from a combination of efficiency savings and use of reserves in order to protect services in the medium term, subject to a more sustainable package of savings linked to the delivery of the bus strategy being achieved.
  - The budget strategy aims to continue with an operating deficit of between £3m in 2013/14 and up to £5m in 2014/15.
  - The current estimate of the annual deficit in 2012/13 and 2013/14 (before the use of reserves), of around £3m in each year is approximately £2m less than originally estimated, providing an additional £4m of one-off reserve funding when compared against the budget proposal agreed by the ITA in January 2012. This additional funding is being used to give an element of financial protection to Districts over the next two years in lieu of the levy not being reduced further. (This is discussed further in section 6).
  - A further review of the Nexus organisational structure was initiated in the autumn of 2012 and a planned reduction in the staffing establishment of 10% will be implemented in April 2013, meaning that Nexus will have reduced its staffing levels by some 20% since April 2011.
  - Budget managers will also deliver savings on 2013/14 'controllable budgets' as previously determined by the Director of Finance and Resources of 10%.
  - Inflationary pressures will also be contained across all budgets with the exception



REPORT FOR DECISION

of contractual obligations in relation to Pension payments to the Tyne and Wear Pension Fund, Employee costs, the Metro Annual concession Payment to DB Regio Tyne and Wear Limited and bus secured services contracts.

- A provision for an expected increase in the cost of Metro High Voltage Power has been made but all other central contingencies used to accommodate various budget risks in areas such as Concessionary Travel and shortfalls in Metro fare box revenue have now been eliminated from the budget.
- Metro fare box revenue is budgeted at £0.835m more than that being forecast in 2012/13 following the decision taken by the ITA at its November 2012 meeting to increase fares by an average of RPI + 1%. This takes into account fare box losses suffered as a result of the difficult prevailing economic conditions and disruption caused on the network as a result of the Metro: All Change programme of asset renewal.
- The Metro concessionary Gold Card price will be frozen in 2013/14.
- The Child concessionary ticket price will also be frozen until after the conclusion of negotiations with bus operators over reimbursement levels. These negotiations will take into account continued growth in this concession together with a consideration of any planned increases in child commercial products by operators. It is intended that a report will be brought back to the ITA in May 2013.

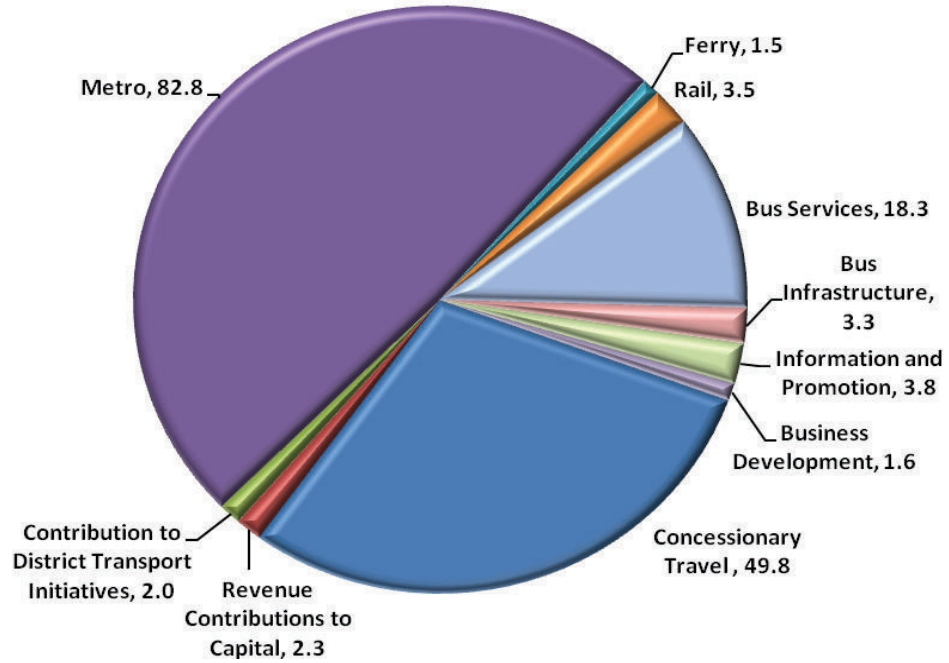
5.3 In line with the reduction in the levy, the ITA reduced its revenue support to Nexus in 2012/13 to £66.922m, with a cash freeze being delivered in 2013/14 and 2014/15.

5.4 In 2013/14 Nexus will have a gross revenue expenditure requirement of £168.9m, which is funded from a combination of traded income from fare box revenues, Direct Government Grants (including the metro rail grant) and the Levy.

5.5 An illustration based on the proposed 2013/14 budget of services provided by Nexus is given in the chart below. This shows that the largest areas of gross expenditure are in relation to Metro and Bus services (where a significant element of expenditure is for the reimbursement of concessionary travel).

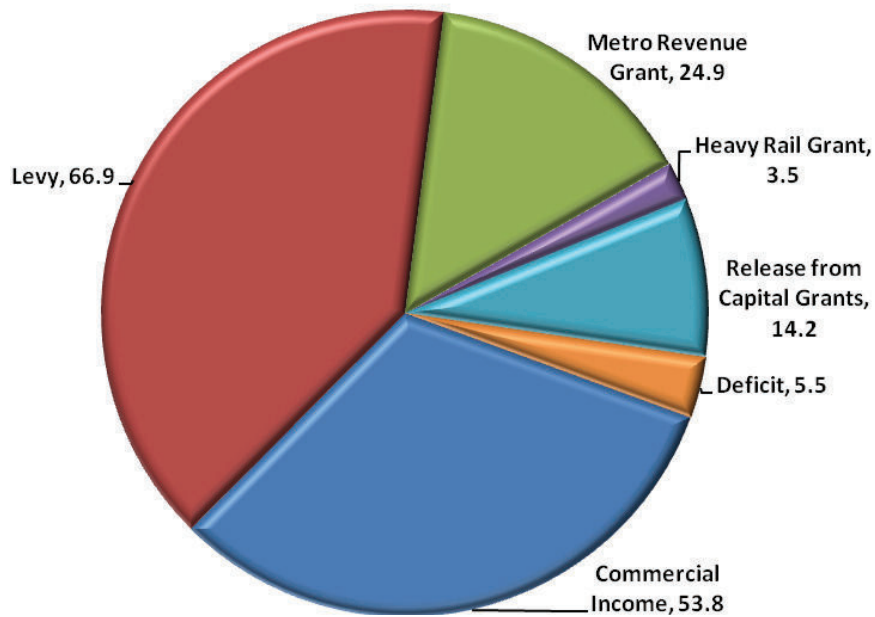


### Budgeted Gross Expenditure (£m)



5.6 These services are funded as follows:

### Budgeted Income (£m)





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

5.8 Services which are most impacted by the volatility in the ITA levy payment are therefore Concessionary Travel, which is a largely statutory service relating to bus and secured bus services.

The sustainability of the reduction in the levy is therefore heavily dependent on being able to deliver long term savings in the cost of the bus network for which a strategy was agreed at the November 2011 meeting of ITA.

This strategy has been in development since the ITA approved its medium term financial strategy in January 2011, when usable revenue reserve funding was earmarked to meet the forecast budget shortfalls in both 2011/12 and 2012/13.

5.9 However, due to additional cost and efficiency savings that have been made, Nexus has a higher level of reserves which it can draw on to continue the current strategy into 2013/14 and 2014/15.

5.10 This includes an element of funding in support of the bus strategy delivery project together with the release of £4m back to Districts for specified transport initiatives over the next two financial years in order to provide them with a degree of financial protection in lieu of the levy not being reduced further. This is detailed in the table below.

|                                | <b>2012/13</b> | <b>2013/14</b> | <b>2014/15</b> |
|--------------------------------|----------------|----------------|----------------|
|                                | <b>£000</b>    | <b>£000</b>    | <b>£000</b>    |
| Opening Balance                | 17,737         | 14,720         | 11,220         |
| Transfer from Capital Reserves | 0              | 2,000          | 2,000          |
|                                | 17,737         | 16,720         | 13,320         |
| Applied during year            | (3,017)        | (5,500)        | (7,630)        |
| <b>Closing Balance</b>         | <b>14,720</b>  | <b>11,220</b>  | <b>5,590</b>   |



5.11 This leads to a year on year budget position as summarised in the following table and as detailed in the attached Appendix B:

|                                | <b>2012/13<br/>Forecast<br/>£000</b> | <b>2013/14<br/>Base<br/>£000</b> | <b>2014/15<br/>Base<br/>£000</b> |
|--------------------------------|--------------------------------------|----------------------------------|----------------------------------|
| Gross Expenditure              | 166,515                              | 168,887                          | 172,358                          |
| Gross Income                   | (68,110)                             | (68,076)                         | (69,426)                         |
| <b>Total Base Requirement</b>  | <b>98,418</b>                        | <b>100,811</b>                   | <b>102,932</b>                   |
| Levy                           | (66,920)                             | (66,920)                         | (66,920)                         |
| Metro – MRG                    | (25,074)                             | (24,897)                         | (24,888)                         |
| Rail – Northern Franchise      | (3,394)                              | (3,494)                          | (3,494)                          |
| Transfer from Revenue Reserves | <b>3,030</b>                         | <b>5,500</b>                     | <b>7,630</b>                     |

5.12 The movement between 2013/14 and 2014/15 is largely because of the reduction in Metro Rail Grant where the percentage of rail grant, as a proportion of the annual concession payment to DB Regio reduces from 68% to 66%, as set out in the grant offer letter from DfT dated February 2010. The financial consequence of this, all other things being equal is a net increase in the Metro operating subsidy to the local taxpayer of £1.7m.

In addition, a further provision for Metro High Voltage Power costs is also included within the 2014/15 budget, offset by an expected increase in fare box revenues resulting from the annual fares review.

Furthermore, employee costs are also expected to increase in 2014/15 and a similar provision to that which has been made in 2013/14 is also accommodated in the 2014/15 budget.

The net effect of these adjustments is in the order of £2.0m. All other budgets with the exception of a £0.130m increase in the reserve funded provision for the Bus Strategy Delivery Project are at standstill.



## 6 Providing Funding / Savings to Districts with a Fixed Levy

- 6.1 Chief Executives and Treasurers / Finance Directors have developed an option whereby the ITA could provide better value to Districts within the existing levy either by a revenue cash contribution (grant) to Districts for transport or highway related revenue or capital activities; or alternatively for the ITA or Nexus to take on temporary responsibility for activity currently funded by Districts and fund these from within the levy.
- 6.2 It is possible for the ITA and Nexus to release some one-off reserve funds as a result of efficiency savings in Nexus which has meant that the expected drawdown of reserves in 2012/13 and 2013/14 is likely to be less than anticipated when the 2011/12 budget was agreed. Following a discussion between ITA and Nexus officers it is envisaged that up to £4m could be released back to Districts over the next two years if there is no reduction in the levy in 2013/14 (as planned) and also a cash freeze for 2014/15. The funds would be released in line with the levy calculation, with £2m released in 2013/14 and the balance in 2014/15.
- 6.3 The distribution of the funds between the Districts would be on the basis of the Levy (i.e. population), as set out in the table below. Figures for 2014/15 are therefore indicative and could vary slightly when the population figures for that year are announced.

|                | <b>2013/14</b>   | <b>2014/15</b>   | <b>Total</b>     |
|----------------|------------------|------------------|------------------|
| Gateshead      | 362,829          | 361,689          | <b>724,518</b>   |
| Newcastle      | 505,570          | 508,597          | <b>1,014,167</b> |
| North Tyneside | 364,460          | 364,749          | <b>729,209</b>   |
| South Tyneside | 268,454          | 267,711          | <b>536,165</b>   |
| Sunderland     | 498,687          | 497,254          | <b>995,941</b>   |
| <b>TOTAL</b>   | <b>2,000,000</b> | <b>2,000,000</b> | <b>4,000,000</b> |

- 6.4 It might be that for tax planning purposes, the £2m release to the Districts is achieved via revenue support grant being held back from Nexus by the ITA and distributed to the Districts directly. For this reason, the ITA is being asked to approve in principle that



REPORT FOR DECISION

this transaction be effected in this way if the ITA Acting Clerk and Treasurer and Nexus Director of Finance and Resources jointly determine that this is the most appropriate way forward.

- 6.5 It is envisaged that the £2m of grant support will help Districts fund transport and/or highways related expenditure. Each District is providing the Acting Clerk with a schedule of eligible items that would be funded by the grant from the ITA and it is intended that these be circulated to the ITA when available.

## **7 Risks and Next Steps**

---

- 7.1 This report sets out a clear position for 2013/14, whereby a balanced budget has been set with use of some reserves in order to protect front line transport services. Temporary use of reserve funding in this way is in line with recent recommendations from the Secretary of State for Local Government. However, use of reserves can only be temporary, and is not a sustainable position in the medium to long term.
- 7.2 There is therefore a need to fully review the position during the summer of 2013, when the outcome of Concessionary Travel funding lobbying, the Bus Strategy negotiations with operators, review of Nexus and other saving proposals will be fully understood, with the intention of agreeing a sustainable medium term position for 2014/15 onwards.

## **8 Potential impact on objectives**

---

- 8.1 Maintaining the cash freeze in the levy for 2013/14 (agreed within the three year financial strategy for 2011/12 to 2013/14) will allow the ITA and Nexus to meet its objective of maintaining front line services while working to deliver long term savings in the cost of the bus network.



## Summary

|  | 2012/12<br>Budget<br>£m | 2012/13<br>Forecast<br>£m | 2013/14<br>Budget<br>£m |
|--|-------------------------|---------------------------|-------------------------|
| <b>ITA/Nexus</b>                               |                         |                           |                         |
| <b>Expenditure</b>                             |                         |                           |                         |
| ITA Budget                                     | 3.477                   | 3.447                     | 3.408                   |
| Nexus Budget                                   | 114.039                 | 113.007                   | 115.059                 |
| <b>Total</b>                                   | <b>117.516</b>          | <b>116.454</b>            | <b>118.467</b>          |
| <b>Income</b>                                  |                         |                           |                         |
| Levy on Tyne & Wear District Councils          | (70.207)                | (70.207)                  | (70.207)                |
| Nexus Direct Grants                            | (42.162)                | (43.070)                  | (42.639)                |
| Use of ITA Revenue Reserves                    | (0.191)                 | (0.162)                   | (0.122)                 |
| Use of Nexus Revenue Reserves                  | (4.956)                 | (3.017)                   | (5.500)                 |
| <b>Total</b>                                   | <b>(117.516)</b>        | <b>(116.454)</b>          | <b>(118.467)</b>        |
| <b>Tyne Tunnels</b>                            |                         |                           |                         |
| (Surplus)/Deficit on Tyne Tunnels              | 1.406                   | 1.405                     | 0.962                   |
| NESTI reimbursement from Tyne Tunnels reserves | 4.464                   | 4.249                     | 0.990                   |

## Detailed ITA Revenue Budget

|                                       | 2012/12<br>Budget<br>£ | 2012/13<br>Forecast<br>£ | 2013/14<br>Budget<br>£ |
|---------------------------------------|------------------------|--------------------------|------------------------|
| <b>ITA Administration</b>             |                        |                          |                        |
| ITA Support – Service Level Agreement | 285,720                | 280,000                  | 285,080                |
| External Audit Fee                    | 29,340                 | 19,560                   | 19,560                 |
| Members Allowances and Expenses       | 86,300                 | 86,300                   | 86,300                 |
| Conferences, Travel and Subsistence   | 4,000                  | 4,000                    | 4,000                  |
| Accommodation Charges                 | 6,120                  | 6,120                    | 6,120                  |
| Subscriptions                         | 29,740                 | 29,740                   | 28,975                 |
| IT Development                        | 22,000                 | 10,000                   | 20,000                 |
| Supplies and Services                 | 17,200                 | 17,200                   | 17,200                 |
| Scrutiny Advisory Group               | 4,700                  | 2,000                    | 4,700                  |
| Pension Deficit Payments              | 455,090                | 455,090                  | 479,210                |
| Financing Charges                     | 2,561,720              | 2,567,700                | 2,474,830              |
| Interest Income                       | (25,000)               | (30,000)                 | (20,000)               |
| <b>Net Expenditure on ITA Budget</b>  | <b>3,476,930</b>       | <b>3,447,710</b>         | <b>3,407,970</b>       |

## Detailed Tyne Tunnels Revenue Budget

|  | 2012/12<br>Budget<br>£m | 2012/13<br>Forecast<br>£m | 2013/14<br>Budget<br>£m |
|--|-------------------------|---------------------------|-------------------------|
| <b>TT2 Contract</b>                                      |                         |                           |                         |
| Tolls Income   | (19.770)                | (19.700)                  | (23.600)                |
| Contract Payments  | 14.030                  | 14.130                    | 17.200                  |
| <b>Tyne Tunnels Expenses</b>                             |                         |                           |                         |
| Employees  | 0.033                   | 0.033                     | 0.035                   |
| Pension Deficit Payments                                 | 0.525                   | 0.525                     | 0.553                   |
| Support Services – Service Level Agreement               | 0.145                   | 0.130                     | 0.140                   |
| Supplies and Services                                    | 0.055                   | 0.050                     | 0.050                   |
| NTC Community Fund                                       | 0.010                   | 0.010                     | 0.010                   |
| Financing Charges  | 6.700                   | 6.637                     | 6.874                   |
| Other Income   | (0.322)                 | (0.460)                   | (0.300)                 |
| Costs of Official Opening                                | 0.000                   | 0.050                     | 0.000                   |
| <b>(Surplus)/Deficit on Tyne Tunnels Trading Account</b> | <b>1.406</b>            | <b>1.405</b>              | <b>0.962</b>            |

## Detailed Nexus Revenue Budget

## FINANCIAL SUMMARY – 2012/13 FORECAST

| Cost centre                                    | Gross Costs<br>£m | Commercial<br>Income<br>£m | Net Costs<br>£m | Grants<br>£m    | Net before<br>Capital Adjust<br>£m | Capital Adjust<br>£m | 2012/13 Net<br>£m |
|--|-------------------|----------------------------|-----------------|-----------------|------------------------------------|----------------------|-------------------|
| Concessionary Travel                           | 50.121            | (2.387)                    | 47.734          | 0.000           | 47.734                             | 0.000                | 47.734            |
| Metro  | 82.098            | (42.604)                   | 39.494          | (25.074)        | 14.420                             | (13.617)             | 0.803             |
| Ferry  | 1.557             | (0.489)                    | 1.068           | 0.000           | 1.068                              | (0.197)              | 0.871             |
| Rail   | 3.394             | 0.000                      | 3.394           | (3.394)         | 0.000                              | 0.000                | 0.000             |
| Bus Services                                   | 17.941            | (5.996)                    | 11.945          | 0.000           | 11.945                             | (0.132)              | 11.813            |
| Bus Infrastructure                             | 3.400             | (0.564)                    | 2.836           | 0.000           | 2.836                              | (0.497)              | 2.339             |
| Information and Promotion                      | 3.867             | (1.239)                    | 2.628           | 0.000           | 2.628                              | (0.049)              | 2.579             |
| Business Development                           | 1.788             | (0.229)                    | 1.559           | 0.000           | 1.559                              | (0.110)              | 1.449             |
| <b>Total Operations</b>                        | <b>164.166</b>    | <b>(53.508)</b>            | <b>110.658</b>  | <b>(28.468)</b> | <b>82.190</b>                      | <b>(14.602)</b>      | <b>67.588</b>     |
| Revenue Contributions to Capital               | 2.349             | 0.000                      | 2.349           | 0.000           | 2.349                              |                      | 2.349             |
| Contribution to District Transport Initiatives | 0.000             | 0.000                      | 0.000           | 0.000           | 0.000                              |                      | 0.000             |
| Net Movement in Capital Reserve                | 0.000             | 0.000                      | 0.000           | (14.602)        | (14.602)                           | 14.602               | 0.000             |
| <b>Total Nexus requirement</b>                 | <b>166.515</b>    | <b>(53.508)</b>            | <b>113.007</b>  | <b>(43.070)</b> | <b>69.937</b>                      | <b>0.000</b>         | <b>69.937</b>     |
| Revenue Grant from ITA Levy                    |                   |                            |                 |                 |                                    |                      | (66.920)          |
| <b>Deficit for the Year</b>                    |                   |                            |                 |                 |                                    |                      | <b>3.017</b>      |

## Detailed Nexus Revenue Budget

## FINANCIAL SUMMARY – 2013/14 BASE

| Cost centre                                    | Gross Costs<br>£m | Commercial<br>Income<br>£m | Net Costs<br>£m | Grants<br>£m    | Net before<br>Capital Adjust<br>£m | Capital Adjust<br>£m | 2013/14 Net<br>£m |
|--|-------------------|----------------------------|-----------------|-----------------|------------------------------------|----------------------|-------------------|
| Concessionary Travel                           | 49.775            | (2.407)                    | 47.368          | 0.000           | 47.368                             | 0.000                | 47.368            |
| Metro  | 82.816            | (43.317)                   | 39.499          | (24.897)        | 14.602                             | (13.603)             | 0.999             |
| Ferry  | 1.537             | (0.537)                    | 1.000           | 0.000           | 1.000                              | (0.176)              | 0.824             |
| Rail   | 3.494             | 0.000                      | 3.494           | (3.494)         | 0.000                              | 0.000                | 0.000             |
| Bus Services                                   | 18.253            | (5.454)                    | 12.799          | 0.000           | 12.799                             | (0.070)              | 12.729            |
| Bus Infrastructure                             | 3.255             | (0.583)                    | 2.672           | 0.000           | 2.672                              | (0.266)              | 2.406             |
| Information and Promotion                      | 3.793             | (1.341)                    | 2.452           | 0.000           | 2.452                              | (0.083)              | 2.369             |
| Business Development                           | 1.615             | (0.189)                    | 1.426           | 0.000           | 1.426                              | (0.050)              | 1.376             |
| <b>Total Operations</b>                        | <b>164.538</b>    | <b>(53.828)</b>            | <b>110.710</b>  | <b>(28.391)</b> | <b>82.319</b>                      | <b>(14.248)</b>      | <b>68.071</b>     |
| Revenue Contributions to Capital               | 2.349             | 0.000                      | 2.349           | 0.000           | 2.349                              |                      | 2.349             |
| Contribution to District Transport Initiatives | 2.000             | 0.000                      | 2.000           | 0.000           | 2.000                              |                      | 2.000             |
| Net Movement in Capital Reserve                | 0.000             | 0.000                      | 0.000           | (14.248)        | (14.248)                           | 14.248               | 0.00              |
| <b>Total Nexus requirement</b>                 | <b>168.887</b>    | <b>(53.828)</b>            | <b>115.059</b>  | <b>(42.639)</b> | <b>72.420</b>                      | <b>0.000</b>         | <b>72.420</b>     |
| <b>Revenue Grant from ITA Levy</b>             |                   |                            |                 |                 |                                    |                      | <b>(66.920)</b>   |
| <b>Deficit for the Year</b>                    |                   |                            |                 |                 |                                    |                      | <b>5.500</b>      |

## Detailed Nexus Revenue Budget

## FINANCIAL SUMMARY – 2014/15 BASE

| Cost centre                                    | Gross Costs<br>£m | Commercial<br>Income<br>£m | Net Costs<br>£m | Grants<br>£m    | Net before<br>Capital Adjust<br>£m | Capital Adjust<br>£m | 2014/15 Net<br>£m |
|--|-------------------|----------------------------|-----------------|-----------------|------------------------------------|----------------------|-------------------|
| Concessionary Travel                           | 49.775            | (2.407)                    | 47.368          | 0.000           | 47.368                             | 0.000                | 47.368            |
| Metro  | 86.043            | (44.117)                   | 41.926          | (24.888)        | 17.038                             | (14.153)             | 2.885             |
| Ferry  | 1.561             | (0.537)                    | 1.024           | 0.000           | 1.024                              | (0.176)              | 0.848             |
| Rail   | 3.494             | 0.000                      | 3.494           | (3.494)         | 0.000                              | 0.000                | 0.000             |
| Bus Services                                   | 18.406            | (5.454)                    | 12.952          | 0.000           | 12.952                             | (0.070)              | 12.882            |
| Bus Infrastructure                             | 3.280             | (0.583)                    | 2.697           | 0.000           | 2.697                              | (0.266)              | 2.431             |
| Information and Promotion                      | 3.798             | (1.341)                    | 2.457           | 0.000           | 2.457                              | (0.083)              | 2.374             |
| Business Development                           | 1.652             | (0.189)                    | 1.463           | 0.000           | 1.463                              | (0.050)              | 1.413             |
| <b>Total Operations</b>                        | <b>168.009</b>    | <b>(54.628)</b>            | <b>113.381</b>  | <b>(28.382)</b> | <b>84.999</b>                      | <b>(14.798)</b>      | <b>70.201</b>     |
| Revenue Contributions to Capital               | 2.349             | 0.000                      | 2.349           | 0.000           | 2.349                              |                      | 2.349             |
| Contribution to District Transport Initiatives | 2.000             | 0.000                      | 2.000           | 0.000           | 2.000                              |                      | 2.000             |
| Net Movement in Capital Reserve                | 0.000             | 0.000                      | 0.000           | (14.798)        | (14.798)                           |                      | 0.000             |
| <b>Total Nexus requirement</b>                 | <b>172.358</b>    | <b>(54.628)</b>            | <b>117.730</b>  | <b>(43.180)</b> | <b>74.550</b>                      | <b>0.000</b>         | <b>74.550</b>     |
| <b>Revenue Grant from Levy</b>                 |                   |                            |                 |                 |                                    |                      | <b>(66.920)</b>   |
| <b>Deficit for the Year</b>                    |                   |                            |                 |                 |                                    |                      | <b>7.630</b>      |

## **Tyne and Wear Integrated Transport Authority Annual Minimum Revenue Provision (MRP) statement for 2013/14 under the Capital Finance and Accounting Amendment Regulations 2008**

### **1. Summary**

The Authority is required to produce a MRP statement which sets out how it will provide for the repayment of any debt. This is the sixth such statement produced by the ITA to recommend which option will be used to calculate the MRP. The regulations provide four options (which are detailed in section 5 below).

### **2. Recommendation**

The MRP guidance offers four options on how to calculate MRP, which is the minimum revenue provision set aside for the repayment of debt. Having considered the options it is recommended to agree the adoption for MRP arrangements in 2013/14 of:

- Option 1 for supported capital borrowing, which is a continuation of the previous practice of a 4% minimum revenue provision;
- Option 3 on unsupported capital borrowing (known as Prudential Borrowing), repaying the debt in equal annual instalments over the estimated life of the asset;
- Option 3 on unsupported capital borrowing for the New Tyne Crossing, repaying the debt over the life of the asset on an annuity basis. This basis is beneficial for use in the New Tyne Crossing project as the back-loading of the MRP using the annuity method is consistent with the principal repayment of debt included in the New Tyne Crossing model which will be repaid at the end of a 30 year period. The New Tyne Crossing model reflects an increase in traffic and tolls over the 30 year life which is consistent with back loading the principal repayments.

The ITA has no supported capital expenditure which requires borrowing in 2013/14, since from 1 April 2008 the Integrated Transport Allocation has been provided in the form of capital grant.

More details on the regulations are provided below:

### **3. Background**

Under regulation 27 of the 2003 Regulations, Local Authorities are required to charge to their revenue account for each financial year an amount of MRP to account for the cost of their debt in that year. Prior to its amendment by the 2008 regulations, regulation 28 set out the method authorities were required to follow in calculating MRP. For the financial year 2007/08 and subsequent financial years, the detailed calculation has been replaced with a requirement that local authorities calculate an amount of MRP *which they consider to be prudent*. This guidance is issued under section 21 (1A) of the 2003 Act

#### 4. Previous Practice

Prior to 2007/08 the calculation of MRP was done via the Regulatory Method under regulation 28, i.e. MRP is equal to 4% of the Capital Financing Requirement (CFR) at the end of the preceding financial year.

#### 5. Options for calculation of Minimum Revenue Provision

The Revised MRP Guidance offers four options for prudent provision. These four options are:

##### Option 1 – Regulatory Method

For debt which is supported by Revenue Support Grant (RSG), authorities will be able to continue to use the formulae in the current regulations 28 and 29 of the 2003 Regulations, since the RSG is calculated on that basis. This option will be available for all capital expenditure prior to 1 April 2008.

##### Option 2 – CFR Method

This can be used on supported debt and is similar to Option 1. While still based on the concept of the CFR, which is easily derived from the balance sheet, it avoids the complexities of the formulae in Regulation 28. This option will be available for all capital expenditure prior to 1 April 2008.

##### Option 3 – Asset Life Method

For new borrowing under the Prudential system for which no government support is given and is therefore self-financed, there will be two options. Option 3 is to make MRP provision in either:

- Equal annual instalments over the estimated life of the asset for which the borrowing is undertaken. The original estimate of the life is determined at the outset and should not be changed in later years, even if in reality the asset has changed significantly; or
- Annuity Method – this method has the advantage of linking the MRP to the flow of benefits from an asset where the benefits are expected to increase in later years.

The formula allows an Authority to make voluntary extra provision in any year. Freehold land cannot have a life attributed to it and should be treated as a maximum of 50 years.

##### Option 4 – Depreciation Method

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

For this purpose standard depreciation accounting procedures should be followed, except in the following respects:

- a) MRP should continue to be made annually until the cumulative amount of the provision is equal to the expenditure originally financed by borrowing or credit arrangements. After that, the Authority may cease to make MRP;
- b) On disposal of the asset, the amount of the capital receipt cannot be taken to the revenue account and the Authority must comply with the normal requirements of the 2003 Act on the use of capital receipts, i.e. receipts go to the balance sheet;
- c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

**Conditions**

Options 1 and 2 can only be used in relation to:

- a) Capital expenditure before 1 April 2008, and
- b) Capital expenditure incurred on or after that date which the Authority is satisfied forms part of its Supported Capital Expenditure.

Options 3 and 4 should be used on all capital expenditure incurred on or after 1 April 2008 which is financed by borrowing or credit arrangements and which does not form part of the Authority's Supported Capital Expenditure, i.e. Prudential Borrowing.

Option 3 can be used for all capital expenditure.

**CFR adjustment**

Where an Authority has used Option 3 or 4, the CFR for the purpose of Options 1 and 2 should be treated as not being increased by the amount of the expenditure on the asset to prevent double counting. In addition, the CFR should not be treated as being decreased by the amount of MRP made under Options 3 and 4.