



North East Joint Transport Committee

Wednesday, 23rd October, 2019 at 2.00 pm

Meeting to be held in the Blaydon Room, Gateshead Civic Centre, Regent Street, Gateshead, NE8 1HH

AGENDA

Page No

1. **Apologies for Absence**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer). Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes of the last meeting held on 17 September 2019**

3 - 6

4. **Budget Proposals**

7 - 20

5. **Nexus Budget Strategy - Medium Term Financial Planning 2020/21 - 2022/23**

21 - 32

6. **Date of Next Meeting**

The next meeting will be held on Tuesday 19 November at 2pm at South Shields Town Hall.



North East Joint Transport Committee

DRAFT MINUTES TO BE APPROVED

17 September 2019

Meeting held in the Mansion House, Newcastle upon Tyne

Present:

Councillor: M Gannon (Chair)

Councillors: W Daley, C Johnson, J McCarty and M Walsh
Mayor J Driscoll

14 APOLOGIES FOR ABSENCE

Apologies were received from Councillors S Henig, I Malcolm, C Marshall, G Miller, and M Mordey and Mayor N Redfearn.

15 DECLARATIONS OF INTEREST

None.

16 MINUTES OF THE PREVIOUS MEETING HELD ON 18 JUNE 2019

The minutes of the previous meeting were approved as a correct record.

17 REGIONAL TRANSPORT UPDATE

The Joint Transport Committee received a report on recent developments in transport affecting the LA7 area which included information regarding finalisation of the region’s Transforming Cities Fund to be submitted to Government at the end of November 2019, progress on the new North East Transport Plan, engagement in proposals to improve rail connections through the HS2 rail link and Northern Powerhouse Rail, formulation of a campaign strategy to highlight the current problems with East Coast Main Line, an update on the new Northern Connect local rail service between Middlesbrough and Carlisle via Newcastle, an update on NEBus, progress on the delivery of 11 electric vehicle charging hubs funded through the Go Ultra Low North East Programme, and the reopening of the Tyne Pedestrian and Cycling Tunnels.

It was proposed that a Tyne Tunnels Manager post be created, reporting to the Managing Director Transport North East, to manage the client-side aspects of the Tyne Tunnels Project Agreement.

- RESOLVED -
- (i) That the contents of the report be noted.
 - (ii) That the creation of the post of Tyne Tunnels Manager, as set out in the report, be approved.

18 NORTH EAST RAIL DEVOLUTION UPDATE

The Joint Transport Committee received a report on emerging updates on the Williams review of rail franchising and on the development of the region's plans to strive for greater control and accountability over the specification and operation of local rail services.

- RESOLVED - That the updates be noted.

19 DISCHARGE OF TRANSPORT FUNCTIONS BY NORTHUMBERLAND COUNTY COUNCIL 2018/19

The Joint Transport Committee received a report on the discharge by Northumberland County Council of the functions delegated to it by the Committee in the financial year 2018/19.

- RESOLVED - That the transport responsibilities of Northumberland County Council and the activities undertaken in 2018/19 be noted.

20 CAPITAL PROGRAMME MONITORING REPORT

The Joint Transport Committee received a report which provided details of the 2019/20 capital programme with expenditure and forecasts based on the position at the end of July/August 2019.

Total expenditure on transport schemes of £92.303m was forecast against the revised programme budget of £93.778m. The revised programme took account of the 2018/19 outturn and new grant approvals made since the original capital programme was set in January 2019. Expenditure to date totalled £20.543m.

- RESOLVED - That the contents of the report be noted.

21 REVENUE BUDGET MONITORING REPORT

The Joint Transport Committee received a report which provided an update on the forecast outturn position in relation to the 2019/20 transport revenue budget.

The forecast outturn position for the year was that expenditure was expected to be within the revised budget against all budget heads.

Underspends were currently forecast by Durham and Northumberland County Councils which will be retained by those organisations. Nexus was forecasting a deficit of £3.500m due to cost pressures and one-off items, which will be met by Nexus reserves in year.

The Tyne Tunnels account was forecasting a small reduction in tolls income.

RESOLVED - That the contents of the report be noted.

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North East Joint Transport Committee

Date: 23 October 2019
Subject: Budget Proposals 2020/21
Report of: Chief Finance Officer

Executive Summary

This report provides a summary of the proposed draft Transport budget and levies for 2020/21 and provides an update on the position in the current year. The report also includes indicative summary budget information for 2021/22 and 2022/23.

In terms of the current year, the transport levies and grants to Durham, Northumberland and Nexus are fixed for the year, so the outturn will be in line with the original budget allocations.

The budget strategy outlined in this report is based on an assumption of a levy for 2020/21 for Tyne and Wear in line with the current year, representing a cash freeze. On this basis, the proposed levy for 2020/21 would be £61.1m. Nexus is anticipating significant budget pressures over the medium term and will need to factor a levy freeze into its planning assumptions for 2020/21 and over the medium term.

Durham and Northumberland are currently developing their transport budget proposals for 2020/21 and future years, which will be reported to the next meeting and which will determine the total for their levies.

It is proposed to continue the contribution of £10,000 per authority which is retained from the Durham and Northumberland levies and which funds the work of the Joint Transport Committee, including contributions to the post of the Managing Director, Transport North East and the Transport Strategy Unit. The contribution from the Tyne and Wear levy to fund central activity will be £2.1m (in line with current allocations), which is mainly used to meet costs relating to the operation of the former Tyne and Wear Integrated Transport Authority.

It is proposed that funding for the Transport Strategy Unit from the Local Transport Plan Integrated Transport Block grant is maintained at the current level of £500,000 (£62,500 per council and Nexus).

The forecast position for 2019/20 for the Tyne Tunnels revenue account is for a breakeven position after making additional provision for the repayment of debt and the costs of the new Tyne Tunnel Manager. The estimates for 2020/21 build in the full year costs of the new Tyne Tunnels Manager position and also indicate a breakeven position next year. Provision

has been made for one off costs of the Tyne Pass Project in the current and next year. The draft budget estimates for 2020/21 have been prepared on the basis that increases in the Retail Price Index will trigger an increase in the toll for Class 3 vehicles (HGVs) next year.

Recommendations

The North East Joint Transport Committee is recommended to:

- i. Receive this report for consideration and comment;
- ii. Note the projected outturn position for the 2019/20 Transport budget, as set out in the report;
- iii. Consider the following budget assumptions / proposals and agree to these forming the basis of consultation on the 2020/21 Transport Budget:
 - a. That the 2020/21 Transport Levy for Tyne and Wear is indicatively to be set at £61.1m, which represents a cash freeze compared with the current year;
 - b. That the revenue grant to Nexus for 2020/21 is indicatively proposed to be set at £59.0m, which is a cash freeze compared with the current year total;
 - c. That contributions of £500,000 to the Transport Strategy Unit are top sliced from Local Transport Plan Integrated Transport Block grant received by the JTC in 2020/21;
 - d. That the Tyne Tunnels Tolls are proposed to be increased to keep pace with inflation and the increase in the shadow toll payable to the concessionaire TT2 Ltd., in line with the concession contract and the agreed approach to the funding of the Tyne Tunnels. (Note: The decision to increase the Tyne Tunnel Tolls will be taken by the Tyne and Wear Sub Committee in January 2020)
- iv. Note the indicative budget forecasts for 2021/22 and 2022/23, as set out in the report;
- v. Note that the budget proposals for Transport will be subject to a consultation process including reports to the Joint Transport Committee Overview and Scrutiny Committee, Joint Transport Committee Audit Committee, relevant officer groups and the Leadership Board of NECA and the NTCA Cabinet;
- vi. Note the intention to consider the Transport Budget in more detail at the next meeting on 19 November 2019, and to approve the budget and agree the Transport Levies at the meeting of the JTC on 21 January 2020, after considering any comments received on the proposals and decisions reached by the Tyne and Wear Sub Committee in January 2020.

1. Background Information

- 1.1 The North East Joint Transport Committee receives funding from a variety of sources including the levies on Durham, Northumberland and Tyne and Wear councils, Tyne Tunnels tolls income, grant funding and interest income. This funding is used to deliver the transport objectives of the Committee through the provision of revenue grants to Durham and Northumberland councils and Nexus for the delivery of public transport services, the funding of the Tyne Tunnels and the provision of the Transport Strategy Unit which works on behalf of the Joint Transport Committee to provide it with relevant information and policy choices and deliver its policies at a regional level.
- 1.2 In line with the Transport Levying Bodies Regulations 1992, the transport levies must be issued by 15 February preceding the commencement of the financial year in respect of which they are to be issued.
- 1.3 This report summarises the process and timetable for approval of the levies and other budgets relating to the Joint Transport Committee and sets out initial proposals for these budgets. The proposals will be further developed and consulted upon in the coming months, and reports will be presented to the committee at its meetings on 19 November 2019 and 21 January 2020. The report includes indicative budget forecasts for 2021/22 and 2022/23.
- 1.4 Appendix 1 shows the timetable for the agreement of the Joint Transport Committee budget for 2020/21. The timetable is in line with the requirements of the constitution agreed by the North East Combined Authority, who are the accountable body for transport matters.

2. Proposals

Transport Levies

- 2.1 As the transport levies and revenue grants are normally fixed for the year there is no change in the levies payable and grants payable between the original budget and the forecast outturn, and minimal change in the retained transport levy budget. Any surplus or deficit against the budgets for the three main delivery agencies (Durham County Council, Northumberland County Council and Nexus) is retained or managed within the reserves of that organisation.
- 2.2 A proportion of the levies is retained to support the work of the JTC and meet historic costs relating to the former Tyne and Wear Integrated Transport Authority (TWITA). This budget is expected to underspend slightly due to lower interest charges than originally budgeted on historic Tyne and Wear Transport debt and the forecast underspend will be transferred to the JTC retained reserves at year end.

Table 1: 2019/20 Transport Levies and Grants

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance
	£000	£000	£000
Total Transport Levies	(82,766)	(82,766)	0
Grant to Durham	15,552	15,552	0
Grant to Northumberland	6,094	6,094	0
Grant to Nexus	55,667	55,667	0
Contribution to Metro Fleet Replacement reserve	3,333	3,333	0
Retained Transport Levy budget	2,120	2,091	(29)
Net	-	(29)	(29)
Contribution to/ (from) JTC unearmarked reserves	-	29	29

Tyne and Wear Levy

- 2.3 The 2020/21 levy for Tyne and Wear is assumed to be a cash freeze for 2020/21 and totals £61.1m. The grant from the levy for Nexus has been reduced by £15.2m (20%) over the last 10 years as local authorities have managed extremely challenging central government funding settlements. Nexus are expecting some significant financial pressures over the medium term. The impact of retaining the levy for Tyne and Wear authorities at the current level will be carefully considered by Nexus and future budget reports will set out the likely impact on the Nexus medium term financial plan as cost pressures and details of available income are further refined.
- 2.4 The distribution of the levy within Tyne and Wear is based on population, in accordance with the Transport Levying Bodies Regulations 1992. The amounts levied on each individual authority need to be adjusted to reflect the mid-year population estimate for 2018. Increases in the share of the population for Newcastle and North Tyneside mean that the share of the levy for these authorities will increase in 2020/21, while there will be compensating small decreases for Gateshead, South Tyneside and Sunderland in 2020/21. Based on a levy freeze, the proposed levy for each of the Tyne and Wear councils next year is shown below:

Table 2: Distribution of Proposed Tyne and Wear Transport Levy

	2019/20 T&W Transport levy	2018 Mid-Year Population Estimate	2020/21 T&W Transport Levy Proposal	Levy Change Year on Year	Levy Change Year on Year
Tyne & Wear	£		£	£	%
Gateshead	10,949,433	202,508	10,888,380	(61,054)	(0.56)
Newcastle	16,002,955	300,196	16,140,834	137,879	0.86
North Tyneside	11,060,540	205,985	11,075,330	14,790	0.13
South Tyneside	8,089,866	150,265	8,079,396	(10,469)	(0.13)
Sunderland	14,997,206	277,417	14,916,061	(81,145)	(0.54)
Total	61,100,000	1,136,371	61,100,000	0	0.00%

Nexus

- 2.5 A separate report on draft budget proposals for Nexus is included on the JTC agenda. This sets out the significant cost pressures which are affecting the Nexus budget for 2019/20 and future years, and the impact of a range of scenarios on the forecast budget deficit: a cash freeze in the grant from the Tyne and Wear Levy, a 2% increase in 2020/21 and the deployment of reserves to cushion the impact of budget pressures over the medium term as a short term measure to set a balanced budget.
- 2.6 This consolidated report is prepared on the basis of one of these scenarios (a cash freeze). These planning assumptions will be updated as necessary for the report to the next meeting of the Joint Transport Committee on 19 November 2019 to reflect the views from this meeting and other consultations.

Transport Strategy Unit

- 2.7 The Transport Strategy Unit (TSU) (previously referred to as the Regional Transport Team) supports the Joint Transport Committee, providing relevant information to support policy choices and to deliver policies at a regional level. The TSU's activities include developing and maintaining:
- The Transport vision and plan;
 - The funding plan and bids for external funding;
 - Input into the LEP's strategies and plans on transport, and local business organisations;
 - A project pipeline and assurance framework;
 - Responses to transport consultations and policy-making opportunities by government and other external agencies;
 - Input into Transport for the North (TfN)'s pan-Northern policies and plans; and

- Relationships with other authorities (whether local, combined, national or sub-national) with whom the Joint Transport Committee may share a common interest.

2.8 During 2018/19 and 2019/20 the capacity of the TSU has been temporarily enhanced through secondments and fixed term contracts to prepare the bid against Transforming Cities Fund Tranche 2. This work will be complete before the end of the current financial year. The 2020/21 draft budgets have not made any assumptions on funding to be received from the Transforming Cities Fund Tranche 2 bid. Should the bid be successful, costs of programme management have been built into the bid and the budget for 2020/21 and future years will be updated accordingly.

2.9 In addition to the significant current activity of developing the Transport Plan and related delivery programmes, some other major upcoming policy developments could potentially include the development of a new bus strategy, the expansion of the Metro and local rail network, developing a model for rail devolution, and growing the programme to increase the uptake of walking and cycling. Further work is required in considering the scope of these developments, with funding packages to be agreed once requirements are clearer. There are also significant funding opportunities for well-developed bids along with a need for strong delivery programme management.

2.10 The TSU is funded through contributions from the Transport Levies which are retained to support JTC activity, a top-slice of the Local Transport Plan Integrated Transport Block grant which is awarded to the JTC and external contributions to some specific posts.

2.11 A summary of the forecast position for 2019/20 including the TCF bid resources (which was agreed after the original budget was set in January 2019) and the initial proposed budget for 2020/21 is set out in the table below. The budget for 2020/21 and future years will be updated once the updated Transport Plan is agreed which will set clear priorities for the work of the TSU.

Table 3: Transport North East Strategy Unit Budget

	2019/20 Original Budget	2019/20 Forecast Outturn	2019/20 Forecast Variance	2020/21 Initial Estimates
	£	£	£	£
Gross Expenditure				
Managing Director Transport North East and Transport Strategy Unit	658,405	584,251	(74,154)	692,631
Transport Plan	50,000	70,000	20,000	15,000
Transport Strategy Unit: Research and Development	180,000	183,044	3,044	173,000
Transport Strategy Unit: Travel and Miscellaneous	6,000	14,800	8,800	16,000
	2019/20	2019/20	2019/20	2020/21

	Original Budget	Forecast Outturn	Forecast Variance	Initial Estimates
	£	£	£	£
Transport Strategy Unit: IT/Equipment/Accomm	0	20,000	20,000	20,000
Salaries and secondment costs – Transforming Cities	241,856	233,847	(8,009)	0
Consultancy and other costs of bid preparation – Transforming Cities	191,218	191,218	0	0
Total Expenditure	1,327,479	1,297,159	(30,320)	916,631
Gross Income				
LTP funding - TSU	(500,000)	(500,000)	0	(500,000)
LGF funding - TSU	(100,000)	(100,000)	0	(100,000)
LGF funding - TCF	(100,000)	(100,000)	0	0
LTP/Levy funding - TCF	(233,074)	(233,074)	0	0
Retained Transport Levy	(31,870)	(47,671)	(15,801)	(128,773)
External funding for specific posts	(139,102)	(149,598)	(10,598)	(142,198)
Total Income	(1,104,046)	(1,130,343)	(26,297)	(870,971)
Net	223,433	166,816	(66,617)	45,660
Use of Reserves to Fund Net Expenditure				
Transport Strategy Unit Reserves	(123,433)	0	123,433	(30,660)
Go Smarter legacy funds – Transforming Cities Fund	(100,000)	(100,000)	-	0
Go Smarter legacy funds - Other	0	(30,044)	(30,044)	(15,000)
Earmarked reserves – Transforming Cities Fund	0	(36,772)	(36,772)	0

2.12 The forecast outturn for salaries is significantly less than the original budget due to a number of vacancies in the team which have not yet been filled. These vacancies have offset a cost pressure for pension contributions which has arisen because the budget assumed that employees would all have transferred to the employment of NECA and associated pension savings would have been made. This transfer is unlikely to take place before 1 January 2020. By the end of September 2019, unbudgeted pension costs of £32,518 had been incurred.

2.13 An increase in forecast costs in relation to the Transport Plan is reflected in the 2019/20 outturn as a result of additional work on the Plan requested by the Joint Transport Committee. Go Smarter legacy funds will be used to fund these additional costs.

- 2.14 A new budget line for IT/Equipment and Accommodation costs for the TSU has been added to the forecast outturn for 2019/20 to meet costs which are anticipated to arise from the planned relocation of the TSU to Gateshead Civic Centre.
- 2.15 The original budget for the year contained a significant use of the general reserve which was built up through underspends on the budget in previous years. This is now not forecast to be required in 2019/20 due to anticipated in year savings - particularly in relation to salaries and through the identification of alternative resources to fund activity. An earmarked reserve to part-fund the TCF bid work was established at the end of the 2018/19 financial year to ringfence an underspend in the contribution from the Transport levy and which was not included in the original budget

Tyne Tunnels

- 2.16 The Tyne Tunnels are accounted for as a ring-fenced account within the JTC/NECA budgets, meaning that all costs relating to the tunnels are wholly funded from the toll's income received and Tyne Tunnels reserves, with no call on the levy or other external government funding. The JTC receives all the toll income from the vehicle tunnels, and a payment under the contract with TT2 is determined based on traffic levels. The balance retained by the JTC is to meet other costs associated with the Tyne Tunnels namely interest and principal repayments on borrowing taken out to fund the New Tyne Crossing project and client costs associated with the management of the contract with the concessionaire.
- 2.17 The forecast outturn position for 2019/20 is for a small surplus of around £52,000 which is mainly as a result of additional interest income on balances held by the JTC. Traffic levels have been largely in line with forecasts, slightly higher than in 2018/19 but traffic flow levels remain less than the levels experienced in 2016/17 prior to the commencement of Highways England works at Silverlink in North Tyneside. The forecasts include the costs of the new Tyne Tunnel Manager (currently out for recruitment) and the full year costs of this new role is included in the estimates for 2020/21.
- 2.18 The tables below provide a summary of the forecast for 2019/20 and the indicative budget for 2020/21 and future years.

Table 4: Tyne Tunnels Budget Forecast 2019/20

	2019/20 Original Budget	2019/20 Forecast	Variance
	£000	£000	£000
Tolls Income	-28,090	-28,141	-51
Contract Payments to TT2	21,197	21,221	24
Employees	0	16	16
Historic Pension costs	52	52	0
Support Services	95	145	50
Supplies & Services	45	35	-10
Financing Charges	6,966	6,988	22
Interest/Other Income	-290	-368	-78
Contribution (to)/from Reserves	-25	-52	-27

- 2.19 A new post of Tyne Tunnels Contract Manager was approved by the JTC in September and is currently being advertised. This role will manage the client-side aspects of the Tyne Tunnel Project Agreement with TT2 and act as the principle point of liaison with the Concessionaire so that contractual matters are dealt with in a timely and efficient manner. The part-year costs of the post are built into the revised forecast for 2019/20 and the full year costs from 2020/21 onwards, which is the reason for the variance in Employee costs in the 2019/20 forecast. Once this post is filled and handover has been completed there will be a reduction in the budget for support services, as support has previously been provided by the NECA Chief Finance Officer and Monitoring Officer and individuals at Newcastle City Council.
- 2.20 As previously reported to the Tyne and Wear Sub Committee, TT2 have brought forward proposals to introduce a Tyne Pass process using Automatic Number Plate Recognition as a pre-cursor to a longer term aim of having a free flow system in place in the future where there would be no toll booths on the plazas.
- 2.21 These proposals would require changes to the Tyne Tunnels Byelaws, the Project Agreement and financial model for the contract. A temporary increase in the support services budget for the Tyne Tunnels is therefore proposed for the 2019/20, 2020/21 and 2021/22 financial years to meet the additional costs from the client side of implementing the project, such as external professional advice. This can be met from within the Tyne Tunnels budget and will be kept under review as the project progresses.

Table 5: Tyne Tunnels Initial Estimates 2020/21-2022/23

	2020/21	2021/22	2022/23
	£000	£000	£000
Tolls Income	-28,422	-28,919	-29,642
Contract Payments to TT2	21,633	22,505	22,942
Employees	62	63	65
Historic Pension costs	53	55	56
Support Services	100	102	104
Supplies & Services	46	47	48
Financing Charges	6,756	6,416	6,673
Interest/Other Income	-290	-290	-290
Contribution (to)/from Reserves	-61	-22	-45

2.22 The 2020/21 tolls income estimate assumes an increase in tolls to £3.90 for Class 3 vehicles in line with inflation as measured by the Retail Price Index (RPI) – a year on year increase of £0.10 (2.6%). It is not anticipated that an increase in the tolls for Class 2 vehicles will have been triggered by the increase in RPI until the 2021/22 financial year, as increases can only be applied in 10p increments. These charges are therefore likely to remain at £1.80 in 2020/21.

2.23 In terms of the formal process for the increase in Tolls, if the level of RPI has reached the point at which an increase is possible, a decision to increase tolls will be taken by the Tyne and Wear Sub Committee in January 2020. If a decision to increase the tolls is taken, officers from NECA as the Accountable Body for the JTC will follow the process set out in the Tyne Tunnels Order 2005 to implement the decision of the committee. This will involve advertising the proposed increase in at least one local newspaper and notifying the Department for Transport. Once notified, the Department has 21 days to determine whether to take the order and, if so, the order will be made 28 days before it comes into effect. A decision on the specific date for implementation will be taken in conjunction with TT2, taking into account operational considerations. The increase, if implemented, would come into effect after May 2020 and will be discussed in greater detail with the Tyne and Wear Sub Committee.

3. Reasons for the Proposals

3.1 The proposals are presented here to inform the JTC of work on the preparation of the 2020/21 Transport Budget and to begin the budget consultation process in line with the process set out in the NECA constitution in its role as Accountable Body for Transport. The report sets out indicative forecasts for 2021/22 and 2021/22.

4. Alternative Options Available

4.1 Option 1 – The North East Joint Transport Committee may accept the recommendations set out in the report.

Option 2 – The North East Joint Transport Committee may suggest amendments or alternative proposals be considered.

Option 1 is the recommended option.

5. Next Steps and Timetable for Implementation

5.1 Proposals are at an initial draft stage and further work will be ongoing in developing these further over the coming weeks. More detail will be presented to the JTC at its meeting on 19 November 2019, with a view to recommending formal agreement to the budget and levies in January 2020.

5.2 Appendix 1 shows the budget timetable for setting the 2020/21 budget.

6. Potential Impact on Objectives

6.1 The budget presented in this report is set to achieve the Transport policy objectives of the Authority.

7. Financial and Other Resources Implications

7.1 The financial and other resource implications are summarised in detail in the body of the report where they are known. Further details which are developed as part of the budget development and consultation process will be identified in reports to the November 2019 and January 2020 reports to the Committee.

7.2 The budget strategy outlined in this report is based on a levy for 2020/21 for Tyne and Wear in line with the current year, representing a cash freeze. On this basis the total levy for 2020/21 would be £61.1m. This position would provide a significant challenge for Nexus, who have seen the levy reduced by £15.2m (20%) over the last 10 years and who are expected to face significant financial pressures in the coming three years. The sustainability of retaining the levy for Tyne and Wear authorities at the current level will need to be carefully considered over the medium term.

8. Legal Implications

8.1 The JTC must ultimately approve the transport budget and levies unanimously.

9. Key Risks

9.1 Appropriate risk management arrangements are put in place in each budget area by the delivery agencies responsible. Reserves are maintained to help manage financial risk to the authority.

10. Equality and Diversity

10.1 There are no equality and diversity implications arising from this report.

11. Crime and Disorder

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

12. Consultation/Engagement

12.1 The NECA Constitution (in its role as accountable body for the JTC) requires that consultation on its budget proposals be undertaken at least two months prior to the budget being agreed.

12.2 The extent of public consultation will be proportionate to the impact that the proposals would have on services to the public. At this stage no significant service reductions or implications are expected in 2020/21, however, if the Tyne and Wear levies are frozen again in 2021/22 this will provide a challenge to Nexus. Proposals will be published on the website for comment and included in any budget consultation undertaken by constituent authorities.

13. Other Impact of the Proposals

13.1 There are no other impacts arising from this report.

14. Appendices

14.1 Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

15. Background Papers

15.1 JTC Budget 2019/20 report 22 January 2019

16. Contact Officers

16.1 Eleanor Goodman, NECA Finance Manager,
eleanor.goodman@northeastca.gov.uk, 0191 277 7518

17. Sign off

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

18. Glossary

DfT – Department for Transport

NECA – North East Combined Authority

NTCA – North of Tyne Combined Authority

TfN – Transport for the North

TSU – Transport Strategy Unit

TT2 – TT2 Ltd, Tyne Tunnels Concessionaire

Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

Date	Meeting/Event	Action
14 August 2019	Tyne and Wear Sub-Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
17 September 2019	North East Joint Transport Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
23 October 2019	North East Joint Transport Committee	Initial budget proposals and 3-year forecasts in relation to JTC/Transport budgets. Consultation requirements to be considered / agreed
7 November 2019	Joint Transport Committee Overview and Scrutiny Committee	Examine initial budget and consultation proposals and make any recommendations to the JTC
19 November 2019	North East Joint Transport Committee	Consider updated draft Transport budget proposals and any feedback from JTC Overview & Scrutiny Committee
21 November 2019	Tyne and Wear Sub-Committee	Consider report on the draft budget proposals with specific reference to Tyne and Wear Transport activity
26 November 2019	NTCA Cabinet Meeting	Consider draft Transport budget proposals developed by JTC and implications regarding Transport Levy for constituent authorities as part of the budget consultation process
TBC – Meeting to be arranged w/c 9 December 2019	NECA Leadership Board	Consider the decisions and any recommendations made by the JTC and JTC Overview and Scrutiny Committee
12 December 2019	Joint Transport Committee Audit Committee	Consider budget proposals as part of consultation process
19 December 2019	JTC Overview and Scrutiny Committee	Consider (updated) budget proposals as part of consultation process (if necessary)
21 January 2020	North East Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies
28 January 2020	NTCA Cabinet Meeting	Formally agree to issue the Transport Levy to constituent NTCA authorities

Date	Meeting/Event	Action
4 February 2020	NECA Leadership Board	Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations

North East Joint Transport Committee

Date: 23 October 2019

Subject: Nexus Budget Strategy – Medium Term Financial Planning 2020/21 – 2022/23

Report of: Director of Finance and Resources, Nexus

Executive Summary

This report sets out details of the budget pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular the implications of Nexus preparing its budget for 2020/21.

Recommendations

The North East Joint Transport Committee is recommended to note the contents of this report, consider the implications arising from the budget pressures and issues facing Nexus and provide initial comments in order to inform its approach to its medium term financial plan.

1. Background Information

- 1.1. When the Joint Transport Committee (JTC) agreed Nexus' budget in January 2019, the intention was to use reserves in 2019/20 and 2020/21 with the position thereafter likely to require either additional investment or a review of services given that significant efficiencies had been realised over the last ten years without impacting on service delivery.
- 1.2. The medium-term forecast set out at that time (against Nexus' share of the Tyne and Wear transport levy) is summarised below:

Table 1: Medium Term Financial Forecast (January 2019)

	2019/20	2020/21	2021/22
	£m	£m	£m
ENCTS	34.529	34.594	35.350
Discretionary Concessionary Travel	3.708	3.679	3.867
Metro	1.442	3.605	5.283
Ferry	1.004	1.062	1.128
Local Rail	0.190	0.199	0.215
Bus Services	11.737	12.116	12.615
Bus Infrastructure	2.528	2.576	2.632
Public Transport Information	1.228	1.234	1.321
NET FUNDING REQUIREMENT	56.367	59.066	62.411
JTC GRANT (LEVY)¹	(55.667)	(59.000)	(59.000)
(SURPLUS)/DEFICIT	0.700	0.066	3.411

- 1.3. The net funding requirement is after taking account of government grants, fare revenue and commercial income, most of which is secured in order to run the Tyne and Wear Metro. The net funding requirement represents the reliance Nexus places on the grant it receives from the JTC, which principally funds bus contracts, concessionary fares and public transport infrastructure.
- 1.4. In 2010, the JTC grant (levy) was £74.2m. In 2020/21 it will be £59.0m, a reduction of £15.2m or 20% over the last 10 years. By contrast, funding for the Metro has increased. In the past 5 years, Metro fare revenue has grown by £6.0m (or 15%) whilst Metro Rail Grant (MRG) from the Department for Transport (DfT) has

¹ The JTC Grant / Levy was reduced by £3.333m in 2019/20 in order to part fund the local contribution towards the new fleet of Metrocars. This retained funding, which will amount to £10.000m as at 31 March 2020 is held in an earmarked reserve by the NECA. The £3.333m is reinstated in future years.

increased by £1.6m (or 7%). Consequently, only £1.4m of Nexus' net funding requirement in 2019/20 relates to Metro, whilst Metro's gross budget in 2019/20 is in excess of £100.0m.

1.5. Over the past few years, Nexus has delivered a range of efficiency savings in order to protect frontline services. Most notably:

- Headcount reduced by 20%;
- The cost of operating Metro has reduced by circa £2m per annum after the concession with DB Regio ended in March 2017; and
- A range of other savings have been achieved e.g. in tendered bus services and concessionary fares reimbursement.

1.6. In addition, since 2014, Nexus has generated surpluses of £11m, of which £7m has been invested in transport infrastructure, with the balance increasing usable reserves, which are available to support frontline services.

2. The 2019/20 forecast and its impact on future years

2.1 In the run up to the end of the 2018/19 financial year and in the early part of 2019/20, a number of budget pressures have emerged. The 2019/20 deficit has increased from £0.7m to £4.1m, an increase of £3.4m. It should be noted that £1.1m of this variance relates to the development of Transforming Cities Fund (TCF) bids, such costs being non-recurring and possibly subject to capitalisation and potential recovery from any Transforming Cities Fund allocations once they are known.

2.2 The remainder is mainly explained by:

- A reduction in Metro fare revenue of £1.2m (this equates to over 2% of the farebox) and broadly reflects the outturn position in 2018/19 also;
- A reduction in Secured bus services fare revenue of £0.3m (this equates to circa 10% of the farebox);
- The April 2019 pay award for Nexus (and NEMOL) employees were both 0.5% in excess of the budget provision, adding a £0.3m pressure; Contract inflation relating to high voltage power and cleaning, which are forecast to be £0.5m and £0.2m in excess of budget respectively;
- Responses to catastrophic overhead line failures in May 2019 have added a £0.3m budget pressure;
- Train crew overtime has added a £0.5m pressure; and
- These cost pressures have been mitigated by:
 - The reclassification of capital grant as revenue grant (£0.5m);
 - A reduction in contract costs relating to the secured bus network (£0.3m); and
 - An increase in investment income (£0.2m).

2.3 Without intervention, most of these in-year pressures (and savings) will carry forward to next year, meaning that the full year effect will impact on the three-year forecast, 2020/21 to 2022/23. Broadly speaking, the medium term forecast, updated to take into account these cost pressures is set out in the table below (compared to that which was submitted to the JTC when the 2018/19 budget was set):

Table 2 – Updated Medium Term Financial Forecast

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit (Table 1)	0.7	0.1	3.4	N/A
August 2019 Deficit	4.1	1.6	4.7	7.3
Deterioration in Forecasts	+3.4	+1.5	+1.3	+7.3

2.4 It should be noted that detailed work is ongoing in order to refine these estimates. However, it is evident that pay and contractual inflation, known commitments and additional pressures in order to ‘standstill’ continue to grow, whilst estimates of future revenues at best show only a marginal increase. In compiling these broad estimates for 2020/21 to 2022/23, there is an assumption that:

- Services are maintained at current levels, with previous commitments
- Pay and contract prices (including concessionary fares reimbursement) will broadly increase in line with inflation;
- MRG will increase in line with inflation (increasing from £25.1m to £25.6m, confirmed by DfT on 10 October 2019);
- Metro fares will increase in line with inflation;
- JTC grant will be £59.0m in 2020/21; and
- Nexus’ 2019 pension valuation will continue to show a surplus.

3. Impact of the new Metrocar fleet

3.1 As Nexus prepares to award contracts for the manufacture and supply of its new train fleet and depot, together with the maintenance of its old Metrocars (MMA) and the new train fleet (TSA), it is apparent that there will be additional costs arising, which are not yet factored into the forecast set out in paragraph 2.3 above. These include:

- Fleet engineering costs are expected to increase, although in the time horizon associated with this medium term financial plan, an earmarked reserve created in anticipation of the transition from the old Metrocars to the new trains will help cover this additional cost; and

- Trades unions representing the train crew are seeking an increase in drivers' salaries because of the introduction of a more technologically advanced vehicle with resolution of this issue required prior to testing, commissioning and training, all of which are necessary for the new fleet to be successfully implemented.

3.2 Over the longer term, these costs will be offset by expected increases in Metro fare revenue and reductions in high voltage power consumption, however this will only be realised once the new fleet is operational.

3.3 Although it is too early to accurately assess the increase in costs associated with the introduction of the new fleet, the following table estimates the potential impact:

Table 3 – Forecasts Updated to reflect New Fleet Estimated Impacts

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit	0.7	0.1	3.4	N/A
October 2019 Deficit	4.1	1.6	4.7	7.3
Potential Deficit (incl new fleet)	4.4	2.4	6.0	8.8
Deterioration in Forecasts	+3.7	+2.3	+2.6	+8.8

3.4 The cumulative deficit across the medium term is therefore estimated at circa £21.6m, with a budget shortfall of £4.4m in 2019/20 increasing to £8.8m by 2022/23.

4. Impact of 2019 Spending Round

4.1 The 2019 Spending Round outlined Government spending plans for 2020/21

4.2 The technical consultation relating to the Local Government Finance Settlement for 2020/21 was issued in October 2019. Final details of the settlement for individual local authorities will not be known until later this calendar year. Tyne and Wear local authorities are in the process of considering the potential outcome of the spending round and the implications for their funding for 2020/21. As part of considering available funding, consideration will need to be given to the levy for 2020/21 taking account of the information contained in this report.

4.3 As an example, a 2.0% increase on a base of £59.0m equates to £1.2m. Assuming this was applied in 2020/21, with a freeze thereafter, the impact on Nexus' medium-term forecast is set out below:

Table 4 – Impact of a 2% increase in grant (levy) in 2020/21

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
January 2019 Deficit	0.7	0.1	3.4	N/A
October 2019 Deficit	4.1	1.6	4.7	7.3
Potential Deficit (incl new fleet)	4.4	2.4	6.0	8.8
Impact of 2% increase in JTC grant (20/21 only)	4.4	1.2	4.8	7.6
Deterioration in Forecasts	+3.7	+1.1	+1.4	+7.6

A 1% levy change is approximately £0.6m

4.4 An increase of 2.0% would potentially allow Nexus to pursue some growth initiatives or fund planning studies into future service improvements.

5. Reserves Strategy

5.1 One legitimate means of dealing with the forecast deficit is to deploy reserves. This however can only ever be a short-term measure whilst more sustainable solutions are identified.. Nexus' reserves as at 31 March 2019 amounted to £50.3m², of which:

- £10.0m is assessed as being necessary to cushion the impact of unexpected events or emergencies arising;
- £7.0m is earmarked for capital investment, mainly away from the Metro;
- £3.0m is earmarked to cover the expected increase in the (fleet) MMA;
- £14.0m is earmarked for the new fleet; and
- £16.0m is available to underpin the revenue budget.

5.2 Options for how reserves might be used were discussed with members of TWSC at its policy seminar held on 15 August 2019. These included:

- Using reserves to deal with the in-year deficit only with potentially sizeable service reductions necessary from 2020/21 onwards if the level of grant (levy) to Nexus did not increase accordingly;
- Deploying the full £16.0m reserve until it is fully exhausted, with sizeable service reductions required from 2022/23 onwards if the level of grant (levy) to Nexus did not increase accordingly; and
- Taking a more prudent approach, whereby the budget deficit is only partly addressed through use of reserves, with more modest service reductions phased in over the medium term.

5.3 Feedback from TWSC members was that the more prudent approach should be adopted. Based on this feedback, and factoring in the latest forecasts of budget

² This excludes reserves held by NECA of £6.7m in respect of the new fleet (increasing to £10.0m by 31 March 2020) and £9.2m in respect of the Metro Asset Renewal Programme

pressures, a proposed strategy to deploy reserves is illustrated in the table below³:

Table 5 – Utilising Reserves over the Medium-Term (Levy Freeze assumed)

	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m
Potential Deficit (incl new fleet)	4.4	2.4	6.0	5.8
Potential use of Reserves	-4.4	-2.4	-3.0	-2.8
Potential Deficit (after use of reserves)	-	-	3.0	3.0
Remaining Usable Reserves	11.6	9.2	6.2	3.4

5.4 In the above forecast, there is an assumption that £3m of savings are delivered in 2021/22 and 2022/23, leaving savings of £2.8m to be achieved in 2023/24. At this point remaining reserves would be £3.4m.

6. Potential Impact on Services

6.1 The impact on services would need to be considered if, after use of reserves, and assuming there is no increase in the grant (levy), there was still a deficit to eradicate. This is highlighted in the table above.

6.2 In September 2016, Nexus reported to the TWSC the outcome of its public consultation, 'Have Your Say', which ranked Nexus' services in order of importance⁴.

6.3 The ranking (with 1 denoting the most popular service and one that the public most wished to see protected) is replicated below:

Priority	
1	Bus services, Group travel and Ferry Services
2	Public Transport Information
3	Local Voluntary Concessions
4	Bus Waiting Facilities
5	Major Projects

7. Proposals

7.1 This report sets out details of the budget pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular, the implications of Nexus preparing its budget for 2020/21 on the basis that its grant from the Committee will be kept at 2019/20 levels.

³ This shows the deployment of reserves in the 2020/21 JTC grant (levy) freeze scenario only. If the JTC grant (levy) was increased by 2% in 2020/21, remaining usable reserves in 2022/23 would increase to £6.8m.

⁴ The consultation only focused on 'discretionary' levy funded services and therefore did not focus on the statutory elements of the English National Concessionary Travel Scheme or the Tyne and Wear Metro (because of the way in which Metro is funded i.e. primarily from fare revenues and government grant).

8. Reasons for the Proposals

- 8.1 To consider the implications arising from the budget pressures and issues facing Nexus and provide strategic guidance to Nexus in order to inform its approach to its medium term financial plan.

9. Alternative Options Available

- 9.1 The development of Nexus' medium-term financial plan depends largely upon the level of its future grant from the Committee, the deployment of its reserves and how any necessary service reductions will be agreed and implemented in the future should that be necessary.

10. Next Steps and Timetable for Implementation

- 10.1 The budget timetable setting out next steps and timetable for implementation is attached at Appendix 2.

11. Potential Impact on Objectives

- 11.1 Nexus' future spending plans and resources will have a direct impact on the ability to achieve the objectives within the Tyne and Wear Local Transport Plan and associated policies and strategies.

12. Financial and Other Resources Implications

- 12.1 Financial implications are considered throughout this report. The report exemplifies the significant cost pressures which are affecting the Nexus budget for 2019/20 and in future years, and the impact of a range of scenarios on the forecast deficit: a cash freeze in the grant from the Tyne and Wear Levy, a 2% increase in 2020/21 and the deployment of reserves to cushion the impact of budget pressures over the medium term as a short term measure to set a balanced budget.
- 12.2 Budget planning assumptions, particularly the approach to achieving savings can have a direct impact on staffing levels within the services provided by Nexus.

13. Legal Implications

- 13.1 There are no legal implications arising directly from the recommendations in this report.

14. Key Risks

- 13.1 The key risks outlined in this report relate to sustainability of current service delivery going forward given the significant financial challenges facing Nexus. The final budget proposals will include an assessment of risk facing the Nexus budget, which will be used to inform the level of reserves that are determined to be prudent. This report highlights a range of financial pressures and issues facing Nexus over the next three years and seeks the views of the Committee on such matters to inform its approach to its medium term financial plan, in particular the

implications of Nexus preparing its budget for 2020/21 on the basis that its grant from the Committee will be kept at 2019/20 level. The report is for information and discussion as part of the budget process and has no specific risk management implications at this stage.

15. Equality and Diversity

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

16. Crime and Disorder

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

17. Consultation/Engagement

17.1 The budget timetable setting out consultation/engagement is attached at Appendix 1.

18. Other Impact of the Proposals

18.1 There are no other specific impacts arising from this report. The budget assumptions over the level of grant (levy) provided to Nexus by the Tyne and Wear authorities has a direct impact on the budget setting processes of those authorities.

19. Appendices

19.1 Appendix 1 - Budget/Consultation Timetable

20. Background Papers

20.1 Tyne and Wear Sub-Committee Policy Seminar held on 15 August 2019.

21. Contact Officers

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22. Sign off

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

23. Glossary

DfT – Department for Transport

MRG – Metro Rail Grant

MTFF – Medium Term Financial Forecast
TWSC – Tyne and Wear Sub Committee

Appendix 1 – Budget Timetable 2020/21 – Joint Transport Committee

Date	Meeting/Event	Action
14 August 2019	Tyne and Wear Sub-Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
17 September 2019	North East Joint Transport Committee (Briefing)	Consider 3 year forward forecasts of budget pressures and issues in relation to Nexus
23 October 2019	North East Joint Transport Committee	Initial budget proposals and 3 year forecasts in relation to JTC/Transport budgets. Consultation requirements to be considered / agreed
7 November 2019	Joint Transport Committee Overview and Scrutiny Committee	Examine initial budget and consultation proposals and make any recommendations to the JTC
19 November 2019	North East Joint Transport Committee	Consider updated draft Transport budget proposals and any feedback from JTC Overview & Scrutiny Committee
21 November 2019	Tyne and Wear Sub-Committee	Consider report on the draft budget proposals with specific reference to Tyne and Wear Transport activity
26 November 2019	NTCA Cabinet Meeting	Consider draft Transport budget proposals developed by JTC and implications regarding Transport Levy for constituent authorities as part of the budget consultation process
TBC – Meeting to be arranged w/c 9 December 2019	NECA Leadership Board	Consider the decisions and any recommendations made by the JTC and JTC Overview and Scrutiny Committee
12 December 2019	Joint Transport Committee Audit Committee	Consider budget proposals as part of consultation process
19 December 2019	JTC Overview and Scrutiny Committee	Consider (updated) budget proposals as part of consultation process (if necessary)
21 January 2020	North East Joint Transport Committee	Approve Transport Revenue Budget and Transport Levies
28 January 2020	NTCA Cabinet	Formally agree to issue the Transport Levy to

Date	Meeting/Event	Action
	Meeting	constituent NTCA authorities
4 February 2020	NECA Leadership Board	Leadership Board formally issue levy agreed by Joint Transport Committee in January. Formal agreement of non-Transport budgets and contributions.
15 February 2020	Levy letters issued to constituent authorities	Date by which Transport levies must be issued in line with Transport Levying Bodies Regulations