

Transport for the North Scrutiny Committee Agenda

Date of Meeting	Wednesday 26 August 2020
Time of Meeting	11.00 am
Venue	Microsoft Teams

Item No.	Agenda Item	Page
7.0	<p>Any Business Which the Chair is Satisfied is Urgent</p> <p>Any business which the Chair is satisfied is urgent by reason of special circumstances pursuant to section 100B (4)(b) of the Local Government Act 1972.</p>	134 - 145

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URGENT BUSINESS UNDER SECTION 100B (4)(b) OF THE LOCAL GOVERNMENT ACT 1972.

Transport for the North Scrutiny Committee –

- Subject:** Transport for the North Comprehensive Spending Review Submission – TfN Core Funding Requirements
- Authors:** David Hughes (Strategy and Programmes Director)
- Sponsor:** Barry White, (CEO)
- Meeting Date:** 26 August 2020

1. Purpose of the Report:

- 1.1 The Chancellor confirmed on 21 July that Government will hold a Comprehensive Spending Review (CSR) which will conclude alongside the Autumn Budget. This will set departmental funding envelopes (three-year settlements for resource spending and four-year for capital). The deadline for representations to HM Treasury is 24 September.
- 1.2 However, as Transport for the North is funded via the Department for Transport (DfT), it will be subsumed into the DfT submission for CSR purposes. Transport for the North will therefore need to respond in line with departmental timetables and provide its submission to DfT by 28 August.
- 1.3 This report sets out, as the basis for a discussion in the Scrutiny Committee, the approach that Transport for the North has adopted to date in the preparation of its CSR submission.
- 1.4 It also sets out the challenges presented by the timing of the CSR and in particular the delay to the process caused by the Covid-19 pandemic. Further, it sets out the consequential changes that may be required to Transport for the North's business planning and budgeting processes.

2. Executive Summary:

- 2.1 Transport for the North's August CSR submission to DfT will focus on its direct funding ask that will inform the DfT's own submission to HM Treasury. This will include the funding that Transport for the North requires to discharge its statutory duties, comply with its contractual obligations with DfT in relation to operational rail, and fund the NPR and IST Programmes.

- 2.2 The August DfT submission to the DfT will not address the high level funding requirements that would arise were Government to accept the proposals set out in the Northern Transport Charter, nor will it engage in advocacy on behalf of the North as a whole, principally in relation to the Economic Recovery Plan and the overall funding envelope for the Northern Powerhouse Rail Programme. Rather, the intent is that these issues be discussed directly with the Department in a meeting between a TfN Board delegation and the Secretary of State, which it is hoped will be scheduled imminently. The meeting has been requested by TfN with a view to clarifying the role of the Northern Transport Acceleration Council, and the potential implications of this for the future role and remit of TfN itself. The outcome of this discussion will be reported to the September meeting of the TfN Board.
- 2.3 The focus of the submission on 28 August will therefore be the immediate funding ask in relation to Transport for the North's statutory duties and the delivery of its programmes (i.e. point (1) above). Discussions are ongoing with individual teams within the department, as well as the sponsorship team that oversees the relationship between DfT and Transport for the North from a departmental perspective.
- 2.4 In respect to the Northern Transport Charter ambitions, whilst the principles that would underpin this have not as yet been discussed and agreed with Government, Transport for the North will identify in its submission the cost of developing these proposals to the point where they could be adopted and the appropriate powers granted. This is expected to be in the region of £2m.
- 2.5 The 2020/21 Transport for the North Budget Report recognised that the organisation faces a sustainability challenge. This is essentially driven by the fixed nature of its Core funding (which was set at £10m in 2015/16 and continues at that level in 2020/21) vis-à-vis its cost base which is largely inflating, particularly in relation to staff costs. This is further compounded by the uncertainty that Transport for the North faces across its major programmes and the impact that curtailing one or more of these might have on the financial stability of the organisation overall.
- 2.6 As has been previously reported, the original intention when it was established was for Transport for the North to be able to recover its VAT. Following discussions with DfT and HMT / HMRC, Transport for the North was not able to apply a Section 33 (VAT Act 1994) exemption on the basis that it does not raise local taxes. This has been further discussed with DfT without significant progress being achieved. Transport for the North's non-staffing costs are therefore uplifted by 20% resulting in the recovery of a significant element of its funding by HMT via the VAT regime. This matter will be raised again in the CSR submission.
- 2.7 Per paragraph 2.1 above, Transport for the North has identified a number of direct funding requirements. These would fund programmes

and operations that will be familiar to Transport for the North Board Members. These can be summarised as follows:

Direct funding request:	£'m
Transport for the North Statutory obligations (Core Funding - incl. irrecoverable VAT)	32-34
Integrated and Smart Travel (4 years – incl. irrecoverable VAT)	195-205
Northern Powerhouse Rail Development	
- NPR development costs, RDEL (3 years)	400-500
- Capital funding, CDEL (4 years)	300-400
- Irrecoverable VAT	80-180
- Land and Property	TBC

In addition, a further £62m of IST capital would be required in the subsequent CSR period.

Transport for the North and the DfT are currently refining the estimates of the work that will need to be undertaken. In addition, further work is being undertaken relating to the costs associated with the acquisition of land and property as a result of the programme. In addition, as the allocation of activity between HS2, Transport for the North and other organisations is ongoing, the extent of the irrecoverable VAT charge cannot be calculated, although the likely range of such a charge has been included.

- 2.8 The original CSR process was intended to commence in March 2020 and would have concluded in the summer. The delay caused by the Covid-19 pandemic means that it is unlikely now to be concluded until late November at the earliest. Whilst Transport for the North will take the opportunity to further analyse its costs and develop a draft business plan for 2021/22, the timing of the announcement will cut across Transport for the North's business planning and budget processes and may, if the outcome is significantly at variance to the draft plan, result in the need for a "holding" budget to be put in place supported by a business planning process and revised budget in Q2 of 2021/22.

3. Approach to the Transport for the North Comprehensive Spending Review submission:

- 3.1 In formulating its CSR submission, TfN is aware of a number of reviews that have yet to be published, but which have the ability to impact upon Transport for the North's operations. Most notably this includes the Integrated Rail Plan, the Williams Review and further Government proposals for devolution. Whilst there may be the ability to absorb a small number of additional responsibilities within the proposed level of

operational expenditure, the funding amounts identified do not include any pre-emptive estimate of any changes that might arise from these or other ongoing activities. Therefore, any significant changes that might arise from them would need to be the subject of a separate funding arrangement at the time.

3.2 There are therefore a number of key issues that need to be addressed in the submission. These include, but are not limited to, the following:

- The need for sufficient funding to allow Transport for the North to undertake its statutory and operational responsibilities;
- The need for sufficient funding for Transport for the North to continue to develop its programmes of activity; and
- The need to recognise and if possible address the ongoing challenges generated by Transport for the North's inability to recover VAT and the additional funding requirement that this generates.

Transport for the North's direct responsibilities

3.3 Transport for the North has identified a number of direct funding requirements to enable it to deliver programmes and operations that will be familiar to Transport for the North Board Members. These include the following:

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Transport for the North Statutory obligations (Core Funding incl. irrecoverable VAT))	32-34
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Transport for the North and the DfT are currently refining the estimates of the work that will need to be undertaken. In addition, further work is being undertaken relating to the costs associated with the acquisition of land and property as a result of the programme.

In addition, as the allocation of activity between HS2, Transport for the North and other organisations is ongoing, the extent of the irrecoverable

VAT charge cannot be calculated, although the likely range of such a charge has been included.

The planning assumption adopted is that where Transport for the North incurs direct costs in relation to programme activity, these will continue to be recharged to programme budgets consistent with the approach currently adopted.

- 3.4 Transport for the North's Core Funding was initially allocated in 2015 and as mentioned above, it was assumed that it would be able to recover the VAT that it incurred. The "real" value of our £10m Core funding is therefore significantly reduced from the 2015 position, both through the VAT issue and the impact of cost inflation. Transport for the North will therefore propose a Core CSR bid that will seek to ensure that it has the resources to continue to both effectively discharge its statutory functions and ensure that its operations comply with relevant regulations and legislation.
- 3.5 During the CSR period, Transport for the North will undertake a range of work to discharge its statutory responsibilities. Principal amongst these will be a cycle of work that will culminate in a revised Strategic Transport Plan (and supporting policy development and stakeholder engagement) to be finalised in Q3/Q4 of FY2023/24.
- 3.6 The 2020/21 Transport for the North Budget Report recognised that the organisation faces a sustainability challenge. This is essentially driven by the fixed nature of its funding (set in 2015) vis-à-vis its cost base which is largely inflating, particularly in relation to staff costs. This is further compounded by the uncertainty that Transport for the North faces across its major programmes and the impact that curtailing one or more of these might have on the financial stability of the organisation overall.
- 3.7 In addition, the Transport for the North Reserves Policy was also set out in the Budget Report. This set the minimum reserve level for the organisation at £2m, as previously agreed with the Department. The current forecast at Revision 1 is for Transport for the North to have a General Fund reserve of £5.5m by the start of the CSR period. Reducing this amount to £2m would result in a managed net transfer of £3.5m – or roughly £1.15m per year – into the I&E account. Careful planning will be required to ensure that Transport for the North's cost base will be sustainable into the following CSR period.
- 3.8 As has been previously reported, the original intention when it was established was for Transport for the North to be able to recover its VAT. Following discussions with DfT and HMT / HMRC, Transport for the North was not able to apply a Section 33 (VAT Act 1994) exemption on the basis that it does not raise local taxes. This has been further discussed with DfT without significant progress being achieved. Transport for the North's non-staffing costs are therefore uplifted by 20% resulting in the recovery of a significant element of its funding by

HMT via the VAT regime. This will again be raised as an issue in the CSR submission.

- 3.9 The CSR submission will therefore indicate that Transport for the North requires £32-34m for ongoing operations within Transport for the North, of which c.10% would be to cover the costs of discharging its responsibilities in relation to rail operations. This would include c.£2.4m of irrecoverable VAT that Transport for the North would incur due to its VAT status.
- 3.10 The Transport for the North Strategic Rail and the Rail North Partnership teams are currently funded through a number of contractual and other mechanisms (including the passthrough of Rail Administration Grant, partner contributions, contracted service provision and contractually based DfT grants). The total budgeted cost for 2020/21 was £3.0m, of which just over £1.0m was funded from Transport for the North Core Grant. Any interruption in those contractual payments would lead to a greater call on Core resources.
- 3.11 Notwithstanding that approach, we are also aware that HM Treasury has indicated that the outlook for Government finances due to Covid-19 is extremely challenging. We therefore also respond to requests from the Department in relation to different planning assumptions as these are provided to us.
- 3.12 The Integrated and Smart Travel Programme has developed a strategic direction that builds on Phases 1 and 2 (delivered) and Phases 3 and 4 (currently awaiting DfT approval), which will enable heavy rail and other public transport modes to accept EMV bank cards for Pay-As-You-Go travel. Funding will be requested in line with Phase 3 and 4 proposals to the Department.

In addition, a limited Innovation Partnership Procurement is currently being undertaken. This is intended to demonstrate the means by which a Smart North Network can be established - allowing multi-model travel under a Section 134 Advanced Transport Ticketing Scheme and enabling Transport for the North to deliver some of the original aspirations of the Smart programme by a different route. This approach would involve two future Phases (5 and 6), the objectives of which would be to enable transportation to be more intuitive, to sense and respond to new technology opportunities, social challenges, and citizen needs as they emerge—and be more open to solutions that harness data, technology, and human experience capabilities to tackle both new and long-standing transportation challenges.

TfN proposes to develop a business case based on the experience of its work to-date to rollout the Smart North Network across all travel actors in the TfN region which will launch the Advanced Transport Ticketing Scheme in Phase 5. Towards the end of the CSR period, Phase 6 will be developed that will extend the use of the Phase 5 Smart North Network by partnering Rapid Transport Corridors and Feeder Hubs with

Stakeholders and Transport Operators across TfN, preparing for level 5 automated vehicle demonstrators, and developing a Northern Digital Twin.

- 3.13 The funding required for the Integrated and Smart Travel Programme comprises three elements:
- Business case development and management / assurance of the Programme.
 - Delivery of some elements by TfN e.g. contract and funding of network supplier(s), establishment of ticketing scheme.
 - Delivery of the majority of elements by partners e.g. enablement of equipment for EMV bank cards, smart cards, barcodes. These partners include LTAs, transport operators and suppliers for other modes e.g. cycle hire schemes, car clubs. It is anticipated that this funding would be passported via TfN to enable a co-ordinated and consistent approach.
- 3.14 On Northern Powerhouse Rail (NPR), Transport for the North and its delivery partners are working toward submission of an updated Strategic Outline Case in March 2021. This will set out the current preference on the NPR network options and phasing of delivery agreed by Transport for the North's Board.
- 3.15 Reflecting Transport for the North and Government commitment to delivering NPR and to accelerating progress such that the communities and businesses in the North, and the wider domestic economy, can benefit of improved capacity, speed and resilience of the North's rail network. Based on the current programme, construction of the NPR network will commence within the 3- and 4-year spending review periods (for resource and capital funding respectively).
- 3.16 The NPR proposals include step changes in expenditure year-on-year toward the expected start of construction in the mid-2020s based on the requirements of the programme in terms of design development, assessment and appraisal, consenting and construction preparation and mobilisation. This scale of ramp-up in NPR expenditure is necessary to deliver an infrastructure programme on this scale and Transport for the North, with its delivery partners, is developing plans to mobilise for next year and beyond.
- 3.17 These proposals for the CSR have been developed ahead of Transport for the North's board taking decisions on the preferred NPR network and the phasing of interventions. Consequently, the CSR proposals are being developed based on a number of assumptions informed by what we understand of our Members' expressed preferences (eg new line via Bradford). On phasing, the assumption that the parts of the NPR network requiring more minor planning consents (ie permitted development rights or Transport of Works Act Orders rather than Development Consent Orders or Hybrid Bills) are likely to be the first to

enter construction while work continues on other parts of the network toward the design and consenting applications.

- 3.18 The NPR assumptions also include for the early delivery of Barnsley Dearne Valley Station and Rotherham Midland Mainline Station agreed as part of the ERP, noting that the delivery model is yet to be developed but could be through NPR.
- 3.19 Furthermore, the Integrated Rail Plan (IRP) is also considering options for the delivery of HS2 Phase 2b and the NPR programme, with a particular focus on any new lines (both in terms of phasing, delivery model and scope). The result will be results announced as part of the IRP in December: after the conclusion of the CSR.
- 3.20 Based on the number and significance of the unknowns at this stage, our approach is toward demonstrating a credible and deliverable costing plan based on a set of assumptions which is sufficiently flexible to allow reallocation once key decisions are made on NPR through the remainder of this year.
- 3.21 Currently, NPR proposals for the coming 3 years will inform a resource funding ask in the region of £400-500m for work including:
- ongoing design development,
 - business case development,
 - environmental assessment,
 - economic appraisal, and
 - preparation of consenting applications.
- 3.22 Additionally, a capital funding ask of around £300-400m over 4 years is being prepared so that construction of NPR can commence in this timeframe.
- 3.23 As in previous years, only part of this work will be carried out through Transport for the North. Further work will be performed to provide a more robust allocation of funding between Transport for the North and HS2. These estimates do not, therefore, currently include VAT as the impact of that will vary depending on the balance of expenditure between organisations.
- 3.24 Our co-clients, DfT, will also make a request for funding toward land and property compensation and for HS2-NPR touchpoints.
- 3.25 The ranges expressed above represent our current view of the funding ask. Working with our co-clients over coming weeks, we will continue to develop and refine the ask for NPR based on latest cost and programme information across both organisations.

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- 3.26 During 2019 and 2020, Transport for the North developed a series of proposals in the form of the Northern Transport Charter. This work aimed to identify the key areas where Transport for the North, if granted further devolved powers and responsibilities, might more effectively contribute to the delivery of the Strategic Transport Plan, and the Government's policy initiatives around the levelling up of the economy.
- 3.27 Whilst Government has not yet had the opportunity to respond to the Northern Transport Charter proposals, it is likely that any further devolution of powers and funding, such as a fully devolved Northern Budget, would require a staged approach through the CSR period.
- 3.28 Our submission to DfT will therefore flag the requirement for additional funding should Government choose to respond positively to these proposals. This would include c.£2m for legal work and organisational development, based on our experience in setting up Transport for the North as a statutory body in 2018

4. Recommendation: That the Scrutiny Committee:

- 4.1 Considers and provides its view with regard to Transport for the North's proposals and of its approach to the CSR.
- 4.2 Note the potential disruption to the Transport for the North business planning and budgeting processes.

List of Background Documents:

None

Equalities:

Age	Yes	No
Disability	Yes	No
Gender Reassignment	Yes	No
Pregnancy and Maternity	Yes	No
Race	Yes	No
Religion or Belief	Yes	No
Sex	Yes	No
Sexual Orientation	Yes	No

Consideration	Comment	Responsible Officer	Director
Equalities	A full Impact assessment has not been carried out because it is not considered necessary for this report.		Iain Craven

Environment and Sustainability

Yes	No
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Consideration	Comment	Responsible Officer	Director
Sustainability / Environment – including considerations regarding Active Travel and Wellbeing	This has not been carried out as it is not necessary for this report		Iain Craven

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	The sub-National Transport Body (Transport for the North) Regulations 2018 set out the duties and functions of	Julie Openshaw	Dawn Madin

	<p>Transport for the North including within Regulation 5(e) the function to make representations to the Secretary of State regarding its role and functions.</p> <p>Constitutional governance processes need to be followed in order to arrive at the decision as to the final submission to Government.</p>		
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Finance

Yes	No
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Consideration	Comment	Responsible Officer	Director
Finance	The financial implications have been considered and are included in the report.	Paul Kelly	Iain Craven

Resource

Yes	No
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Consideration	Comment	Responsible Officer	Director
Resource	The headcount requirement will be defined through the forthcoming business planning process/cycle. The annual business plan which includes the associated resource plan is agreed annually through the TfN board.	Stephen Hipwell	Dawn Madin

Risk

Yes	No
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Consideration	Comment	Responsible Officer	Director
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Risk	This has not been carried out as it is not deemed necessary for this report		Iain Craven
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Consultation

Yes	No
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Consideration	Comment	Responsible Officer	Director
Consultation	A consultation has not been carried out because it is not necessary for this report.		Iain Craven