

Transport for the North Board - Northern Transport Charter

Item 13 - Appendix 2

Subject: Northern Devolved Budget

Author: Iain Craven (Finance Director) & James Mills (Corporate Engagement Lead)

Sponsor: Barry White, Chief Executive

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1.0 Purpose of the Report:

- 1.1 This report presents a summary of the work to-date on a devolved Northern Budget and sets out the proposed approach both in Transport for the North's immediate response to the Spending Review in 2020, and to a longer-term Northern Funding settlement.

2.0 Transport for the North Funding Framework

- 2.1 Transport for the North adopted its Funding Framework as policy at the Board meeting on 13 September 2018. It was produced in recognition of the fact that a key element of the final Strategic Transport Plan would be how the infrastructure proposed by Transport for the North, as set out in the Investment Programme, would be funded over the period until 2050. The Funding Framework provided the funding approach set out by Transport for the North in the Strategic Transport Plan that was approved by the Board in February 2019 and also informs both the Northern Powerhouse Rail business case development process and the work that is being performed on the Strategic Development Corridors.
- 2.2 The approach that Transport for the North adopted to the development of the Funding Framework was grounded in a set of fundamental principles that were agreed by the Partnership Board in December 2016 and subsequently reconfirmed by Partnership and Transport for the North Boards during the following 18 months. Transport for the North convened a Funding Steering Group, consisting of senior finance and strategy officers from Constituent Authorities (and latterly a representative from the CBI). This group met four times and provided invaluable assistance to Transport for the North in the development of its framework. Subsequently Transport for the North's Finance and

Strategy Directors undertook individual member briefings with most of the Board membership to share information and canvas views, prior to the Funding Framework being taken to board for discussion and, finally, decision.

- 2.3 The Transport for the North Funding Framework includes the following elements:
- a) The Principles – which underpin a deliverable and appropriate funding arrangement;
 - b) The Potential Funding Sources – demonstrating that Transport for the North’s funding requirement is reasonable;
 - c) The Governance Arrangements that will enable funding allocated for strategic transport infrastructure in the North to be directed to Transport for the North programmes; and
 - d) How Financial Risk is managed.
- 2.4 The Funding Framework also sets out the parameters within which the allocation and management of the financial resources required to deliver the objectives of the Strategic Transport Plan will be undertaken.
- 2.5 The key points to note within the Transport for the North Funding Framework are as follows:
- a) The total funding envelope identified by Transport for the North is deliverable within the context of a reasonable expectation of what funding might be made available. This is consistent with the National Infrastructure Commission’s position as set out in the National Infrastructure Assessment. Transport for the North is therefore not making unreasonable financial demands on central government – the decision to fund Transport for the North is a political choice that can be made by government within existing paradigms, based on robust business cases that will be presented through Transport for the North’s work programmes.
 - b) Transport for the North does not currently have the power to capture value created by its promoted interventions – where these powers do not sit nationally, they sit locally with Transport for the North’s Constituent Authorities or other local authorities. These local authority powers have principally been granted to fund activity on a local rather than a regional basis. Where local plans are sufficiently developed, it is clear that those local powers will be fully utilised funding transport infrastructure within authorities and cannot be expected to fund strategic (i.e. national) infrastructure.
 - c) The Transport for the North Funding Framework will be integrated with the pipeline of programmes and projects that is presented by Transport for the North in the Strategic Transport

Plan and the accompanying Investment Programme. Further work is ongoing to understand the impact of the timing of those projects and the resultant profile of proposed funding through to 2050.

- d) The Transport for the North Funding Framework also identifies where residual risks sit in relation to the funding of Transport for the North promoted interventions and how this will be managed. Neither Transport for the North nor its Constituent Authorities are in a position to back-stop the risks associated with Transport for the North's proposals and therefore as things stand this role will need to be taken on by central government. However, Transport for the North could become the owner of programme risks, which would mirror some of the effects of financial risk taking.

2.6 A key point that emerged from the discussions to develop the Funding Framework was the critical role that governance arrangements will play in the delivery of Transport for the North's proposals. Whilst the Strategic Transport Plan and Investment Programme clearly articulate the North's plan, the system of funding Strategic Transport Investment as it currently operates gives Transport for the North and its members a very limited ability to influence investment decisions and consequently very limited ability to ensure that the Strategic Transport Plan is delivered.

2.7 The Funding Framework therefore explored a number of options which focused on how funding should be managed rather than its level *per se*:

Option 1:

Continue / influence of existing arrangements. If existing funding arrangements for rail and road – delivered primarily via the respective five-year regulatory processes – were to continue, Transport for the North's role would likely be limited to an advisory role and strategic planning, providing input into national process such as Network Rail's and Highways England's business planning, and keeping score in terms of baselines and comparisons between places and regions in expenditure on Transport for the North-led interventions. This option would require minimal changes to funding arrangements and governance structures.

Option 2:

Separate modal regulatory settlements for the North. Alongside the multi-year funding settlements for Network Rail and Highways England, HS2, London etc., the North would have a separate baseline plan for its rail and road enhancements – like a Northern HLOS and RIS, similar to the current Scottish HLOS. A separate baseline funding envelope for the North would provide greater certainty of funding, with options for establishing the size of the envelope on a formula basis, for example using a percentage of GVA as recommended by the NIC,

potentially reflecting the implications of rebalancing objectives for these ratios in different parts of the country. This option would still see separate envelopes for different modes, but by providing baselines for each, it would provide the kind of clarity around additionality and consistency between places and regions. It would require the development of an agreement between Transport for the North and its Constituent Authorities on rules to ensure a fair allocation of funding across regions and a long-term pathway to maximising value generation to support funding future projects.

Option 3:

Combined regulatory settlement for the North. This version would involve a single pooled funding envelope for transport enhancements (across all strategic modes) in the North, aligned with Transport for the North's multi-modal LTIP. This unique funding envelope for the North would give greater autonomy and discretion to Transport for the North on the allocation and prioritisation sequencing of investments between modes. It would otherwise be similar to Option 2 in terms of the incentives provided to address what could be achieved through additional local/regional contributions over time.

Option 4:

Budget Holder. In the most radical vision of the future, revenue from all funding sources for strategic investment would be directed to a devolved Transport for the North budget, set against a long-term baseline and with 'Barnett style' or match funding rules aligned to the achievement of rebalancing objectives. Such arrangements would necessitate mechanisms to ensure that central government (and, where relevant, locally-derived) funding is spent on value for money projects and would require both mechanisms to manage risks, and enhanced governance arrangement for Transport for the North to support democratic accountability at the regional/local level given that Transport for the North's remit would extend into the delivery as well as design of its programmes.

- 2.8 It is clear that in order for Transport for the North to be able to ensure the delivery of its programme it needs to have control over budgets and decision making – otherwise the North will remain vulnerable to schemes being cancelled or delayed based through remote decision making. This is not a theoretical risk – many of the current issues on the northern road and rail systems are a consequence of just such decisions.
- 2.9 Transport for the North therefore adopted a position where it sought agrees and control of a long-term funding settlement for strategic transport infrastructure in the North – i.e. **Option 4** in the list above. This was repeated in the Strategic Transport Plan. On the basis that Transport for the North and its Constituent Authorities are best placed to identify the balance of need between road and rail it makes sense for this to be done on a pan-modal basis, rather than on the basis of a

modal allocation that would fix road and rail expenditure envelopes potentially without reference to regional need.

- 2.10 Such an approach will require discussion and agreement with central government, and in particular DfT and HMT. In addition, Transport for the North will need to consider what, if any, governance changes would need to be made in order to allow Transport for the North to fulfil this role.

3.0 2019 Strategic Transport Plan

- 3.1 The funding approach set out in the Strategic Transport Plan is entirely consistent with the Funding Framework that was adopted by the Transport for the North Board.

4.0 2019 Spending Review Proposals

- 4.1 The Spending Review process that was intended for 2019 was postponed by Government until 2020. However, Transport for the North developed a set of proposals which were presented to the Partnership Board in June 2019, and subsequently formed the basis of the Northern Budget campaign.
- 4.2 Transport for the North developed its proposals based on the positions that had been adopted by the Board since it was created as a statutory entity. These include the Strategic Transport Plan and associated Investment Programme (which formed the basis of the funding ask for the Northern Infrastructure Pipeline included in the Northern Budget), the NPR SOBC, the statutory advice in relation to TRU and the Funding Framework.
- 4.3 The nature of Transport for the North is that it is a Sub-national Transport Body with responsibilities that go beyond the operations that it directly controls. The proposals therefore included projects within the region that were included in the Strategic Transport Plan but would not be directly delivered by Transport for the North.
- 4.4 The proposed Spending Review 2019 “ask” included a commitment of up to £39bn of long-term capital expenditure for Northern Powerhouse Rail, a commitment with respect of commencing work during the Spending Review period on £6.2bn of projects that have already been committed in the North, and a commitment of £0.7bn of new road and rail schemes to commence during the Comprehensive Spending Review period.
- 4.5 It is important to note that the substantial majority, if not all, of the proposed infrastructure expenditure during the Spending Review period was for projects that would have been managed and delivered either by Transport for the North Constituent Authorities or by the national agencies.

- 4.6 In addition, Transport for the North identified a number of direct funding requirements. These would be controlled, if not directly disbursed, by Transport for the North and would be for programmes and operations that will be familiar to Transport for the North Board Members. These can be summarised as follows:

Transport for the North direct funding request:	Activity £'m	VAT £'m	HS2 £'m	Total £'m
Transport for the North Statutory / Contractual obligations	44	6	-	50
Integrated and Smart Travel	100	20	-	120
Northern Powerhouse Rail Development	417	83	93	593
Development work for schemes commencing Pre-2027				
- Road	15	3	-	18
- Rail	50	10	-	60
Development work for schemes commencing 2027-33				
- Combined Road and Rail Settlement	138	28	-	166
Total	764	150	93	1,007

- 4.7 This proposal built upon the need, as previously discussed, for the North to be able to exert far greater control over the system than is currently the case. It recognised the reality that transport infrastructure projects take years to develop and that without the ability to direct development expenditure now, it would lose the ability to direct investment expenditure in five-years' time as projects would not be "shovel ready". As can be seen from the table above, for the next Spending Review cycle, Transport for the North is principally concerned with achieving access to funding that will allow it to develop an investment pipeline consistent with the proposals set out in the STP.
- 4.8 The exact mechanisms for delivering this development pipeline are still under discussion, but it is likely that a significant proportion of this funding would be disbursed to partners or agencies to allow them to progress projects identified by Transport for the North. In reality, the funding arrangements will need to track the governance arrangements agreed between Transport for the North and its partners, and between the North and the Department for Transport and the national agencies.
- 4.9 Expenditure at these levels is likely to require changes in the ways of working that have been adopted between the Department for Transport and Transport for the North and are likely also to require consequential changes in Transport for the North's governance arrangements.

5.0 Fiscal Powers for a Purpose

- 5.1 The principal purpose of Transport for the North being granted fiscal powers would be to increase the level of control that it can exert over both the development pipeline and the actual delivery of its Investment Programme. Discussion within the Members Working Group identified the concept of *"not a penny more, for a pound less"* as an additional underlying principle. This seeks to establish that TfN would not seek additional funding streams if that results in significant risk of budgetary consolidation and funding reductions.
- 5.2 Transport for the North has not sought so far to identify specific central government revenue streams that can be hypothecated to it and used to fund its proposals. Instead it has identified the quantum of transport related revenue flows that could be earmarked for transport and compared this to what it plans to spend. This indicates that the STP is deliverable within the context of a reasonable expectation of what funding might be made available. This view is consistent with the NIC's National Infrastructure Assessment – Transport for the North is therefore not making undue financial demands on central government – the proposals included within the Draft STP are ambitious yet realistic. The decision to fund Transport for the North is a political choice that can be made by government within existing paradigms, based on the overall objective of rebalancing the economy through transformational and inclusive growth, and robust business cases that will be presented through Transport for the North's work programmes.
- 5.3 The logic in relation to this is two-fold. Firstly, specific revenue streams are either controlled directly by central government and will vary over time depending on national political and economic priorities or are subject to inherent long-term uncertainty – or in some cases both. For example, neither VED nor access to franchise surpluses would provide Transport for the North with any kind of multi-year funding certainty and may in the case of the former be in long term decline. Therefore, they should not be prioritised by TfN and they should only be considered as "in addition to", and not "in place of" existing funding sources.
- 5.4 Further, any ability to differentially raise the tax burden on the North, for example through the ability to collect additional business rates, needs to be very carefully considered in the context of the core principles in the Framework, not least Strategic Consistency, which is defined as follows:

"The means by which identified programmes and projects are funded should be consistent with the overarching goal of facilitating economic growth. For example, mechanisms that directly or indirectly increase the general tax burden for individuals or businesses in some or all of the North in relation to other regions will dampen activity and impact negatively on inward investment decisions".

- 5.5 Additionally, in the absence of an agreed baseline of central funding it is difficult to demonstrate what extra is being bought through any additional revenue being raised regionally, as opposed to simply displacing central funding that would have been otherwise received. For these reasons, Transport for the North has argued that strategic transport investment in the region should be funded from centrally collected national funds until this baseline is established, as that is where the major tax raising powers to fund such activity are held at this point in time. This could take the form of periodic Spending Review “asks” that would be derived from the Investment Programme or from a longer term “Barnett” type formula. The former would tie Transport for the North’s “asks” more closely to its evidence base and allow a more direct relationship between the projects to be delivered in the short to medium term and the funding requested, whilst the attractiveness of the latter would depend largely on the workings of the formula but would arguably give Transport for the North greater funding certainty and therefore the ability to exert the control mentioned above.
- 5.6 If a formula approach is of interest to members then further work would need to be undertaken to understand how that might operate in practice, including the factors that might be included within it and the desirability and operation of features, such as caps / collars that might minimise volatility from period to period.
- 5.7 Any consideration regionally raised revenues would need to be “additional to” and not “instead of” the existing sources. Once the baseline level of funding has been established, scoping of new revenue raising measures cannot be done without the agreement of members, and must adhere to the principles and processes outlined above in paragraphs 5.1-5.6.

6. Towards a Northern Budget

- 6.1 The current Government has a stated commitment to addressing regional imbalances, as set out in the “Levelling up” speech made by the Prime Minister on 31 January 2020 and further developed in his statement to the House of Commons on 11 February.
- 6.2 Rebalancing, and in particular “Levelling up”, the UK economy will require both a broad range of policy approaches and, as set out most recently by Sir Bob Kerslake, significant levels of resources to be allocated over an extended period. At a macro level, the implications of rebalancing and “levelling up” are such that the North will need ongoing investment in economic infrastructure which is at the upper end of whatever fiscal rules are adopted by central Government – the current fiscal remit is 1.0-1.2% of GDP.

- 6.3 Transport for the North can play a key role in the delivery of the rebalancing agenda, which is consistent with its remit to deliver inclusive and sustainable economic growth across the North. Per paragraphs 2.7 – 2.10 above, in the long-term, Transport for the North is working towards a Long-Term Northern Funding Settlement that will enable Transport for the North's Members, acting through the Transport for the North Board, to make investment decisions in relation to infrastructure investment based on Northern priorities.
- 6.4 This would include:
1. A devolved settlement covering Strategic Transport Investment
 2. Pan-modal and Multi-year funding settlement (through allocation or a "Barnett" style formula).
 3. Baseline mechanism to encourage local funding approaches.
 4. Pursuing the agreement of a "double / triple-lock" style guarantee from central government to safeguard a minimum increase of budget growth over the medium to long term. As per 6.2 this would need to be sufficient to make up for past underinvestment and allow the government's "levelling up" agenda to be delivered.
 5. Clear appraisal criteria focused on inclusive and sustainable transformational economic growth.
 6. Evidence based decision making within clear and transparent governance processes to promote Value for Money.
 7. Robust financial risk management arrangements.
- 6.5 This does not require Transport for the North to be a delivery body for now – work would continue to be carried out by national agencies or Transport for the North partners / local authorities. Such an approach would, however, meet the key criteria identified in the Strategic Transport Plan in that it would allow Northern leaders **control** over investment decisions.
- 6.6 For example, of all the work that it undertakes, Transport for the North has the greatest influence currently over the activity undertaken by the Rail North Partnership and the Northern Powerhouse Rail Programme. The RACI summary of the current co-client approach to Northern Powerhouse Rail (reproduced in the table below) recognises the role played by Transport for the North in delivering this activity, but also indicates that the key accountabilities, and therefore control, rest with the Secretary of State and budget holders within the Department for Transport. It should be noted that, as a formal co-client arrangement between ourselves and the Department, this represents the workstream where Transport for the North has the *broadest* remit in relation to the development of strategic infrastructure – in most areas Transport for the North's remit is largely that of a consultee.

	R <i>Responsible</i>	A <i>Accountable</i>	C <i>Consulted</i>	I <i>Informed</i>
Develop, set and amend policy	TfN, DfT	DfT	TfN, Partners	TfN
Set Funding Envelopes	DfT	DfT	TfN, NR, HS2	TfN, Partners, NR, HS2
Approval of TfN Business Plan / Budget	TfN	TfN	DfT, NR, HS2, Supply Chain	-
Agreement of detailed work programmes / remits / changes	TfN, DfT	DfT	NR, HS2, Supply Chain	-
Funding drawdown (payment / transfer)	TfN, DfT	DfT	-	-
Delivery of agreed work programmes:				
HS2	TfN, DfT	DfT	NR, HS2, Supply Chain	Partners, Stakeholders
Network Rail & supply chain	TfN, DfT	TfN	NR, HS2, Supply Chain	Partners, Stakeholders

Given its complexity and the level of financial risk inherent within it, the devolution of governance for a mega project, such as Northern Powerhouse Rail, is always likely to be challenging. However, the approach set out in 6.4 requires significant expansion of the areas in which TfN would be accountable for both policy and delivery of majority of the programme set out in the Investment Programme, recognising the requirement for national policy setting and ultimate funding decision making to sit with central Government.

- 6.7 Whilst the approach in paragraph 6.4 is consistent with the previous decisions of the Transport for the North Board, there are a number of challenges that will need to be acknowledged and addressed if we are to proceed to this level of devolved responsibility in the medium-term.
- 6.8 These challenges can be summarised as follow:

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1. The need to build capacity and capability within Transport for the North to deliver investment funding and demonstrate a track record of delivery to partners and government.
 2. Establishing an agreed baseline of funding for northern transport investment, and regularly agreeing a minimum level of future funding going forward that TfN should be targeting, such as that highlighted in the STP and Investment Programme.
 3. The need to embed the Assurance Framework and the processes that will enable Transport for the North decision making with regard to the investment pipeline.
 4. The need to agree the approach with Government and resolve potential issues around administrative and legal arrangements, financial risk management and interfaces with both national agencies and local partners.
 5. Transitional arrangements from current industry processes to the proposed Northern Budget.
- 6.9 These challenges can be addressed over time, recognising that Transport for the North and its partners need to continue to develop proposals at the same time as they engage with industry processes.
- 6.10 Recognising this, the 2020 Spending Review provides an ideal opportunity for Transport for the North to address these challenges, whilst at the same time taking an important step towards planning and controlling a Northern transport infrastructure pipeline, based on the following proposal:
1. Transport for the North receives a budget which, based on the work that it has done to-date on the Investment Programme, it uses to develop a pipeline of projects through to a state of readiness that would allow them to be funded.
 2. Transport for the North would become responsible for the development of a specified number of projects (identified through the sequencing work on the SDCs).
 3. This funding would be used principally to engage national agencies, partners, or other consultants, to do work on our behalf (subject to baselining to avoid displacement of existing agency budgets).
 4. This funding would be drawn down as required from an annual allocation based on an agreed minimum targeted increase in the funding envelope.

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- 6.11 This would allow Transport for the North, on behalf of the North of England, to create a fundable, evidenced based pipeline of projects which it would then seek to fund through a long-term, multi-modal funding ask as per the long-term proposal set out above.
- 6.12 The Northern Budget proposals that were previously prepared as part of the abortive Spending Review process in 2019 (para. 4.6) identified a proposed development budget of £244m over three years (including c.£40m of irrecoverable VAT). Between now and the Spending Review, Transport for the North will both further refine the ask of Government and at the same time plan for how this step up in activity could be managed into 2021/22 and beyond.

ENDS