

Transport for the North Board

Subject: 2021/22 Funding and Business Planning

Author: Iain Craven, Finance Director

Sponsor: Barry White, Chief Executive

Meeting Date: Thursday 14 January 2021

1. Purpose of the Report:

1.1 This report sets out:

1. Transport for the North's current funding allocation for 2021/22 and next steps;
2. the high-level target outcomes and objectives that form the basis of its Business Planning (i.e. the "Golden Thread");
3. the key themes for consideration; and
4. next steps to be undertaken.

1.2 A number of recommendations are set out in Section 4.

2. Executive Summary:

2.1 Transport for the North received a Funding Letter from DfT on 4 January 2021, setting out its funding allocation for 2021/22. A summary table confirming the position is detailed below

TfN 2021/22 Funding Allocation	21/22 £'m	CSR Ask £'m	20/21 £'m
Core Funding	6.0	11.2	10.0
Integrated & Smart Travel (IST)	-	33.4	15.8
Northern Powerhouse Rail (NPR)	75.0	111.3	75.0
Developing an Investment Pipeline	-	2.0	-

2.2 Funding for the IST programme will cease, subject to completing and winding down committed activity. TfN's Core funding allocation for 2021/22 is a £4m reduction on the current allocation (set in 2015) and a £5.2m reduction in the Core funding requested in the CSR. In addition, in-year funding will be cut from £10m to £7m.

2.3 The current Core funded "run rate" for 2021/22 is c.£9.3m, made up of £5.5m of staffing costs, £2.4m consultancy and other external support costs, and £1.4m of other costs (mainly accommodation and business infrastructure). This rate of spend is lower than was originally

budgeted due to the negative impact of the steps taken to manage funding uncertainty, and of Covid-19.

- 2.4 The total funding for the NPR programme has been confirmed as up to £75m, of which £67m would be available to resource TfN activity (the balance will be allocated to HS2). However, this is conditional on the normal departmental control of detailed commitments. Additional uncertainty potentially exists in relation to the outcome of the Integrated Rail Plan, although at present we assume from this allocation that there will be no change to the arrangements for 2021/22.
- 2.5 The conditionality attached to the NPR funding means that it is not at this stage possible to confirm that Transport for the North will receive £70m in 2021/22 as is stated in the DfT funding letter.
- 2.6 Failure to fund the IST programme will mean that TfN is unable to proceed with a number of in-year projects that it had identified as part of its Economic Recovery Plan, the proposals for which were provided to Government in the Autumn. These proposals would have cost c.£33m and were focused on the introduction of contactless payment across bus, light rail and rail in multiple partner geographies. These interventions were considered to be a key part of building confidence amongst passengers as we move into a post-Covid environment.
- 2.7 The specific activity that will be impacted is a matter for the Board after the business planning process has been completed. However, the extent of the reductions means that key elements of the work that Transport for the North undertakes for the benefits of the North and the country as a whole may need to be scaled back, including workforce reduction.
- 2.8 Impacts could include insufficient resources for:
- the Strategic Rail team to support building back passenger confidence and volumes when we start to emerge from the pandemic;
 - teams currently engaging with delivery partners to understand what is possible / can be accelerated in relation to the Economic Recovery Plan;
 - early viability assessments and the development of projects for future inclusion in investment plans;
 - supporting NPR business case production and back office support services;
 - development of the robust evidence base that supports case making and which underpins Transport for the North's advice to the Secretary of State; and
 - work carried out by Transport for the North acting as an economic / policy body on behalf of the North, such as the Northern Powerhouse Independent Economic Review.

- 2.9 After receiving the letter, Transport for the North undertook the following actions.
1. An immediate holding response was sent to the Permanent Secretary at DfT from the Chief Executive. This letter was provided to members on 7 January (See appendix 3 and 4 - DfT letter and initial response letter).
 2. Member briefing calls were held on 8 January and 11 January where the Finance Director and Chief Executive provided a briefing on the position and took soundings.
- 2.10 The three key messages from the briefing calls were:
1. Disappointment at the funding settlement and a concern at the impact that it would have on the ability of Transport for the North and the North in general to effectively contribute to the “Levelling Up” agenda.
 2. In order to contribute effectively to that agenda Transport for the North needs to understand the basis on which it is planning and the intentions of Government in the longer-term against backdrop of initiatives such as the Northern Transport Acceleration Council.
 3. That it is important to respond quickly to Government. It is proposed that Transport for the North respond to the Secretary of State in writing after the January Board and that a meeting be sought with the Secretary of State that would allow a delegation of Board Members to further explore these matters with him.
- 2.11 It is important that Transport for the North’s funding is confirmed as soon as possible, both for the next financial year and preferably for 2022/23 as well - the understanding of the following years position would remove strategic uncertainty and allow for a much more efficient and effective planning process to be undertaken. As noted previously, delays to receipt of the funding allocation already mean that the budget report that is presented to the Board for approval in March may represent an interim position that will need to be revised early in the new financial year and any further delays will exacerbate this position. TfN is required by law to have a fully funded budget in place at the start of the new financial year.
- 2.12 Given the funding position, it is important that the Board gives direction on the organisation’s activity for 2021/2. Transport for the North’s objectives are derived from the Response to Covid (Economic Recovery Plan and Rebuilding Rail Passenger Numbers), the Strategic Transport Plan and the Northern Transport Charter and are set out below at paragraphs 3.6 – 3.10.
- 2.13 It would also be helpful in expediting the business planning process to understand Members’ initial views in relation to the Key Themes set out in paragraphs 3.11 – 3.19.

3. Consideration:

Funding

3.1 On 4 January TfN received a funding letter from DfT. The funding included in that letter, and a comparison to both the CSR Submission, and the funding allocation for 2020/21 is set out in the following table.

TfN 2021/22 Funding Allocation	21/22 £'m	CSR Ask £'m	20/21 £'m
Core Funding	6.0 ¹	11.2	10.0 ²
IST ³	-	33.4	15.8
NPR ⁴	75.0	111.3	75.0
Developing an Investment Pipeline ⁵	-	2.0	-

1. TfN's Core funding allocation for 2021/22 will be £6m. This is a £4m reduction on the current allocation (set in 2015) and a £5.2m reduction in the Core funding requested in the CSR.
2. The balance of TfN's Core funding for 2020/21 will be reduced from £5m to £2m. This reduces the full year allocation to £7m rather than the £10m that was originally allocated.
3. Funding for the IST programme will cease, subject to completing and winding down committed activity.
4. The overall NPR allocation will be £75m, of which c.£8m will be utilised by HS2. The balance will be available for draw down by TfN, subject to the normal departmental control of detailed commitments, and will also be subject to the outcome of the Integrated Rail Plan (IRP). The discussions with the department regarding the commitment of funding for the business plan are currently ongoing.
5. No funding was received in relation to the CSR request regarding the Development of an Infrastructure Pipeline.
6. The Rail North Partnership Grant will remain at £0.7m, subject to indexation and the need for any additional posts as identified by the Department. The contractual payments that TfN receives to fund its Rail Operations team will also remain in place

3.2 At the time of writing, we are not aware of the settlement provided to other Sub-national Transport Bodies, or of the Government's long-term intentions in relation to TfN. In the absence of any longer-term indication of funding, TfN is faced with a funding "cliff edge" for the third consecutive year. It is therefore proposed that TfN seek further clarity from the department as this will inform the organisation's response to these funding reductions.

3.3 The TfN Chief Executive has provided a response letter to the Permanent Secretary at the Department that set out the problems that this will create for TfN, and the negative impact that it will have on TfN's ability

to contribute either to the “Levelling Up” agenda or the response to economic challenges created by Covid-19.

- 3.4 Reductions in funding will impact on TfN’s ability to follow through on the aspirations of its members and degrade its ability to deliver the activities required to fulfil its Golden Thread (paragraphs 3.6 – 3.10 below). However, the precise impacts of the funding reductions are the prerogative of the Board, by means of business planning and budgeting decisions.
- 3.5 Further detail with regard to Funding is provided at Appendix 1.

Future direction of the organisation 2021/2

- 3.6 The reduced funding settlement means that it is more important than ever that Transport for the North is clear with regard to the aspirations of its members when producing its Business Plan.
- 3.7 It is therefore critical that the Board is sighted on, and happy with, the Outcomes that TfN is targeting through its “Golden Thread” and the Objectives that it adopts in order to support the delivery of those outcomes. This provides the basis for prioritisation decisions that will need to be made when considering departmental objectives and individual activities. The principal drivers of these top-level target outcomes and objectives are the Response to Covid (Economic Recovery Plan and Rebuilding Rail Passenger Numbers), the Strategic Transport Plan and the Northern Transport Charter.
- 3.8 Transport for the North officers refreshed the business plan “Golden Thread” in the autumn so as to provide a framework within which teams could carry out their draft planning. This exercise included confirming that the outcomes that TfN is seeking to achieve were still valid in light of the Covid-19 pandemic. Those outcomes are consistent with the themes set out in the Strategic Transport Plan. These are still considered to be relevant and it is recommended that these are approved by the Board as a basis for business planning:
- Transformed economic performance
 - Improved productivity
 - Enhanced inclusivity, health, and access to opportunities for all
 - Better quality of life.
- 3.9 The Northern Transport Charter identified four main objectives that would contribute to the delivery of those outcomes. These were adopted during last year’s business planning process as its objectives for the current financial year and it is recommended that these are approved by the Board to be carried forward into 2021/22:
- Championing an inclusive and sustainable North
 - Leading Strategic transport delivery
 - A long-term northern funding settlement

- Putting Passengers first

3.10 These objectives need to be further considered in light of Transport for the North's principal duty to produce and regularly refresh the Statutory Transport Plan, the current intention for the revised document to be adopted at the end of 2023/24, five years after the current plan was approved.

Business Planning to Date - Key Themes

3.11 Transport for the North commenced business planning activity in October, albeit this work has been mainly performed in the absence of any funding envelopes. This was based upon Transport for the North's proposed objectives as set out above. This has identified activity that is required to deliver the Golden Thread, consistent with decisions already taken by the Board. This is set out in paragraphs 3.11 to 3.19 below.

3.12 In addition, consideration is being given to how TfN uses its existing powers to the greatest extent possible in order to shape investment and build/demonstrate capability, allowing it to address the Board's objectives. This would further inform the next multi-year spending review, which is understood is likely to occur in Summer 2021.

3.13 Key areas for consideration are as follows:

- Developing and prioritising an investment pipeline
- Adopting a decision-making model that balances transformational economic growth with environmental and social benefits.
- How do we demonstrate the revised TfN decision-making model in practice and should we form the Independent Assurance Group now to demonstrate the rigour behind TfN decisions?
- How do we achieve greater accountability of the railway in the North to the people of the North and demonstrate benefits to passengers?
- Would there be value in exploring additional mechanisms for greater public participation in transport policy formulation, such as a Citizen's Assembly to wrestle with complex future transport issues, such as how road use is paid for in the future?
- Assessing how a long-term pan modal funding settlement could lead to better outcomes.

The extent to which this work can be progressed is essentially dependent on how activity is prioritized in order to allocate the Core funding settlement. Thinking with regards to these matters will be further developed over the coming weeks and tested through TfN

governance arrangements prior to presenting back to TfN Board for approval in February / March.

- 3.14 There are several “business as usual” strategy activities, which will involve teams across the organisation. This is essentially core Transport for the North work that has already been flagged to the Board, and that is required to position it for the completion of medium-term deliverables – such as the refresh of the Strategic Transport Plan - which require further development of policy positions and strategies as well as the evidence base that informs it.

The workstreams listed below will enable TfN to complete these deliverables, and to continue in its role of advising government on spending programmes.

- Investment Programme Benefits Analysis
- Decarbonisation strategy
- Freight strategy
- Assurance Framework
- Strategic Transport Plan development

These workstreams, and the majority of activities set out in paragraph 3.13, are consistent with the message in DfT’s funding letter indicating its desire for TfN to focus on core activities around the Strategic Transport Planning and prioritisation.

- 3.15 The Strategic Rail team will focus on the recovery following the pandemic, the future operating model of the railway (based on changes to franchising) and the role that TfN should play within this model. A key part of this activity will be in helping to build back passenger confidence in being able to use the rail system post-Covid-19. Linked to this, there is an ongoing need to secure greater levels of investment and smarter delivery of projects to support Transport for the North’s Strategic Transport Plan.

- 3.16 The activity that TfN would like to undertake in relation to the NPR project is set out below. This is subject to ongoing discussions with the departmental budget holder regarding the extent and the value of the activity to which they are prepared to commit, particularly in advance of the release of the Integrated Rail Plan.

- Develop Strategy and Policy
- Programme Business Case
- Project Business Cases

- Start of Procurement
 - Long term funding envelope.
- 3.17 The programme of IST activity that was proposed in the CSR is set out below. As this was dependent on DfT funding allocation, at this point it appears that this activity will now need to be revisited. There is likely to be a limited ongoing activity to permit certain activities, including the final conclusion of Phase 1, to be completed.
- Contactless Enablement on Rail (Phase 1 Extension)
 - Multimodal Open Data (Phase 2 Extension)
 - Contactless on Light Rail and Bus Enablement (Phase 4)
 - Smart North Ecosystem (Phase 5)
- 3.18 The activities set out above will need to be supported by business support teams with appropriate capacity and capability to ensure that Transport for the North is able to maintain a robust framework of processes and controls, comply with regulations and ensure value for money.
- 3.19 Further information regarding the Key Themes is provided at Appendix 2.

Next Steps

- 3.20 Transport for the North's objectives are consistent with the Government's Levelling Up agenda and can play a key role in the shared aspiration to help stimulate the recovery of the North's economy post Covid-19 and close the output gap between the North and the South in the longer term. The activity set out above can help to accelerate the delivery of transport projects with a broad range of benefits across the North.
- 3.21 However, in order to contribute effectively to that agenda in a way that maximises the effective use of resources and allows value for money to be achieved, Transport for the North needs to understand the basis on which it is planning and the intention of Government in the longer-term.
- 3.22 It is therefore proposed that Transport for the North respond to the Secretary of State in writing after the January Board meeting, setting out its concerns and seeking clarity on the relevant issues highlighted in this report. It is proposed that the letter to the Secretary of State will outline how the funding settlement commits less than 50% of our Spending Review bid and will seek a member delegation meeting as soon as possible. It is proposed to highlight the following:

1. Whilst it is stated TfN will receive over £70m for the year ahead, whereas this is not committed funding. In reality, the majority of this is ringfenced for Northern Powerhouse Rail (NPR), requiring item-by-item approval, and the remainder is a significant cut from previous years.
 2. Establishing TfN was a symbolic moment in delivering further devolution to the North, one that supports Government's levelling-up agenda.
 3. The loss of IST funding and reduction in core funding impact on Transport for the North's ability to support this agenda, lead to delays to projects in the North, and create significant challenges for TfN, including job losses.
 4. The TfN Board, our partners and our employees need urgent clarity on the Department's fundamental support for TfN and longer-term certainty, and in particular to seek further clarity on the complementary role that has previously been indicated for TfN in relation to the Northern Transport Acceleration Council.
- 3.23 At the same time, it is proposed that a meeting be sought with the Secretary of State that would allow a delegation of Board Members to further explore these matters with him. There is already a meeting proposed for week commencing 18 January on the Integrated Rail Plan and this could potentially also be used as the forum for that discussion.
- 3.24 In parallel, Transport for the North officers will engage with departmental colleagues with the objective of quickly understanding the detail of the allocations, particularly in relation to the treatment of programme costs and the intentions in relation to IST, so as to allow a firm basis for planning.
- 3.25 An additional Board meeting has now been proposed for 18 February. Based on the outcome of this meeting, the intention is to provide a draft plan to that Board in advance of a final Business Plan for 2021/22 that will be provided for approval in March, alongside an associated budget. As noted in this report, this timetable is very challenging given the circumstances within which planning will be performed, as some of the processes to respond to the new funding envelopes may not have been fully resolved at that point. If this is the case then this will be addressed in a Budget Revision early in the new financial year, once clarity has been achieved.
- 3.26 In response to this significant timing pressure, it is proposed that a small Working Group of Members be established through nomination by the Board. The purpose / remit of this group will be to allow officers to consult with Transport for the North Members regarding the development of the Business Plan and Budget prior to Reports being brought to the Board for consideration and approval.

4. Recommendation:

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- 4.1 That TfN officers continue discussions with DfT to achieve the greatest clarity on next year's funding.
- 4.2 That the Board approve the headline objectives (paragraphs 3.6 – 3.10) and key themes (3.11 – 3.19) for 2021/2 and officers report back with recommendations at the February Board.
- 4.3 That Transport for the North progresses with its business planning and budgeting on the basis set out in the report.
- 4.4 That a response letter, based on the key matters set out in Paragraph 3.22, is sent to the Secretary of State following this Board and that a meeting is sought with him as a matter of urgency in the w/c 18 January 2020.
- 4.5 That the Board considers a establishing a Member Working Group as set out in paragraph 3.26.

5. Appendices and Background Papers:

5.1

Appendix 1 – Funding

Appendix 2 – Business Planning to Date – Key Themes

Appendix 3 – DfT Funding Letter to TfN 2021/22.

Appendix 4 – Response Letter to the Permanent Secretary at DfT

5.2 Attention is also drawn to the following relevant documents:

1. Transport for the North CSR Submission to DfT – provided at the September Board.
2. The Supplemental CSR Submission provided to members on 6 November 2020.

Required Considerations

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 required 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	A full impact assessment has not been carried out because it is not required for this report.		Iain Craven

Legal

Yes	No
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Consideration	Comment	Responsible Officer	Director
Legal	The legal implications have been considered and are included in the report.	Debbie Dimmock	Julie Openshaw

Finance

Yes	No
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Consideration	Comment	Responsible Officer	Director
Finance	The Finance Team has reviewed this report and confirmed that the financial implications are included within the report.	Paul Kelly	Iain Craven

Resource

Yes	No
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Consideration	Comment	Responsible Officer	Director
Resource	<p>As detailed, dependent on the budget settlement received by TfN this may necessitate workforce reductions.</p> <p>Should such reductions be necessary following the completion of business planning these will be carried-out in full accordance with TfN's Security of Employment Policy.</p>	Stephen Hipwell	Dawn Madin

Risk

Yes	No
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Consideration	Comment	Responsible Officer	Director
Risk	A risk assessment has been carried out and the key risks are included in the report.	Haddy Njie	Iain Craven

Consultation

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

Appendix 1 – Funding

A1.1 On 4 January TfN received a funding letter from DfT. The funding included in that letter, and a comparison to both the CSR Submission, and the funding allocation for 2020/21 is set out in the following table.

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NPR ⁴	75.0	111.3	75.0
Developing an Investment Pipeline ⁵	-	2.0	-

1. TfN's Core funding allocation for 2021/22 will be £6m. This is a £4m reduction on the current allocation (set in 2015) and a £5.2m reduction in the Core funding requested in the CSR.
2. The balance of TfN's Core funding for 2020/21 will be reduced from £5m to £2m. This reduces the full year allocation to £7m rather than the £10m that was originally allocated.
3. Funding for the IST programme will cease, subject to completing and winding down committed activity.
4. The overall NPR allocation will be £75m, of which c.£8m will be utilised by HS2. The balance will be available for draw down by TfN, subject to the normal departmental control of detailed commitments, and will also be subject to the outcome of the Integrated Rail Plan (IRP). The discussions with the department regarding the commitment of funding for the business plan are currently ongoing.
5. No funding was received in relation to the CSR request regarding the Development of an Infrastructure Pipeline.
6. The Rail North Partnership Grant will remain at £0.7m, subject to indexation and the need for any additional posts as identified by the Department. The contractual payments that TfN receives to fund its Rail Operations team will also remain in place.

A1.2 This represents a significant reduction in funding overall for Transport for the North, both compared to its CSR submission and its current operations. This and the conditionality attached to the NPR funding means that it is not at this stage possible to confirm that Transport for the North will receive £70m in 2021/22 as is stated in the funding letter.

A1.3 Failure to fund the IST programme will mean that TfN is unable to proceed with a number of in-year projects that it had identified as part of its Economic Recovery Plan, the proposals for which were provided to Government in the Autumn. These proposals would have cost c.£33m and were focused on the introduction of contactless payment across multiple transport modes in multiple partner geographies. These

interventions were considered to be a key part of building confidence amongst passengers as we move into a post-Covid environment.

- A1.4 Whilst the reduction in the Core allocation is relatively small in relation to the overall allocation, inclusive of the programme funding for NPR, it is important to note that the Core funding pays for all of the non-programme activity undertaken by TfN and currently resources the significant majority of staffing and business infrastructure costs.
- A1.5 The current Core funded “run rate” for 2021/22 is c.£9.3m, made up of £5.5m of staffing costs, £2.4m consultancy and other external support costs, and £1.4m of other costs (mainly accommodation and business infrastructure). This run rate is lower than the detailed analysis provided in the August CSR submission due to the effects of Covid-19, steps taken by officers to manage the funding uncertainty under which the organisation has been operating for most of the year and the full year effect of in year vacancy management. This run rate does not therefore reflect the annualised costs associated with delivering Transport for the North’s aspirations as reflected in the CSR document.
- A1.6 The detailed breakdown of costs that was included in the August CSR Submission is set out below. It is important to note that the business infrastructure and transactional capacity of TfN is scaled to support an organisation with expenditure that will exceed £60m this financial year, and that the specifics of its role drive a cost profile that differs from other local public bodies (for example in relation to the resources allocated to support stakeholder engagement).

A1.7

	People (£'m)	Consultancy / external support (£'m)	Other (£'m)	Total (£'m)
Core Programme Spend				
Major Roads	0.43	0.39	0.01	0.83
NPR	0.95	-	-	0.95
Operational Rail	0.70	0.17	0.16	1.04
	2.08	0.56	0.17	2.82
Core Operations				
Strategy & Policy	1.31	1.66	0.03	3.00
Programme Management Office	0.27	0.06	0.01	0.34
Comms and Stakeholder Engagement	0.51	0.48	0.10	1.09
IT	0.21	0.10	0.31	0.63
Human Resources	0.56	0.20	0.39	1.15
Finance, Procurement & Risk	0.71	0.64	-	1.35
Accommodation	0.06	0.04	0.35	0.45
Legal Services	0.36	0.06	0.02	0.44
Leadership	0.29	-	0.01	0.30
	4.28	3.24	1.22	8.75
Total Core Expenditure	6.36	3.82	1.39	11.57

A1.8 At the time of writing, we are not aware of the settlement provided to other Sub-national Transport Bodies, or of the Government's long-term intentions in relation to TfN. In the absence of any longer-term indication of funding, TfN is faced with a funding "cliff edge" for the third consecutive year. Whilst this circumstance is in common with other public sector bodies, the specific characteristics of TfN mean that it creates particular issues for the organisation.

A1.9 It is also the case that even at the levels set out in our CSR submission (i.e. £11.2m) the absolute value of our funding should enable the Government to provide certainty of funding for 2022/23 if it were so minded. It is therefore proposed that TfN seek further clarity from the department as this will inform the organisation's response to these

funding reductions. In the absence of such a commitment Transport for the North will assume core funding at the same level as indicated (in real terms) for 2022/23. In addition, we will plan for 2021/22 on the basis of the levels of NPR funding set out in the letter.

- A1.10 The TfN Chief Executive has provided a response letter to the Permanent Secretary at the Department that set out the problems that this will create for TfN, and the negative impact that it will have on TfN's ability to contribute either to the "Levelling Up" agenda or the response to economic challenges created by Covid-19.
- A1.11 Transport for the North has repeatedly drawn the attention of the department to the challenges that the late notification of funding would create within the organisation. These were set out in TfN's CSR submission in August 2020 and the supplemental submission in November. In addition, this has been discussed with departmental officials and was raised at the Scrutiny Committee in October and the TfN Board meeting on 18 November 2020.
- A1.12 Given the potential for staff reductions and the associated processes that will need to be undertaken, the budget report that is presented to the Board for approval in March may represent an interim position that will need to be revised early in the new financial year. TfN is required by law to have a fully funded budget in place at the start of the new financial year.
- A1.13 Transport for the North is currently working through the impacts of this funding settlement. However, there is clearly a significant risk that key elements of its work will be negatively affected. Transport for the North is forecast to have a c.£5m general reserve by the end of this financial year. Therefore, whilst it needs to act quickly in response to the funding challenge that it faces, it does have headroom to consider the actions that it does take.
- A1.14 Reductions in funding will impact on TfN's ability to follow through on the aspirations of its members and degrade its ability to deliver the activities required to fulfil its Golden Thread (paragraphs 3.6 – 3.10). However, the precise impacts of the funding reductions are the prerogative of the Board, by means of business planning and budgeting decisions.

Appendix 2 - Business Planning to Date - Key Themes

- A2.1 Transport for the North commenced business planning activity in October, albeit this work has been mainly performed in the absence of any funding envelopes. This was based upon Transport for the North's proposed objectives as set out above. This has identified activity that is required to deliver the Golden Thread, consistent with decisions already taken by the Board. This is set out in paragraphs 3.11 to 3.19.
- A2.2 In addition, consideration is being given to how TfN uses its existing powers to the greatest extent possible in order to shape investment and build/demonstrate capability, allowing it to address the Northern Transport Charter objectives. This would further inform the next multi-year spending review, which is understood is likely to occur in Summer 2021.
- A2.3 Key areas for consideration are as follows:
- How do we demonstrate that a long-term pan modal funding settlement could lead to better outcomes?
 - How quickly can we adopt a decision-making model that balances transformational economic growth with environmental and social benefits.
 - How do we demonstrate the revised decision-making model would work and would it be valuable to introduce "shadow" decision making by forming the Independent Assurance Group now?
 - How do we achieve greater accountability of the railway in the North to the people of the North?
 - Would there be value in exploring additional mechanisms for greater public participation in transport policy formulation, building on the approaches identified in the Northern Transport Charter.

The extent to which this work can be progressed is essentially dependent on how activity is prioritized in order to allocate the Core funding settlement. Thinking with regards to these matters will be further developed over the coming weeks and tested through TfN governance arrangements prior to presenting back to TfN Board for approval in February / March.

- A2.4 There are several "business as usual" strategy activities, which will involve several teams across the organisation. This is essentially core Transport for the North work that has already been flagged to the Board, and that is required to position it for the completion of medium-term deliverables – such as the refresh of the Strategic Transport Plan - which require further development of policy positions and strategies as well as the evidence base that informs it.

The workstreams listed below will enable TfN to complete these deliverables, and to continue in its role of advising government on spending programmes.

- **Investment Programme Benefits Analysis:** the IPBA is will provide the evidence to update the Northern Investment Programme and provide the basis for Transport for the North to provide statutory advice to the Secretary of State for Transport on strategic transport investment priorities in the North. The IPBA will include identification of the pipeline funding required to secure development and delivery of the right schemes at the right time. Outputs from the IPBA work will include analysis of the economic, social and environmental outcomes from the investment programme, which is fundamental to identifying the transport schemes needed to achieve TfN's vision and objectives for the North.
- **Decarbonisation strategy:** TfN's Decarbonisation Strategy is currently being prepared for sign off by TfN Board in March 2021. Once approved we will prepare and perform a consultation exercise to be undertaken in 2021. Subject to the Board's approval, we will also start to scope and implement a number of priority actions identified in the Strategy Document, including work on hydrogen refuelling, EV charging infrastructure and piloting a sustainable return on investment model for business case development.
- **Freight strategy:** TfN is currently progressing work on a Freight Strategy to be agreed with the Board in March 2021. Again, we will need to undertake a consultation in 2021-22 and are proposing a supporting programme of development activity
- **Assurance Framework:** TfN has developed a methodology to manage the way programmes and schemes can be included, rescheduled or amended within the Investment Programme. This will be complemented by an internal approach to managing business activity for Policy, Strategy and some programme activity. This will ensure there is a standardised approach to both internal and external activity. This would form a key part of taking forward the Northern Transport Charter activity.
- **Strategic Transport Plan development:** we are preparing to update the STP first adopted by the Board in 2019. The activity to update, agree and consult on a new STP will fall into the 2022-23 and 2023-24 financial years, but we intend to start work in 2021-22 on updating the Northern Powerhouse Independent Economic Review and the core STP objectives following the Northern Transport Charter.

A2.5 The Strategic Rail team will focus on the recovery following the pandemic, the future operating model of the railway (based on changes to franchising) and the role that TfN should play within this model. A key part of this activity will be in helping to build back passenger confidence in being able to use the rail system post-Covid-19. Linked to this, there is an ongoing need to secure greater levels of investment and smarter delivery of projects to support Transport for the North's Strategic Transport Plan.

A2.6 The activity that TfN would like to undertake in relation to the NPR project is set out below. This is subject to ongoing discussions with the departmental Co-client regarding the extent and the value of the activity to which they are prepared to commit, particularly in advance of the release of the Integrated Rail Plan.

- Develop Strategy and Policy - NPR policy development and a high-level strategic business plan for all projects through to FBC.
- Programme Business Case - Submission of a Network Strategy Report to TfN Board for approval, phasing for single route options and associated TAME model development.
- Project Business Cases - targeted studies on new line options to support differentiation between options, reach a single route option for each corridor and station on the existing network, agree procurement approach and undertake the process for "fast tracked" options (i.e. where a single option already exists).
- Start of Procurement - Contracts in place for OBC stage for the new line, on network and identified fast track projects.
- Long term funding envelope - Negotiate and agree RDEL and CDEL budget for NPR.

A2.7 The programme of IST activity that was proposed in the CSR is set out below. As this was dependent on DfT funding allocation, this activity will now need to be revisited. There is likely to be a limited ongoing activity to permit certain activities, including the final conclusion of Phase 1, to be completed.

- Contactless Enablement on Rail (Phase 1 Extension) - Platform Validators delivered and flexi seasons available at stations, Contactless on Rail – EMV Model 2 offer available in East and South Yorkshire. Ongoing benefits realisation monitoring.
- Multimodal Open Data (Phase 2 Extension) - Mode extensions on Disruptions Messaging Tool and Open Data Hub and Tram capacity data and real time information for Pathfinder LTA published on TfN's Open Data Hub. Ongoing benefits realisation monitoring.

- Contactless on Light Rail and Bus Enablement (Phase 4) - Business Case Approvals and delivery of contactless schemes for Liverpool City Region, Blackpool, Tyne & Wear (Platform Validators installation enabling Bankcard Pay-As-You-Go) and enhancements to Transport for Greater Manchester's Bankcard Pay-As-You-Go (to be finalised) and electronic ticket machines on owner operator buses.
- Smart North Ecosystem (Phase 5) - Strategic Outline Case Approved and creation of a core network from the Innovation Partnerships (pathfinders in Northern major cities including a solution for the unbanked).

A2.8 The activities set out above will need to be supported by business support teams with appropriate capacity and capability to ensure that Transport for the North is able to maintain a robust framework of processes and controls, comply with regulations and ensure value for money.



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Barry White
Chief Executive
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M1 3BN

4 January 2021

Dear Barry,

Funding Settlement for 2021/22

I am writing to inform you of Transport for the North's (TfN) funding settlement for 2021/22.

Thank you for your patience whilst we have confirmed with Ministers the spending allocations following the recent One-Year Spending Review. I recognise the difficulty a lack of certainty on funding has created for TfN, so I hope this letter will provide you with the clarity required for you to finalise your business planning preparations and budget for 2021/22.

Overall, TfN will receive over £70m of funding next year from the Department. This is to enable you to continue to deliver your statutory functions and for further development of the business case for Northern Powerhouse Rail. Further detail is set out below.

Northern Powerhouse Rail

£75m of programme funding was allocated to the Department at the Spending Review to continue to develop Northern Powerhouse Rail. As co-clients to this programme, you will be able to access up to around £67m of that funding, subject to the usual draw down process, to continue the development work. Given current uncertainties over the Integrated Rail Plan, we cannot at this stage provide you with a precise figure, but I know the TfN NPR team are in regular dialogue with DfT colleagues as part of the co-clienting and programme management arrangements, and they will be able to provide you with further detail in due course.

Integrated and Smart Ticketing

Given the challenges faced by the original Phase 3 proposition, I'd like to thank TfN for all of the work that has been undertaken on this programme over the past year, both in

successfully delivering Phases 1 and 2, and in rescoping activities undertaken for the new Phase 3 and 4 proposals.

As you are aware, at the 2015 Spending Review, the IST programme was allocated up to £150m which is due to expire at the end of this financial year. The most recent Spending Review does not include CDEL for 2021/22 for TfN's IST programme. Whilst I am aware you were hoping for a different outcome, I wanted to communicate this to you as early as possible, to enable you to develop plans to wind down the programme.

The Department will be considering cost-effective delivery models and funding streams to roll out PAYG to urban and regional commuter areas, including the north, as part of wider rail reforms, and we will keep in close contact with you as these proposals develop.

Statutory Functions

TfN will receive £6m (total) in core funding for the next financial year. Ministers feel this is an appropriate allocation to enable TfN as an organisation to focus on your core statutory functions, namely developing a transport strategy and helping the Department to prioritise. The Department values the role STBs play in developing a long-term transport strategy for their regions, prioritising transport schemes for their area, and bringing a strength of partnership among their membership so that they can speak to government with one voice.

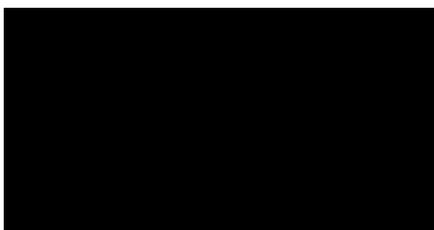
With regards to the current financial year, you have already received a payment of £5m. As you have not spent your core budget on the same trajectory as previous years (and therefore additional core funding this year would go towards building up your reserves), combined with the current fiscal environment, Ministers have agreed it would not be an appropriate use of tax payer's money to provide TfN with an additional £5m this year.

However, we will provide TfN with an additional £2m of core funding this year, to help with the transition towards the next financial year and revised core budget.

Finally, I can confirm that the Rail North Partnership Grant received from the Department will continue in the next financial year.

I trust this provides you with enough information to inform your business planning process for the next financial year, but please do get in touch if you have any questions.

Yours sincerely,



Date: 7 January 2021

Bernadette Kelly
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Sent by e-mail: [REDACTED]

Dear Bernadette,

Re: Funding Settlement for 2021/22

I am writing in response to the Funding Settlement 21/22 letter that Transport for the North received from the Department on 4 January 2021.

I would like to express TfN's disappointment at the funding arrangements and request a meeting to discuss this further.

On 6 November 2020, following Board approval, we set out what TfN would need to deliver on the North's ambitions in our CSR submission. This was supplemental to the document provided in August and was aimed squarely at underpinning the Government's mission to level-up the economy through transport infrastructure and build back better from Covid-19.

Vitaly, this included a mix of programme development and delivery, as well as development funding for a pipeline of northern infrastructure schemes. It also sought to accelerate investment into the North through our existing arrangements and initiatives.

Whilst the letter states TfN will be receiving over £70 million, this is not the case given the nature of departmental controls over the commitment of much of this funding.

The response to our funding request, committing less than half of the funds coupled with the complex ringfenced funding streams of the majority of the settlement, means we would face extreme challenges in delivering on our shared ambition to level up.

Northern Powerhouse Rail

We welcome the confirmation of Northern Powerhouse Rail funding, even if at a lower level than requested (by c.33%). Most important here is that we reach quick agreement on the scope of works for next year to ensure certainty that the funding is committed. This will allow appropriate resourcing and procurement to be put in place in order to avoid delays – a shared goal for both of us.

Integrated and Smart Ticketing

The decision to cease funding the IST programme entirely is incredibly disappointing – particularly given the identification of key contactless initiatives that could be developed quickly and have been awaiting this funding decision for several months. Specifically, the £33m requested for the year ahead would deliver contactless payment on rail, light rail and buses in partner geographies across the North – a key element in providing travellers with the confidence to use public transport as we recover from the pandemic.

As well as risking delay to such projects and the loss of knowledge and experience that we have accumulated within TfN on the programme team, this also represents a removal of c.£105 million previously allocated to northern transport ticketing schemes.

Statutory Functions

As set out in the CSR, TfN's Core funding resources a variety of activity within the organisation, essentially enabling it to operate as a coherent statutory entity. The reduction to £6 million of Core funding for 2021/22 (£5.2m less than our CSR submission and £4m less than allocated in previous years), coupled with an in-year reduction of £3 million for the current year, will cause a significant scaling back of activity and lead to workforce reduction. In reality, this may mean a loss of key northern roles at a time of wider economic upheaval. It will also reduce TfN's capabilities as we were planning to allocate resource to support the economic recovery plan priorities.

It also fails to recognise the significant core contribution to facilitating the NPR programme. Cost allocation going forward will have to be reviewed to ensure these costs are fairly allocated.

Next Steps

We will be discussing this further with our Board next week and I would seek an urgent call with you in advance of that meeting.

We are also already seeking a meeting in w/c 18 January with the Transport Secretary on the Integrated Rail Plan and it is likely the Board members attending will want to add the funding settlement to that discussion too.

We are keen that we work together to deliver our shared mission to deliver for the North, however time is against us. We ask that you work with us at speed to review our funding settlement.

Yours sincerely,



Barry White
Chief Executive