

GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY**REPORT FOR INFORMATION****COMMITTEE: Policy & Resources****DATE: 24th July 2009****SUBJECT: Funding of Heavy Rail Enhancements****REPORT OF: Acting Director of Strategy, GMPTE**

PURPOSE OF REPORT

To inform Members of new guidelines clarifying when the DfT will consider accepting responsibility for funding revenue costs associated with ITA investment in the heavy rail network.

RECOMMENDATIONS

It is recommended that Members note the contents of this report.

BACKGROUND DOCUMENTS

Information held on file in GMPTE offices.

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1. Introduction

- 1.1. The Railways Act 2005 set out a revised role for ITAs and PTEs with respect to the heavy rail network. The ability to specify and fund all aspects of the rail network was reduced and procedures were put in place to administer changes ITAs/PTEs wished to make to the Department for Transport (DfT) specifications. These procedures require ITAs/PTEs to fund any enhancements (and allow them to keep savings from any decrements) until the franchise is renewed, at which time the DfT will consider (subject to policy and affordability criteria) absorbing the changes into the base franchise specification and accepting financial responsibility.
- 1.2. It was not apparent; however, what criteria the DfT would use when deciding to take responsibility for funding enhancements and clearly the length of time to the end of the franchise and, therefore, the extent of the financial commitment required from the ITA/PTE was variable.

2. Clarification of Requirements

- 2.1 In February 2009 the DfT published guidance clarifying the circumstances under which they would consider taking responsibility for funding enhancements and revising the time-frame from the end of the franchise to three years after implementation of the changes. The new system will be introduced with the commencement of the next Local Transport Plan (LTP3) in 2011, but has been announced now to enable Authorities to take the changes into account when developing their Plans.
- 2.2. Any scheme introduced during LTP2 (up to 31st March 2011) will still be considered at franchise renewal, but schemes introduced on or after 1st April 2011 (the commencement of LTP3) will be reviewed after two years for consideration of transfer of funding responsibility at the end of three years – 1st April 2014 at the earliest, the start of railway Control Period 5.
- 2.3. The revised conditions are reproduced in Appendix A. They cover the requirements of affordability, deliverability and fit with local and national policies; as well as emphasising that the DfT is not making any automatic commitments by revising the conditions.

3. Implications

- 3.1. The new guidelines bring clarity to the on-going funding of operating costs associated with capital investments (e.g. lifts, CCTV and CIS), service changes or revisions to fares & ticketing (e.g. changes to the pre paid and concessionary schemes). They require the PTE to involve the DfT as well as train / station operators and Network Rail throughout the development of schemes so as to maximise the possibility of the DfT accepting financial responsibility. The consequences of a scheme generating an income stream also need to be discussed with the DfT to confirm the PTE can keep the income for an appropriate length of time.

- 3.2. If the DfT are unlikely to accept funding responsibility the ITA/PTE still have the option of implementing changes and providing long-term funding themselves.
- 3.3. In recent years ITA/PTE investment at railway stations has been carefully selected and therefore has generated sufficient additional revenue to cover operating costs. However, some other enhancements (e.g. lifts to improve access to platforms) may require on-going funding of operating costs.
- 3.4. The ITA/PTE currently provide on-going funding for some minor enhancements to Northern Rail train services, which will be subject to review with the DfT at franchise renewal.

4. Conclusions

- 4.1. The clarification of the criteria the DfT will use to determine if they are prepared to accept on-going funding of ITA/PTE initiated changes to the heavy rail network is welcome. The criteria introduce a degree of discipline in the selection and development of projects if the DfT are to accept a funding role; however the ITA and PTE do have the option of implementing any enhancement if they are willing to accept long-term financial responsibility.

5. Recommendation

- 5.1. The recommendation appears at the front of this report.

Adam Goulcher
Acting Director of Strategy

Conditions Related to the Funding of New or Enhanced services Promoted by Local and Regional Bodies.

Subject to funding being allocated for this purpose in the 2012 High Level Output Specification (HLOS) and Statement of Funds Available (SoFA), DfT would intend to fund the provision of new and enhanced services and calls at new stations where:

- The promoter has engaged at an early stage with DfT, the TOC, Network Rail and relevant regional/local bodies and all have indicated that there is merit in the scheme being developed further.
- Enhancements which are proposed for implementation after April 2014 emerge as the preferred option from a process compliant with Delivering a Sustainable Transport Strategy
- The scheme is affordable from any budget which might be set for this purpose for CP5 in the 2012 HLOS.
- The promoter demonstrates, and has Network Rail and TOC endorsement, that the enhancement is deliverable in planning, engineering and operational terms including being consistent with RUSs.
- The enhancement package (including any service reductions proposed to fund it) must demonstrate a business case (BCR in excess of 1.5) before implementation.
- The promoter accepts the risk on any capital investment required and identifies a funding source from regional and local budgets such as the Regional Funding Allocation (RFA).
- The promoter agrees to fund any additional subsidy requirements arising from the provision of the new service for a period of three years (and remains on risk for a DfT decision not to support the scheme) **OR** identifies decrements elsewhere or new revenue sources (which would need to be agreed with DfT) on the local/regional network (including fares increases above RPI+1%) which would contribute to a reduced overall subsidy requirement.
- The promoter should provide information to DfT on usage throughout the three year trial period. After year 2, the promoter would assess the financial and economic performance of the service based on year 2's results.
- Should continuing the service demonstrate a BCR in excess of 1.5, subject to affordability within the set budget, DfT would consider taking on the responsibility of funding its continuation after year 3 alongside other services within a franchise, **OR** if funding is not available, invite the region to identify decrements to enable the service to continue.
- Should continuing the service demonstrate a BCR of between 1.0 and 1.5, DfT and the promoter would negotiate but with no presumption of Government funding.
- Should the BCR be less than 1.0, DfT would not provide any funding.
- DfT would not propose to take any financial responsibility until the start of CP5 (April 2014), hence services which start before April 2011 would need to be funded wholly by the promoter for a period of more than 3 years.
- For new stations being served by existing services, although the promoter might have to provide some pump-priming funding until the station becomes established, DfT would expect that fare income would

cover additional operating costs and that no additional subsidy would be required after 3 years.

For devolved networks within the TfL concession and Merseyrail Electrics concession, the policy adopted in the 2007 White Paper would apply and extra services would be funded through locally determined budgets.