

National Infrastructure Commission Call for Evidence



Connecting Northern Cities
Nichols Response - January 2016

Question 5 – What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

Introduction

The intention of the Northern Powerhouse is to mobilise the collective strengths of cities such as Manchester and Leeds to generate more wealth than they are capable of producing as individual units. This potential is currently stifled by poor transport links and the lack of a unifying political structure. The embryonic Transport for the North (TfN) organisation offers the opportunity to address both of these issues, and to introduce a new way of running regional transport networks that could be rolled out more widely across the UK.

This opportunity will be challenging to exploit and many issues will have to be addressed on the way. In this paper Nichols presents our views on those issues and offers practical advice on how they might be addressed.

The challenge

Existing industry processes relating to Network Rail and Highways England, are not delivering improvements fast enough. Demand for road and rail journeys, since the 'Northern Way' era, has outpaced the ability of the traditional transport planning system to respond. Delays to the implementation of the TransPennine upgrade is one example. The CP5 programme as a whole is under scrutiny due to cost and time overruns. In addition, regionally focused transport planning is not currently in place to maximise all modes connecting the major cities and to maximise the benefits by improving interchanges between modes.

Positive change is necessary in how transport projects are planned, sponsored and delivered if the Northern Powerhouse is to become a reality. It is essential that a carefully designed change programme is developed to deliver the new order in predictable steps, while maintaining the existing operation and maintenance activities, even if the ultimate client for those activities is changing.

The foundation of this change programme will be the development of TfN into a fully competent transport authority. This presents its own challenges, not the least of which is to achieve unified political leadership across the local authorities. This is essential so that difficult decisions on priorities can be made in a mature way based on overall best value for the whole region, rather than any local imperatives. As there is no pre-existing governance structure for 'The North' with these decision-making and operational characteristics, establishing one will take time, but meanwhile investment must not falter.

A suggested way forward for TfN

Create a vision of the ultimate organisation

Before any change programme can be designed it is imperative that a clear view of the ultimate target organisation is developed and agreed. TfN could take overall responsibility for ports, airports, navigable waterways, road and rail including both passenger services and freight. Transport infrastructure corridors can provide space for other revenue producing services, TfN could take commercial opportunities for energy, data and voice distribution across its network and could act as the client to certain TOCs.

Overall governance must include local authorities and DfT through a steering group to which TfN reports. The extent to which this steering group directs TfN will need to be carefully considered.

A key role for TfN would be as a 'Super Sponsor':

- Promoting, prioritising and initiating investment programmes for a portfolio of desired outcomes, which are aligned with national strategy and are not limited to considering a single mode of transport. Prioritisation would be based on a locally focused methodology and approach to Benefit Cost Ratio (BCR) analysis acceptable in 'The North' and to HM Treasury.
- Brokering agreements to form coalitions that TfN would oversee, for programme development, delivery and subsequent operation.
- Using the best capabilities of existing organisations such as Highways England and Network Rail to maintain day-to-day business as usual operations, perhaps under contract.

A suggested governance model is provided in Appendix A.

Funding

As TfN will be completing development work previously done by Network Rail and Highways England, DfT would fund it in a similar manner to DfT's funding of Transport Scotland. DfT's funding could be supplemented by appropriate local taxes levied across the North and by the exploitation of commercial opportunities across its estate. It is in these areas that achieving mature political support will be most important, as local politicians will have to accept that there will not always be direct local benefits to offset local costs, especially if a project is designed to regenerate a poorer part of the region.

TfN should develop objective prioritisation criteria acceptable to the region and HM Treasury

We recognise that prioritising programmes purely on the basis of DfT's WebTAG, or the Treasury's Green Book methodology, may not bring forward the transport infrastructure projects required to achieve the economic regeneration desired by the region. In addition it may not address prioritisation within the region sufficiently to ensure that the region as a whole supports the prioritisation. In order to facilitate agreement to programme and project prioritisation there is a need to develop an objective criteria framework that has support and sign-off from the region and HM Treasury. Standard business case methodologies therefore need to be adjusted to take account of regional considerations such as the extent to which the assessed programme does the following:

- Acts as an enabler or stimulus to economic growth in the region.
- Brings regeneration benefits in the region.
- Meets environmental aspirations (for example, CO₂, NO_x and PCM reductions; and less freight on the roads).
- Improves journey times between cities in the region.
- Improves access to employment opportunities from areas of high unemployment.
- Improves transport access to sites with significant already benefiting from private sector developer commitments.
- Supports inter-modal travel, with a modal split in favour of rail.
- Supports significant movement of freight by rail.
- Takes account of impact on communities affected during construction.

These and other suitable criteria would be developed to create a robust and validated framework for prioritising programmes to improve regional transport connectivity. In Nichols experience achieving local consent, especially for extended road closures and land-use changes from communities not directly benefitting, are often more time-consuming than the actual construction.

Promoting, prioritising and initiating investment programmes

Due to competing local priorities, that will remain even if general political union is achieved across the Northern Powerhouse, TfN must have a rigorously objective process for assessing and selecting the projects and programmes that will proceed into implementation. The methodology would be to use business case development manual reflecting the agreed prioritisation criteria suggested above, so that initial business cases can be prepared in sufficient detail to identify a robust BCR. Programmes with the highest BCR within the available funding would be commended to the Steering Group and taken forward by TfN.

TfN should have responsibility for the following:

- Defining the high-level programme outcomes required and the criteria for both programme and constituent project selection and prioritisation.
- Ensuring that the portfolio of prioritised programmes and projects remains aligned with local and national policy objectives.
- Capturing programme level requirements from key stakeholders (such as, business community, combined authorities, local authorities, Network Rail and the Local Enterprise Partnerships), interpreting and managing the requirement change process and liaising with DfT to ensure that the programme remains aligned with overall national planning.
- Aligning the initial programme business case with local, regional and national requirements.
- Securing coordinated finance and the funding for prioritised programmes.
- Championing the programme, managing expectations and engagement of key stakeholders.
- Coordinating the programme team's activities in securing the necessary land and planning consents associated with transport infrastructure development.

Creating programme specific coalitions for funding, financing, overseeing delivery and operation

TfN would build coalitions of stakeholders for a particular outcome or set of outcomes, eventually brokering bespoke programme specific agreements between them. The stakeholders would become the sponsor of a programme for which a private sector developer, integrator and operator could be created, and specific financing and funding arrangements could be put in place.

If a private sector developer, integrator and operator were created, it would be free from public sector procurement rules, allowing it to ensure that sponsor aspirations for local supply chain involvement could be met.

Programmes could be financed against income streams, for example, track access charges or rental of space in multi-service ducts for high speed data connectivity, or air rights and other associated property development. Existing transport property, including the air rights associated with the programme, would pass from the current holder to the programme providing additional funding opportunities. The current amendment to the Planning Bill allowing housing to be included in infrastructure schemes could be an especially useful tool in giving benefits directly to local communities on the routes.

Funding arrangements should give the local authorities and national bodies that are impacted by the programme, some responsibility for funding the contingency related to specified risks and therefore an incentive to think flexibly and creatively about how the desired outcomes can be achieved.

Day-to-day operations

Once it is fully ready, TfN could take over the leadership of operations and maintenance of key transport links and interchanges, using rail funding sources and parts of the highways funding programme as a source of funding. With appropriate powers, funding and capability, TfN could also take over DfT's franchising role for train operating companies with current DfT grants and subsidies flowing through TfN in a similar manner to that adopted for Transport Scotland.

Network Rail and other infrastructure managers' asset knowledge and expertise could be retained under contract. Over time this could either be absorbed by TfN or opened up to a more contestable marketplace. The closest example is the East London Line, where Rail for London (RfL) is the Infrastructure Manager and maintains the railway, but Network Rail operates the signalling under contract. The East London Line is also vertically integrated with rolling stock specified and procured by RfL to suit its infrastructure.

The change programme – implementing TfN's role

A single migration to a new end-state is not practical due to the complexity of the industry and the unintended consequences that will arise from such a drastic change. Nichols strongly recommends designing a change programme that takes incremental steps towards the desired end-state, which can be piloted and then refined before the next step is implemented.

Supported by DfT, TfN could take the lead on sponsoring locally important projects such as TransPennine and HS3 and the development of complementary road and interchange projects. TfN would work with DfT and procure delivery expertise in a more contestable way.

TfN may eventually become an Infrastructure Manager for key routes within its area, by 2022 it may be involved in procuring the next TOC for TransPennine and other locally important services with track access charges flowing to it. It can also explore other sources of finance and funding. Both TfL and Transport Scotland provide useful precedents to this potential model.

1 Establish UK Policy Objectives

Performed by: HMG

Responsibilities: Lead development and obtain political agreement to policy objectives. Agree Integrated UK Transport Strategy proposed by DfT.

Example: Rebalance UK economy to be less London centric, create Northern Power House and encourage population to work closer to where they live.

2 Establish Integrated UK Transport Strategy

Performed by: DfT

Responsibilities: Develop an Integrated UK Transport Strategy that is aligned with and supports HMG UK Policy Objectives. Agree Integrated Regional Transport Strategy proposed by TfN and subsequently approve projects.

Example: Encourage modal shift to rail.

3 Maintain prioritised portfolio of programmes & projects aligned with UK Strategy

Performed by: Infrastructure Commission

Responsibilities: Collate cross departmental portfolio, scrutinise programme and project proposals, recommend prioritisation to Government (prioritisation assured by Treasury).

Example: Prioritise HS3 over completion of HS2 north of Crewe, but prioritise high speed broadband connectivity ahead of and integrated with transport improvements.

4 Establish Integrated Regional Transport Strategy

Performed by: TfN and constituent political leadership

Responsibilities: Develop an Integrated Regional Transport Strategy that supports regional economic growth and is aligned with Integrated UK Transport Strategy. Communicate the strategy to develop regional & local support.

Example: Focus on programmes whose outcomes will improve productivity and prosperity in the region, such as links within the region, particularly east west road and rail (freight & passenger) with intermodal interchange hubs including links to ports and airports.

5 Identify & initiate programmes supporting Integrated Regional Transport Strategy

Performed by: TfN

Responsibilities: As 'Super Sponsor' work with relevant Combined Authorities, Passenger Transport Executives, DfT, Network Rail & Highways England to build coalitions that define and agree funding and financing arrangements for potential programmes, prioritise these using 5 case business case. Establish programme specific governance bodies, subsequently obtaining DfT's approval for prioritised programmes and projects.

Example: Develop initial business cases for alternative programmes to improve productivity and prosperity in the region. Enable prioritisation, initiation approval and testing for local acceptability and adaption to build a consensus strong enough to weather legal or political challenge, for example, the business case for HS3 initiation.

6 Develop programmes, identify, initiate, develop & deliver constituent projects

Performed by: Programme Specific Governance Body

Responsibilities: Sponsor the programme. Guide the programme and its constituent projects through the programme and project lifecycle. Realise programme outcomes & benefits.

Example: Desired outcomes and scope of HS3 defined, constituent projects (such as an interchange station in Leeds with safeguarded connectivity for HS2) delivered.

