



## WMCA BOARD

<b>Date</b>	9 June 2023
<b>Report title</b>	West Midlands Transport Investment Programme & CRSTS Review
<b>Portfolio Leads</b>	Portfolio Lead for Transport Councillor Bob Sleight - Finance
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<b>The issues covered within this report have been considered by</b>	West Midlands Finance Directors – 4/05/23 Strategic Transport Officers Group – 11/05/23 Mayor & Portfolio Leads Liaison - 20/05/23

### Recommendation(s) for action or decision:

- (1) Note the CRSTS1 Year One delivery progress set out in the report.
- (2) Note the financial strategy relevant to the WMCA Transport Capital Pressure details are to be covered in the private part of the meeting agenda.
- (3) Agree the proposal to formally re-base the CRSTS1 programme, allowing for over programming, ready for further consideration by WMCA Board in September 2023, working with all scheme promoters to ensure realism over scheme costs, spending and delivery profiles for all schemes. This is in response to the DfT's 'once in a programme' opportunity to re-baseline the programme.
- (4) Note the headlines of the CRSTS1 Memorandum of Understanding updated Terms and Conditions that the WMCA Section 151 Officer is required to sign-off.
- (5) Note the initial response from DfT regarding the region's change control request to move a previously funded TCF scheme into the core CRSTS1 funding allocation, subject to clarification of what schemes would be deferred to accommodate it.

- (6) Note the need for all scheme promoters to provide sufficient and timely information in their quarterly and annual returns to enable the WMCA to fulfil its reporting obligations back to DfT, without which future annual payments of CRSTS grant from DfT could be restricted.

## **1. Purpose**

- 1.1 To provide the WMCA Board with an update on the progress made against the CRSTS funding programme within the context of the region's wider transport investment programme.
- 1.2 A proposed financial strategy to address the transport capital programme pressures and issues is included as a private addendum to this report. The aims of the report/s is to obtain WMCA Board's direction in order to enable further work and negotiations to progress. This will enable a further report to be bought back to the WMCA Board in Autumn 2023.

## **2. Background**

- 2.1 The region is in receipt of a significant transport investment funding stream through the City Region Sustainable Transport Settlement (£1.050bn over five years through to 2026/27). This was secured during 2022 and represents the largest receipt of brand-new grant funding for local transport of the seven Mayoral Combined Authorities benefiting from this grant. A number of other Mayoral Combined Authorities did not receive CRSTS funding and other Local Transport Authority areas in England outside of London are currently only in receipt of more modest / basic funding to cover relatively minor transport works and highways maintenance.
- 2.2 The CRSTS funding consolidates a number of historic funding sources (including highways maintenance) and provides a very welcome five-year planning and resourcing horizon which has been critically lacking in recent years.
- 2.3 Although the mechanics are yet to be confirmed, in principle future settlements (on which more detail is provided elsewhere in this report) will be merged into the Devo Deal single funding pot which is to be further considered by the WMCA Board in October 2023.
- 2.4 A number of pressures within the region's overall transport investment programme were reported to WMCA Board in December 2022 and March 2023 (including various early warnings), ultimately resulting in the Board's agreement to accept £53.4m of immediate pressure against the current CRSTS programme (to be managed through the previously agreed soft-contingency mechanism).

## **3. Year 1 CRSTS Progress**

- 3.1 Good progress has been made during the first financial year of the CRSTS programme up to the end of March 2023. This has not represented a full 12 months of activity because the final approvals were not received from DfT until during July 2022.

- 3.2 Appendix 1 sets out the development and delivery status of each scheme within the programme, as well as headline delivery metrics based on the end of Q4 Year 1 monitoring returns from scheme promoters. The appendix includes some illustrative case studies of delivery activity. The following provides some key headline points.
- 3.3 Overall good progress has been made on releasing funding approvals through the regional WMCA SAF process, with £500m of funding approvals made against the £1.05bn programme. From these approximately £100m of delivery activity has been achieved across a number of schemes, including active travel, cycling, public transport, road safety and highway maintenance schemes. Most scheme promoters have been able to use the past year to increase their delivery capacity, appoint additional support and are on track to submit further funding approvals over the next year. This paves the way for a step-up in delivery pace following the critical mobilisation activity which has been taking place.
- 3.4 Additionally, significant new revenue-based capacity funding has been secured (£16.6m) and is being distributed amongst scheme promoters. This is being used to support wider capacity in the Local Authority transport teams and to bring forward activity in the remaining CRSTS capital schemes which do not yet benefit from the first stage of business case development (the costs of which cannot be capitalised).
- 3.5 Other new funding has been secured and provided for 23/24 through a highway maintenance pothole fund, which is additional to the CRSTS1 highway maintenance allocations which themselves represent a 20% uplift on previous funding levels. This provides additional resource for the constituent Local Authorities except for Birmingham (as it is funded separately for this activity via a PFI arrangement).
- 3.6 There have been some teething issues with reporting progress from Local Authorities but this is improving as we continue in the 2<sup>nd</sup> year of funding. The overall delivery programme also remains substantially heavily back ended within the 5-year period. Over half the schemes in the programme are not due to complete delivery until the last half of the final year (2026/27). This means that there remains a significant risk of delivery slipping into the next CRSTS funding and delivery period. As set out further below, under the current funding terms and conditions, it is not permitted to carry over of funding beyond the end of the CRSTS1 period. Therefore, underspend in the CRSTS1 delivery period risks funding to the region being lost. This will be addressed as we re-baseline the programme as referred to in section 11.
- 3.7 Whilst the actual spend to date is strong and stands at c.£100m for Year 1, it is behind the originally envisaged spend profile for the programme of £140m. This is not currently considered unreasonable, especially given the circa 3month delay during Year 1 allowing for the final funding programme business case approval by DfT and the release of funding. However, moving forward, increasing the delivery pace by all scheme promoters and work to bring forward activity and reduce the back-ended nature of the programme will be crucial to reduce the risk of CRSTS1 funding withdrawal by the DfT.

#### **4. Transport Capital Programme Pressures**

- 4.1 As outlined in previous Board reports, the WMCA Transport Capital Programme has faced unprecedented levels of challenge and construction inflation. Some of this is a reflection of a wider national and international picture and some as a result of unique local factors including, but not limited to, programme adjustments to accommodate the Commonwealth Games and HS2 delivery. The private addendum to this report provides an outline of the key WMCA Transport Capital Programme pressures as they currently stand. Significant efforts remain in place to mitigate these as far as possible.
- 4.2 It is important to note that whilst no issues of construction cost inflation have yet been formally flagged by the Local Authority scheme promoters (whose schemes comprise the bulk of the financial value of the programme), informally it is reported that similar inflationary pressures are likely to emerge. The delay in formally reporting these issues is likely to be substantially due to the majority of Local Authority promoted schemes being relatively less mature in development terms than many of the WMCA Transport Capital Programme. Additionally, due to their nature many of the Local Authority schemes are inherently more scalable in their physical scope, which can be used to good effect in order to control costs whilst delivering the outcomes.
- 4.3 The precise financial consequences arising from these issues are included in the Private part of the agenda so as not to compromise commercial positions or associated negotiations; which would potentially exacerbate the issues experienced.

#### **5. DfT Change Control Application**

- 5.1 The WMCA Board approved the submission of a formal change control application to DfT which included bringing into the core delivery programme additional public transport interchange activity which was previously funded by TCF, as well as flexibility to address cost pressures emerging on Rail Package 1 & 2 (arising from the wider regional transport investment programme). This application was made in early February 2022 and following consideration by DfT Officials and Ministers a response was received on the 5th May 2023 approving the entry of the former TCF scheme into the CRSTS1 programme (subject to confirmation of how the financial implications of this will be managed in the overall programme).
- 5.2 This same change control application also sought to bring into the CRSTS programme the Rail Package 1 & 2 schemes as reserve schemes. This would enable them to be pulled into the main core funded CRSTS programme should it be necessary to support their current approved budget position. This aspect of the application has not at this stage been approved by DfT, who require some further clarifications, including information on the current funding mix of non-CRSTS funds such as the use of Rail Network Enhancement Pipeline funding (RNEP) and other local funding solutions. DfT have also asked for clarity over what projects would be deferred to accommodate the over programming pressure which could be created. Work is therefore ongoing with DfT in relation to the rail packages.
- 5.3 DfT's queries regarding what the funding allocated to the change control schemes will displace from the CRSTS programme can only be addressed through the re-base exercise and/or a funding strategy in which the WMCA cashflows the pressures against future grant income. Further detail on this is provided in the private addendum to this report.

## **6. Very Light Rail Retained Scheme Status**

- 6.1 The Very Light Rail programme was one of two schemes in the CRSTS programme to be allocated 'retained' status, meaning further explicit approval from DfT was required before spending could be distributed by the WMCA. Following some 6 months of discussions with DfT regarding their requirements, a detailed Strategic Outline Business Case was submitted and presented in accordance with their requirements. This followed full approval of the SOBC by the CA Board on 13<sup>th</sup> January 2023 through the WMCA SAF process (to the value of £36.8m). Following consideration of the regional submission the DfT have advised that they require an alternative approach to be pursued which better reflects the innovative and R&D nature of the VLR programme. At the time of writing DfT have yet to confirm exactly what their evidence requirements are in order to enable this submission to be prepared and submitted.
- 6.2 In the interim, £7.3m of the £36.8m SOBC approval already agreed by the WMCA Board has been approved by DfT for release by the WMCA. However, this funding headroom is close to being reached and consequently this major programme within the overall CRSTS programme is at risk of delay. This matter is being pursued with DfT Officials with vigour and in close collaboration by Officers of the WMCA, TfWM and Coventry City Council in order to prevent this project stalling.

## **7. Aldridge Station Retained Scheme Status**

- 7.1 Representing the other scheme in the CRSTS programme with 'retained' status, an SOBC seeking £3.6m draw down of capital development work has similarly been lodged with the DfT for Aldridge Station. Following approval by WMCA this was considered by the DfT on the 4th May. DfT indicated their willingness to release funds subject to agreement being reached with Network Rail on the scope and funding of a further electrification study. Engagement on this point will continue with Network Rail, but it is important to note that the scope approved by WMCA excluded funding for any further electrification study.

## **8. Updated CRSTS Funding Terms and Conditions**

- 8.1 The DfT have recently issued a consolidated set of Terms and Conditions for the funding. This includes the hardening up of a number of objectives which the funding is expected to be used for. These re-enforce the need to focus delivery activity on active travel and bus-based measures which maximise the impact on de-carbonisation and air quality. A formal Memorandum of Understanding has been set out by the DfT which the WMCA's Section 151 Officer is required to sign. This emphasises a number of key points including WMCA accountability for scheme costs incurred which are outside CRSTS funding allocations; and the potential for CRSTS funding to be reduced in response to any delivery which is considered to be below the required standards (for example LTN1/20 compliance for cycle provision).

## **9. National Funding Announcement of CRSTS2 Enabling a 10 Year Funding Strategy**

- 9.1 During HMG's 2023 Spring Budget announcements a national fund for a second round of CRSTS was announced (CRSTS2). This is to be made available exclusively to Mayoral Combined Authorities. At £8.8bn this is approximately £3.1bn larger than the current round of funding. It is understood HMG do not currently anticipate releasing any guidance on funding criteria (or any formulae based or competitive element to the funding approach) until into 2025. However, it is near certain that it will have to be used in a way that supports national transport policy. This is highly unlikely to change from the current broad emphasis on de-carbonisation, social equity, air quality etc, and consequently detailed guidance will favour active travel and public transport investment priorities.
- 9.2 If confirmed during future comprehensive spending reviews under the next HMG it is likely that the national fund will need to be shared amongst an additional 2-3 Mayoral Combined Authorities than was the case for CRSTS1. Once inflation is factored in, it is anticipated that the CRSTS2 allocation for the West Midlands will be broadly commensurate with the CRSTS1 allocation of c.£1bn (in today's value).

## **10. Once in a Programme CRSTS1 Re-base Opportunity**

- 10.1 In parallel to the above developments DfT have acknowledged that all transport schemes in the UK are facing extraordinary construction cost inflation pressures. These align directly with those previously reported to the WMCA Board and which the region has been facing on its own schemes. In recognition of the issues which all recipients of CRSTS are having, at a national level the DfT have set out a 'once in a programme' opportunity to formally re-base the CRSTS programmes to account for these inflationary pressures. They have been clear that this means increased costs for schemes which are currently included in the CRSTS programme can be addressed, either through slippage, scope reduction or removal. They have also been clear that the re-base should not be considered as an opportunity to generate new schemes or ideas for inclusion in CRSTS1.
- 10.2 DfT have set a deadline of the end of September 2023 to return any submissions (which are not mandatory). Should the West Midlands wish to pursue this opportunity it would need to do so with WMCA Board approval secured at its September meeting. When and if any submission is approved by DfT the programme that is accepted at that point would be what the T&Cs outlined above would apply to (specifically in terms of delivery expectations).

## **11. Next Steps**

- 11.1 TfWM Officers will work with Local Authority Offices to develop a draft CRSTS1 re-base position to be considered further by CA Board in September for final sign off by DfT.
- 11.2 Work will continue to pursue and close out the outstanding CRSTS change control and scheme retention positions with DfT and the WMCA will formally sign and return the CRSTS1 MoU.

11.3 Work will also continue to agree with DfT the criteria for assessment on the retained VLR scheme to prevent any further delays to the programme.

## **12. Financial Implications**

12.1 These are set out within the body of the report.

## **13. Legal Implications**

13.1 There are a number of detailed contractual and legal implications arising from the strategy linked to the WMCA's supply chain and ability to complete various grant agreements. These will require on-going and further consideration as part of progressing the strategy if it is to be agreed.

## **14. Impact on Delivery of Strategic Transport Plan**

14.1 The provision of a core public transport network and active travel infrastructure has a material impact on the ability to provide a sustainable and low-carbon transport system which can support the WMCA's wider policy objectives. Doing this is a fundamental requirement essential to the ability to deliver the statutory Local Transport Plan. The CRSTS funding streams are critical to enable over 50 individual schemes across the region to come forward in order to start to realise this vision.

## **15. Equalities & Inclusive Growth Implications**

15.1 Overall CRSTS funding is delivering a vision for transport that will improve connectivity for the region and provide broad social and economic outcomes as well as health inequalities benefits.

15.2 The impacts of any changes to delivery programmes will be examined in detail as part of developing the detail of the CRSTS re-base exercise. Two fundamental issues will require evaluation, namely any delay in the ability to secure any social benefits; and any potential opportunity cost arising from any reduced ability to fund future projects.

15.3 This exercise should take into consideration the key principles being agreed as part of the Devo Deal single pot of funding and any new infrastructure projects required to support an Investment Zone or Levelling up Zone. These might be used to offset any requirements for local contributions to the programme and adding in new projects.

## **16. Geographical Area of Report's Implications**

16.1 The impact of any policy changes will primarily relate to the constituent authority area of the WMCA.

## **17. Other Implications**

17.1 No other implications identified.

## **18. Schedule of Background Papers**

None