

## Report to Partnership Meeting 24 November 2017

### PARTNERSHIP

#### RTP Financial Arrangements Consultation

#### PURPOSE OF REPORT

To inform the Partnership Board on the launch of a Scottish Government consultation on the financial accounting arrangements for the Regional Transport Partnerships with a closing date of 18 January 2018. This consultation offers an opportunity to confirm the ability of RTPs to carry reserves between financial years eliminating the tension caused by different interpretations of the Transport (Scotland) Act 2005 that we have seen through the HITRANS external audit process in previous years.

#### BACKGROUND TO THE CONSULTATION

An effective and efficient transport system is vital for Scotland's economy and necessary for its people to go about their daily lives. The consultation recognises that the Regional Transport Partnerships (RTPs) strengthen the planning and delivery of regional transport developments, and in doing so regularly invest in projects. For financial planning purposes, there is a need to ensure RTPs have the ability to have a surplus or deficit on their Income and Expenditure accounts, and hence the ability to have a General Fund balance to create a reserve.

The Transport (Scotland) Act 2005 placed a duty on Scottish Ministers to create RTPs. The duty placed on RTPs, directly by the Act, is to devise a Transport Strategy for their region, and carry out any statutory functions conferred on them by order. The funding of RTPs is covered in section 3 of the 2005 Act. This prescribes that the net expenses of an RTP in each financial year are to be paid by constituent councils. The "net expenses" are expenses in each financial year that are not met through grants or any other income.

Experience of the operation of RTPs suggests that section 3 of the 2005 Act requires further clarification to make it clear that RTPs are able to record an annual surplus or a deficit, and to manage reserves. The wording of section 3 has allowed different views to emerge as to whether RTPs may build up any reserve, however that reserve has been funded. Ministers would wish to put beyond doubt the ability of RTPs to have sufficient financial powers to enable the financing of capital infrastructure investments.

SPT stands out as being different from all of the other RTPs as it regularly involved in delivering significant transport functions and services such as the operation and maintenance of the Glasgow Subway and four major bus stations in its area. The other RTPs were created along with a legal framework to allow certain functions to be transferred over to them over time from their constituent local authorities. In doing so the other RTPs would become more like the SPT model. Generally speaking, this transfer of functions has not taken place. However, there remains the scope for any of the RTPs to request additional functions to be transferred to them. <http://www.legislation.gov.uk/asp/2005/12/contents>

The Programme for Government, published on 5 September 2017, contains a commitment to a Transport Bill. This presents an opportunity to include a provision to clarify the extent to which RTPs are able to keep a financial reserve.

The consultation seeks views on whether it is necessary to clarify the extent to which RTPs are able to retain a financial reserve. It also seeks views on whether any surplus or deficit carried

forward from one financial year to the next should be subject to any limit. Finally, this consultation seeks views on what safeguards local authorities ought to have in limiting their contribution towards the expenses of a RTP.

The draft HITRANS response to the consultation questions is included as Appendix A to this report to give Members an opportunity to consider our response and provide additional input to the answers.

## **RISK REGISTER**

### RTS Delivery

Impact – Positive

Comment – No further comment

### Policy

Impact - Positive

Comment - Formal management of the risks faced by the Partnership in delivering the RTS will support its better achievement

### Financial

Impact – Positive

Budget line and value – This item has no financial cost but impacts across all budget lines.

Comment - Formal consideration by the Board of the financial risks faced by the Partnership supports improved financial management.

### Equality

Impact – neutral

Comment – Ensuring positive equality impacts is important to HITRANS and this will be managed through our Equalities Duty rather than the Risk Register.

## **RECOMMENDATIONS**

1. The Partnership is asked to note this report.
2. Members are asked to consider the Consultation response in Appendix A and make and comments / suggestions on the detail.
3. Members are asked to delegate responsibility for finalising the response to the Chair and Partnership Director.

**Report by:**

Ranald Robertson

**Designation:**

Partnership Director

**Date:**

8<sup>th</sup> November 2017

**Background paper:**

Appendix A – HITRANS Response to the RTP Financial Arrangements Consultation

**APPENDIX A – HITRANS RESPONSE TO RTP FINANCIAL ARRANGEMENTS CONSULTATION**

**Question 1**

Do you think that it is necessary to clarify whether a Regional Transport Partnership is able to build up, and carryover, a financial reserve from one financial year to the next?

Please use the box below to provide details.

Yes

No

My comments:

The ambiguity about whether Regional Transport Partnerships can carry over a financial reserve from one financial year to the Next has caused considerable difficulty to the Highlands and Islands Transport Partnership (HITRANS) in the period since our incorporation through the Transport (Scotland) Act 2005. This has been most evident in our interaction with our external auditors/process with different Auditors taking different interpretations to the wording of the Act. Efforts to provide clarity and certainty on our approach have been hampered by the lack of claim in the language used in the Act. It would be a very welcome step if clarification was provided to the Regional Transport Partnerships particularly if that were to confirm our ability to carryover a financial reserve from one financial year to the next.

**Question 2**

Should there be a limit to the amount of surplus that an RTP may carry forward into Yes  No  the next financial year?

Please use the box below to provide details.

My comments:

HITRANS do not see any requirement to limit the surplus that an RTP can carry forward. Placing a limit for this would seem quite short sighted given the opportunity that exists in the Act for RTPs to take on additional functions and duties and our past delivery of large capital projects / programmes. A surplus should not cause any pressure on the RTP or our partners and there should be the ability to future proof for a scenario when RTPs are able to deliver large (multi million) scale projects that might cross between financial years in their delivery.

**Question 3**

Should safeguards be provided to limit the financial liability of local authorities Yes  No  towards RTP expenses?

Please use the box below to provide details.

My comments:

Local authorities should be safeguarded against liability to ensure that an overspend by an RTP does not exceed the annual budget for the following financial year less confirmed forward financial commitments such as staffing and office costs. The language used to confirm this could be left open for this to be determined in advance by each RTP in their annual business plan.

We would stress that HITRANS has never had an overspend in any previous financial year and we do not foresee this being an issue. The ability to carry a surplus is what we would seek in practice but it does seem sensible to provide a facility that works for both an under and over spend. In doing so there should be realistic safeguards for our funding partners and good mechanisms must remain in place through internal governance processes.

#### Question 4

The Transport (Scotland) Act 2005 applies only specific local government finance provisions to Regional Transport Partnerships. Are there any other local government finance provisions which could usefully be applied to the RTPs?

Please use the box below to provide details.

Yes

No

My comments:

Mike – any thoughts on this? It is beyond my knowledge but before I respond with a “no” your guidance would be appreciated.