

**Item 7(d) Financial Accounting Arrangements Consultation**

**Consultation on the financial accounting arrangements for Regional Transport Partnerships**

**1. INTRODUCTION**

- 1.1** On the 20th October, the Scottish Government released a consultation on the financial accounting arrangements for Regional Transport Partnerships.
- 1.2** Responses to this consultation will be used to inform the development of future rules and guidance on the operation of financial accounting arrangements for the seven Regional Transport Partnerships in Scotland.

**2. CONSULTATION**

**2.1** The consultation seeks views on:

- whether it is necessary to clarify the extent to which RTPs are able to retain a financial reserve;
- whether any surplus or deficit carried forward from one financial year to the next should be subject to any limit;
- what safeguards local authorities ought to have in limiting their contribution towards the expenses of a RTP.

**2.2** An effective and efficient transport system is vital for Scotland's economy and necessary for its people to go about their daily lives. 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.

**2.3** The Transport (Scotland) Act 2005 ("the 2005 Act") places a duty on the 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. Such functions may relate to, for example, entering into quality partnership schemes, or entering into public services contracts etc. A list of further examples is set out in Section 10(5) of the 2005 Act.

**2.4** 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.

**2.5** 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.

- 2.6** This issue is particularly acute for the Strathclyde Partnership for Transport (“SPT”), which operates a significant multi-year capital programme.
- 2.7** 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.
- 2.8** 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. The main exception to this remain SPT and, to a lesser extent Swestrans and ZetTrans, where certain functions were also transferred from Dumfries and Galloway and Shetland Islands Councils respectively. However, there remains the scope for any of the RTPs to request additional functions to be transferred to them.
- 2.9** The 2005 Act provides for the transfer of (transport related) functions from local authorities to RTPs to facilitate a regional approach to the planning and delivery of transport. This regional approach could include involvement in major transport infrastructure projects. Such projects may fall to be delivered over a number of years. Given this multi-year aspect of their work, it is sensible to provide RTPs with the necessary tools to ensure that there is sufficient flexibility in their finances as they move from one accounting year to another; and to be able to utilise in-year surpluses to create reserves to support future funding requirements.
- 2.10** For example, SPT is involved in the delivery of major transport infrastructure projects, such as the Glasgow Subway modernisation programme. The lack of clarity around SPT’s ability to build up and retain a financial reserve presents accounting difficulties in planning and reacting to incidents.
- 2.11** Other than the specific finance provisions applied to the RTPs under the 2005 Act, no other local government finance legislation applies to the RTPs. This includes the powers in the Local Government (Scotland) Act 19752 in relation to allowing local authorities to set up capital, repairs and renewals, and insurance funds. This consultation will, therefore, also seek views on the merits of extending this and any other local government finance provisions to the RTPs which are not already expressly applied to them through the 2005 Act.
- 2.12** 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.

**2.13** An initial view from officers is that Clarification is necessary because:

- Short term, i.e. annual, funding commitments from TS and LAs provides a challenge to RTPs to spend, but not over-spend funds, within 1 year, on the most worthy projects.
- Procurement processes, consultations, mobilisation and contract delays can be very time consuming and again challenge completion of projects within 1 financial year.
- Projects of any substance will take longer than 1 year to deliver, regardless of peripheral activities.
- RTSs generally have a life of around 10 years and flexibility is necessary to enable an achievable delivery programme and associated spend profile.
- Aligning funds to fit with available external match funding bidding opportunities, which are often presented randomly, requires flexibility.
- Most RTPs are currently operating in an environment of very restricted funding and it is essential that any under-spend in a year is not lost but carried over into the following year to be spent as the RTP determines.
- No guidance exists at present.

**2.14** The Treasurer proposes that RTP's are permitted to carry forward 4% of the total of the money paid by constituent councils and 4% of Scottish Government grant in respect of any financial year, from one year to the next. Cumulatively (year-on-year) the total carry forward be subject to a limit of 7% of total revenue budget. This position would be consistent with the position agreed between COSLA and the Scottish Government in 2011 for former regional police and fire authorities. The level of reserves would be subject to regular review and reporting to the Board by the Treasurer, in line with professional guidance and taking account of an assessment of the particular circumstances of each RTP.

**2.15** To ensure safeguards are in place to limit the financial liability of local authorities towards RPR expenses, there are existing requirements to set a balanced annual budget and to regularly monitor and report to the RTP. No RTP should incur expenditure in excess of the annual revenue and capital budget approved by the RTP, without seeking prior agreement of all its constituent councils.

**2.16** In regard to the equality/equity impacts there could be opportunities missed, as a result of no facility for reserves and carry-over, particularly in respect of equalities, active travel and road safety schemes, could certainly have implications for those with protected characteristics and children and young people.

### **3. CONCLUSIONS / RECOMMENDATIONS**

**3.1** The paper seeks to invite comment from the Board on the consultation, which will be incorporated into a response from SEStran and signed off by the

Partnership Director, in consultation with the Treasurer and Chair under delegated powers.

**3.2** It is requested that any comments are sent SEStran officers by the 5<sup>th</sup> of January for collation.

Hugh Dunn  
**Treasurer**  
8<sup>th</sup> December 2017

Appendix 1

Appendix 1 – Consultation on the financial accounting arrangements for Regional Transport Partnerships

Contact/tel/Email

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Background Papers

[Scottish Government Consultation on the financial accounting arrangements for Regional Transport Partnerships](#)

Policy Implications	Implementing the proposed responses would result in greater capacity to implement the Regional Transport Strategy.
Financial Implications	At this stage, there is no financial commitment arising from this report.
Equalities Implications	There are no equality implications arising as a result of this report.
Climate Change Implications	There are no equality implications arising as a result of this report.

## **Appendix 1 - Consultation on the financial accounting arrangements for Regional Transport Partnerships**

### **Questions**

#### **Appendix 1 - Consultation Questions**

- 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?
- 2) Should there be a limit to the amount of surplus that an RTP may carry forward into the next financial year?
- 3) Should safeguards be provided to limit the financial liability of local authorities towards RTP expenses
- 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?
- 5) Are there any likely impacts the proposals contained within this Consultation may have on particular groups of people, with reference to the 'protected characteristics' listed above? Please be as specific as possible.
- 6) Do you think the proposals contained within this Consultation may have any additional implications on the safety of children and young people?
- 7) Do you think the proposals contained in this Consultation are likely to increase or reduce the costs and burdens placed on any sector? Please be as specific as possible.
- 8) Are there any likely impacts the proposals contained in this Consultation may have upon the privacy of individuals? Please be as specific as possible.