

Report to: **Partnership Board –Transport for the South East**

Date of meeting: **13 May 2024**

By: **Chair of the Audit and Governance Committee**

Title of report: **Audit and Governance Committee Update**

Purpose of report: **To provide an update on the Audit and Governance Committee**

RECOMMENDATIONS:

- (1) The members of the Partnership Board are recommended to note the discussions and actions arising at the meeting of the Audit and Governance Committee;**
- (2) The members of the Partnership Board are recommended to agree to publish the reports attached in Appendix 1, 2 on the Transport for the South East website.**

1. Overview

1.1 As previously agreed by the Board, Transport for the South East (TfSE) has established an Audit and Governance Committee. This recognises the increasing responsibilities that TfSE holds for management of government grant funding.

1.2 The Committee recently met on Tuesday 9 April 2024. This report provides a summary of the discussions and actions to take forward.

2. Audit and Governance Committee

2.1 Audit and Governance Committee asked officers to develop three reports, with a view to presenting them to Partnership Board, with a recommendation to publish them on the Transport for the South East website:

- **Appendix 1 – How TfSE delivers Value for Money through procurement.** This report sets out how TfSE follows the procurement rules of our accountable body, to deliver value for money and social value.
- **Appendix 2 - How TfSE delivers value for partners.** This ‘brochure’ style report is designed to be easy to read, so that it can be shared with partners and members of the public who are not familiar with TfSE’s remit or work. It sets out at a high-level the value that TfSE delivers for partners, in line with the objectives that are set for us by DfT and the Board. Following requests from the Committee, officers have also included an analysis of the transport spend per head in the south east, in comparison with other STB regions. This analysis has not been independently verified and is based on publicly available figures published on gov.uk. This comparison only accounts for local

transport funding, and not funding for rail or the Strategic Road Network, as the raw data is not published.

- **Appendix 3 - The impact of inflation on projects and how this is impacting Local Authorities** - This report builds our evidence base on the impact of inflation and sets out recommendations for how TfSE can support partners. Further work on how to attract private sector investment into the Strategic Investment Plan will be brought to the Committee at a later stage.

2.3 The Committee reviewed the draft Annual Report 2023/24. The Committee recommended the paper to be presented to the Partnership Board for final approval before publishing on the website.

2.4 The Committee reviewed the finance position to the end of the financial year, noting the carry forward figure is a reduction from last year's carry forward with the majority of the carry forward committed for work that has already been contracted and started in 2023/24 but not yet completed.

2.5 The Committee noted that we are still awaiting our grant allocation from the DfT. The draft budget 2024/25 that was set out in our Business Plan is based on the indicative funding allocation that was outlined for this year by Baroness Vere in 2022. The Committee agreed that if the DfT grant is substantively different, an extraordinary meeting will be called to review changes to the budget and provide advice to Partnership Board.

3. Strategic Risk Register

3.1 The Committee reviewed the Strategic Risk Register which has been maintained by TfSE since its inception in 2017. The risk register is used for quarterly reporting purposes to the Department for Transport (DfT) and for internal management processes.

3.2 It was agreed in the terms of reference for the Audit and Governance Committee that they should have oversight over risk register and that it should be presented to Partnership Board on a bi-annual basis. It will next be presented to Partnership Board at the July meeting. The Audit and Committee asked for updates to the risk scoring matrix in advance of this meeting.

4. Conclusions and Recommendations

4.1 The Partnership Board are recommended to note the discussions at the meeting of the Audit and Governance Committee and agree to publish the reports attached in Appendix 1 and 2 on the Transport for the South East website.

Councillor Joy Dennis
Chair - Audit and Governance Committee
Transport for the South East

Contact Officer: Jessica Lelliott
Tel. No. 07701 394894
Email: Jessica.Lelliott@transportforthesoutheast.org

Delivering value for money through procurement

Following a request from TfSE's Audit and Governance Committee, this document has been created to provide a comprehensive overview of our procurement practices and to demonstrate how we consistently achieve good value for money through our procurement processes.

1. Introduction

At Transport for the South East, we recognise the importance of responsible and efficient procurement practices in maximising the value of public funds. Our commitment to transparency, competition, and innovation ensures that we not only comply with legal and regulatory requirements (in line with East Sussex County Council, our accountable body), but also strive for excellence in delivering services to tax payers.

2. Competitive Procurement Process

Our procurement process is designed to encourage healthy competition, driving vendors to provide their best offers. We employ a competitive bidding process that includes:

- **Open and Fair Competition:** We promote an open and fair bidding environment, allowing a diverse range of suppliers to participate.
- **Transparent Evaluation Criteria:** Clear and transparent evaluation criteria are established for each procurement project, ensuring that bids are assessed objectively.

3. Cost-Effective Solutions

Achieving good value for money goes beyond selecting the lowest cost option. We deploy the following approaches to ensure that our procurement decisions are cost-effective:

- **Total Cost of Ownership Analysis:** The accountable body procurement team consider the total cost of ownership over the entire lifecycle of a product or service, including maintenance, support, and disposal costs. This is completed independently from the evaluation panel within Transport for the South East to ensure bias is removed.
- **Joint procurements and Framework Agreements:** By consolidating our purchasing power and entering into joint procurements and framework agreements, we negotiate better prices and terms with suppliers, resulting in cost savings.

4. Innovation and Sustainability

We recognise the importance of innovation and sustainability in procurement. By encouraging suppliers to propose innovative solutions and sustainable practices, we not only drive efficiency but also contribute to long-term environmental and social goals.

5. Rigorous Vendor Evaluation

We conduct thorough evaluations of potential vendors, assessing their financial stability, experience, and adherence to ethical and environmental standards. This rigorous evaluation process ensures that we engage with reputable suppliers who align with our values and objectives.

6. Continuous Improvement

We are committed to continuous improvement in our procurement processes. Regular reviews, feedback mechanisms, and benchmarking against industry best practices help us identify areas for enhancement and ensure that we stay at the forefront of procurement excellence.

7. Ensuring good practice and building informed clients for the future

We take pride in being an informed client, employing best practices to develop clear, comprehensive, and fair tender documents. Our experienced procurement team is dedicated to maintaining high standards of transparency and accountability throughout the process. We understand the significance of being a well-informed client not only for our benefit but also to support our local authorities with reliable information. As part of our commitment to building excellence across the region, Transport for the South East is actively investing in resources and training programmes through our Regional Centre of Excellence. These initiatives aim to empower local authorities with the knowledge and skills needed to become informed clients, fostering a collaborative environment where expertise is shared, and collectively, we elevate the standard of procurement practices across the region. We believe that by fostering informed clients, we contribute to the long-term success and sustainability of our local authorities.

Currently, a programme of collaborative work is underway with Civil Engineers Contractors Association (CECA), to ensure that this is one of the first modules delivered via the Regional Centre of Excellence.

8. Social Value

Our accountable body is unwavering in its commitment to social value through procurement. In turn, we actively seek opportunities to enhance the well-being of our community by prioritising suppliers who demonstrate a dedication to social responsibility. Our procurement decisions consider the social impact of vendors, promoting fair labour practices, diversity, and inclusion, and is assessed independently from the evaluation panel, through a social value charter. We collaborate with suppliers who share our values and contribute to the social fabric of our region, ensuring that public procurement becomes a catalyst for positive change.

9. How TfSE helps to create social value

As East Sussex County Council is our accountable body, we follow their procurement rules and processes. We look to achieve social value from all goods, works and services that it procures over £100,000. Social value is a fundamental part of assessing value for money and determining the most economically advantageous tender. Bidders have to take into account the social value priorities of the Accountable Body relating to the economic, social and environmental well-being of the local area. Bidders are required to offer measurable items of social value, in addition to fulfilling the service set out in the scope of the procurement.

The Technical Call Off Contract was procured in July 2023, with a minimum contract value of £1m for the initial 2-year contract term. Bidders were required to commit to delivering at least 5% of this proposed contract value as social value.

The consortium of Steer, AtkinsRealis, Arup and City Science were the successful bidders of this contract and as such, have been progressing with the social value commitments made in their bid totalling £479,000.

The information below provides insight on the Social Value delivered to date through the Framework, looks at our current thinking on the longer-term approach to deliver our commitment over the duration of the framework, and our plan for the medium-term to establish our offering.

Our commitment to deliver £479k of social value over the 2-year framework is split across the following areas:

- Economic value - £345k
- Social value - £32k
- Environmental value - £87k
- Other - £15k

10. Review of Social Value to date

To date we have delivered approximately £55k benefits, covering an 8-month period from August 2024 – end March 2024. This equates to around 11% of the commitment over one third of the duration.

Table 1 – Current estimations of social value delivered to date

Area	Description	Total	Activities
Economic	Career Awareness	£1,490	£1,240 (Volunteering through STEM governor role, 1 day £840 + £500 donation) £250 (half-day attendance by one staff member at careers fare at school in Gravesend)
	Employ local people as a result of this tender.	£31,285	£31,285 (two staff living in the TfSE area employed – currently c. six months each as a result of this contract)
	Commissioned for framework opportunities	£15,000	Centre of Excellence, University of Southampton Academics - £15k
Environment	Carbon reductions	£7,500	£7,500 (c.250 meetings / workshops attended by four people on average conducted virtually – estimate of 200,000 vehicle kilometres saved of c.30 tonnes of CO ₂ e)
Total		£55,275	

11. Focus areas

We acknowledge that the value delivered to date is not where we would aim to be at this point in the framework. This is in part due to a slow start following the mobilisation process, but more so reflects emerging challenges around reaching organisations and individuals in the region without existing networks through local offices.

In light of this we have reviewed our original commitments and considered how and where value might best be delivered across the region. This has led to a slight refocus of our commitment to be more simply defined across the following areas:

- **ED&I related training support** to organisations (including TfSE, Local Authorities and associated third parties)
- **Professional support** such as funding and transport advice to council and charity based organisations, use of offices and charitable donations
- **Career and STEM support** including CV workshops and career advice to NEET, in school presentations, attending careers fairs, donations, volunteering
- **Work experience to schools**, including promotion of virtual work experience programme, STEM days in office, in-office work experience
- **Employment opportunities** to those who live or work in region through recruitment, placements and apprenticeships to local colleges and universities and involvement in project work to SMEs and academics
- **Reduction of carbon emissions** through virtual meetings, switch to electric car usage in region and company offsetting schemes

12. Conclusion

Transport for the South East is committed to achieving good value for money in procurement by fostering competition, embracing cost-effective solutions, promoting innovation and sustainability, and maintaining a commitment to continuous improvement.

Regular monitoring and reporting of the social value commitments will occur as part of the management of this contract.

We welcome the opportunity to discuss our procurement practices in more detail and address any questions or concerns you may have. Together, we can ensure that the public funds entrusted to us are used responsibly and effectively.

Table 2 - Revised plan for delivery over 2 years

Area	Category	Table Reference	Description	Total	Value / Unit	No. of Units	Description
Economic	Employment opportunities	Ec 2	Involvement of SME and academics in Framework opportunities	£100,000			Centre of Excellence involvement, University of Southampton Academics - £45k Public Sector Freight awareness, Intermodality – £55k (Brighton based)
	Work experience	Ec 11	Virtual Work Experience Programme	£58,350	1167	50	8-9 hours of virtual webinars and activities. Supported by Gatsby. Initial Programme until September 2024 (potential for renewing 2025)
	Work experience	Ec 11	STEM Showcase in office	£5,835	1167	5	5 student places to join other schools in event supported by Heathrow and SCC (Jun 2024)
	Work experience	Ec 11	Work experience in office	£23,340	1167	20	10 student places a year to undertake work experience in offices
	Employment opportunities	Ec 4	No. Of local people (FTE) employed for at least one year as a result of this tender.	£103,866	31285	3.32	Two staff living in the TfSE area employed – currently expect for total 20 months each as a result of this contract
	Employment opportunities	Ec 2	Use of local catering facilities	£300			Event catering - assume 2 away days
	Career and STEM support	Ec 13	Career Presentations	£56,700	105	540	Provide career presentation to students - assume 2 presentations over 2 years, 270 students each, 1 hour
	Career and STEM support	Ec 13	Career Presentations	£56,700	105	540	Provide career presentation to students - assume 2 presentations over 2 years, 270 students each, 1 hour
	Career and STEM support	Ec 13	Career Presentations	£31,500	105	300	Provide sustainable travel to school and street design programme. Assumption on remote

Area	Category	Table Reference	Description	Total	Value / Unit	No. of Units	Description
							attendance given Steer - 150 students a year, 1 hour
	Career and STEM support	Ec 12	NEET CV and career workshop	£9,450	105	90	Provide support on CV and interview approach. 30 unemployed people will each receive at least 3 hours of support, so 90 hours
Social	Professional Support	Social 20	Meeting room access	£6,300	105	60	Access to rooms across the consortium's office (assume 20 hours a year per office)
	Professional Support	Social 22	Volunteering and Donations	£4,360	105	32	Provision of 2 volunteer days a year Donation of £1000 over 2 years
	ED&I related training support	Social 28	Mental Health first aider training	£7,300	105	60	Mental health first aider training to TfSE (2 hour session for 30 people)
	ED&I related training support	Social 28	Menopause Awareness training	£6,300	105	60	Provide 1 hour online session to organisations - workplace or school age - assume 2 a year with 15 attendees
	Professional Support	Social 19	Commercial advice to charities and parish councils	£31,500	105	300	Commercial advice on funding applications, transport advice, neighbourhood plans, access to data. Focus on reaching parish councils, potentially linking to site visits. 50 hours of advice, 5 hours each follow up
	Career and STEM support	Social 22	Governor for Schools STEM programme - Governor in school days	£3,360	105	32	32 hours volunteering
	Career and STEM support	Social 22	Governor for Schools STEM programme – financial donations	£1,000			Initial Donation for Micro:bit equipment
Environment	Reduction of carbon emissions	Env 34	Switch to electric car through company scheme	£1,174	244.63	4.8	Switch to electric car estimated 1/3 less CO2e – 18,000miles over 2 years = reduction of 4.8 tonnes)

Area	Category	Table Reference	Description	Total	Value / Unit	No. of Units	Description
	Reduction of carbon emissions	Env 34	Reduce travel through virtual Meeting attendance	£22,017	244.63	90	750 meetings / workshops attended by four people on average conducted virtually – estimate of 600,000 vehicle kilometres saved of c.90 tonnes of CO2e)
	Career and STEM support	Env 36	Climate Change Workshops in schools	£12,600	105	120	1-2 hour workshop - tailored to age and group of school, assume 4 x 1 hours, 30 children
Other	ED&I related training support	Other 37	Virtual workshop to support EDI project	£9,450	105	90	Virtual EDI workshop for project kick-off (trial with James Gleave 15 attendees – assumption 90 hours over 2 years)
	Professional Support	Other 38	Virtual workshop to support inclusive transport	£9,450	105	90	Inclusive transport advice to LA's - develop offer to be separate to project work - assume virtual - assume 90 hours over 2 years)
Total				£560,852			
Target				£479,000			



TRANSPORT FOR THE
South East

**Demonstrating added value
for partners.**

Contents page

Executive Summary - Page 3

Introduction - Page 4

Achieving our outcomes – Page 5

Collaboration - Page 6

Support - Page 7

Transport investment in the South East – Page 13

Scheme Development - Page 17

Local Capability – Page 18

Regional Centre of Excellence - Page 19

Tools - Page 20

At a glance - Page 21

Executive summary

The primary purpose of a sub-national transport body (STB) is to facilitate and oversee the strategic planning, coordination, and delivery of transport services at a regional level. Transport for the South East (TfSE) play a pivotal role in improving and supporting the transport infrastructure, connectivity, and services across our sixteen local transport authorities. Our support for our stakeholders encompasses various functions as outlined below:

Collaboration: Through effective engagement, TfSE improves operational efficiency by bringing together public and private sector stakeholders from across the region, to work together on shared objectives.

Support: TfSE has formulated long-term, evidence-based transport strategies and blueprints for investment to meet the region's needs. All of this has been possible through the support and collaboration of our partners via our governance, forums, and steering groups.

Scheme development: TfSE is working with local authorities to identify transport projects that are 'investment ready'. TfSE also provides a voice up to government, to support local authorities' bids during funding rounds. In addition, TfSE is engaging with the private sector, to explore how we could unlock additional investment in the region's investment priorities.

Value for money: Working with government, local authorities and other partners, we identify key investment priorities, evaluating their feasibility and prioritising them based on their strategic case and how they help to achieve regional and national policy goals.

Regional Centre of Excellence: All the components of the TfSE Regional Centre of Excellence will increase our local transport authorities' capability and capacity. It will enable knowledge sharing, hosting of data and research to make informed decisions, offer of training and events, and offer resources and key tools all in one, easy to use place.

Tools: TfSE is developing various tools to assist local transport authorities in all aspects of developing and implementing transport plans and infrastructure proposals including assessing their impact on carbon emissions.

TfSE's strategic planning ensures that investments in transport infrastructure are consider the long-term socio-economic benefits. We play a vital role in identifying the regions transport needs to meet national objectives, fostering economic growth, reducing congestion, and enhancing sustainability.

STBs represent a fundamental component of the Department for Transport's ambition to create a well-connected and efficient transport network in England. By bringing together local knowledge, regional priorities, and national policies, TfSE contribute to the overall improvement of transportation services, making them more cost-effective, accessible, and joined up.

Introduction

The importance of STBs.

The coming year will be difficult for our constituent local transport authorities across the south east. Like households and businesses, local authorities are struggling in the face of high interest rates, inflation, and economic uncertainty. The government is facing the same pressures – and all spending must be carefully weighed up against other pressures. In the current climate, every pound matters and is rightly under scrutiny.

This document aims to provide a comprehensive overview of the added value delivered by sub-national transport bodies, and how these contributions resonate with both local authorities and the Department for Transport (DfT).

All seven STBs play a pivotal role in developing transport infrastructure in line with national policy and local policy. We have plenty of examples of our collaborative efforts and achievements, particularly through consultations, the advocacy of our Chair, Councillor Keith Glazier, the creation of practical tools and products, and establishment of forums for dialogue. Moreover, it underscores our role as a coherent region, speaking with a single voice to government about our priorities.

By bringing sixteen local authorities together, TfSE effectively streamlines and enhances the engagement process for the DfT. In a landscape where cooperation and efficiency are paramount, TfSE eliminates redundancy, reduces administrative overheads, and offers a seamless interface with the DfT. In essence, TfSE acts as a valuable conduit, fostering collaboration and enhancing the return on investment for all the parties involved in our partnership.

This document will demonstrate the benefits and tangible outcomes of our regional work, highlighting our role in the pursuit of joined up, strategic transport planning. It is an evidence-based testament to the commitment and impact of TfSE in transforming transport infrastructure and services while optimising the allocation of resources for the betterment of local authorities and the nation as a whole.

Achieving our outcomes

Our Transport Strategy was created in partnership with our local transport authorities, and other key stakeholders. Together, we were able to set strategic goals that were relevant for the entire region. These were:

Economy: to improve productivity and attract investment to grow our economy and better compete in the global marketplace.

Society: Improve health, safety, wellbeing, quality of life, and access to opportunities for everyone.

Environment: protect and enhance the South East's unique natural and historic environment.

The strategic vision was also borne and adopted as a result of this work:



'By 2050, the South East of England will be a leading global region for net-zero carbon, sustainable economic growth where integrated transport, digital and energy networks have delivered a step-change in connectivity and environmental quality.'

A high quality, reliable, safe and accessible transport network will offer seamless door to door journeys enabling our businesses to compete and trade more effectively in the global marketplace and giving our residents and visitors the highest quality of life.'

A vital role of Transport for the South East is to support the DfT in delivery of their priorities and also work with them on what our shared ambitions are for transport. The objectives for all sub national transport bodies is to develop and maintain a transport strategy for their region, provide advice to Ministers on prioritising transport investment, and to grow the capability of local transport authorities in the region by developing a Centre of Excellence.

As per the requirements of an STB, Transport for the South East published their Transport Strategy in 2020. This was created collaboratively and underwent a public consultation to ensure it represented the views of the region. We are now undergoing a refresh of the strategy, to ensure it remains fit for purpose, and evolves with the transport infrastructure requirements.

Collaboration

Establishing good governance.

STBs are grounded in local democratic accountability by the way they are constituted which offers transparency and greater local input. STBs determine the priorities for investment, through the line of sight between national policy and local delivery and support our LTAs to bring about the improvements needed to grow our economy.

Transport for the South East's governance framework ensures that our stakeholders actively engaged in and challenge our work.

- **Monthly Senior Officer Group Meetings:** We meet with the Senior Officer Group on a monthly basis. It is made up of senior officers from our constituent authorities who have oversight of the transport planning and scheme development and delivery functions. During these meetings, we provide updates on our ongoing work programme, projects, and financial position.
- **Quarterly Partnership Board Meetings:** Every quarter, our Partnership Board meets to consider progress on key aspects of our technical work programme. This accountability mechanism secures buy-in from our constituent authorities and ensure we are able to speak with one voice about the transport priorities for the TfSE area.
- **Transport Forum:** We bring together a broader range of stakeholders through our Transport Forum. This forum serves as a platform for operators, transport users, and private entities to offer their unique perspectives on our work programme.
- **Audit and Governance Committee:** This group is a key component of corporate governance providing an independent, high-level focus on the audit, assurance, and reporting framework underpinning financial management and governance of TfSE. It ensures efficient and effective processes are in place, and assists the Partnership Board in providing leadership, direction and oversight of the overall risks and their management.

All these groups have had a pivotal role in shaping our Transport Strategy, Area Studies, and Strategic Investment Plan.

Our collaborative approach goes beyond merely developing and delivering strategies and projects – it enables us to make informed decisions tailored to the specific needs of our region. This, in turn ensures the strength and reliability of our evidence base, rooted in local knowledge and data, which forms the building blocks of our strategic transport planning.

We will continue to communicate regularly with all stakeholders regarding all aspects of our work in a variety of ways. This includes physical and virtual meetings, social media, and regular website updates, along with our monthly newsletter and recently launched monthly podcast. Additionally, we offer several free forums.

Support DfT

In line with DfT Business Planning Guidance, we undertake all work in accordance with government policy, legislation, and ambitions.

STBs play an integral role in shaping and meeting the transport needs of a region, and work with DfT to help inform and improve policy and legislation. Our functions are vital when it comes to developing and implementing a transport strategy, providing advice to the Secretary of State, support to partners and stakeholders and speaking with one voice to government to help deliver a regional and integrated transport network for the future.

We are also ideally placed to bring together private sector businesses with other stakeholders and partners to develop mutually beneficial funding opportunities to see new projects or transport infrastructure enhancements achieved at pace, so that we are not wholly reliant on the DfT funding allocation.

In 2024/25, all our work is focuses on enabling the DfT to achieve its three key aims:

- Growing and Levelling Up the Economy
- Reducing Environmental Impact
- Improving Transport for the User

This is achievable through the breadth of work that will be undertaken through our extensive technical programme.

Support

Value for money

The collaborative activity facilitated by TfSE, between DfT and our constituent LTAs has helped to shape our work programme around government priorities. We will continue to support our constituent authorities as they develop and deliver highways schemes under the large local majors (LLM) and major road network (MRN) programmes, all of which are included within our SIP. Two schemes are currently under construction in the TfSE region (A35 Redbridge Causeway and A284 Lyminster Bypass (North)) with a combined cost of nearly £57 million with a DfT contribution of over **£25 million**.

Three schemes (A259 Bognor Regis Enhancement, A326 Waterside improvements, North Thanet Link) combined have received over **£3.5 million** of DfT funding to proceed to the next stage of development (Outline Business Case) under the Major Road Network (MRN) and Large Local Majors (LLM) programme.

In the last year, an additional three schemes have received funding to proceed to the next stage of development (Outline Business Case) under the Major Road Network (MRN) and Large Local Majors (LLM) programme. These schemes are in Southampton, Surrey, and Kent. We will continue to work with LTA's and the DfT to progress all eleven of the MRN and LLM schemes in the region which have a combined value of nearly £930 million.

We will continue to work with DfT to prioritise any schemes, should further rounds of funding MRN/LLM arise, using our strategic prioritisation framework and tool.

Our commitment to improved rail connectivity for all is demonstrated through our contribution to the new Long Term Strategy for Rail (LTSfR). We are keen to see the rail priorities identified in our SIP progressed through the Rail Network Enhancement Pipeline (RNEP) and are working closely with Great British Rail and DfT, through our Wider South East Rail Partnership to increase financial viability.

We will continue to work with rail and bus operators, the LTAs across our geography and other partners to set out and deliver our long-term goals for improving public transport across the south east. Public transport has a vital role to play in reaching net zero by 2050. We received £300,000 from DfT in 2022/23, to support local transport authorities, implement their Bus Strategic Investment Plans (BSIP), and enhanced partnerships (EP). We will continue to operate our Bus Forum to local authorities, to maintain support in this area.

Support

Capturing Fiscal Savings

Fiscal assessments will be conducted regularly as part of the monitoring process within the Centre of Excellence. The platform will offer subscriptions, memberships, training qualifications from third party organisations will be offered through the platform for the benefit and utilisation of local transport authorities, with all cost savings duly recorded. Additionally, any tools developed for local transport authorities will be evaluated for their cost saving potential.

An example of this cost-saving attribute can be observed in our Electric Vehicle Charging Infrastructure Locate Tool, which has been provided free of charge to all 16 local transport authorities. Typically, a licence for this tool would cost £400 per individual.

Furthermore, recurring data gaps have been identified regionally, and we are actively working in house to provide the necessary information to address these gaps. The saved hours of resources for local transport authorities serve as another metric for assessing the fiscal benefits extended to them.

One of the ambitions of the Centre of Excellence is to reduce the reliance on consultants, which will be enabled through sharing of case studies of best practice and lessons learned, and knowledge sharing between authorities. There will also be opportunities to undertake joint procurements, to obtain best value for money, and offer transport users more joined up infrastructure.

The key performance indicators as part of the Centre of Excellence will be detailed within the business plan and annual report, providing valuable insights for the audit and governance committee, as well as the Partnership Board.

Support Forums

We bring together individuals with shared goals through a number of Forums hosted by TfSE. These quarterly Forum meetings demonstrate the resource committed to collaboration, and alleviating pressures on DfT to provide this 1 to 1 support.

Bus Back Better

The Regional Bus Forum was established in January 2023. It brings together authorities and operators, to assist with the implementation of BSIPs and EPs across the region.

Transport Forum

The Transport Forum was convened in 2017 with the purpose of providing expert advice and guidance to TfSE's Partnership Board on the development of the transport strategy.

EV Forum

The EV Forum has been a successful platform for developing strong working relationships between members and considers how potential issues regarding EVCI rollout can be mitigated.

Future Mobility

The South East Future Mobility Forum (SEFMF) brings together public, private, and third sectors to provide relevant, strategic, and practical insights to TfSE, and one another, about future mobility good practice, priorities, and projects.

Freight Forum

The Wider South East Freight Forum operates across three STB geographies with the aim of enhancing collaboration between freight/logistics operators and public sector bodies. It oversees the three STBs' freight initiatives, shares best practices regionally, identifies opportunities for joint working.

Universities

Through discussions with our local transport authorities, it was noted that access to academics would bring benefit to the region. This group enable knowledge sharing to be facilitated.

Support Consultations

TfSE recognise the importance of responses to consultations on key issues and topics affecting the future development of the transport system in our region.

Lists of the responses to consultations and of letters of support we have offered are set out below.

Responses to consultations

- East Sussex County Council Local Transport Plan 4
- Portsmouth City Council Electric Vehicle Strategy
- Portsmouth City Council Parking Strategy
- Kent County Council North Thanet Link Highway improvement scheme
- National Transport Strategy – ICE
- A27 Arundel bypass - National Highways
- Office of Road and Rail Periodic Review 2023 Assessment of Network Rail's Stakeholder Engagement
- Western Gateway – Making the right choices
- Govia Thameslink Railway public engagement on potential changes to Southern's West Coastway services
- National Highways A27 Worthing and Lancing improvements scheme
- DfT Shaping the future of England's strategic roads RIS3 Initial Report
- National Highways Connecting the Country
- National Highways Route Strategies:
 - Kent corridors to M25
 - Solent to Midlands
 - London orbital
 - South coast central
 - South west peninsula
 - London to Wales

Call for evidence

- Transport Select Committee Call for Evidence Future of transport data
- National Networks National Policy Statement - Call for Evidence
- DfT call for evidence strategic road investment

Development Consent Orders - Relevant Representations

- Lower Thames Crossing
- Gatwick Northern Runway surface access
- M3 Junction 9

Letters of support

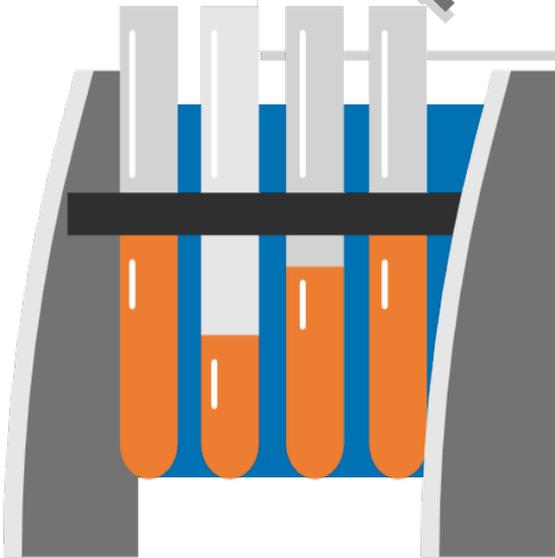
- Brighton mini-Holland feasibility study
- A259 Bognor Regis to Littlehampton Corridor Enhancement Scheme
- W9a gauge clearance between the Channel Tunnel and the West London Line via Maidstone

Support For other STBs



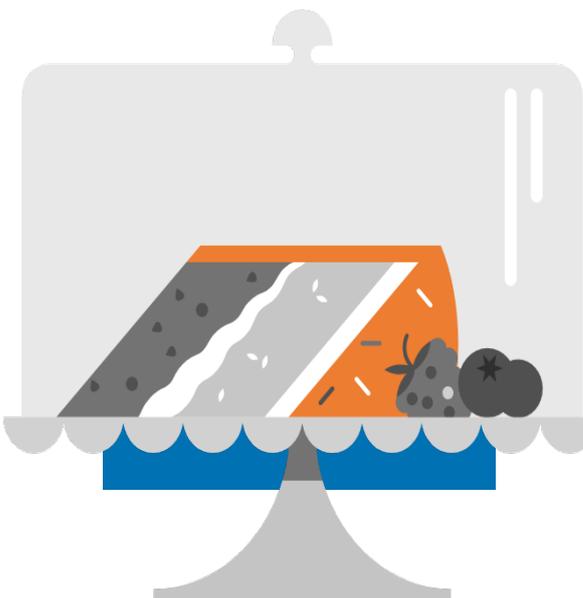
Western Gateway & Peninsula Transport - Job Descriptions

We provided a number of our job descriptions to colleagues in Western Gateway and Peninsula Transport, to help with their recruitment.



Transport for the North – Testing the Common Analytical Framework

As part of the 2023/24 spending round, Transport for the North are facilitating the development of several workstreams on behalf of the STBs. TfSE have been actively involved, and provided data, knowledge shared and offered insight at every available opportunity to maintain projects' momentum.



Transport East & England's Economic Heartland – Joint procurements

To demonstrate STB's conscious efforts to deliver best value spending tax payer money, we have undertaken joint procurements with Transport East and England's Economic Heartland, driving cost efficiencies.

Transport investment in the South East

As per the request of the audit and governance committee that took place in January, TfSE have undertaken a task to monitor and analyse the share of transport funding that the south east region has received, compared to the rest of England.

It has not been possible to source reliable capital investment data for rail schemes as transparency data is not available. For comparing investment compared to other STBs we have taken DfT transparency data for the; Active Travel Fund (ATF), Bus Service Improvement Plan (BSIP), Capability Fund (CF), Local Electric Vehicle Infrastructure capital and capability (LEVI), Local Transport Fund (LTF), Levelling up Fund (LUF1), Transforming Cities Fund (TCF), Zero Emission Bus Regional Areas (ZEBRA) 1 and 2, and City Region Sustainable Transport Settlements (CRSTS) 1 and 2.

For the strategic road network, National Highways and the DfT have provided us with data for schemes in our geography only, and therefore we will not be comparing investment between TfSE and other STBs in this report for strategic road.

NB: This analysis is based on our interpretation of gov.uk figures and hasn't been verified by a third party. This data should not be used when making investment decisions, or any other decisions.

Figure 1: Funding allocation per capita, split by TfSE and rest of England (excluding London)

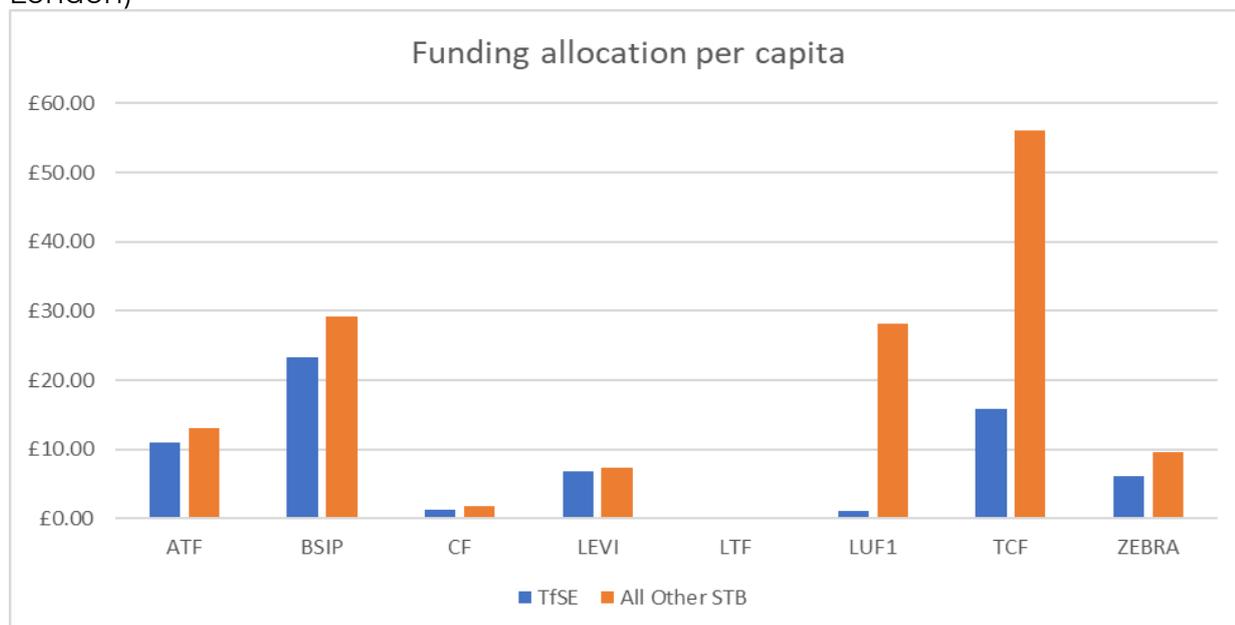
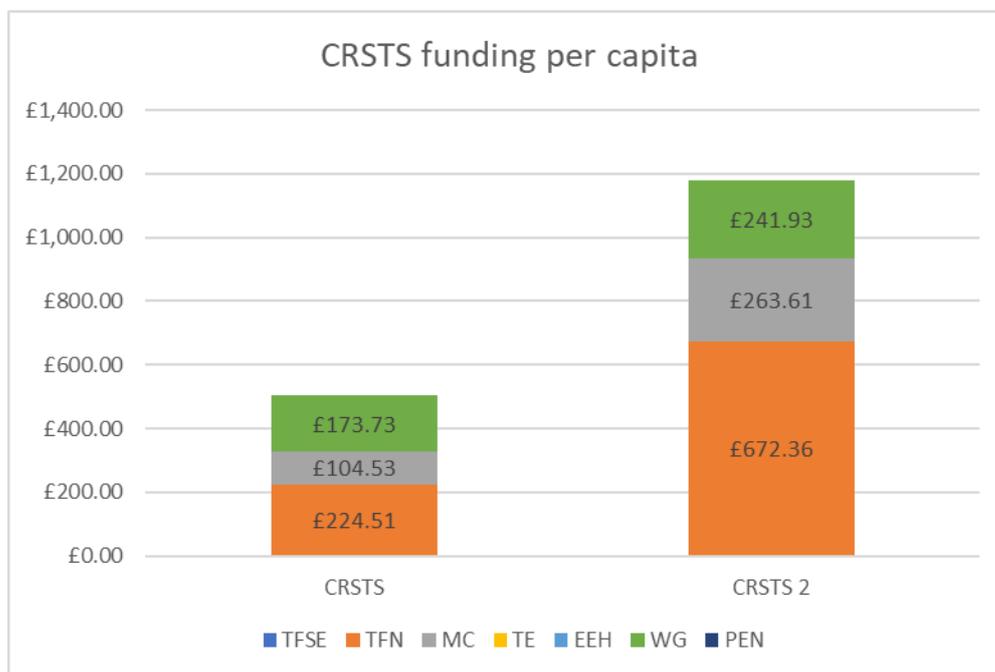


Figure 2: Indicative CRSTS and CRSTS 2 funding allocation per capita, split by TFSE and rest of England excluding London.



Transport for the South East has a population of 7,713,000.

Figure 1 shows that Investment in the Transport for the South East region is lower per capita for each allocation than the average for the other STBs combined per capita total. For the largest funding allocation, CRSTS 1 and 2, we did not receive any funding. The breakdown of which STB areas received funding is outlined in Figure 2.

Table 1: Funding per capita by STB for funding allocations

STB	ATF	BSIP	CF	LEVI	LTF	LUF1	TCF	ZEBRA	CRSTS	CRSTS 2	TOTAL	RANK TOTAL
TFSE	£11.03	£23.25	£1.23	£6.89	£0.00	£1.03	£15.84	£6.18	£0.00	£0.00	£65.45	5
TFN	£17.12	£30.56	£2.15	£7.83	£0.18	£4.99	£83.54	£10.51	£224.51	£672.36	£1,053.75	1
MC	£10.27	£23.22	£1.56	£6.87	£0.17	£9.47	£56.30	£8.76	£104.53	£263.61	£484.75	3
TE	£10.95	£18.36	£1.39	£7.01	£0.00	£0.00	£10.83	£5.54	£0.00	£0.00	£54.08	7
EEH	£9.64	£15.59	£1.38	£6.48	£0.03	£1.26	£17.65	£12.75	£0.00	£0.00	£64.78	6
WG	£15.61	£74.47	£1.46	£6.94	£0.00	£4.13	£58.65	£5.79	£173.73	£241.93	£582.71	2
PEN	£6.76	£34.55	£1.29	£9.31	£0.00	£33.24	£24.96	£10.76	£0.00	£0.00	£120.87	4

When we break down the amount of investment per capita from the allocations that we have analysed, we see that TFSE ranks 5th of 7 for total investment per capita of the STB geographies. We have received £65.45 investment per capita, conversely top-ranking Transport for the North have received £1053.75 investment per capita.

This data is skewed by the city regional sustainable transport settlements. If we remove the CRSTS funding allocations TfSE still ranks 5th with Western Gateway receiving the most, however the difference in funding allocation is less extreme as can be seen in table 2 below.

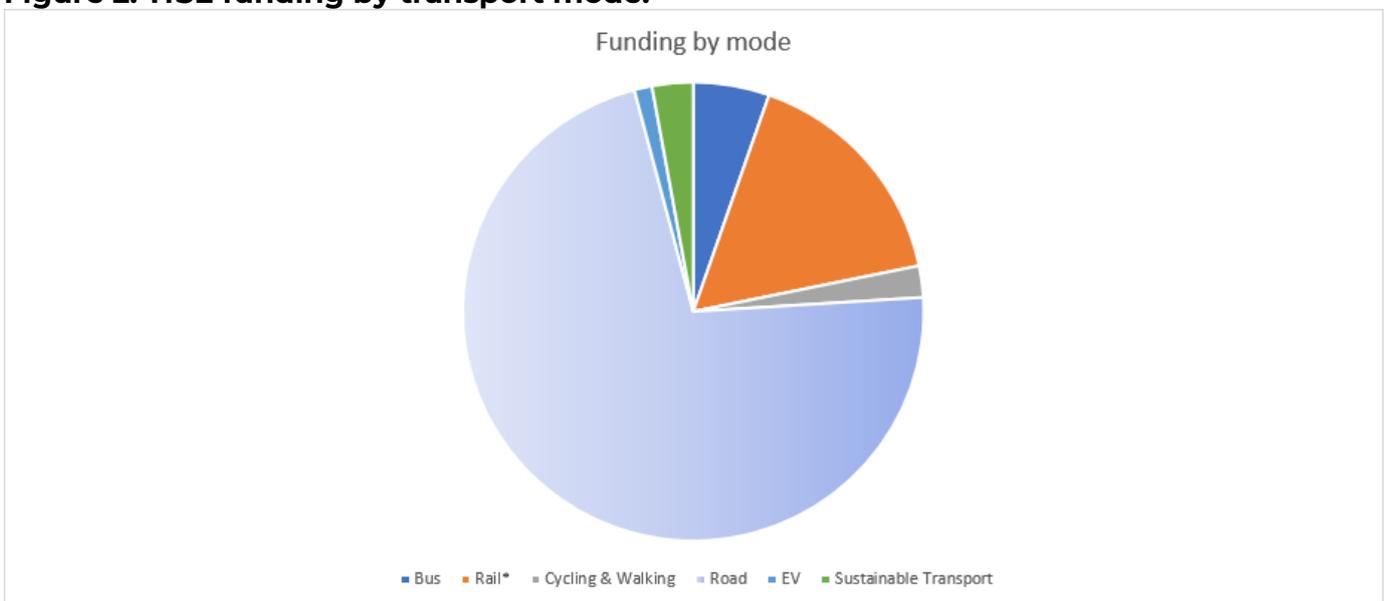
STB	TOTAL	RANK TOTAL
WG	£167.05	1
TFN	£156.88	2
PT	£120.87	3
MC	£116.61	4
TfSE	£55.45	5
EEH	£64.78	6
TE	£54.08	7

Table 2: Funding per capita with CRSTS allocations removed.

City Region Sustainable Transport Settlements (CRSTS) is a programme that invests in local transport network, providing long-term capital funding to regions across England through five year settlements. These were awarded based on plans put forward by city regions. As the TfSE region lacks major cities, it explains why there is no allocation (£0.00) recorded for these funding streams in the table. This underscores the funding dynamics at play within the TfSE region compared to other regions with prominent urban centres.

Please note that we are not able to do a comparative exercise for the rest of England on the RIS funding allocations, as this information is not available. Therefore, the 40% contribution of the £8.3 billion Lower Thames Crossing funding allocation to the TfSE geography has been removed.

Figure 2: TfSE funding by transport mode.



*please note that the rail funding allocation that is indicated in the above pie chart is for Network Rail's Southern Region, and does not exactly mirror the Transport for the South East boundary.

Within Figure 2, you can see the proportion of funding allocated by transport mode. The largest allocation is for Road Investment. This is made up of c. £800,000,000 investment in the MRN/LLM and RIS2 investment of £2.256 billion across 13 schemes in our geography. The Lower Thames Crossing has not been included in this report, however funding allocated at RIS2 was a £8.3 billion, c.40% off which can be

attributed to TfSE geography. There was an additional £38.1 million allocated to A249 Swale Transport Infrastructure from the housing investment fund which has not been included in the road figure.

The second highest funded mode is rail, with the figure for enhancements in the Network Rail Southern Region between 2019 and 2024 is £700m. This excludes funding associated with the Elizabeth Line in the Reading area and HS2 which are not a part of the Southern Region, and also Thameslink due to it spanning the region.

Bus mode received £227,005,464 of investment over the past five years.

The 'sustainable transport' segment relates to funding from the transforming cities fund, which is spent on active travel and public transport combined.

Although we do not have comparison data for other STB areas, the amount of funding per capita for the MRN/LLM in the TfSE geography is £102.70. The amount per capita from RIS2 allocation (not including Lower Thames Crossing) is £1076.11 per capita. We do not hold any data for the funding allocations for rail.

BSIP funding for 2024 has not been included within the figures, as these are currently indicative.

Scheme development

In 2023, TfSE published our Strategic Investment Plan (SIP). This outlined the schemes that we have identified as priorities for delivery by 2050, in alignment with our transport strategy. To deliver these schemes we will need to continue working in partnership with key delivery partners including our constituent local transport authorities, National Highways and Network Rail.

In 2020, TfSE partnered with Arup to work as an independent reviewer, to assess our current organisational structure and future objectives. The goal was to ensure we continue to deliver regional benefit for our constituent local transport authorities. This work identified the need for more resource and capability and recommended to bring data modelling and analytics in-house to better serve our constituent local transport authorities.

We have received funding from the DfT to support this workstream since 2020, following us to take significant steps toward fulfilling this recommendation. As a result, TfSE has equipped several authorities with funding or support.

To date we have developed a story mapper, an innovative tool designed to help both the public and transport planners visualise the schemes identified in our Strategic Investment Plan (SIP) and how they interact to provide greater benefit.

Additionally, we are developing a prioritisation methodology that will take external factors and influences into account. This will enable us to prioritise the schemes already identified in the SIP based on different drivers as and when they arise.

TfSE has also produced a 'State of the Region' report, which over time will help demonstrate the impact of the SIP.

Local capability

In January 2022, TfSE secured £300,000 in funding from the Department for Transport (DfT) to help local authorities bridge their skills gaps.

The focus was to boost TfSE's understanding of what **capability gaps** could be addressed to help LTAs with the delivery of their LTP's and develop a delivery plan to address issues.

We identified these gaps through workshops and one-on-one sessions, and local authorities shared their proposed solutions via a survey. These solutions were evaluated using an assessment matrix, with a strong weighting applied to those with a regional benefit.

In June 2022, our Partnership Board approved funding for all eight proposed solutions.

The key areas we addressed included:

1. Strategic optioneering training
2. Communications training
3. Regional transport modelling license renewal
4. Quantifiable carbon reduction training
5. Guidance and advice document development

The outputs of these solutions will form the building blocks of our **Regional Centre of Excellence**.

Regional Centre of Excellence

In February 2022, the Levelling Up White Paper was published and included a commitment from government to develop regional centres of excellence across the country. As a result, the Department for Transport has tasked Sub-national Transport Bodies (STBs) to deliver Regional Centres of Excellence (RCoE) in their areas. The overarching objective for the RCoE is to help LTAs address capacity and capability challenges. This will be facilitated predominantly through a virtual platform, which has been shaped by the local authorities, for the local authorities.

Key users of the platform will be local authorities, with external partners having restricted access. It will be collaborative, modular, encourage both self-learning and learning from others, and via a chat forum and message boards allow quick networking and open conversations.

Some of the initial areas of focus for the RCoE are as follows: considering unique modes such as freight, decarbonisation/carbon assessment, EVs, modelling, business cases, finance/procurement, active and sustainable transport, scheme delivery, and policy making including LTPs in particular.

The RCoE will aim to offer value for money by supporting business case development, unlocking investment, and improving staff capability. Its benefits are already being seen, as local authorities begin to provide case studies and best practice to those that have requested it.

All tools created across STBs, will be hosted on this virtual platform, in one simple, easy to access space.

Tools

Project View

Project View is an interactive data viewing tool, which has been used to view the evidence base of the transport strategy.

This has been rolled out to all 46 district and boroughs, and 16 local authorities free of charge, to use during their planning processes.

Mode propensity tool

This tool will be developed to assist Local Transport Authorities in prioritising interventions in different parts of their geography.

Analytical Framework

The development of an analytical framework will provide a mechanism for local transport authorities and others produce the evidence required to support the business cases for transport interventions needed in their area.

It will enable a more consistent approach regionally, providing efficiencies in data, as well as additional capacity and capability.

Carbon Assessment Playbook

TfSE worked in collaboration with England's Economic Heartland and Transport East, to develop a carbon assessment playbook that will enable local authorities identify baseline carbon emissions and trajectories to net zero in each of the LTAs in the three STB areas.

EVCI locate tool

The 'EVCI Locate' application has been developed by TfSE to help constituent authority officers identify and prioritise suitable locations to expand EVCI networks through an assessment of a range of different parameters. This includes location of terraced housing, areas of deprivation and parking restrictions.

Procuring this regionally, and making it available for constituent authorities at no additional cost, provides not only a consistent approach, but also valuable cost savings to the tax payer, DfT, and local authorities.

At a glance

Developing and maintaining our strategies	Prioritising investment across the region	Supporting local authorities
Regional Active Travel Strategy	Strategic Investment Plan and its implementation	Tools*
Electric Vehicle Charging Infrastructure Strategy	Transport Strategy	Local capability
Lorry parking and driver welfare study	Prioritisation tool	Training
Freight blindness in the public sector	Scheme development	Consultations
Coastal water freight study		Letters of Support
Future warehousing provision		Forums
		Carbon Training
		Bus Back Better
		Regional Centre of Excellence

Tools* include:

Mode propensity tool
 EVCI locate tool
 Analytical Framework
 Carbon Assessment Playbook
 Development Log
 Project View
 SEELUM

The effects of inflation on the delivery of transport infrastructure projects across the south east.

**Research conducted by Transport for the South East
March 2024**

Contents

Introduction	2
Background	2
Methodology	3
National Picture	3
Insight from industry journals and web publications.....	5
Other factors that affect costs	6
Energy prices in the manufacturing sector	6
ADEPT Report.....	7
TfSE 2022 MRN/LLM responses.....	8
MRN/LLM Forecast costs from Quarterly returns.....	9
MRN Schemes under Construction	9
TfSE 2023 Questionnaire	10
Conclusion.....	11
Next Steps	13

Introduction

Transport for the South East's (TfSE) Strategic Investment Plan (SIP) published in 2023 provides a framework for investment in strategic transport infrastructure, services, and regulatory interventions from now to 2050. Delivery of the SIP will require TfSE and its partners to work together to bring forward, develop and deliver nearly 300 individual schemes over the next 27 years.

By their nature most of these schemes require multi-year development and construction funding and are substantial in cost. All delivery partners are concerned with rising costs as a result of construction inflation, and the associated challenges/risks this is presenting as they work to develop and deliver individual schemes.

Without delivery of the schemes set out in the SIP the vision and objectives for 2050 set out in the TfSE Transport Strategy will become increasingly difficult to realise. Therefore, it is in the interest of the whole region that TfSE work with our delivery partners to mitigate and overcome these risks to delivery.

Background

Particular concerns had been raised with TfSE in relation to the Major Road Network (MRN) and Large Local Major (LLM) schemes with Outline Business Case (OBC) approval, as at that point the DfT funding contribution is fixed and the risk of any further inflationary cost increase sits with the promoting authority. Following various meetings where the impacts of inflation on scheme costs were discussed, in November 2022 TfSE asked for promoting authorities to set out challenges faced as a result.

In our role managing the MRN/LLM Programme for the region, TfSE raised these concerns with DfT, and requested that DfT reconsider how post funding approval inflationary costs increases are managed across the programme. To date DfT recognise the challenge for promoting authorities and confirm that this risk sits with the promoting authority, and whilst we recognise that DfT themselves also have a limited funding pot, individually and through joint STB work we continue to keep this issue high on the DfT agenda, highlighting the risks to delivery of the wider MRN/LLM programmes.

Inflation related cost increases continue to be of concern to the deliverability of schemes, both in terms of securing construction funding, and acceptance of the risk of potentially needing to find additional funding if costs continue to rise post approval. This has been highlighted through our Transport Strategy Working Group and Senior Officer Group

meetings and as part of a “lessons learned” workshop with scheme promoters in preparation of the anticipated release of a second round of MRN funding.

In October 2023, the TfSE Audit and Governance Committee requested an investigation into the effect and impacts of inflation on transport infrastructure projects in the TfSE region. Following presentation of initial results, further analysis was then requested at their January meeting. This report sets out the findings of the investigations.

Methodology

In undertaking this research, a number of approaches were taken to understand both the challenges of individual scheme promoters and also the national picture.

Firstly, data available from the Office for National Statistics (ONS) that quantifies how inflation has impacted construction projects was reviewed to provide a picture of historical trends, and the extent to which costs have increased particularly over recent years.

Insights from reputable industry journals and web publications were also reviewed to provide a greater understanding of the national trends.

In November-December 2022, ADEPT had collated case studies from local authorities on their cost challenges across highways and transport services. While only a small number of authorities responded, this report was reviewed and provided further useful information.

The challenges identified in delivering MRN/LLM schemes from our earlier discussions with scheme promoters in November 2022, were revisited.

Lastly TfSE undertook specific research with scheme promoters to better understand not only the effect of inflation on scheme delivery, but also the knock on wider impacts arising from either the need to find additional funding, or the delayed delivery of schemes. This research took the form of a questionnaire circulated to all 16 local transport authorities. The questionnaire was designed to build on previous work and identify the effects not just on scheme delivery but also on wider Council financial operation, and delivery of strategic objectives across the region.

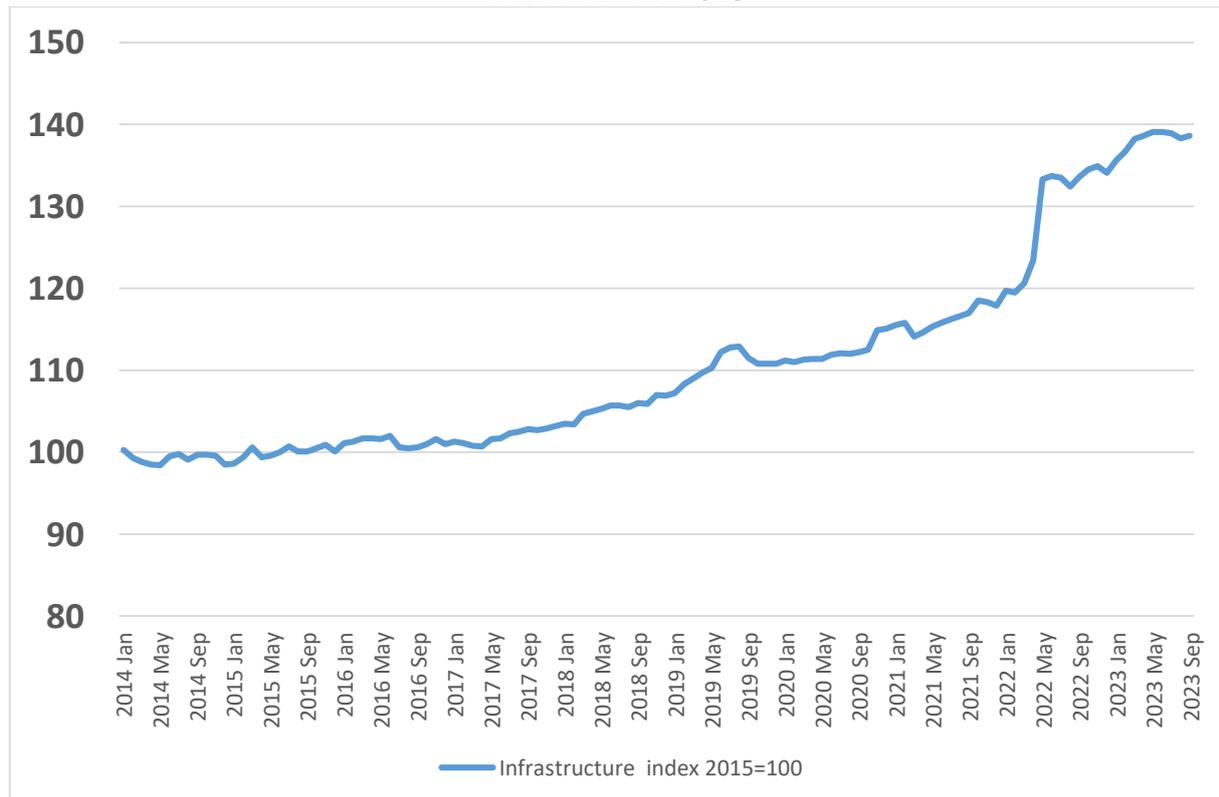
National Picture

Cost pressures continue to affect the construction supply chain. Many of the materials used in construction require energy intensive manufacturing processes, the cost of which has risen significantly since the invasion of Ukraine by Russia. In addition, the weakening value of the pound impacts

the cost of imported materials and road freight prices are high due to driver shortages and increased fuel costs. High inflation has also increased the cost of living pushing up labour costs for the supply chain.

The graph below (Fig 1.a) uses the ONS [Construction output price indices \(OPI\)](#) to show increases in construction costs against a baseline of January 2014.

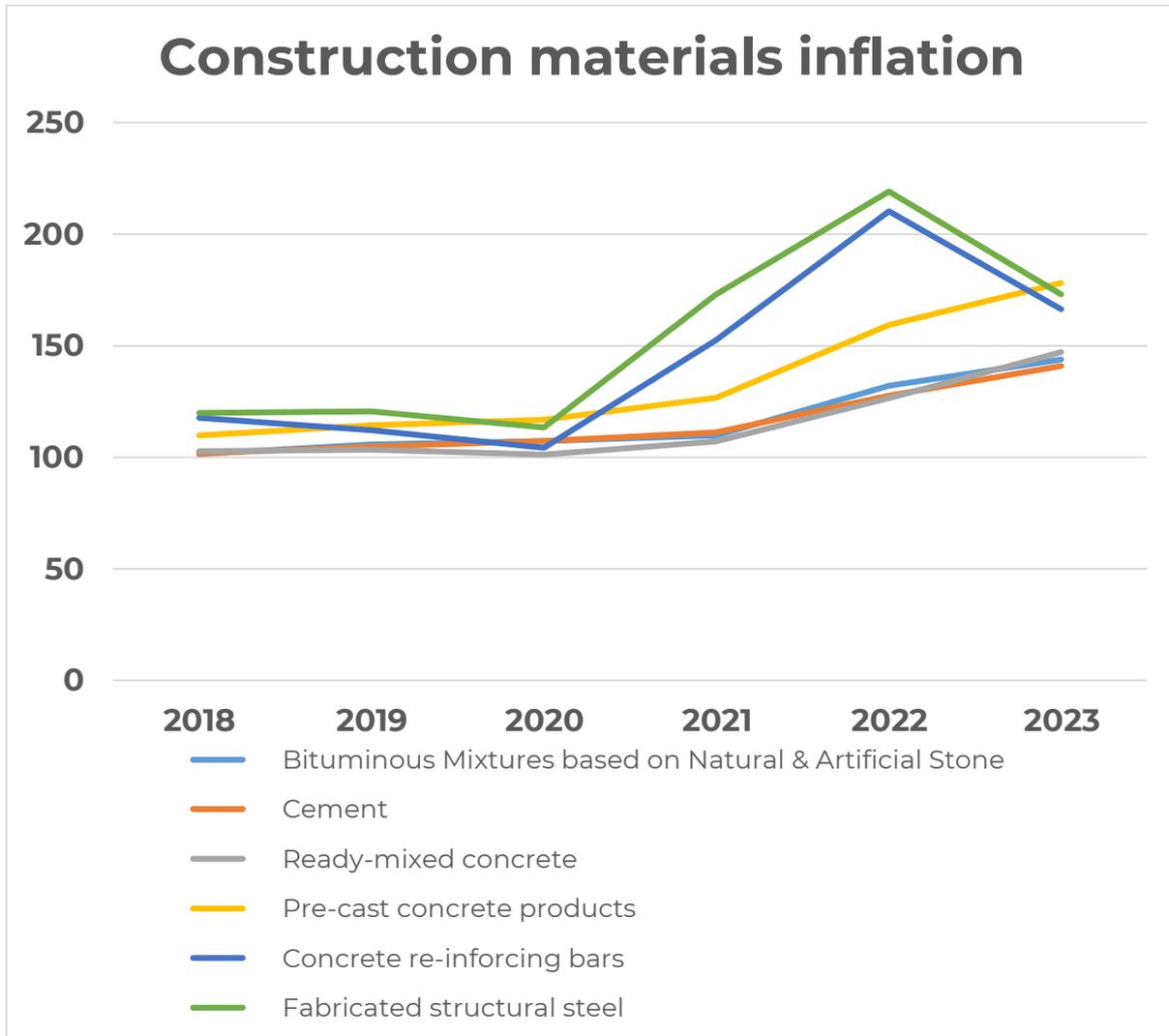
Fig 1a – Graph showing Infrastructure and Public construction index costs since 2015



The data set considers material, plant and labour cost and allows for a markup to accommodate a fair profit for construction firms (Asphalt is noted as confidential and therefore doesn't feature in these figures).

It shows that up to March 2017 there were only slight fluctuations. The rate of increase then steepened reaching 120% of 2015 baseline by the second quarter of 2022. At this point there was a sharp spike of almost 15 points followed by a further steady rise peaking just below 140% over the next year to the latest data from September 2023.

The graph below shows the inflation increases of materials more commonly used in construction of transport infrastructure (based on 100% set at 2015 prices). This shows that the inflation for these materials increased more than for general construction, and although inflation for concrete re-informing bars and fabricated structural steel is now falling, the higher prices as a result of earlier very high inflation are now baked into scheme costs.



Insight from industry journals and web publications

In July 2023 Infrastructure inflation was "more than double" of that associated with building. At around 5%-7% (Arcadis' UK Summer Market View) there were expectations of a slowdown in infrastructure construction as a result of planned spending cuts by the treasury to 2029. Road and rail projects were thought to be closer to 5% than 7% with the energy, water and flood resilience sectors under greater inflationary pressure due to the specialist skills, plant and equipment involved. [Thomas Johnson in New Civil Engineer \(July 2023\)](#).

Inflation related to Materials continued to ease throughout 2023. However, wage awards were pressured to match inflation and the cost of living. With further pressures caused by shortages of both skilled and unskilled labour and an aging workforce labour overtook materials as the greatest driver of inflation. However, a slowdown in demand at the end of 2023 did slow wage growth and masked labour shortages. [The Building Cost Information Service \(BCIS\) – a year in construction in \(December 2023\)](#).

Other factors that affect costs

In common with construction the rail industry has experienced cost inflation in renewals and enhancements higher than CPI and this is expected to continue in CP7 (Network Rail).

So called 'boom and bust' work cycles detrimentally affect the rail sector. since 2000 rail funding cycles has been inconsistent (particularly for renewals). Typically, a control period begins with low funding, followed by a rapid increase. Negative impacts of this include:

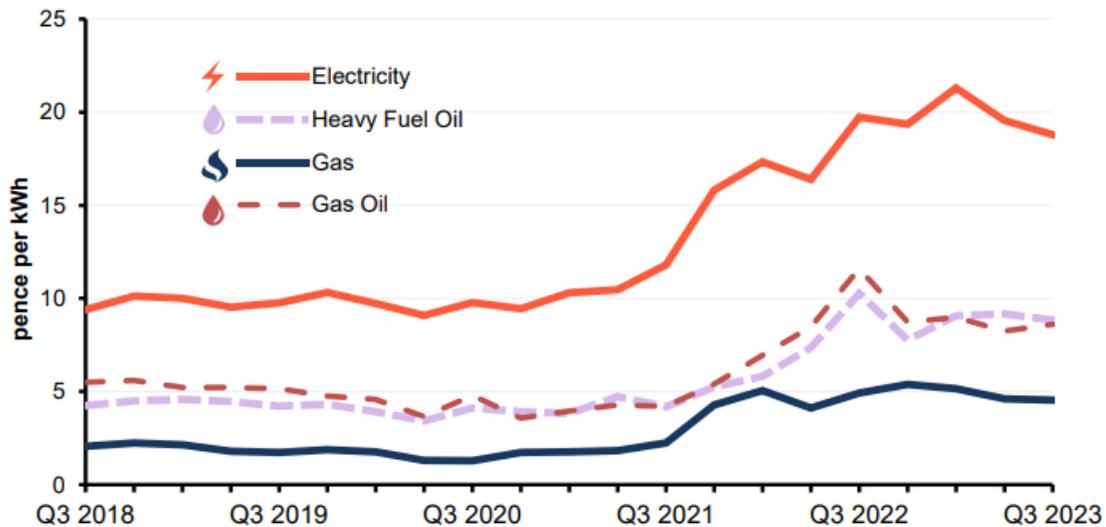
- Reduced confidence for businesses to invest in developing skills and new products.
- Smaller workforce.
- People leaving the industry to others with more reliable workflows.
- Reduction of specialist SMEs offering specialist products and services.
- Increased cost of infrastructure by up to 30%
- Reduced innovation in people, process and products.

[Boom & Bust Funding Briefing from the Railway Industry Association \(March 2019\)](#)

Energy prices in the manufacturing sector

Manufacture of materials like asphalt and steel are energy intensive and as such the cost of energy influences infrastructure construction inflation. Taken from the [Quarterly Energy Prices UK July to September 2023 and estimated annual data for 2023](#) the below information relates to Energy prices specifically in the manufacturing sector. Relatively stable prices from Q3 2018 to Q3 2021 were followed by drastic increases to Q1 2023. The last two quarters have seen prices start to reduce but they are still considerably higher than before the Russian invasion of Ukraine.

Average quarterly prices of fuels purchased by the manufacturing industry since Q2 2018



ADEPT Report

In October 2022 ADEPT collated responses from Local Authorities in a survey on behalf of the DfT regarding inflation and cost pressures on highways and transport activities.

At the time of responding authorities reported that the cost of capital schemes was typically 15-20% higher due to inflation. Some authorities were meeting funding gaps themselves; A higher proportion were not able to and a common theme was around the inability to borrow. They had either reached their borrowing cap or would not take on additional revenue costs (particularly with rising interest rates) with implications that would have for front line services. Where schemes were not able to progress, examples were given where local plans would fail and progress to government housing and growth targets would not be met.

Inflationary increases were not only affecting transport infrastructure, but other transport services were also being equally affected. Highways capital maintenance costs had increased by 24-27% to October 2022. This had forced smaller works programmes and a push for cheaper solutions. Fixing fewer things with lower quality products that don't last as long hides some of the reduction while also increasing the backlog of future works.

Bus services had seen an approximate rise of around 10% (contract cost) with further anticipated rises due to passenger numbers still being below pre-covid levels. One off funding (BRG/LTF) was reported as assisting but this was not enough to offset the high likelihood of funding gaps and therefore service reductions in 2023/24.

School/SEN transport costs were increasing due to greater need in addition to inflation. As a statutory service increased costs of a reported 30% increase had to be met while delivery risk increased despite rising costs due to operator fragility.

Street lighting had seen a 100% increase in energy cost in a single year. Some authorities were looking at mitigating cost increases by reducing “on” time. Street lighting had also seen up to 40% increase in capital costs.

TfSE 2022 MRN/LLM responses

All respondents to our November 2022 request for information reported that inflationary increases were adversely affecting delivery of their schemes.

The main concern highlighted was that for schemes at OBC or construction, the risk of inflationary cost increases sat with promoting authorities, with DfT’s contribution having been fixed at scheme approval. In an increasingly difficult financial climate, local authorities’ appetite for taking this risk is reduced and they are more limited in ways to fund the cost increases, with the main method being to re-profile capital programmes resulting in other schemes being delayed or cancelled. Delays in the approval of business cases exacerbated these issues, with costs already having increased significantly by the time schemes were approved.

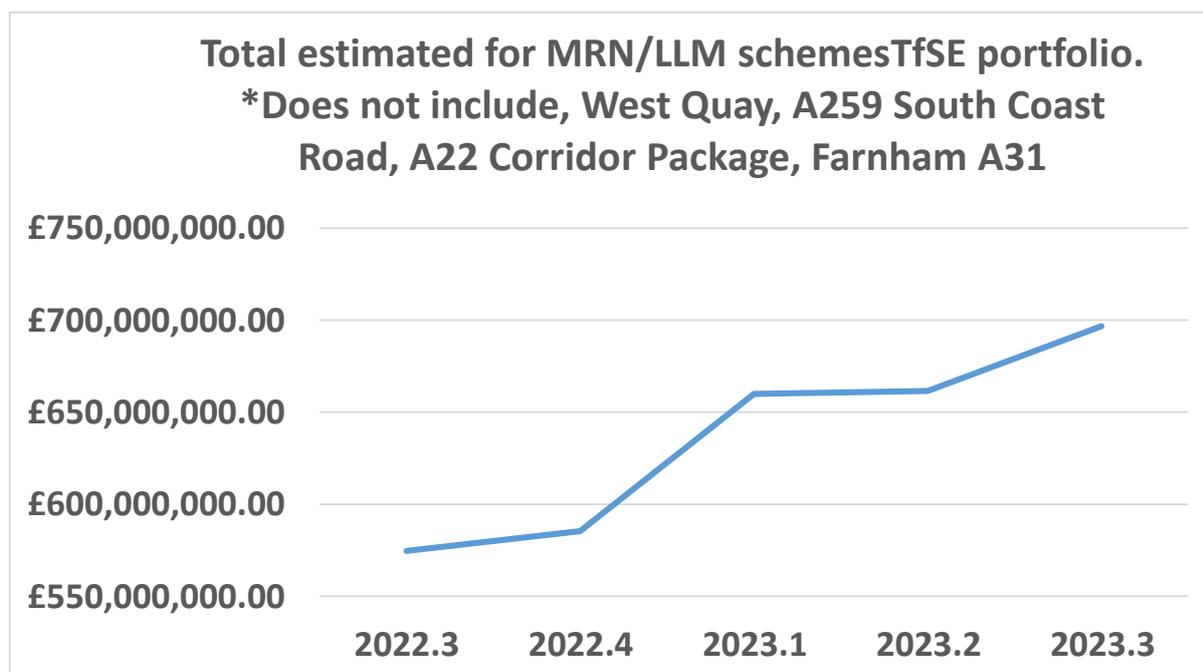
For schemes at earlier stages of development, the inflationary cost increases resulted in the need to underwrite a higher level of local contributions than had been anticipated, again putting pressure on wider capital programmes, but also leading to increased developer contributions being sought (where applicable). In attempts to limit the increases, some schemes were de-scoped because of the cost increases, risking full delivery of the scheme objectives and wider benefits that were anticipated, with knock on impacts to the delivery of regional strategies, local transport plans, housing and employment.

Local authorities’ ability to fund early stage scheme development was also impacted due to uncertainty over what assumptions should be made in respect of inflation giving rise to concerns over the affordability of schemes. Increased costs were also affecting schemes value for money (benefit cost ratio), potentially impacting on the likelihood of subsequent funding approval, and an increased risk of abortive development work.

MRN/LLM Forecast costs from Quarterly returns

These schemes give TfSE as a non-delivery body insight to the effects of inflation on projected delivery costs.

The cost data (Quarterly returns from Q3 Dec 2022 to Q3 Dec 2023) we have which is displayed in the graph below gives an insight to inflation but will not account for how much of any cost increase is a result of inflation or increased scheme development knowledge.



*Schemes were omitted if they have not been re-assessed since the first submission TfSE have access to or in the case of A259 South Coast Road the scheme has changed and elements have been removed. None of the costs shown are costed by contractor and are all estimates.

The schemes included have seen estimated cost increases of just over 21% from £574,652,777 in Dec 2022 up to £696,634,133 in Dec 2023.

MRN Schemes under Construction

We asked LTAs with MRN schemes currently in delivery for insight of their experience and the following is paraphrased from their responses.

In July 2023 inflation in the construction sector was volatile as a result of factors including:

- Weak currency against the US Dollar
- Ongoing conflict in Ukraine
- Worsening labour and skills shortages
- Unknown effect of any forthcoming interest rate rises
- Reduced steel production capacity

- Changes in Government policy and fuel pricing.

This resulted in Inflation typically around 23% for construction products and materials (Construction Leadership Council (CLC) Construction Product Availability Statement)

The material price index for 'All Work' increased by 27.2% in May 2022 compared to the same month the previous year. ([Department for Business, Energy & Industrial Strategy](#)) Although expected to peak at the end of 2022, the factors involved meant that this was not a certainty and that Construction costs could expect inflation between 15% to 20%

In order to assess and incorporate inflation into the Target Cost of their MRN scheme one LTA engaged a budget review by an external cost consultant prior to award of the Scheme contract. This resulted in some inflationary pressures being incorporated into the budget through County Council capital funding.

Inflation risk was assessed using various scenarios at various figures over the course of the scheme from which an index was agreed with the Contractor. Target Cost was agreed using a base date of April 2022 with adjustments each month based on agreed indices.

We were supplied with actual costs per month between Nov 2022 and Nov 2023 for 3 elements which were Steel re-bar, Type 1 filling and Concrete. Costs over the period changed as below:

- Steel Re-bar fell by approximately 26%
- Type 1 Filling rose by approximately 10%
- Concrete fell by approximately 7%
- Staff/Labour rose by approximately 9.1%

TfSE 2023 Questionnaire

The recent questionnaire aimed to build on previous understanding to identify the effects not just on schemes themselves but also delivery of strategic objectives and wider benefits.

As well as attempting to quantify the challenges, the questionnaire also explored the risks faced by local authorities in developing schemes, and their subsequent willingness or ability to continue bringing forward transport schemes in the future, with a view to the risk this may have on delivery of our regional transport strategy objectives through the SIP.

Seven responses were submitted from our local transport authorities.

Across the seven responding authorities additional funding has had to be found to cover inflationary increases for over 30 transport infrastructure projects. The most common sources for filling funding gaps were developers/third party funding, maintenance budgets and reserves. Capital programmes have been reviewed as a result of the cost increases, with some schemes being delayed. Local authorities reported increasing difficulty in balancing their books and impacts on their ability to bid for funding of future projects.

During the past three years over 35 schemes were also reviewed and reduced in scope in an attempt to mitigate the cost increases, but this had impacts on the level of benefits delivered by the schemes. Only one scheme had been cancelled as a direct result of inflation, but over 23 schemes have been delayed.

Six of the seven respondents reported that their authority's attitude to taking on the risk of leading transport infrastructure projects had changed, with increased internal governance and higher risk allocation being required to secure approval by S151 officers. Increased costs and additional risk allowances also mean that benefit cost ratios have been adversely affected, further increasing the difficulty in securing funding approval (both internal and external).

The delays in delivery and descoping of transport infrastructure schemes described above are having wider impacts on the economy of the south east. Respondents reported stalled housing developments and reduced employment opportunities as knock on effects from inflationary cost increases. The environment is also impacted with delays to schemes impacting local authorities' ability to meet wider targets such as carbon reduction.

Although the questionnaire was only sent to our constituent authorities, it is apparent from joint STB work and from regular discussions with national delivery partners including National Highways and Network Rail, who are also bringing forward schemes within the SIP, that increased construction inflation is a national issue threatening the delivery of transport infrastructure across the UK.

Conclusion

The TfSE Transport Strategy sets out an ambitious vision for the region and how well-planned infrastructure is essential to realise economic growth and enable the region to meet challenging carbon reduction targets. The SIP details the schemes that are required to be delivered over the next 30 years to meet that vision. Delivery of the SIP requires TfSE to work with a number of local authority and national delivery partners to bring forward those schemes.

It is clear from our research that promoting authorities face a number of challenges resulting from inflationary cost increases to their schemes, many of which risk the successful delivery of the schemes themselves and the associated benefits they bring. The DfT does take inflation into account when calculating BCR's through a tool which adjusts values back to 2010 prices. However, inflation at a rate higher than that used in the tool will have a detrimental effect on the BCR.

The risk of scheme cost increases sitting with the promoting authority is increasingly significant at a time when local authority budgets are facing numerous other pressures, including the inflationary effects of delivering their core services which must take priority. Revenue funding to develop schemes is scarce as local authorities have higher priorities, "spare" capital funding to cover cost increases is not available, opportunities to borrow are increasingly limited and authorities' appetite for risk is diminished. The role of an LTA as a scheme promoter for schemes at the scale of an LLM in particular comes with increasing risk in light of inflation, market uncertainty and the challenge all local authorities face in delivering a balanced budget. This responsibility has always been difficult for LTAs but the financial risks required to be accepted by authorities in advancing very large schemes with equally large risks are significant, both in the risk of increased development costs and in terms of actual cost to OBC stage estimates. This risk has traditionally been passed to promoters by the DfT, going forward in light of these exceptional circumstances more than one of our promoting authorities has hinted at a potential reduced willingness to be a scheme promoter at all.

The higher costs of schemes are now baked in and as well as local authority schemes this is also affecting delivery of national programmes such as RIS and Network North. All delivery partners and funding agencies including National Highways, Network Rail and DfT are facing increasing pressures on their budgets.

Reaching the vision set out in our Transport Strategy is dependent on delivering the schemes within our SIP. The challenges presented by increasing inflationary costs risks successful delivery of not only the schemes and their benefits, but also the associated development that will support the south east's economy, society and environment. It is crucial that TfSE continue to work together with delivery partners to find a way through these challenges and enable the successful delivery of schemes.

Next Steps

There are a number of ways that TfSE can help support partners address the challenges they are facing from increased inflation costs.

We recognise that DfT also have a limited budget and that to increase MRN/LLM funding would require them to find funding from other programmes. We will continue discussions with DfT to advocate for a resolution to the challenge of the risk of inflationary cost increases sitting with our local authority partners, ensuring that DfT understands the pressures this is putting on local authorities and the risk to scheme and programme delivery.

Through our centre of excellence, we will support early scheme development, reducing the burden on our local authorities. We will continue development of the Common Analytical Framework with the other STB's and will make our analytical tools available to our partners sharing best practice and expertise across the region. This will bring efficiencies and cost savings to the early stages of scheme development, avoid duplication in appraisal and help to streamline the business case process reducing the risk of abortive work in bringing schemes forward.

We will continue to work with national partners as they face similar challenges and will support their scheme development work and share analytical tools as appropriate.

We will continue to promote our strategy and SIP as we work with our LTA partners. Working with them to ensure that their local plans have regard to our own regional work.

Working with our private sector partners we will explore alternative funding and financing models for delivering transport infrastructure, reducing reliance on the public purse. We will continue discussions with DfT regarding a "beneficiary pays" funding model.