



National Audit Office

REPORT BY THE
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Department for Transport

Funding for local transport: an overview

Key facts

£8.5bn

Local authorities spent a total of £8.5 billion on transport in 2010-11 (the most recent year available) in England, excluding London

£2.6bn

The Department for Transport spent £2.6 billion on local transport in 2011-12 (outside London)

£2.2bn

Local authorities accounted for £2.2 billion of the £2.6 billion Department for Transport funding in 2011-12

- 7 per cent** of local authorities' budgets were spent on transport in England in 2010-11 (excluding London)
- 36 per cent** of local authorities' total transport expenditure in 2010-11 (outside London) was capital expenditure which is used to build or maintain infrastructure
- 19 per cent** of the Department for Transport's total expenditure in 2011-12 was on local transport in England (outside London)
- 61 per cent** of the Department's £2.2 billion funding to local authorities does not need to be spent on transport

Summary

1 The Department for Transport (the Department) sets the policy and funding framework for transport and sets national objectives, including an objective to support sustainable local travel. The Department works with local and private sector partners to deliver many of its policies for rail, road, sea, air and local transport services. Its vision is for dynamic, sustainable transport that drives economic growth and competitiveness.

2 Local authorities play a key part in planning and providing transport services. They have around 300 statutory responsibilities for transport, such as developing local transport plans and administering the 'national concessionary travel scheme'. They plan and commission services (including bus and light rail), and provide and maintain infrastructure (collectively they are responsible for 98 per cent of the road network). Local authorities encourage public use by providing information and services for groups such as the elderly and disabled. Their objectives for transport are often tied in with wider strategies for economic development or improving the health and environment of local citizens.

3 Transport is the fourth largest area of local authority spend, with local authorities outside London spending £8.5 billion on it. Most of this transport spending comes from either locally raised funds such as council tax, or formula funding from the Department for Communities and Local Government. The Department for Transport provided £2.2 billion in 2011-12, equivalent to around a quarter of local authorities' transport expenditure.

4 Alongside wider changes from the government's localism agenda, the Department aims to reduce its role by giving local authorities more freedom to decide their own local transport priorities and solutions. It aims to give users information to help them to hold transport providers and local government to account for the services they provide. It is proposing a number of changes to how it funds local transport services and infrastructure and to involve local authorities more directly in the delivery of local bus and rail services.

Scope of this report

5 This report aims to provide an overview of the complex local transport landscape, and sets out:

- national and local government responsibilities to provide and fund local transport services in England (Part One);
- what changes are planned (Part Two); and
- how the accountability arrangements work, including the information available to hold those responsible to account and the Department's role in overseeing the system (Part Three).

6 Unless specified, the report covers local transport in England but excludes London, where funding arrangements and responsibilities for transport are significantly different.

Key findings

Funding trends

7 The Department's funding is a significant source of local authorities' capital spending on transport. Around one-third of the money spent by local authorities on transport is capital expenditure, used to build and enhance transport infrastructure, such as roads. Some of this money comes from the Department, which provides around 60 per cent of the capital funding local authorities spend on transport. The remaining two-thirds of local authority spending on transport is revenue expenditure, spent on day-to-day items, such as reimbursing bus operators for concessionary fares, or carrying out routine road maintenance. This is largely funded through local authorities' own resources and the formula grant administered by the Department for Communities and Local Government. (Paragraphs 1.11 to 1.14)

8 Reduced overall funding for local authorities risks worsening highway quality. The Department's funding to local authorities has remained stable following the 2010 Spending Review and Autumn Statement. However, there is a 28 per cent real terms fall in grants from the Department for Communities and Local Government over the spending review period. Local authorities have a range of statutory duties which reduce their unrestricted spending. In transport, this includes payments to bus operators to reimburse them for statutory concessionary fares, a cost largely beyond the control of local authorities. This means that funding available for other areas of local government spend, including routine highways maintenance, is likely to fall. We commented in our report *Reducing costs in the Department for Transport* on the effects of cuts in budgets on national and local highways maintenance. We said that cuts risked deterioration in highway quality and higher long-term costs for the Department or local authorities. The Audit Commission also reported in 2011 that there was a significant but unquantifiable backlog of maintenance work needed to get local highways to a sustainable level. (Paragraphs 1.14 to 1.17)

Changes to roles and responsibilities

9 In recent years there have been several changes to the delivery and funding of transport services. The Department reduced the number of separate transport grants it pays to local authorities. For example, it transferred a separate grant for concessionary fares into the formula grant administered by the Department for Communities and Local Government. It has also stopped reviewing local transport plans and no longer links its funding formulae to the quality of these plans. (Paragraph 2.2)

10 The Department is proposing to devolve more control over funding and services to local bodies. The Department has recently announced proposals to devolve the funding for major transport schemes. It intends to give more power to local communities and make decisions more locally accountable. It is also consulting on devolving bus funding and some responsibilities for rail services to local authorities, giving local authorities a more direct relationship with bus operators and a bigger role in specifying local rail services. (Paragraphs 2.6 to 2.7)

11 There are also changes to the structures and systems through which local transport is funded and delivered:

- Regional development agencies and assemblies, which together had prioritised funding for the Department's major transport schemes have been abolished.
- The Department is proposing that local authorities establish new local transport bodies, typically based on the same geography as local enterprise partnerships, responsible for allocating future funding for major schemes. Instead of appraising proposals for individual transport projects, the Department will shift its focus to scrutinising the governance arrangements of local transport bodies.
- The government is entering into 'city deals', giving specific cities outside London increased autonomy over their budgets and services, including transport. (Paragraphs 2.1, 2.5)

Accountability

12 The Department currently uses two main approaches to gain assurance over local spending on transport. Departmental accounting officers are responsible for providing assurance that money voted by Parliament is used for the purposes intended, spent within the rules and that value for money is achieved. This includes responsibility for ensuring that a robust local accountability system is in place covering the resources distributed. Where the Department provides competitive or bid-based funding to local authorities, it gains assurance by appraising expected benefits. For formula funding, local authorities do not have to spend this on transport and the Department relies on the Department for Communities and Local Government's accountability framework for assurance. This includes relying on existing local arrangements, which include audit, scrutiny committees, consultations and elections. (Paragraphs 3.4 to 3.7)

13 The Department's accountability arrangements are changing as there are new roles and responsibilities in local transport. The Department will increasingly rely on local systems, rather than direct scrutiny of individual transport schemes. For its major schemes funding, it proposes to take assurance by directly scrutinising the governance arrangements of new local transport bodies against centrally specified standards. (Paragraphs 3.9 to 3.12)

14 There is a wide range of data which could help to assess the value for money of local transport services, but it is not consolidated, and often not disaggregated by local areas. The Department's new open data strategy aims to increase the transparency of transport data, in part to improve accountability for transport. (Paragraphs 3.14, 3.16 to 3.18)

15 The Department expects to obtain early warning of failure or significant drops in performance by monitoring statistics and engaging with the sector. Notably, the Department has intervened in response to high-profile problems with winter salt stocks, improving its response over four years. The issues have been more about the performance of the system rather than individual funding streams. (Paragraphs 3.23 to 3.25)

Recommendations

16 We have identified the following issues and risks which the Department will need to manage as it implements these changes and aims to devolve decision-making to local bodies.

17 As the Department develops new assurance systems for local transport funding it needs to clarify its approach, including:

- its rationale for using different models of assurance for different funding streams, such as bid-based funds, formula funding directly to local authorities and to new local transport bodies; and
- where it relies on new local transport bodies, how it will check they continue to meet minimum standards and what it will do if the standards are not met.

18 The Department should clarify how local transport data can be brought together to judge value for money better. A wide range of information is available; however, the data are not brought together in one place, and do not always allow comparisons between local areas. As the Department increasingly takes assurance from local systems, it needs to collaborate with local authorities and the Local Government Association to:

- explore how data could be put to better use by others, such as those that fund, provide and use services;
- explain how data can be used to judge value for money; and
- clarify who will be responsible for this.

19 The Department should establish clear arrangements for how it will identify and intervene in cases of operational or financial failure in transport provision.

In particular, the Department should:

- specify what information it will use to identify failures in provision;
- identify the areas and activities at most risk of failure or drops in performance, for example due to financial pressures; and
- clarify the circumstances in which it would expect to intervene.