



National Audit Office

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COMPTROLLER AND
AUDITOR GENERAL

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Department for Transport

Funding for local transport: an overview

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National Audit Office

Department for Transport

Funding for local transport: an overview

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

17 October 2012

This report provides an overview of the complex landscape of local transport delivery. It considers the respective roles of the Department for Transport and local authorities in providing local transport services in England, how local transport is funded, planned changes to its funding and delivery and its accountability and oversight arrangements.

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This report can be found on the
National Audit Office website at
www.nao.org.uk/local-transport-funding-2012

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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.

Part One

How local transport is provided

1.1 Anyone making a journey in England is likely to use the services or infrastructure provided by a number of different bodies, including both national and local government and private sector organisations. Local authorities play a key part, for example they maintain 98 per cent of the road network by length. Transport is the fourth largest area of local authority spending and it is the largest single area of capital spending, which can be used for new infrastructure or structural maintenance.

1.2 This report focuses on the funding of typical transport infrastructure and services delivered by local authorities. It outlines the changes that are currently being implemented and proposed, and the impact that this is likely to have on accountability arrangements.

1.3 This part sets out roles and responsibilities in providing local transport services and infrastructure and how they are funded. Unless specified, this report covers local transport in England but excludes London. In London, the Department for Transport (the Department) provides a funding settlement to Transport for London under the Greater London Authority Act, which specifies different powers and responsibilities to those of other local authorities. The report also excludes local transport provided as part of other local services, such as education or social services.

Roles and responsibilities in providing local transport

1.4 We have summarised the respective roles of the Department and local authorities in **Figure 1**.

The Department for Transport

1.5 The Department sets the national policy and funding framework for transport including rail, bus, aviation, road, ferries, cycling and walking. It determines national policy priorities, for example on sustainability, and allocates resources for projects or schemes that support these priorities. It manages the strategic road network through the Highways Agency and sets the funding and high-level specification for the rail network. In relation to local transport, it has one specific objective to:

“Support sustainable growth by investing in local transport, decentralising funding and powers, tackling local congestion and making public transport (including light rail), walking and cycling more attractive.”¹

1 Department for Transport, *Business Plan 2012–15*, 31 May 2012.

It does this by: developing policy and guidance; partly funding local authorities to develop, improve and maintain their infrastructure; and supporting and advising local government through its local engagement teams.

1.6 The Department's 2011 White Paper *Creating growth, cutting carbon: making sustainable local transport happen* sets out the government's vision for a sustainable local transport system that supports the economy and reduces carbon emissions.² The Department believes that effective sustainable local transport should be tailored for the specific needs and behaviour patterns of individual communities.

Figure 1
Roles and responsibilities in local transport

Service	Role of the Department	Role of local authorities
Road network	<ul style="list-style-type: none"> ● Sets the policy framework and provides guidance, e.g. on road safety. ● Responsible for the strategic road network via the Highways Agency. ● Provides funding and guidance to local authorities to maintain and improve local highway network. 	<ul style="list-style-type: none"> ● Manage, maintain and enhance local highway network (including traffic signals and signs).
Bus services	<ul style="list-style-type: none"> ● Sets policy framework to determine how bus services are managed. ● Pays a grant to all private operators. ● Advises the Department for Communities and Local Government on the formula for concessionary fare scheme payments to local authorities. 	<ul style="list-style-type: none"> ● Contract with bus companies to fund commercially unviable bus routes. ● Reimburse bus operators for concessionary fares. ● Run some community bus services. ● Maintain and enhance bus stops, shelters, and stations.
Rail services (including light rail)	<ul style="list-style-type: none"> ● Sets policy framework to determine how rail services should be managed and sets high-level rail outputs. ● Provides funds for enhancing, maintaining and operating national rail network. ● Specifies and manages franchises with train operating companies. 	<ul style="list-style-type: none"> ● Local authorities are consulted by the Department when it agrees new services with a train operator. ● Local authorities may buy extra services or infrastructure improvements from train operating companies or Network Rail. ● London, Merseyside, and Tyne and Wear specify and manage rail services in their area, paid for by a grant from the Department. ● Some local authorities build and run light rail or community rail schemes.
Other transport services and infrastructure	<ul style="list-style-type: none"> ● Allocates funding to local authorities for specific projects or services based on appraisal of business cases. ● Sets the policy framework for sustainable travel, including for cycling and walking. 	<ul style="list-style-type: none"> ● Deliver transport projects (usually via third party contractors). ● Infrastructure for pedestrians and cyclists. ● Parking services. ● License private hire vehicles and taxis.

Source: National Audit Office

² Department for Transport, *Creating growth, cutting carbon: making sustainable local transport happen*, January 2011.

Local authorities

1.7 Local authorities have around 300 statutory responsibilities for transport, more than for any other function. They include powers, such as to introduce speed restrictions, and duties that local authorities must fulfil, although duties are usually defined in broad terms. We summarise the most significant statutory duties in **Figure 2**.

Figure 2

Significant local authority statutory duties for transport

Transport planning services

- Prepare a local transport plan which takes into account government policies and guidance.
- Make planning decisions on proposed local developments.

Maintaining road infrastructure and safety

- Ensure the effective management of a road network, in the interests of road users.
- Secure the swift, convenient and safe movement of traffic and provide suitable and adequate parking facilities on and off the highway.
- Maintain highways that are sustainable at public expense.
- Ensure that safe passage along a highway is not endangered by snow or ice.
- Prepare and carry out a programme of measures designed to promote road safety.

Supporting particular groups

- Plan and fund socially necessary bus services that would not otherwise be provided commercially.
- Implement the national concessionary travel scheme – issue permits indicating entitlement to travel concessions to older or disabled residents who apply for one, and reimburse operators who provide concessions.
- Consider the needs of elderly or disabled persons.

Providing public information

- Consult on and decide what local bus information should be made available to the public and how it should be made available.
- Make information available where satisfactory arrangements for information provision cannot be made with the operators.

Source: National Audit Office analysis of statutory duties

1.8 One of these responsibilities is to produce a local transport plan which sets local objectives for transport, in the context of government guidance. These objectives are often set in the context of wider local goals, for example:

- to deliver sustainable growth;
- to ensure that the transport system facilitates active, healthy lifestyles and reduces the number of casualties, and that other adverse health impacts are minimised; and
- to improve access to job opportunities, shopping areas, and cultural and visitor attractions.³

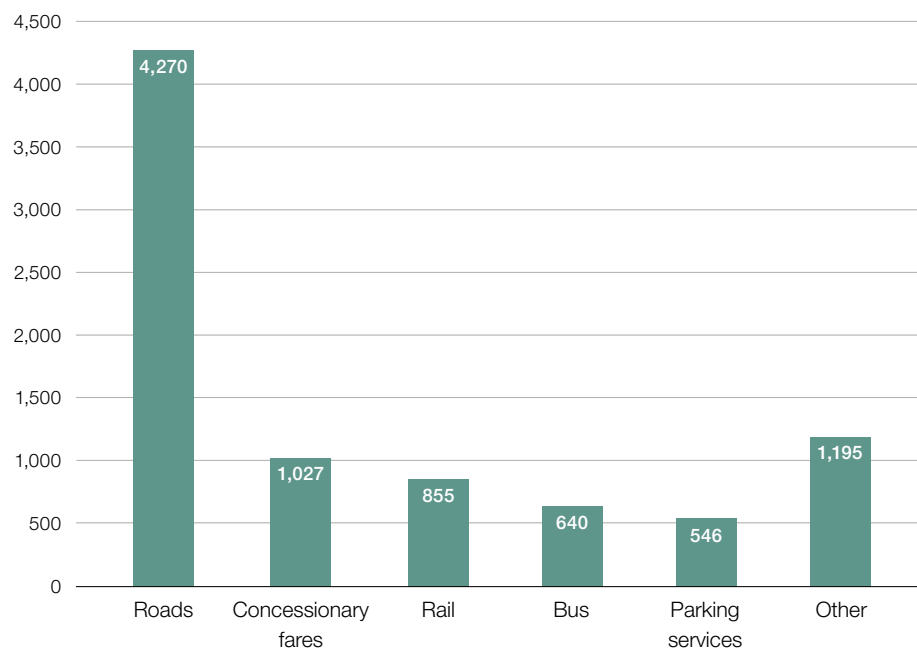
1.9 In 2010-11 local authorities (outside London) spent £8.5 billion on transport, equivalent to 7 per cent of their total expenditure. Half of that spending is on building and maintaining local roads (**Figure 3**). This reflects the extent of the local road network, with an estimated replacement cost of £248 billion.⁴

Figure 3

Local authority spending on transport 2010-11

Half of local authority transport spending is on building and maintaining roads

Local authority spending (£m)



NOTES

1 Concessionary fares include spending under the national concessionary travel scheme and discretionary schemes set up by local authorities.

2 'Other' includes spending on: planning, policy and strategy; coordination of public services; traffic management; airports and ports; and winter services.

Source: National Audit Office analysis of the Department for Communities and Local Government financial data

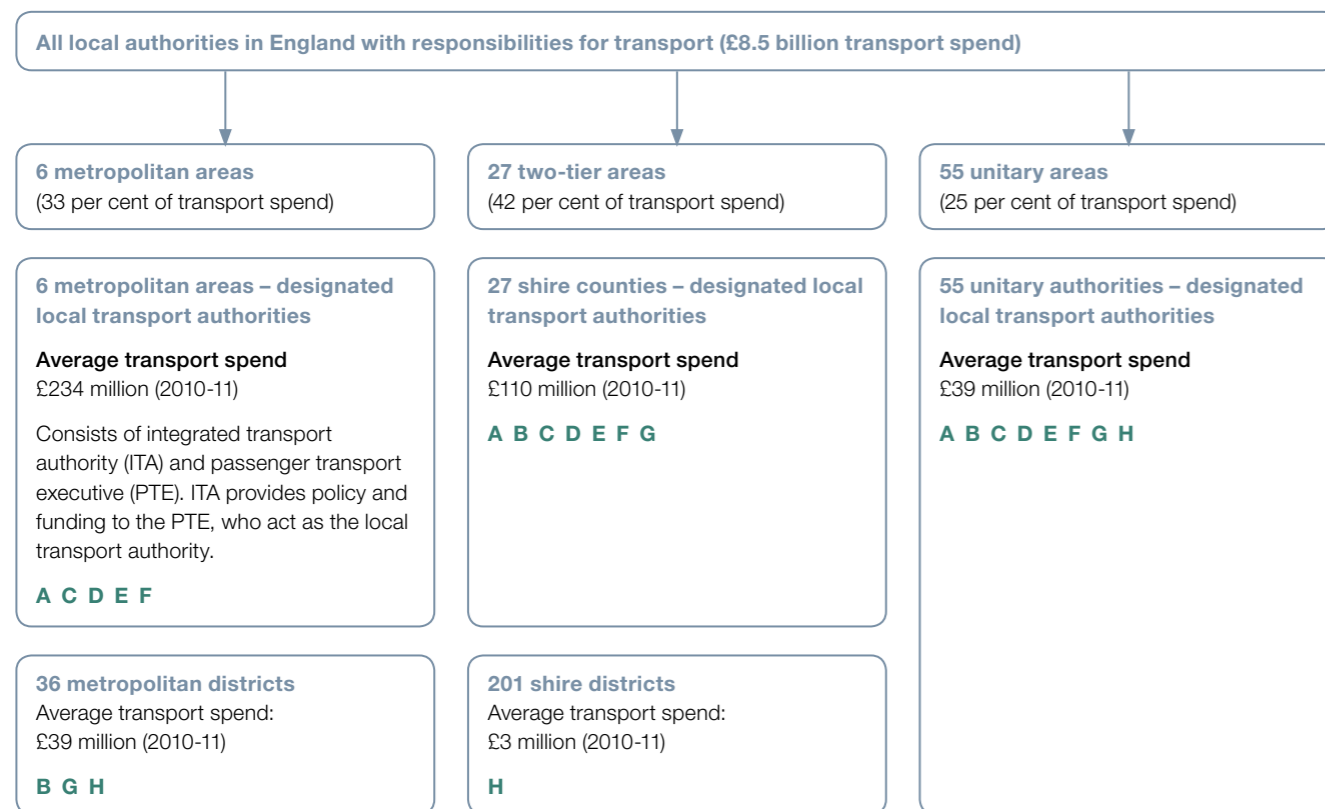
3 Examples taken from Brighton and Hove, Manchester and Norfolk local transport plans.

4 HM Treasury, *Whole of Government Accounts 2009-10*, HC 1601, November 2011, note 14.1.

1.10 Local authorities vary in their responsibilities and powers for transport. There are three types of area: metropolitan, two-tier and unitary. Appendix Three shows a map of local authority areas. **Figure 4** shows how responsibilities are organised. There are 88 designated local transport authorities. However, districts in metropolitan areas are separately designated as highways authorities, responsible for maintaining local roads.

Figure 4
Responsibilities for transport in the three types of local authority areas, with examples

Responsibilities for transport vary across different areas



Key to local authority responsibilities

- A** Produces the local transport plan
- B** Maintains local highways
- C** Provides extra rail/light rail services
- D** Delivers major projects (including bidding for central government funding)
- E** Subsidises bus services that are socially necessary but would not otherwise be commercially viable
- F** Compensates bus operators for concessionary fares
- G** Receives the formula grant administered by the Department for Communities and Local Government
- H** Gives planning permission for developments

Source: National Audit Office review of various local government documents and spending data

A metropolitan area

Greater Manchester

Population: 2.4 million
Urban/rural: Major urban

Infrastructure
Rail stations: 91
Road network: 9,000 km
1 international airport

Transport spend 2011-12
£341.5 million

Major projects include: Metrolink expansion, Cross city bus package, Leigh-Salford-Manchester busway, Altrincham interchange, Bolton town centre transport strategy, Rochdale & Wythenshawe interchange.

Governance: Transport policies are set by the Greater Manchester Combined Authority and its Transport for Greater Manchester Committee. It has three subcommittees for metrolink and rail, bus, and capital and policy.

Transport for Greater Manchester is the strategic transport body, responsible for implementing the decisions by the Authority and Committee to improve transport services and facilities.

A two-tier area

Norfolk

Population: 862,300
Urban/rural: Semi-urban

Infrastructure
Rail stations: 31
Road network: 10,000 km
3 ports, 1 airport

Transport spend 2011-12
£95.3 million, 6.9 per cent total spend

Major projects include: Norwich northern distributor road, bus rapid transport scheme.

Governance: A cabinet member has a planning and transportation portfolio of:

- transport strategy
- highways network
- passenger/public transport
- planning and development strategy
- development management

Transport policies are delivered by an environment, transport and development team led by a director and scrutinised by a specific overview panel.

A unitary area

Brighton and Hove

Population: 256,300
Urban/rural: Urban

Infrastructure
Rail stations: 8
Road network: 616 km
2 ports, 1 airport

Transport spend 2011-12
£37.9 million, 4.8 per cent total spend

Major projects include: Brighton station gateway, Lewes road transport improvements.

Governance: A transport committee, made up of elected councillors, has collective responsibility for decisions on highways, traffic management and parking. At the executive level, rather than having directors responsible for specific services, such as transport, the chief executive leads a commissioning team looking at needs across the city. There is a director responsible for city infrastructure and planning.

How local transport is funded

1.11 Local authorities draw on a variety of funding sources to spend on transport, often used in combination with one another (Appendix Four). In 2011-12, the Department gave £2.2 billion directly to local authorities, equivalent to around a quarter of local authorities' spending on transport. The Department's funding included:

- £1.2 billion in the form of two formula grants that all local authorities receive: an £804 million highways maintenance grant and a £350 million integrated transport grant for small improvement schemes. The Department sets the formulae and local authorities have discretion to use the funds for purposes other than transport.⁵
- £604 million allocated through four bid-based competitions (the major capital schemes fund, the local sustainable transport fund, the better bus area fund and the green bus fund). This funding must be spent on the projects for which it is awarded with the exception of the better bus area fund, which is not ring-fenced.
- The remaining £483 million consisted of ring-fenced payments to local authorities for spending on specific private finance initiative schemes (usually for highway maintenance or street lighting), and funding for the Tyne and Wear metro and passenger rail in Merseyside. The Department also contributed £150 million to the cross-government 'growing places fund', but this does not have to be spent on transport.

The Department also spends a further £342 million on local transport, largely through subsidies paid directly to bus operators.

1.12 The majority of funding that local authorities may use for transport does not come from the Department. Local authorities' own resources are a key source of funding, including council tax, levies on new developments, borrowing, and parking fees and charges. Local authorities also receive grants from the Department for Communities and Local Government for a range of purposes, including transport, but without any requirement to spend them on transport. These include a central formula grant across all local authorities (£27 billion in 2011-12) and the 'regional growth fund' and 'growing places fund', which have objectives to promote economic growth (£475 million and £730 million in 2011-12, respectively).

⁵ In metropolitan areas these grants are paid to the integrated transport authority, which means in practice they will be spent on transport.

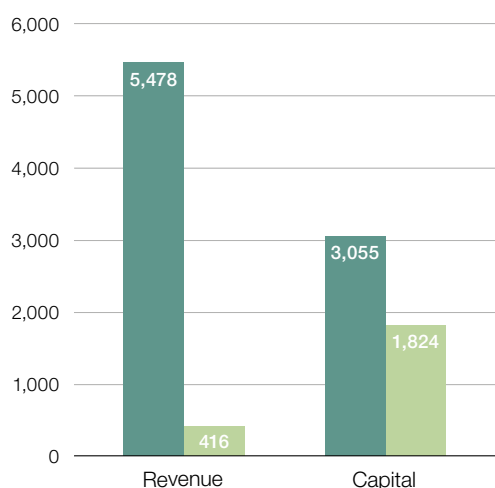
1.13 All funding is allocated for either capital (spending on significant assets that will have a life of many years, such as roads) or revenue (spending on day-to-day items to run services, or to carry out routine maintenance) purposes.⁶ In 2010-11, of the £8.5 billion of local authority transport spending, 36 per cent was capital spending and 64 per cent revenue. The Department's funding contributes to around 60 per cent of local authorities' total capital spending on transport, but only a small proportion of revenue spending (**Figure 5**). One of the main sources of revenue funding is the formula grant administered by the Department for Communities and Local Government.

Figure 5

The Department's revenue and capital spending on transport

The Department funds the majority of local authority capital spending on transport, but only a small proportion of revenue spending

Transport spending (£m)



■ Total local authority expenditure on transport (2010-11) (£m)

■ Department for Transport funding to local authorities (2011-12) (£m)

NOTE

1 It was not possible to use the Department's 2010-11 funding to local authorities figures so we have used 2011-12 figures, recognising they are not directly comparable with local authorities' 2010-11 expenditure.

Source: National Audit Office analysis of Department for Communities and Local Government spending data and the Department's funding

6 Local authorities can opt to use revenue funding for capital spending but not vice versa.

Trends in local transport funding

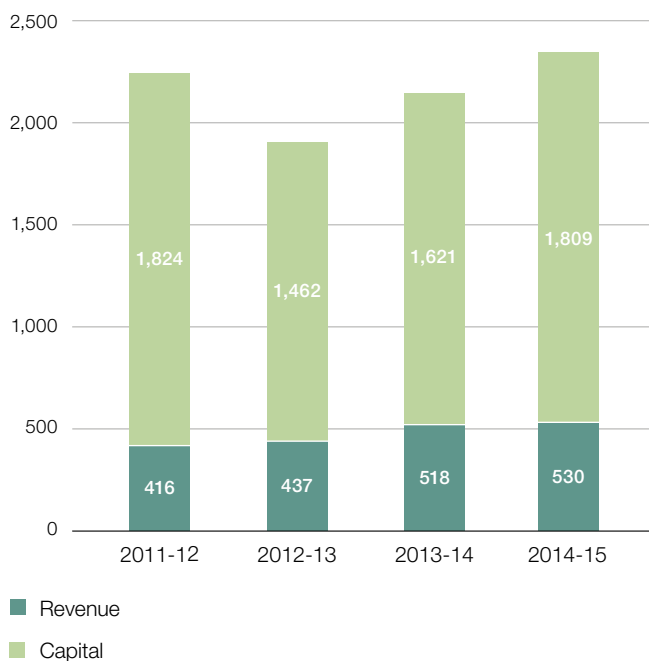
1.14 The 2010 spending review announced reductions to the Department's funding for local transport. However, new funding announced in the 2010 Autumn Statement means that the Department's funding to local authorities is broadly stable between 2011-12 and 2014-15 (**Figure 6**). This means that it remains a significant source of capital funding for local authorities, although the amounts available vary from year to year. There is, however, a 28 per cent real terms reduction over 2010-11 to 2014-15 in the much larger formula grant that the Department for Communities and Local Government gives to local government (**Figure 7**).

Figure 6

The Department's funding to local authorities

The Department's funding to local authorities is broadly stable

Funding (£m)



NOTE

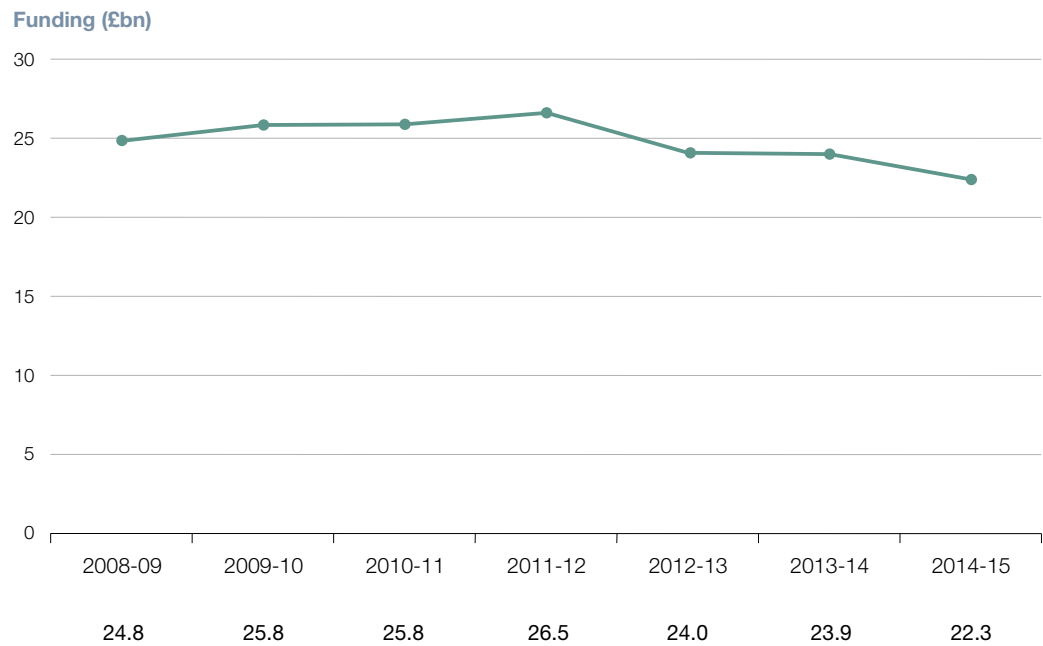
1 The trend for earlier years is not known as the categorisation of the accounts has changed, so data for earlier years are not comparable.

Source: Department for Transport, Annual Report and Accounts 2011-12, HC 51, July 2012

Figure 7

The Department for Communities and Local Government's funding to local government

The Department for Communities and Local Government's formula grant is reducing from 2011-12

**NOTES**

- 1 The graph shows the trend in the Department for Communities and Local Government's grant to local government. On average across 2008-09 to 2014-15, formula grant funding is more than 95 per cent of the grant.
- 2 The rise in 2011-12 was partly due to a number of grants from other government departments being incorporated in the formula grant.
- 3 These figures include London.

Source: Department for Communities and Local Government, Annual Report and Accounts 2011-12, HC 50, July 2012

1.15 Local authorities also have to manage uncertainties and fluctuations in budgets from year to year. For example, the amounts of formula grant that individual local authorities will receive from the Department for Communities and Local Government are agreed annually and have yet to be finalised for 2013-14. Capital funding will vary depending on the availability of funds and whether a local authority is successful in bidding for funds:

- In 2010 the Department announced that it would no longer be able to fund all major transport schemes that it had previously approved, and local authorities were requested to submit best and final bids. This meant decisions on some local authorities' funding were delayed. In the 2010 Autumn Statement new funding was announced which was sufficient for all revised schemes to go ahead. The bids approved demonstrated higher value for money and relatively lower contributions by the Department.
- The Department's integrated transport block grant is expected to rise from £350 million in 2011-12 to £450 million in 2014-15, while the highways maintenance block grant is falling from £804 million in 2011-12 to £707 million in 2014-15. The grants are provided without restrictions on use, so the overall effect is a net increase of £3 million.
- The £730 million growing places fund was provided in 2011-12 only and was distributed through local authorities to each of the local enterprise partnerships. It is for local bodies to manage this expenditure and the Department intends the fund to become self-financing with receipts from developers reinvested.

1.16 Against the background of reduced and sometimes uncertain central government funding, the local authorities that we spoke to said that they are having to prioritise and reduce their expenditure on transport. The Audit Commission identified in 2011 that many local authorities were facing significant reductions in funding available for a range of services.⁷ Local authorities face specific constraints in prioritising transport spending:

- Most bid-based funding from the Department must be used for the specific schemes for which it was awarded.
- Capital funding cannot be used to run services or carry out routine maintenance.
- Local authorities must continue to meet their statutory responsibilities. In transport, these are generally broadly defined, allowing some flexibility in defining service levels and therefore expenditure. However, local authorities must make mandatory payments to bus operators to reimburse them under the national concessionary travel scheme. These payments account for up to 12 per cent of transport spending.⁸

⁷ Audit Commission, *Tough times – Councils' responses to a challenging financial climate*, November 2011.

⁸ See Figure 3. The 12 per cent includes concessions beyond the national scheme provided by some local authorities.

1.17 We commented in our report *Reducing costs in the Department for Transport*⁹ that cuts in budgets for national and local road maintenance risked a deterioration in road quality and higher long-term costs for the Department or local authorities. Local authorities have a statutory duty to maintain the highway network for which they are responsible. A certain level of maintenance is needed to avoid building up future costs, but there are no mandatory standards to which local roads must be maintained. In 2011 the Audit Commission reported on the challenge local authorities face, citing a significant, but unquantifiable, backlog of maintenance work needed to get local roads to a sustainable level. To assist local authorities in identifying efficiency savings, the Department is funding a programme to help the sector develop and disseminate best practice on highways maintenance.

9 Comptroller and Auditor General, *Reducing costs in the Department for Transport*, Session 2010–2012, HC 1700, National Audit Office, December 2011.

Part Two

Changes to funding and roles

2.1 This part outlines the changes to responsibilities and funding for local transport. The changes in transport are taking place within a broader context of the government's localism agenda. In 2010, the government announced the following:

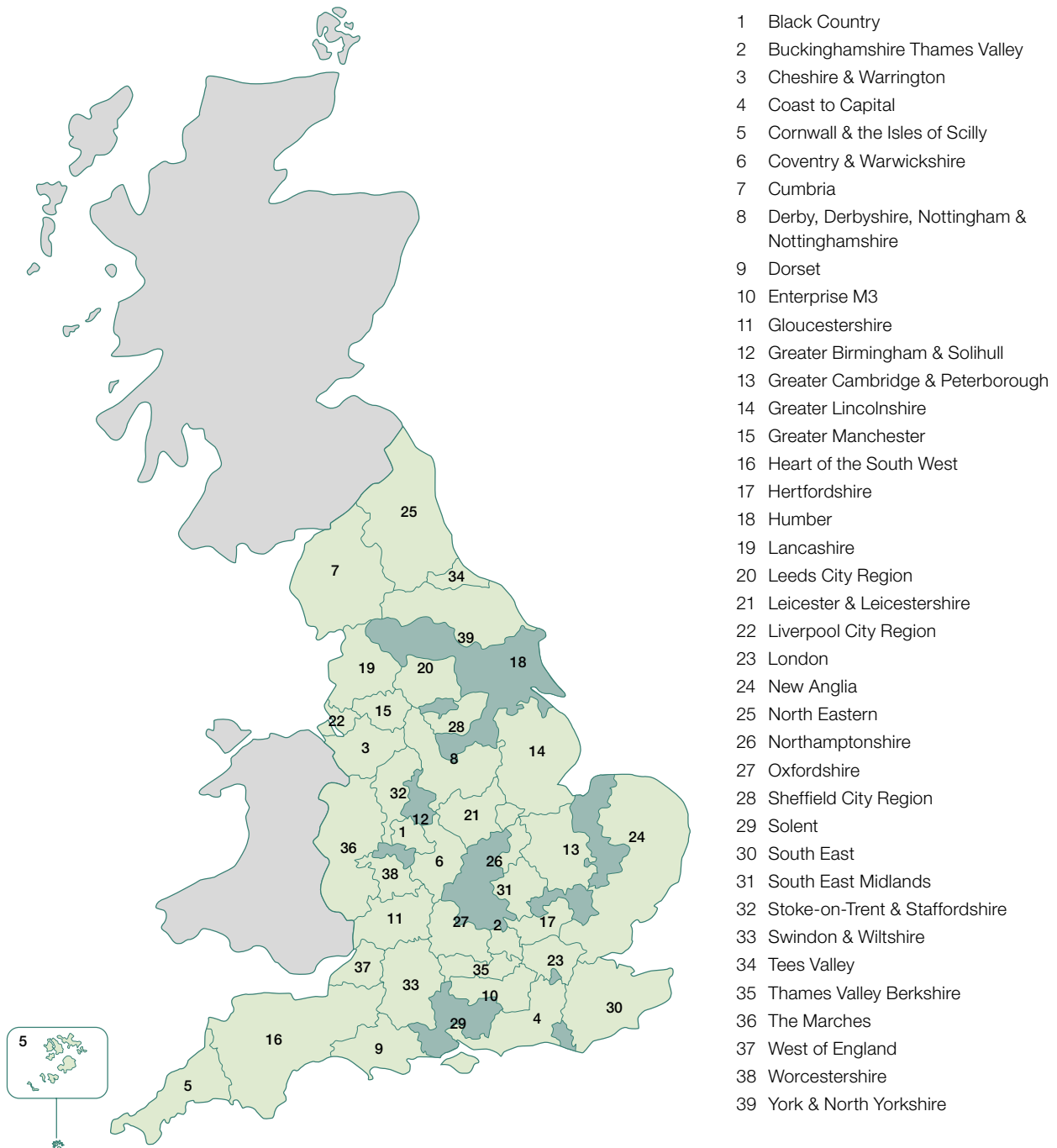
- The abolition of national targets for local authorities and the consolidation of all the data they must report to central government into a single list. Local authorities are now free to set their own targets.
- The abolition of nine regional development agencies, which central government had funded and charged with driving economic development in their regions.
- Local areas were invited to propose local enterprise partnerships: new subregional groups bringing together public and private partners, under business leadership locally. There are 39 local enterprise partnerships in England (**Figure 8**).
- A simplification of grants to local authorities. A number of grants, including transport grants, had restrictions on their use removed, and were integrated into the formula grant administered by the Department for Communities and Local Government.
- Local authorities would be given powers to borrow against growth in future tax streams to finance infrastructure projects.

2.2 These and other recent changes had a number of consequences for the way in which the Department for Transport (the Department) allocated funds to local authorities and prioritised transport schemes at regional level:

- Local transport plans, produced from 2011, no longer had to include mandatory indicators such as 'improve access to hospitals – to increase household access to hospitals within 30 minutes by 10 per cent between 2005-06 and 2010-11', against which local authorities had to demonstrate progress. The Department also stopped reviewing, and linking funding to, the quality of local transport plans which had contained these indicators.
- Transport planning and the prioritisation of funds for major transport schemes is no longer done at a regional level, a task which regional development agencies and assemblies had previously coordinated.
- All government funding for concessionary travel is now incorporated into the Department for Communities and Local Government formula grant.
- The Department reduced the number of grants to local authorities from 26 to 6 main grants.

Figure 8

Local enterprise partnership areas in England



- 1 Black Country
- 2 Buckinghamshire Thames Valley
- 3 Cheshire & Warrington
- 4 Coast to Capital
- 5 Cornwall & the Isles of Scilly
- 6 Coventry & Warwickshire
- 7 Cumbria
- 8 Derby, Derbyshire, Nottingham & Nottinghamshire
- 9 Dorset
- 10 Enterprise M3
- 11 Gloucestershire
- 12 Greater Birmingham & Solihull
- 13 Greater Cambridge & Peterborough
- 14 Greater Lincolnshire
- 15 Greater Manchester
- 16 Heart of the South West
- 17 Hertfordshire
- 18 Humber
- 19 Lancashire
- 20 Leeds City Region
- 21 Leicester & Leicestershire
- 22 Liverpool City Region
- 23 London
- 24 New Anglia
- 25 North Eastern
- 26 Northamptonshire
- 27 Oxfordshire
- 28 Sheffield City Region
- 29 Solent
- 30 South East
- 31 South East Midlands
- 32 Stoke-on-Trent & Staffordshire
- 33 Swindon & Wiltshire
- 34 Tees Valley
- 35 Thames Valley Berkshire
- 36 The Marches
- 37 West of England
- 38 Worcestershire
- 39 York & North Yorkshire

■ Local authorities in overlapping local enterprise partnerships

Source: Department for Business, Innovation and Skills website

New financial powers for local authorities

2.3 From April 2013 central government will allow local government to retain a proportion (50 per cent overall, but with significant variations based on local circumstances) of business rates locally and the growth of those revenues, rather than giving it all back to central government.¹⁰ Some local authorities could potentially draw on this revenue base for borrowing, for example to finance infrastructure.

2.4 From 2010, local authorities in England and Wales have been able to charge a 'community infrastructure levy' on new developments in their area. The funds raised can be used on transport or other infrastructure. There are similar powers for councils to negotiate contributions from developers where directly relevant to a site, for example as part of planning permissions granted, known as Section 106 contributions.

City deals

2.5 In December 2011, government published *Unlocking growth in cities*, launching plans to agree a series of tailored deals to enable the biggest English cities (outside London) to boost business investment, jobs and skills through greater freedom to plan and fund urban development.¹¹ Each deal is individually negotiated and brings together funding and policies across several Whitehall departments including transport, business and skills, local government and the Cabinet Office. Eight deals have been signed: Birmingham, Bristol, Manchester, Leeds, Liverpool, Nottingham, Newcastle and Sheffield. Cities will take on greater decision-making powers and more risk (such as borrowing more money). They will also be expected to be more accountable to their electorates on what they have achieved, and consequent value for money (**Figure 9**).

Figure 9 Manchester city deal

In March 2012, the Greater Manchester Combined Authority finalised a 'city deal' that aims to drive growth and create local opportunities. The deal will create a revolving infrastructure fund. This allows Greater Manchester to earn back a portion of the additional tax revenue resulting from local investment in infrastructure for reinvestment in additional infrastructure.

In addition, Greater Manchester will work with the Department on a broad package of transport proposals, including devolution of the Northern rail franchise, bus improvement measures and devolution of local transport majors funding.

Greater Manchester also aims to create a city apprenticeship and skills hub to increase the number of apprenticeships for 16- to 24-year-olds by 10 per cent; strengthen its business growth hub; establish a housing investment board to build new homes; and a Greater Manchester investment framework.

Source: National Audit Office interview with Transport for Greater Manchester and review of city deal announcement

¹⁰ In two-tier local authorities, district councils collect these funds rather than the local transport authority. A portion is passed to the county council.

¹¹ Cabinet Office, *Unlocking growth in cities*, December 2011.

The Department for Transport's proposed changes

2.6 As well as cross-government initiatives to devolve more power and responsibility to local authorities, the Department's 2011 White Paper *Creating growth, cutting carbon: making sustainable local transport happen* set out an ambition to apply localism to transport by devolving decision-making powers for funding and services to local authorities.¹² There are three main areas where the Department proposes changes to the way local transport is funded and delivered. In summary, these are:

- Change the funding for major capital schemes, its largest bid-based scheme (£426 million in 2011-12), to a formula-funded model (based on population) whereby the Department would devolve funding to new local transport bodies. Local authorities and local enterprise partnerships are being invited to form local transport bodies, which would typically mirror the geography of the local enterprise partnerships and would take on responsibility for establishing a programme of local priorities and allocating funding across an area.
- Enable local authorities to have a more direct relationship with bus operators by devolving some of the bus service operators' grant to local authorities and changing which services will be eligible. The Department currently pays this subsidy directly to bus operators based on fuel use, with the aim of making bus services more viable.
- Devolve responsibilities for managing rail services. There are a number of models this could potentially take but local authorities and local enterprise partnerships could potentially take control of commuter, local and rural passenger rail services in their areas. The range of influence could vary from low (by co-signing an agreement led by the Department) to a fully devolved role with local responsibility for specifying, funding and managing a wider network of services. If services were fully devolved, the Department would allocate a grant to the local authority rather than paying the train operator directly.

2.7 Cumulatively, the proposals mean local authorities will have discretion over more of the Department's funding and there will be new structures and responsibilities for making decisions on this funding. If they had been in place in 2011-12, the first two of these proposals would have increased the proportion of resources over which the Department gives local authorities discretion to prioritise from 61 per cent to at least 81 per cent.¹³

¹² Department for Transport, *Creating growth, cutting carbon: making sustainable local transport happen*, January 2011.

¹³ The 61 per cent refers to the proportion of the Department's £2.2 billion given to local authorities that is not required to be spent on transport. The 81 per cent uses a departmental estimate of the volume of tendered bus services in 2011-12, which will be devolved under the bus subsidy reforms, equivalent to £65 million.

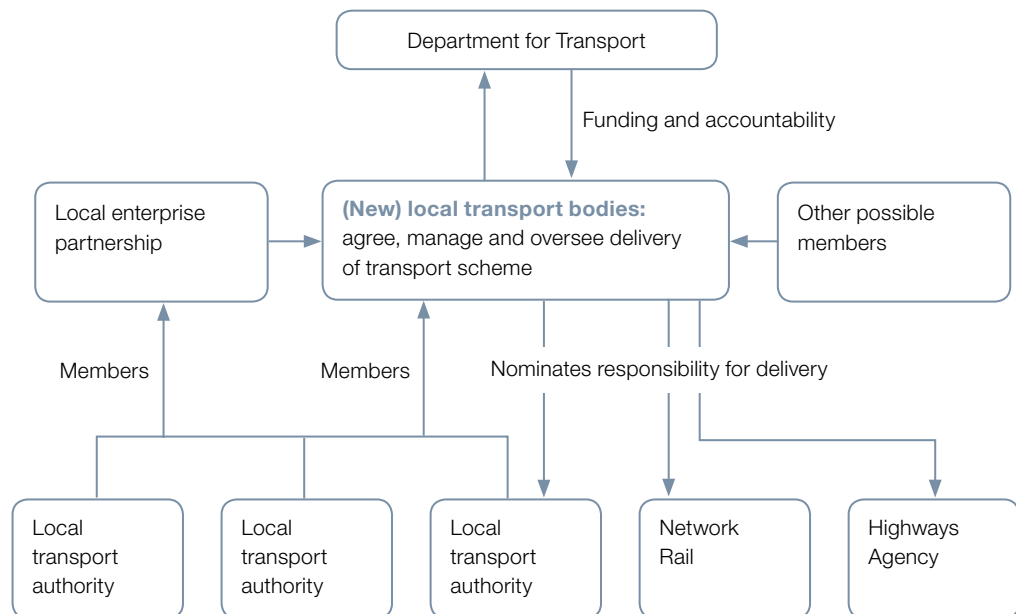
2.8 It is not yet clear how the new bodies will interact with each other. Local transport bodies will be voluntary partnerships of local transport authorities, local enterprise partnerships and possibly others, usually on a non-statutory basis (**Figure 10**). Local transport bodies would become the decision-makers and allocate funding to nominated delivery bodies, typically a local authority but potentially also Network Rail or the Highways Agency.

2.9 The Department has consulted local authorities and others on all of the above proposals and continues to do so:

- In January 2012, it ran a consultation exercise on *Devolving local major transport schemes*. Responses were broadly in favour of proposals and the Department published its response in September.¹⁴
- The Department published a consultation paper on its proposals on buses in September 2012.¹⁵
- The Department ran a consultation on *Rail decentralisation: devolving decision-making on passenger rail services in England* up to June 2012.¹⁶

Figure 10

The Department's proposals for new local transport bodies



Source: National Audit Office, based on Department for Transport, *Consultation paper: Devolving local major transport schemes*, January 2012

¹⁴ Department for Transport, *Devolving local major transport schemes: consultation response*, July 2012.

¹⁵ Department for Transport, *Consultation on bus subsidy reform*, September 2012.

¹⁶ Department for Transport, *Rail decentralisation: devolving decision-making on passenger rail services in England*, March 2012.

Part Three

Accountability

3.1 This part describes the current accountability arrangements for the funding that the Department for Transport (the Department) spends on local transport and how these are likely to change, given that the Department expects to rely increasingly on local systems, which are themselves changing as roles and responsibilities shift.

3.2 Parliament continues to expect central government to provide it with assurance that money has been used for the purposes for which it was intended (regularity), has been spent within rules on propriety and that value for money has been achieved. Departmental accounting officers are personally responsible for providing these assurances including responsibility for ensuring that there is a robust local accountability system in place covering the resources that they distribute.¹⁷

3.3 Departments set out their arrangements to provide assurance about the propriety and value for money of funds spent through devolved systems in ‘accountability system statements’.¹⁸ In April 2011¹⁹ and April 2012,²⁰ the Committee for Public Accounts examined the implications of devolving greater responsibilities and funding to local bodies on departmental accountability. The Committee found that departments:

- needed to improve the clarity, consistency and completeness of accountability arrangements;
- relied on a mix of local accountability mechanisms, robust information and inspection and oversight bodies that may not be sufficiently mature; and
- needed to clarify how arrangements will work, particularly responsibility for achieving value for money and addressing operational or financial failure.²¹

The Committee expects that accountability system statements should set out funding and accountability flows for each spending stream; what datasets will support the system; the failure and intervention regimes; whistleblowing arrangements and audit arrangements.

¹⁷ Accounting officers’ responsibilities are described in chapter 3 of HM Treasury, *Managing Public Money*, October 2007.

¹⁸ Department for Communities and Local Government, *Accountability: adapting to decentralisation*, September 2011.

¹⁹ HC Committee of Public Accounts, *Accountability for public money*, Twenty-eighth Report of Session 2010–12, HC 740, April 2011.

²⁰ HC Committee of Public Accounts, *Accountability for public money – progress report*, Seventy-ninth Report of Session 2010–12, HC 1503, April 2012.

²¹ At the time of the evidence session the draft accountability system statements from the Department for Communities and Local Government, the Home Office, the Department for Education and Department of Health were available.

The Department's accountability framework

3.4 The Department published its accountability system statement in September 2012, which sets out its arrangements for the grants it gives to local government, (summarised in **Figure 11**).²² In general:

- In its formula-funding to local authorities, which local authorities prioritise for themselves, the Department relies on the Department for Communities and Local Government accountability framework.
- For funding awarded for specific schemes, through four competitive bid-based funds, the Department sets its own criteria for allocating and paying funds. This is to ensure that funding is spent for the purpose for which it was intended and is in addition to the core system for formula funding.
- The accountability system statement does not currently cover private finance initiative schemes.

How existing arrangements work

3.5 Our recent work has reported on aspects of the Department's arrangements. On bid-based funding, our report *Local Authority Major Capital Schemes* found that the Department's programme management was generally good and improving. For example, the Department undertakes quarterly monitoring of progress against budgets and milestones; however, the Department was not well placed to measure whether it had achieved value for money because there had been little evaluation.²³ The Department has since acted on the recommendations to remind local authorities that producing evaluations is a grant condition. The Department recently updated its evaluation guidance for this fund.²⁴ The guidance relates to major schemes approved from 2010 to 2012 so some local authorities have been receiving funding without clear requirements on what they need to evaluate, limiting their ability to prepare from the outset.

3.6 Our report *Reducing costs in the Department for Transport* highlighted the challenges of obtaining assurance over formula funding. It found that the Department holds very little information on the value for money of local highways maintenance because local authorities do not have to spend the Department's funding on maintenance or give an account of it to the Department.²⁵

²² Department for Transport, *DfT accounting officer system statement for local transport*, September 2012.

²³ National Audit Office, *Department for Transport: Local Authority Major Capital Schemes*, May 2011.

²⁴ Department for Transport, *Monitoring and evaluation framework for local authority major schemes*, September 2012.

²⁵ Comptroller and Auditor General, *Reducing costs in the Department for Transport*, Session 2010–2012, HC 1700, National Audit Office, December 2011.

Figure 11
The Department's accountability system statement

Type of assurance	Formula funding ¹	Bid-based funding ²
Scrutiny by the Department	None mentioned.	<ul style="list-style-type: none"> The Department assesses and selects bids on various criteria, including value for money. Grants are usually paid in arrears, and certification may be required. Monitoring to ensure regularity (funds spent on purposes intended). Bidders for major transport schemes and the local sustainable transport fund had to commit to carry out evaluations.
Inspectorates	None mentioned.	None mentioned.
External audit	Auditors confirm: <ul style="list-style-type: none"> Totality of expenditure is within legal powers. Existence of arrangements to ensure authorities have used their resources effectively and efficiently. 	None mentioned, although one fund has grant certification by the Audit Commission. ³
Sector-led improvement	<ul style="list-style-type: none"> Highways maintenance efficiency programme (funded by the Department) supports sector-led initiatives. 	None mentioned.
Local authority systems	<ul style="list-style-type: none"> Reliance on assurance by the Department for Communities and Local Government that a core framework is in place that requires local authorities to act with regularity, propriety and value for money in their use of resources. 	For some funds, ⁴ the chief executive and chief internal auditor are required to sign a declaration that the conditions of the fund have been complied with.
Public accountability	<ul style="list-style-type: none"> Local authorities are accountable to their local electorates. Reliance on measures (in accountability system statement by the Department for Communities and Local Government) to make publicly available information which will allow comparisons of performance between different authorities, as a means of strengthening local accountability. 	None mentioned.

NOTES

1 Formula funding includes the maintenance block and integrated transport block.

2 Bid-based funding includes local major transport schemes, local sustainable transport fund, better bus area fund and the green bus fund.

3 Local major transport scheme funding.

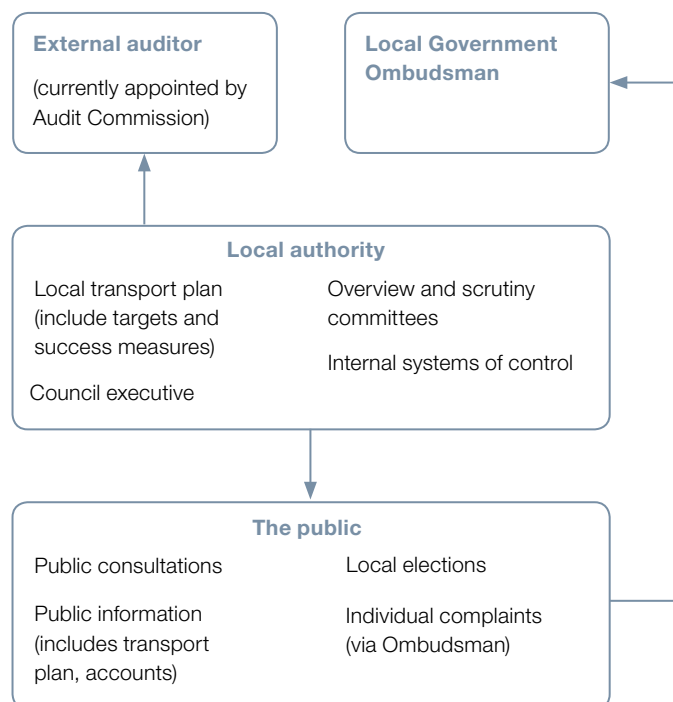
4 The accountability system statement specifies this for the better bus area fund, but the Department also has a similar declaration for other funds.

Local accountability arrangements

3.7 Local authorities have their own accountability arrangements, including accountability to their local electorates. **Figure 12** outlines the typical accountability arrangements within a local authority. There can be variations as councils have flexibility over their internal arrangements, although there are important common features. All local authorities are required to have a local transport plan, which will contain local objectives and targets against which they can be publicly held to account. Nearly all councils have scrutiny committees with powers to scrutinise decisions, plans and services provided by the council. The three councils we examined all had committees with responsibility for scrutinising transport decisions. **Figure 13** gives the example of local accountability arrangements in Greater Manchester, one of the largest local transport authorities. Although we have not audited these arrangements, they demonstrate that a wide range of systems and processes are available to local authorities.

Figure 12

Local accountability arrangements relevant to transport



Source: National Audit Office, adapted from Department for Communities and Local Government, *Accountability: Adapting to Decentralisation*, September 2011

Figure 13

Local accountability in practice: Greater Manchester

Transport for Greater Manchester (TfGM) is responsible for delivering transport infrastructure and services across the Greater Manchester area. They described a wide range of internal and external governance and accountability processes that they have put in place:

Internal governance

- The TfGM executive board meets monthly and includes three non-executive directors. An audit committee meets quarterly.
- There are monthly project and programme boards to review capital projects, including Metrolink, bus and rail information systems.
- A wider leadership team of chief executives from the district councils in Greater Manchester and the chief executives from transport, health, fire and police meets fortnightly to consider strategic issues.

External scrutiny

- Regular monitoring by the Greater Manchester Combined Authority and the TfGM Committee (and its subcommittees); for example, to review progress on key performance indicators and capital and revenue expenditure.

Public information

- An annual report which includes progress against key performance indicators in the local transport plan.
- Information is available to citizens through public meetings and papers, which are published on websites, and in the annual report as well as through correspondence and freedom of information requests. The yearly budget-setting meeting also includes a meeting that is open to members of the public.

Source: National Audit Office interview with Transport for Greater Manchester

Changes to accountability arrangements

3.8 The changes outlined in Part Two mean that the Department will increasingly rely on local systems for its assurance to Parliament, although it is too early to know exactly how the accountability arrangements will work, especially for rail and bus services.

3.9 The Department's plans are most detailed for its proposals to devolve funding for major schemes, where it proposes to replace direct scrutiny of individual projects with reliance on local systems. This approach is significantly different from the Department's existing arrangements for both bid-based and formula-based funds. The key change to the assurance arrangements in Figure 11 is that the Department plans to switch from its existing scrutiny over bid-based funds and replace this with assurance over the systems of new local transport bodies. The Department believes the devolved system can build on existing local authority assurance processes, including legal duties on propriety and financial management. However, it does not believe it is sufficient to rely solely on these general duties.

3.10 Local transport bodies will make decisions on which projects will receive funding but will not hold funds directly. One of its members will act as accountable body and fundholder. Accountability for approved projects will rest with a nominated delivery body such as a local authority, as previously.

3.11 The Department plans to assess whether local transport bodies are fit for purpose and have the necessary arrangements in place to ensure value for money and sound decision-making. In early 2013, before any devolved funding is transferred, the Department intends to approve their arrangements against minimum standards, covering:

- **Purpose, structure and operating principles**, including defining who is eligible for membership, geography, strategic objectives and purpose, handling conflicts of interest, transparency and involving the public and key stakeholders before decisions are made. It also covers the status and accountability of the body.
- **Prioritisation of a programme**, including the need for an evidence-based process that takes into account value for money, deliverability and environmental impact. Arrangements should ensure funding is only considered for specified schemes and is not passed on for general use.
- **Programme management and investment decisions**, including the need for standardised appraisal against a value-for-money threshold and mechanisms to monitor and evaluate. There are also requirements on the release of funding and cost control to ensure funds can only be spent on the scheme.²⁶

3.12 The Department's assessment will be a one-off exercise for each spending review. The Department has recognised that it needs to verify that the transport bodies are operating in accordance with the assurance frameworks they have established, for example through an audit regime. The Department has not yet considered what arrangements will be required to achieve this.

Information to support accountability

3.13 Effective accountability is underpinned by robust and timely information to measure and evaluate performance. In 2011, the Committee for Public Accounts set out the principle that there should be:

“A clear process for measuring outcomes, evaluating performance and demonstrating value for money, which allows organisations to be held to public account and which enables proper comparisons to be made across organisations delivering the same or similar services.”²⁷

²⁶ Department for Transport, *Local frameworks for funding major transport schemes: guidance for local transport bodies* (draft).

²⁷ HC Committee of Public Accounts, *Accountability for public money – Progress report*, Seventy-ninth Report of Session 2010–12, HC 1503, April 2012.

3.14 While there are no longer national transport targets or performance indicators which local authorities are expected to meet, there is still a wide variety of data on local transport, especially for roads and buses. The sources are generally of high quality and the most important are:

- The Department undertakes surveys, such as the national travel survey, which includes data on journeys taken (classified into mode of travel, length and purpose of journey) and frequency of travel. Data are generally only available at the national or regional level rather than for individual local authorities. However, many of the data are designated national statistics,²⁸ indicating a high level of quality assurance.
- The single data list published by the Department for Communities and Local Government. This contains all data that local authorities must submit to central government. It covers nine transport topics including the number of taxis, number of blue badge holders, parking fines issued, winter salt stock holdings, road length and condition, and bus and light rail punctuality. Local authorities collect data via standard forms with supporting guidance.
- Local authorities submit expenditure data to the Department for Communities and Local Government. Figures are published at individual local authority, regional and national level. Data is collected from local authorities using standard forms with guidance on the categorisation of financial data. These are also designated national statistics.

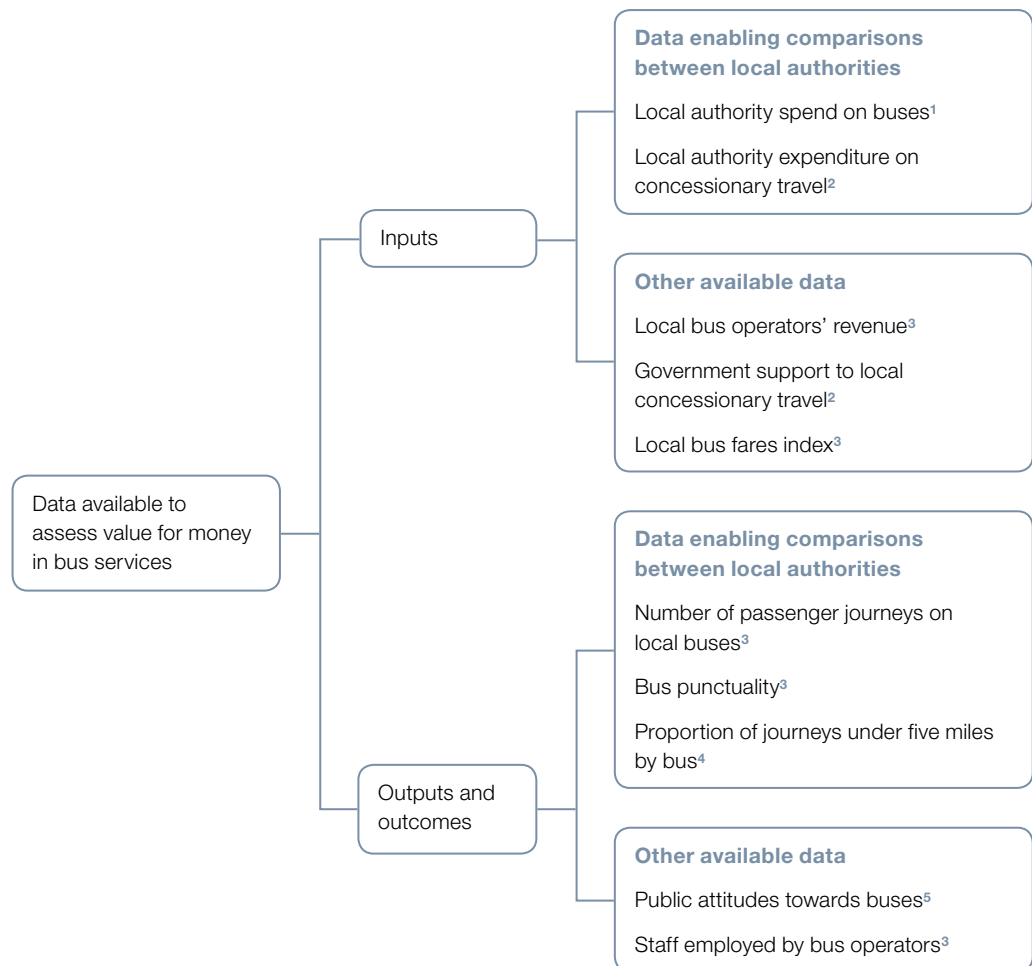
3.15 To illustrate the range of data sources that could help assess value for money, **Figure 14** overleaf shows available data on bus services, which is taken from five different sources. Similar levels of data exist for roads, although there are less in general for walking and cycling.

3.16 Although a wide range of relevant data sources exist these are not currently brought together for a systematic assessment of value for money, nor is all the data broken down at local authority level to allow comparisons between areas. At present, the Department uses data to monitor take-up of initiatives, such as the concessionary travel scheme; inform policy decisions; and for transport modelling purposes. Data generated by the Department are sometimes used by local authorities to assess local needs. For example, Staffordshire County Council used the Department's software and analysis to help identify the barriers and problems people encountered when travelling to two specific hospital locations.

²⁸ National statistics are produced to standards set out by the UK Statistics Authority in the National Statistics Code of Practice.

Figure 14

A wide range of data are available to assess value for money of bus services



NOTES

- 1 Department for Communities and Local Government financial data.
- 2 Department for Transport survey of Travel Concession Authorities.
- 3 Department for Transport Annual Public Service Vehicle survey.
- 4 Department for Transport National Travel Survey.
- 5 Department for Transport sponsored questions on the Office for National Statistics Opinions Omnibus Survey.

Source: National Audit Office analysis of data sources

3.17 In its new open data strategy the Department aims to make local transport data more transparent, and specifically identifies the importance of data for accountability, such as the value for money from investment schemes, and data on unit costs and levels of public subsidy. The strategy identifies benefits of increased data, including:

- **Transport service users:** by increasing choice and the ability for users to assess and evaluate value for money.
- **Citizens:** so they can see how public funds are spent, how the public services perform and can influence their representatives to affect provision of transport services.
- **Transport funders** (the Department and local authorities are not separately identified): so they can more clearly identify and influence comparative performance and enhance value for money.²⁹

3.18 The open data strategy does not explain how these groups will be able to realise these benefits. For example, all the above data are publicly available, but this does not automatically mean that citizens and transport service users will be able to draw together the current range of sources to form judgements on value for money. The strategy states that the Department will work with its partners to identify ways in which the data can be more useful to transport providers, users and policy-makers. Although arrangements for the provision and use of data are still evolving, there have been potentially significant initiatives to help identify and influence comparative performance:

- In March 2011, the Department published a local authority benchmarking tool on its website.³⁰ This allows local authorities to benchmark themselves against other similar authorities, comparing both spending levels and the services delivered, for example road condition compared with spending on road maintenance. The Department acknowledges that such comparisons do not provide a simple judgement of value for money, for example because high spending could be a response to poor road condition, but believes that it provides a useful basis for discussion and enables the Department to identify any unusual patterns.
- The Local Government Association is working with local authorities to develop an online tool, LGInform, to draw together key comparative data across all local authorities to enable performance benchmarking. LGInform is still under development but we understand from the Local Government Association that it has not yet been agreed which of the Department's data will be included in LGInform. The Department has stopped updating its own benchmarking tool because it believes this will be superseded by LGInform.
- There are also some sector-led initiatives to benchmark performance.³¹

²⁹ Department for Transport, *Open Data Strategy*, June 2012.

³⁰ Department for Transport, Local authority benchmarking tool, March 2011. Available at: www.dft.gov.uk/publications/local-authority-benchmarking-tool/

³¹ National highways and transport network performance benchmarking group and the Highways Maintenance and Efficiency Programme (HMEP), which includes a benchmarking and data workstream that is looking at ways for a local highway authority to compare its performance against that of others.

Oversight

3.19 The Committee for Public Accounts recommends that all accountability system statements should explain how departments will use data to monitor the overall performance of the system, how they will identify and understand outliers in performance, and when they will intervene.

3.20 The Department for Communities and Local Government accountability system statement outlines three scenarios:

- For services affecting an individual, the Local Government Ombudsman can investigate. All council services can be investigated including transport.
- To address failure across a number of services due to the corporate performance of a council, the Local Government Association provides voluntary peer review to support councils facing challenges. Ultimately, the Secretary of State for Communities and Local Government has the power to commission a corporate governance investigation and intervene directly.
- For the failure of a specific service, it is up to the relevant government department to put in place specific failure and improvement regimes.

3.21 In relation to this latter situation, the oversight regime in transport is different from other sectors such as health and education, where oversight bodies must identify whether local providers are meeting minimum standards. With transport services, the definition of service failure is not as clear because no minimum service standards are defined. For example, in statutory responsibilities to *consider the transport needs of the elderly and disabled* or *maintain highways and ensure public safety*, it is up to each local authority to decide what this means. Ultimately, the judgement on whether a statutory responsibility has been discharged can only be tested in the courts.

3.22 There are, however, regulators for particular modes of transport. Traffic commissioners license and register buses and can suspend licences or reduce the number of vehicles which an operator can run. This is designed to manage risks to road safety, but also to protect fair competition and to promote punctual and reliable registered services. Similarly, rail services are subject to the Office of Rail Regulation, which is the economic and health and safety regulator for the railways and which licenses train operating companies.

3.23 The Department's accountability system statement states that it will obtain early warning of failure or significant drops in local transport performance by engaging regularly with the local transport sector and monitoring transport statistics and other information to enable appropriate action to be considered. However, it does not provide specific details and the Department told us its approach varies depending on the funding stream. **Figure 15** summarises existing arrangements.

Figure 15

The Department's arrangements to monitor and intervene in individual funding streams

	Bid-based funds¹	Formula funds²
What the Department monitors	<ul style="list-style-type: none"> • The chief finance officer has provided written agreement to funding terms. • Quarterly spend, and certification of spending. • Annual external audit has validated those claims. • Local authorities evaluate the project impacts or benefits (historically not always insisted on). 	<ul style="list-style-type: none"> • The chief executive and chief internal auditor have provided written confirmation that "the conditions attached to... funding have been complied with".
Actions the Department can take	<p>The Department can cease, suspend or require repayment of all or part of the grant if the funding conditions are not adhered to.</p> <p>Note that the local authority is solely responsible for meeting any expenditure over and above an agreed maximum amount.</p>	<p>The Department can cease, suspend or require repayment of all or part of the grant if the funding conditions are not adhered to.</p>

NOTES

1 Local sustainable transport fund and local major transport schemes.

2 Maintenance block and integrated transport block.

Source: National Audit Office analysis of departmental arrangements

3.24 In practice, the Department has intervened in response to a small number of high-profile problems in transport services, rather than as a result of monitoring individual funding streams or statistical trends. This can happen in the case of specific projects where the Department has intervened in cases of failure. For example, although local authorities should carry the risk of project failures, the Department agreed to contribute £6 million per year to help reduce a £100 million debt so that a council could continue to deliver other local services.³² There are also instances of wider system failure (**Figure 16** overleaf) and where exceptional circumstances have led to intervention. An example of the latter is where, following the 2010-11 winter, the Department gave local authorities an extra £200 million to repair highways damaged by the 2010 winter weather, specifically to fill potholes.

³² Comptroller and Auditor General, *Improving public transport in England through light rail*, Session 2003-04, HC 518, National Audit Office, April 2004. The example refers to the Sheffield Supertram system, which ran into financial difficulties in its first year of operation, leaving its Passenger Transport Executive with debts.

Figure 16

The Department's response to salt shortages became more structured over four winters

2008-09

Following a decade of mild winters, local highway authorities' salt stocks for de-icing were relatively low and supply could not meet the immediate demand for restocking. Initially, some authorities arranged mutual aid but as the severe weather continued salt availability deteriorated further. Central government established an advisory national priority distribution system known as the 'salt cell', so that salt was distributed to those highway authorities most in need. This included a representative from the Local Government Association. At the same time guidance was issued on how best to manage the use of salt.

2009-10

An even more severe winter put pressure on salt supplies again so the Department reactivated the salt cell process. The Department also issued guidance recommending authorities significantly reduce their salt use by reducing coverage.

2010-11

In advance of a third severe winter, the Department tasked the Highways Agency with acquiring and storing 250,000 tonnes of salt to be used as 'salt of last resort' by local highway authorities. Due to the early onset of winter a further 250,000 tonnes was imported. The Department distributed around 100,000 tonnes to local authorities as part of a precautionary measure to bolster resilience. The Department also issued guidance on salt efficiencies, as well as implementing an online salt reporting system to monitor stocks around the country.

2011-12

In October 2011, the Department published a 'strategic salt protocol' on its website. This note highlighted the offer price for strategic salt and the protocols for its allocation to English highway authorities.

Source: National Audit Office review of Winter Resilience Review (2010, DfT); Lessons from the Severe February 2009 (2009, UK Roads Liaison Group) and departmental correspondence

3.25 The Department's consultation on rail devolution recognised that there may also need to be specific arrangements for an 'operator of last resort' if full responsibility for rail services is devolved in any areas. For example, in 2009 the Department had to intervene to set up Directly Operated Railways when National Express announced that it would not provide further financial support to the East Coast Mainline franchisee, primarily because its business plan was not sustainable against an economic downturn.³³

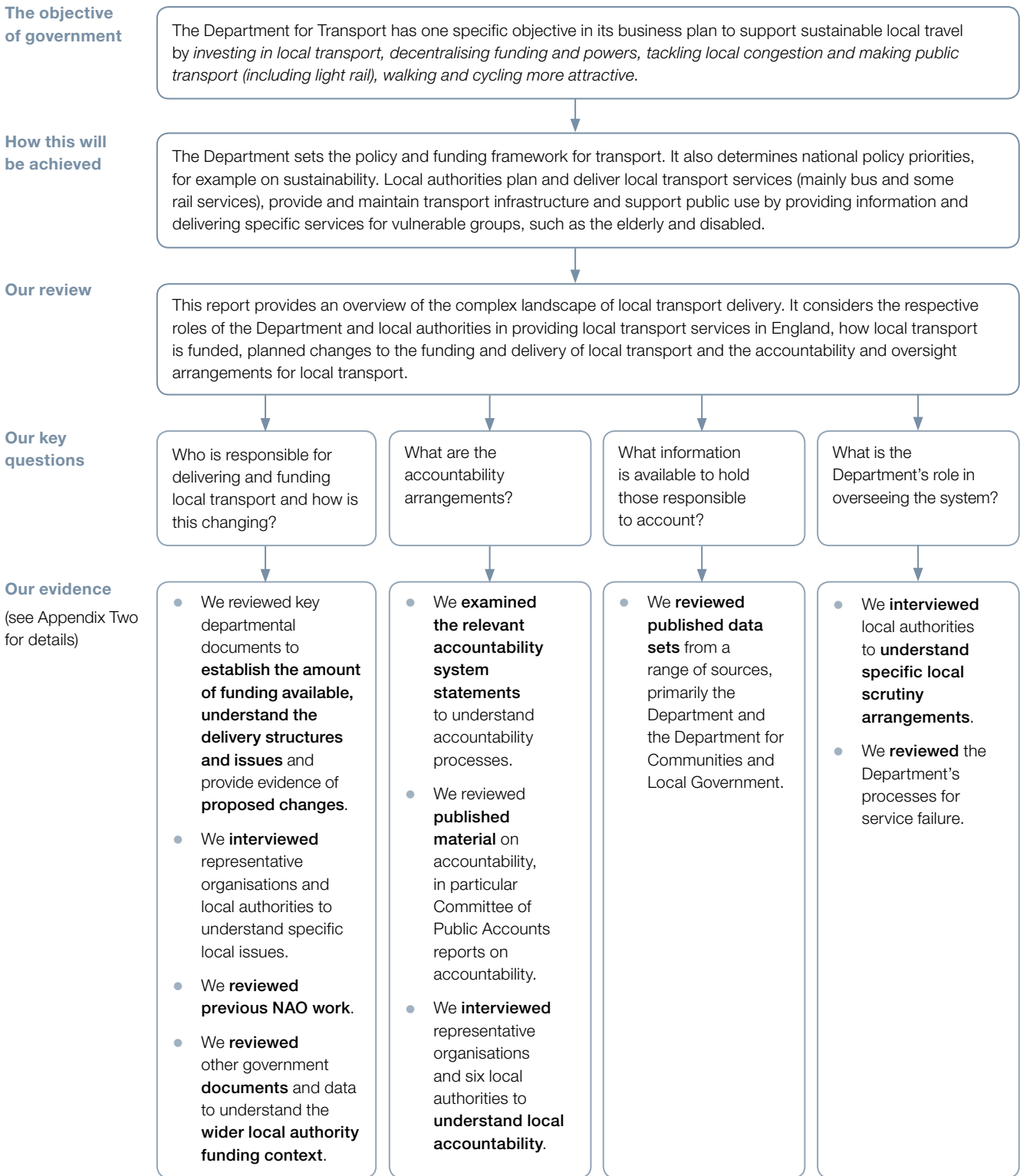
³³ Comptroller and Auditor General, *The Intercity East Coast passenger rail franchise*, Session 2010-11, HC 824, National Audit Office, March 2011.

Appendix One

Our audit approach

- 1** This review drew together evidence on the current landscape of local transport funding and the context within which local transport is delivered. We explored the roles and responsibilities of central and local government in both funding and delivering local transport services.
- 2** Our audit approach is summarised in **Figure 17** overleaf. Our evidence base is described in Appendix Two.

Figure 17
Our audit approach



Appendix Two

Our evidence base

- 1 Our independent review of the funding of local transport was completed following our analysis of evidence collected between June and August 2012.
- 2 Our audit approach is outlined in Appendix One.
- 3 **We reviewed who is responsible for delivering and funding local transport and how it is changing.**
 - We reviewed key Department for Transport documents to **establish the amount of funding available, understand the delivery structures** and provide evidence of **proposed changes**.
 - We **interviewed** the Association of Directors of Environment, Economy, Planning and Transport (ADEPT), the Passenger Transport Executive Group (PTEG) and local authorities (Bristol, Cambridge and Birmingham) **to understand specific local issues**. In the case of the local authority interviews the questions were specific to a particular transport project and covered:
 - local transport planning
 - the bidding process and overall funding issues
 - accountability
 - project delivery
 - evaluation of projects.
 - We drew on evidence **from previous NAO work** with a local authority context, specifically *The Department for Transport: Local Authority major transport schemes* (May 2011) and *Review: the NAO's work on local delivery* (March 2012).
 - We **reviewed** other government documents and data, predominantly from the Department for Communities and Local Government, to understand the **wider local authority funding context**. We used the Department for Communities and Local Government's data on local authority funding sources to **show levels of expenditure** on transport. We presented a number of different data streams from different sources together in order to identify trends in funding.

4 We looked at what the accountability arrangements were.

- We examined the relevant accountability system statements to understand accountability processes. We also reviewed funding documentation for the Department's transport funding streams to ascertain requirements on local authorities regarding the funding.
- We reviewed published material on accountability, in particular the Committee of Public Accounts report, *Accountability for public money*, Twenty-eighth Report of Session 2010-11, HC 740, March 2011.
- We interviewed the Association of Directors of Environment, Economy, Planning and Transport (ADEPT), the Passenger Transport Executive Group (PTEG) and local authorities (Manchester, Norfolk, and Brighton and Hove councils) to understand local accountability arrangements. Questions were focused on gaining locally specific examples of system-wide issues around local accountability and the impact on delivery of funding changes.

5 We reviewed what information was available to hold those responsible to account.

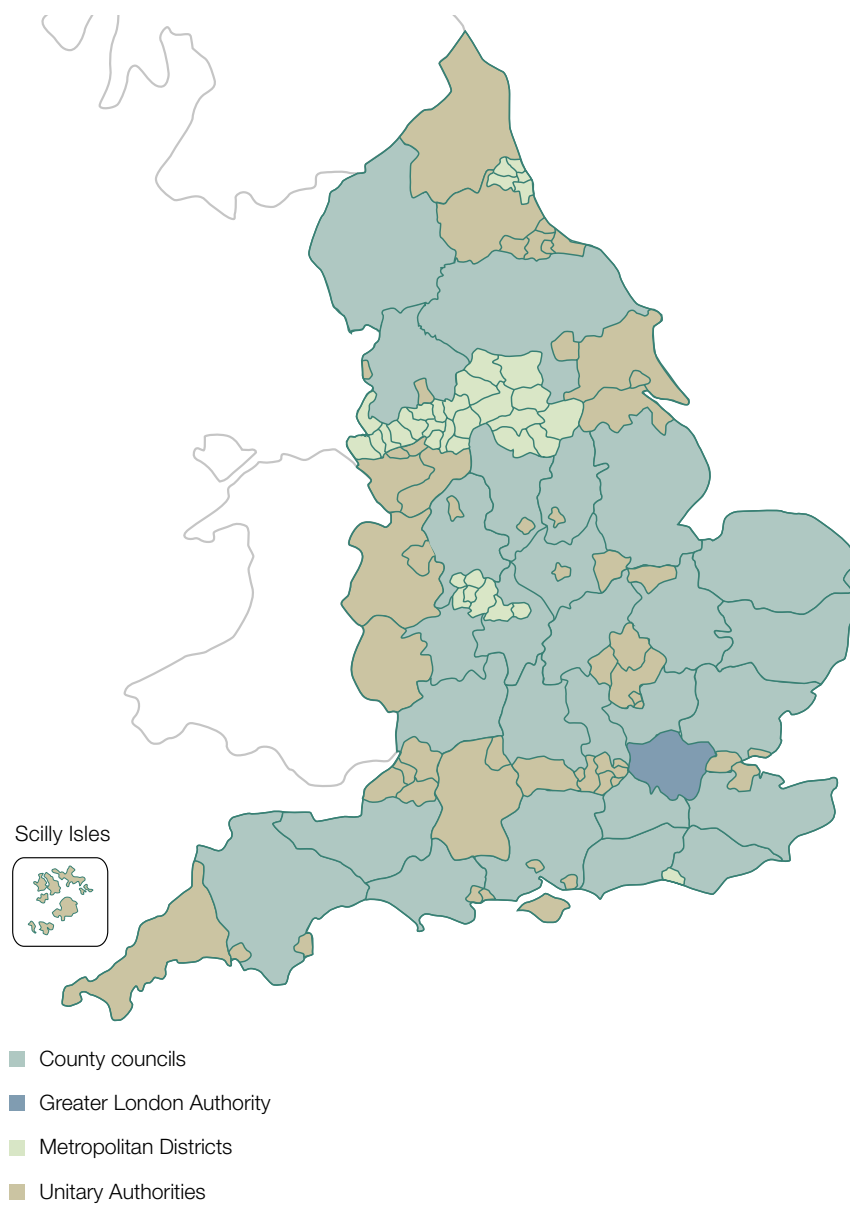
- We **reviewed published data sets** from the Department for Transport and the Department for Communities and Local Government. Much of the Department for Transport's published data are designated national statistics. The published data provided more than 100 data tables covering most aspects of public transport. We reviewed the data to determine which data were collected locally, and could therefore be compared across local authorities, and which data were only collected nationally or regionally. We also grouped the data into inputs and outputs/outcomes to get a feel for the balance of data available.

6 We reviewed what the Department's role was in overseeing the system and managing risk.

- We **interviewed** local authorities (Manchester, Norfolk, and Brighton and Hove councils) **to understand specific local scrutiny arrangements**. Questions were focused on gaining locally specific examples of system-wide issues around scrutiny and decision-making.
- We **reviewed key documents** such as the Department for Transport's and Department for Communities and Local Government's accountability system statements to determine the Departments' processes for service failure.

Appendix Three

Local authority areas in England



Source: *Communities and Local Government, Local Government Financial Statistics England No 22 2012, June 2012*

Appendix Four

Departmental funding to local authorities

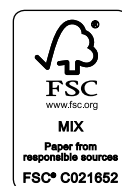
Responsible department	Funding stream	Amount in 2011-12	Total over 2011-12 to 2014-15	Purpose	How the funding is distributed
Funding specifically for transport					
Department for Transport	Local major transport schemes (capital)	£426 million	£1,834 million	Supports the delivery of transport schemes above £5 million, which might otherwise be unaffordable.	Competition-based with local authorities submitting bids for the Department to assess against criteria.
Department for Transport	Local sustainable transport fund (capital and revenue)	£77 million	£600 million	Funds sustainable transport projects that support economic growth and reduce carbon.	As above
Department for Transport	The green bus fund (capital)	£30 million	£31 million	Supports bus companies and local authorities to help them to buy new low-carbon buses.	As above
Department for Transport	PFI deals (revenue)	£199 million	£1,065 million	Supports projects on street lighting, highways maintenance and the Nottingham train extension.	As above
Department for Transport	Merseyrail grant (revenue)	£75 million	£317 million	Operation of passenger rail services on Merseyrail Electrics network.	Annual grant
Department for Transport	Tyne and Wear Metro (NEXUS) (capital and revenue)	£59 million	£231 million	Refurbish and upgrade the Tyne and Wear Metro.	Negotiated grant
Funding provided by the Department for Transport, that is not required to be spent on transport					
Department for Transport	Integrated transport block (capital)	£350 million	£1,440 million	Funding for transport improvements typically costing less than £5 million.	Allocated through a weighted formula based on need.
Department for Transport	Highways maintenance block (capital)	£804 million	£3,042 million	Funding support for local highways maintenance.	As above

Responsible department	Funding stream	Amount in 2011-12	Total over 2011-12 to 2014-15	Purpose	How the funding is distributed
Department for Transport	Better bus area fund (capital and revenue)	£70 million	£70 million	Incentivises local authorities to work with bus operators to improve the quality of services and increase passengers.	Competition-based with local authorities submitting bids for the Department to assess against criteria.
Other sources of central government funding that could potentially be spent on transport					
Department for Communities and Local Government (includes a £150 million contribution from the Department for Transport)	Growing places fund (capital and revenue) ²	£730 million (planned)	£730 million	Funding for local enterprise partnerships to address infrastructure constraints, promoting economic growth and the delivery of jobs and houses.	Allocated by weighted formula based on population and earnings.
Department for Communities and Local Government	Regional growth fund (capital and revenue) ²	£475 million (planned)	£2,400 million	Promote private sector enterprise and growth in areas most at risk of public sector cuts.	Competition-based with local authorities submitting bids for the Department to assess against criteria.
Department for Communities and Local Government	Formula grant (revenue)	£26,549 million ³	£96,841 million	Central government's contribution to local authority revenue budgets.	The majority is allocated by formula to local authorities.

NOTES

- ¹ This figure shows the main funding streams only. There may be other funding streams from other parts of government that are not ring-fenced, and hence could in principle be used to contribute to transport services.
- ² In 2011-12, the Department's £145 million contribution to the regional growth fund and £125m to the growing places fund was transferred to the Department for Communities and Local Government's budget. These funds are no longer included in the Department's budget.
- ³ The DCLG local government funding (£27 billion) includes London.

Source: National Audit Office analysis of funding streams



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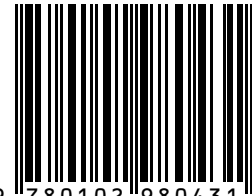
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