

AGENDA MANAGEMENT SHEET

Name of Committee Leader And Portfolio Holder Decision-Making
Date of Committee 5 October 2010
Report Title Response to the Consultation Paper on Local Transport Capital Funding
Summary The report seeks approval to submit the response, attached at Appendix A, to the government as the formal response of Warwickshire County Council to the consultation on local transport capital funding

For further information please contact:

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Would the recommended decision be contrary to the Budget and Policy Framework?

No.

Background papers

Consultation paper on Local Transport Funding issued by the Department for Transport on 24/08/10

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Tandy, Cllr Roodhouse, Cllr Saint, Cllr Whitehouse, Cllr Sweet, Cllr Williams
- Cabinet Member Cllr Farnell, Cllr Cockburn, Cllr Heatley, Cllr Wright
- Chief Executive
- Legal Sarah Duxbury - for clearance
- Finance Dave Clarke - reporting officer
- Other Chief Officers Paul Galland - reporting officer
- District Councils
- Health Authority
- Police
- Other Bodies/Individuals

FINAL DECISION YES

Leader and Portfolio Holder Decision-Making - 5 October 2010

Response to the Consultation Paper on Local Transport Capital Funding

Report of the Strategic Director, Resources and the Strategic Director, Environment and Economy

Recommendation

To approve that the response to the Local Transport Funding consultation, attached at **Appendix A**, is submitted to the Department for Transport as the formal response from Warwickshire County Council.

1 Background

- 1.1 On 24 August 2010 the Department for Transport (DfT) launched a consultation on Local Transport Funding. The focus of the consultation is proposed changes to the calculation and distribution of two capital blocks that are currently allocated to local authorities (outside of London) through individual formulae. These are the Integrated Transport (IT) Block, which provides capital funding for small transport improvement schemes, and the Highways Maintenance (HM) Block, which provides capital funding for maintenance schemes.
- 1.2 The consultation seeks views on ten questions in four areas. These are:
- Local transport capital block distribution formulae changes and data refreshing.
 - Merging bid-based Primary Route Network and Capital Detrunking Grants into the Highways Maintenance Block formula from 2011/12.
 - Preferred principles for allocating capital grant and supported borrowing funding for the local transport blocks.
 - Allocation of funding to Integrated Transport Authorities in Metropolitan areas and flexibility to vire funding between authorities in Metropolitan and Joint Local Transport Plan areas.
- 1.3 Although the consultation outlines mechanisms for allocating capital block funding, all funding available for allocation is under consideration as part of the Comprehensive Spending Review. Therefore, the quantum of funding will not be confirmed until after the 20 October Spending Review, and for individual authorities, the DfT anticipate capital allocations for the two transport block

grants will be announced as part of the Local Government Finance Settlement, which is expected in early December.

- 1.4 The deadline for responses to the consultation is 6 October 2010. The proposed response from Warwickshire County Council is attached at **Appendix A**. The Leader and Portfolio Holder for Environment and Economy are asked to approve that this response to the Local Transport Funding consultation is submitted to the Department for Transport as the formal response from Warwickshire County Council.
- 1.5 The remainder of this report outline the background to the ten consultation questions that form the basis of the proposed response.

2 The Formulae for the Integrated Transport Block and the Highways Maintenance Block

- 2.1 The formulae for the HM and IT Blocks are relatively complex and are based on a number of variables. The DfT believe that there is no overriding driver for simplification as the current formulae reflect local transport needs and local authorities can see their separate needs-based allocations for each block. As a result the potential changes in the consultation paper are relatively minor.
- 2.2 Condition data currently forms part of the HM Block formula, with more money being allocated for roads in a poor condition. It could be argued that this rewards authorities that spend their non-ringfenced HM Block allocation inefficiently, or on other priorities. The consultation therefore invites views on the option to remove condition data out of the HM Block formula leaving the road component based on road length alone. This change, if implemented, is expected to benefit the County Council.
- 2.3 The consultation also proposes that in future it would be possible to amend the IT Block formula to one more focused on carbon reduction and supporting the economy. The DfT seem supportive of this idea although the difficulty of obtaining this data is recognised.
- 2.4 The final element of the consultation on the formulae themselves is the extent to which the formulae should be updated using more up-to-date data and whether there should be transitional arrangements for those authorities that lose out from the change. The data for the IT Block was last updated five years ago and the data for the HM Block was last updated three years ago. The impact of this change, in the County Council, is expected to be neutral or positive.

3 Merging Capital Grants into the Block Formulae

- 3.1 Two stand alone capital grants from DfT in 2010/11 were allocated based on bids from local authorities. These grants are:

- Primary Route Network (PRN) Grant: for the purpose of strengthening work on capital assets on local authority parts of the PRN, mainly bridges;
- Capital Detrunking Grant: funds maintenance on roads recently passed to local authorities from the Highways Agency.

3.2 The DfT believes that small bid-based grants such as those described above reduce flexibility for local authorities to decide how they spend their funding and represent an administrative burden. Therefore, DfT proposes to merge PRN and Capital Detrunking Grants into the HM Block from 2011/12 and is seeking authorities' views on this proposal.

4 Principles for Allocating Supported Borrowing and Grant Funding

4.1 The capital blocks for local transport are currently paid out using two mechanisms:

- Capital grant: paid to local authorities by DfT.
- Supported borrowing: local authority allocations represent an amount that is added to the notional debt used in calculating the Capital Financing Relative Needs Formula (RNF) used by Communities and Local Government (CLG) to distribute Formula Grant.

4.2 In the last settlement the HM Block was allocated via supported borrowing. Those authorities that submitted joint Local Transport Plans received the IT Block fully through capital grant; whereas other authorities received IT Block as two-thirds supported borrowing and one-third capital grant. In the past capital grant has been prioritised towards IT Block payments to Integrated Transport Authorities (ITAs) and authorities preparing joint Local Transport Plans. This is because ITAs cannot, by statute, receive Formula Grant and therefore supported borrowing.

4.3 The consultation seeks views on the principles that can be applied to the allocation of capital grant and supported borrowing.

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Strategic Director, Resources

PAUL GALLAND
Strategic Director, Environment and
Economy

Shire Hall
Warwick
October 2010

Local Transport Funding – Response to the Consultation Paper from Warwickshire County Council

05 October 2010

Local Transport Funding Consultation
Department for Transport
Great Minster House, Zone 3/14
76 Marsham Street
London SW1P 4DR

Dear Sir,

Local Transport Funding Consultation Paper - 2010

Warwickshire County Council would like to thank the Department for Transport for the opportunity to respond to the above consultation. We have addressed the questions in the order in which they appear in the consultation paper.

Question 1 - The only change that the Department is considering in either of the two formulae in advance of this year's Local Government Finance Settlement is the option to disregard road condition in the maintenance block formula. What are consultees' views on this approach?

It is the view of this Authority that road condition data should be disregarded and that maintenance block should be allocated based on road length alone. It is considered this is the fairest way to allocate finite resources given the lack of ring fencing for most funding allocations.

Question 2 – What are consultees' views on possible longer term changes to the formulae, in particular on the comments above on potential developments to the IT Block?

Data for factors such as carbon emissions and cycling will be expensive to obtain and are likely to be unreliable indicators. It is considered, by this Authority, that the disbenefits of adding additional indicators far outweigh any potential benefits.

Question 3 – Do consultees agree that there should be a data refresh?

It is important that where data is used to determine funding allocations it should be reasonably up to date. A data refresh is therefore supported.

Question 4 – Do consultees have any comments on the refreshed data as set out in Annex G?

We have no specific comments to make on the refreshed data.

Question 5: Do consultees wish to see transitional arrangements to mitigate the impact of the data refresh, and if so, what should these be?

We strongly believe that in order to represent need accurately and fairly, the formulae for both the IT and HM Blocks must be run using accurate and up-to-date data. Any consideration of transitional arrangements to mitigate the effects should only be considered when there are significant levels of contractually committed cost that authorities' will incur, irrespective of the level of funding they receive.

We do not believe this is the case for capital funding of local transport. By their very nature capital projects funded through this mechanism are relatively small and are usually completed within the financial year. The work is primarily contracted out to third parties on a project by project basis, resulting in a relatively small proportion of capital costs being committed for several years ahead. Therefore the justification for transitional arrangements – that authorities cannot scale down or up their operations in time - does not hold. In these circumstances we do not support transitional funding, especially as it would come from scaling back allocations for authorities who have been “under funded” because out-of-date data has been used in the past.

It should also be pointed out that the impact of any updating of the underlying data will be more than outweighed by the impact of any changes to the quantum of funding available as the result of the Government's plans to close the deficit in the public finances. Any transitional arrangements for data changes will therefore be largely superfluous.

Question 6 – Do consultees agree with the Department's approach for merging funding for structures on the Primary Route Network and for detrunked roads within the maintenance block formula from 2011/12?

For the reasons articulated, in the consultation paper, the Department's approach is supported by this Authority.

Question 7: Would local authorities prefer to receive funding as grant or supported borrowing, and what are consultees' views on the priorities for paying out grant if there is a mix of grant and supported borrowing?

Our strong preference is to receive funding as grant rather than supported borrowing.

The current four-block model for providing revenue support for capital financing costs incurred as a result of taking up supported borrowing is wholly inadequate. For an authority like Warwickshire the “actual” support received by the time scaling factors, relative resource amounts, judgement and damping have been taken into account is less than 7% of the additional costs. We have argued strongly in response to the consultation on the distribution of Formula Grant that the likelihood of reduced resources makes it more important than ever that funding allocations are made using a robust distribution methodology. We, along with almost all of local government, have consistently opposed the continued use of the Formula Grant distribution mechanism, the Four Block Model, as it is not fit for purpose. Elements of the model based on judgement can effectively wipe out the distribution of funding indicated by evidence-based formulae.

As a consequence of the way the formula Grant system works there is a clear financial benefit, to authorities, to receive capital funding as grant rather than supported borrowing. Therefore any split between supported borrowing and capital grant must be fair.

Therefore we would argue that capital grant should, in the first instance be allocated to spending that is less discretionary. A level of maintenance spending is, by its very nature, unavoidable. Also the life of many maintenance treatments is less than 25 years. Borrowing

is more applicable to improvements which generally will add to the asset and have a life of more than 25 years, as this is the period of time which the Formula Grant system purports to allocate grant for the capital financing costs of supported borrowing. For both these reasons we believe there are strong arguments to justify that the majority of capital grant funding highway maintenance.

Also we believe there should be no difference in the type of funding provided due to the nature of the authority or how its transport functions are organised. We believe the prioritisation of capital grant towards IT Block payments to Integrated Transport Authorities (ITAs) and authorities preparing joint Local Transport Plans should stop.

Authorities like Warwickshire and, more importantly, our council taxpayers should not be penalised (by having allocations as supported borrowing, funded via council tax, and not capital grant) because of the different structures for delivering local transport services in other parts of the country. If ITAs have to receive all their capital funding as grant then this should result in reduced capital grant allocations to those authorities that are part of the ITA arrangement and not spread across all authorities.

Question 8: What are consultees' views on the option to allocate the IT and maintenance blocks solely to Integrated Transport Authorities in the six Metropolitan Areas?

We have no strong opinion either way on this issue and would ask that the views of the ITAs and their member authorities are taken into account.

Our only comment of significance would be that whatever option is chosen it has no impact on either the level of allocations or the type of financial support for capital received for authorities that are not part of ITAs.

Question 9: Should Metropolitan Areas and other areas producing Joint Local Transport Plans be allowed to retain the flexibility to vire IT Block funding between authorities as permitted in the last funding settlement?

We have no strong opinion either way on this issue and would ask that the views of the ITAs and their member authorities are taken into account.

Our only comment of significance would be that whatever option is chosen it has no impact on either the level of allocations or the type of financial support for capital received for authorities that are not pat of ITAs.

Question 10: Do consultees have any other issues they would like to raise about the calculation or distribution of the integrated transport or highways maintenance blocks, including on the overall size of the blocks relative to other capital funding and relative to each other?

Given anticipated financial constraints we recommend that resources should be prioritised on maintenance allocations and that allocation of grant should shift from integrated transport to maintenance. It is acknowledged that block allocations are not ring fenced and that Authorities are free vire resources. However, a change to allocation priorities by DfT will be a useful reinforcement at the local level of the priority that should be given to maintenance whilst resources are constrained.

We would also like to iterate our comments made in response to the specific questions, that allocations should be made according to need and that the measurement of need should not be open to distortion as a result of local policies on the allocation of available capital spend by individual local authorities.