

SOUTH EAST ENGLAND REGIONAL TRANSPORT BOARD

Date: 8 May 2006

Subject: **Major Scheme Funding – consultation response**

Report of: Planning Implementation Director
South East England Regional Assembly

Recommendations:

It is recommended that the Regional Transport Board respond to the consultation, highlighting:

1. The practical difficulties that local transport authorities are likely to have in raising the minimum 10% contribution, particularly for smaller authorities;
 2. The potential risk that the development of infrastructure proposals may be thwarted putting at risk delivery of planned levels of development;
 3. Support for the proposal to provide a more secure funding base for scheme preparation costs;
 4. The importance of providing local transport authorities with a consistent policy context within which major proposals are developed;
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1. Purpose of the Report

- 1.1 To agree a response on behalf of the Regional Transport Board to the Department for Transport's (DfT) consultation on Local Authority Major Scheme Funding.

2. Introduction

- 2.1 The Board has provided advice on priorities for investment as part of its work on the Regional Funding Allocation submission. As part of this work it has identified a forward programme of proposals that should be taken forward through to delivery. A critical consideration in delivering this forward programme is the ability of local transport authorities to develop the detail of a major scheme (those costing in excess of £5m) to the point at which construction is ready to begin.

- 2.2 There is growing evidence, from across the region, that the current arrangement for funding the work to develop a proposal is a barrier to delivery. In April 2006 the DfT launched a consultation on an alternative approach to funding the development of major schemes.

3. The Consultation Document

- 3.1 The argument underpinning the consultation is that under the current arrangement a local transport authority does not hold a clear financial stake in the progression of a major scheme, except in terms of preparatory costs and any shortfall in grant repayment. The Government contends that if the authority has a clearer financial stake in a particular scheme this will promote better delivery and financial control.

3.2 Scheme Funding

- 3.2.1 The consultation proposes that in future a minimum of 10 % (in the case of light rail 25%) of the gross cost of a scheme would have to be covered via local contribution. The Department would not support a proposal in the absence of this local contribution. The contribution could come from within the authority's own resources or in the form of funding from a third party such as a private sector contribution.

- 3.2.2 The document intimates that proposals with a higher local contribution would have a greater chance of support. It also intimates that a higher level of contribution might be sought for schemes that have wider benefits; for example schemes that support regeneration or economic development objectives. This appears to be based on the presumption that the existence of wider benefits may increase the scope for funds to be raised locally to support delivery of the proposal. This appears to be, in part, an attempt by the DfT to seek contributions toward infrastructure schemes from other Government departments.

- 3.2.3 In addition the DfT are proposing that in future all schemes will have to have a quantified risk assessment undertaken as part of their development. At present such an assessment is only required for schemes in excess of £20m.

- 3.2.4 It is proposed that a risk layer will be added to the cost of all projects [equivalent to approved budget = quantified cost estimate + additional risk layer (risk layer = 50% of optimism bias)]. An authority would be expected to fund 50% of any costs incurred within this risk layer. For increases over and above the risk layer an authority would be expected to fund 100% of the costs, unless a case could be made to DfT to justify the over runs. The practical implications of this are illustrated in Annex A.

3.3 Preparatory Costs

- 3.3.1 At present the preparatory costs associated with a major scheme are funded by an authority from within their own resources, with the authority able to claim back retrospectively no more than 60% of the costs once a scheme has been approved by the DfT. More recently some assistance with preparatory costs has been given by Department, particularly to smaller authorities, and those authorities taking forward recommendations arising from the programme of multi modal studies.
- 3.3.2 The document argues that under this arrangement the Department has no early warning of potential claims for the recovery of preparatory costs incurred. It goes on to argue that this causes budgetary difficulties for DfT and also creates uncertainty for individual local transport authorities in so far that they have no guarantee that a claim to recover preparatory costs will in actual fact be met by the Department. It is also argued that this can mean that an assessment as to the value for money of a scheme is often made on an incomplete basis.
- 3.3.3 The proposal being put forward is that the DfT would contribute to the preparatory costs for all schemes, including those within the ITP block and maintenance. Once a scheme was accepted by the DfT they would fund 50% (uncapped) of all preparatory costs. All other preparatory costs would have to be funded by the local transport authority, but the costs could count as part of the 10% contribution to the gross cost of the scheme. This arrangement would have the effect of ensuring that preparatory costs are included in the economic appraisal of the scheme.

3.4 Transitional Arrangements

- 3.4.1 The new arrangements would not apply to existing schemes with full approval however requests for preparatory costs will continue to be assessed. Those proposals with conditional approval at July 2005 would not be forced into the new system. However any such proposals that did not comply with the 10% contribution rule would not qualify for preparatory costs under the new system. All new major scheme bids would be required to follow the approach in the consultation draft, including, it would appear, those submitted at the recent LTP submission in March this year.

4. Discussion

- 4.1 The stated aim of the consultation document is to incentivise local transport authorities to manage risk more effectively. The proposals set out to achieve this through the requirement for an authority to provide a minimum of 10% of the gross cost of the scheme from local sources of funding.
- 4.2 The practical implications of such an arrangement appear not to have been adequately thought through by the Department. Identifying such a sum of money

- from within the budgets of the smaller local transport authorities, particularly the unitary authorities, is likely to be impossible unless an authority is prepared to divert resources from other services. The implication therefore is the arrangement would thwart the ability of local transport authorities to take forward the investment programme required to manage their existing transport infrastructure or in support planned levels of development. Failure to deliver on the investment programme may in turn have an adverse impact on delivery of targets set out in published documents. Failure to deliver against set targets may in turn lead to a reduction in the funding made available to an individual authority thereby creating a vicious circle of decline in investment in major schemes.
- 4.3 Although the document identifies the potential to utilise funds from other sources as part of the 10% contribution, there are practical issues associated with such funding, particularly in relation to the timing of contributions from third parties, which may serve to frustrate the ability of an authority to bring forward a scheme at the right time. Again the practical implication is that infrastructure essential to support the delivery of planned levels of development may be delayed.
- 4.4 It could be argued that the Department's objective of managing risk is more likely to be achieved through the proposal set out in the document to limit the Government's contribution to any cost over run.
- 4.5 Notwithstanding the concerns outline above, the proposal in relation to the Government contribution to preparation costs is to be welcomed. It will provide greater certainty and clarity that should assist in bringing forward schemes to delivery.
- 4.6 However there remains a concern that this must be complimented by the Department being more consistent in terms of the national policy context. The history of the development of major schemes is littered with examples of local authorities developing proposals in good faith in response to a particular policy context, only for the national policy context to be changed at a later date. The practical implication of this being resources wasted in the development of proposals that are then cancelled which ultimately leaves an identified problem unaddressed.
- 4.7 The policy framework provided at a regional level through the South East Plan provides a clear context within which planned levels of development should be taken forward. In providing its advice to the Government on future priorities for transport investment the Board has set out a programme of major schemes that need to be delivered in support of the South East Plan.
- 4.8 In responding to the region's advice on transport priorities the Government must provide greater certainty in terms of the national policy context. If it does not provide this greater certainty local transport authorities will not be incentivised to invest their own money in the development of schemes for which there is a clear and unambiguous need identified at the regional level.

5. Conclusion

- 5.1 Set against the need for investment in infrastructure to support delivery of the spatial strategy the proposed funding arrangement for major schemes appears to offer some advantages.
- 5.2 However in seeking to incentivise local transport authorities it is clear that the Department is in danger of creating a situation in which it will be more difficult to bring forward the development of schemes that are identified as a regional priority for investment. Specifically the requirement for a minimum of 10% of the gross cost of a new major scheme is likely to serve to thwart the ability of smaller authorities to develop a major scheme. It may also cause a wider problem with scheme delivery as local transport authorities struggle to identify the funding arrangements for the 10% local contribution.

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WORKED EXAMPLE OF THE PROPOSED CHANGES

Scheme quantified cost £60m

Optimism bias of 50%

Risk Layer £15m

Approved Total Cost £75m

LTA Contribution £6m
(10% Quantified cost)

Anything above £60m, would require 50% funding from LTA.
Anything above £75m, would require 100% funding from LTA.

