

**SOUTH EAST ENGLAND  
REGIONAL TRANSPORT BOARD**

Date: 27 October 2006

Subject: **Regional Funding Allocation: Developing the Process**

Report of: Planning Implementation Director  
South East England Regional Assembly

**Recommendations:**

It is recommended that the Board agree to submit the response set out in Annex A.

**Purpose of Report:**

To update the Board on the outcome of the RFA follow-up meeting with the Department for Transport.

To consider the consultation by the Department for Transport on Developing the Process.

**Key Issues:**

The Regional Funding Allocation process has been widely acknowledged to have been successful in terms of process and outcomes for the South East relative to the limited resources available. The Government is now inviting views from regional and other stakeholders on how to develop and improve future rounds of this process, the next round of which is likely to take place during 2008.

## **1. Background**

- 1.1 All regions were requested by Government to submit advice on regional priorities for housing, economic development and transport by 31 January 2006. As part of the overall process, this Board agreed the regional priorities for transport based on the output of the region's pioneering prioritisation methodology.
- 1.2 The Government responded to the region's transport Advice in July 2006, where it announced that it had accepted it in full for the period 2006 to 2011. In addition it set out that it looked forward to receiving the region's further advice on transport priorities for the period 2011 to 2016. A consultation process was also announced, the purpose of which was to seek feedback on the operation of the RFA process to date, and elicit views on how to enhance and improve the operation of future RFA rounds.

## **2. RFA Follow Up Meeting**

- 2.1 As set out in the Secretary of State's response to the region's advice on transport priorities, a "follow-up" meeting has been held at official level at which issues arising out of the RFA process were discussed. The key points arising from the meeting were:
  - DfT indicated that cost increases - such as those associated with Hindhead and Southerham-Beddingham – would ultimately need to be absorbed from within the RFA total.
  - DfT accepted the point that if the RFA budget is expected to "absorb" increases in the cost of schemes then there must be an opportunity for the region to feed into Ministerial submissions on proposals that include a request to authorise a cost increase.
  - As part of the arrangements for monitoring expenditure/budget costs DfT are proposing to give greater emphasis to the collection of financial information from local authorities (and ultimately HA). DfT collect such information on a quarterly basis from the LTAs.
  - There is a review of HA cost estimating processes underway at present - the Nichols inquiry. The expectation is that the inquiry will finish by end of November and that there will be a period of reflection before applying the outcome to current HA schemes. The practical outcome is that there may be some increase in the cost estimates of HA schemes.
  - The proposal is that there will be more regular liaison with the region to discuss and monitor the programme. The initial suggestion is that these will be held every six months. The intention of these liaison meetings would be to identify cost changes that are potentially significant on which the view of the RTB might need to be taken. All were agreed that there

is a need to develop a pragmatic approach which avoids building in unnecessary delay to delivery.

- The expectation is that the region will be asked to provide updated advice on funding allocations in Summer 2008.
- DfT are clear that in future they will not accept proposals for major new schemes unless they have a view on them from the region.
- There was an extended discussion on rail funding. The proposed response to the consultation on the way forward for the RFA process develops our thinking in light of that discussion.

### **3. Developing the Process**

- 3.1 A draft response to the consultation on Developing the Process is set out in Annex A. This draws upon discussions that have taken place at both the Board and officer level following the submission of the original advice.

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## **REGIONAL FUNDING ALLOCATIONS: DEVELOPING THE PROCESS**

### **RESPONSE OF THE SOUTH EAST ENGLAND REGIONAL TRANSPORT BOARD**

#### **1. What are your views on the process as a whole?**

- 1.1 The Regional Funding Allocation (RFA) process as a whole is supported. It has enabled the region to use the evidence base developed in support of the Draft South East Plan and the Regional Economic Strategy to identify regional priorities for investment. It has also allowed the region to consider the relationship between investment in transport infrastructure and public sector investment in economic development and housing.
- 1.2 Although the RFA process is still at a relatively early stage in its development it is clear that it is already have a positive effect in terms of encouraging a step change in the way in which major schemes are identified and put forward for funding. In making the level of funding available more transparent the Government has introduced greater realism to transport planning. This should result in schemes being developed that are ultimately more deliverable. It should also result in more innovative and cost effective solutions being developed that ultimately secure wider public sector policy objectives.
- 1.3 The RFA process should be retained and developed further so that it forms an integral part of the national Spending Review process. Future funding allocations for national and regional investment programmes must reflect the fact that construction price inflation is generally higher than the general rate of inflation. Failure to address this issue will mean that public sector investment will be cut in real terms year-on-year. The impact of the 2012 London Games is only likely to aggravate this disparity, especially in the South East.

#### **2. How could the guidance issued to regions in July 2005 have been improved? Is any further guidance needed for future rounds of regional advice?**

- 2.1 The guidance issued to the regions was broadly fit for purpose. Further clarity is required as to the basis for cost estimates used in the allocation of funds; whether the estimate should be quoted in “cash” terms or discounted terms. Further guidance should also be given as to how proposals to use funding mechanisms such as PFI or Prudential Borrowing should be taken into account by the regions.

- 2.2 There is a need for any future guidance to make it explicit that it is appropriate to use funds from the RFA to invest in public transport, and in particular to invest in rail infrastructure. It would also be helpful to make it explicit that it is appropriate to use funds to support investment in “smarter choices”. The guidance should clarify that it would be acceptable for the region to advise that a proportion of the RFA is redistributed to local transport authorities as part of the integrated transport block element where the region feels that this is appropriate to support the development of “smarter choices”. The guidance should allow consideration to be given to using RFA to, in effect, capitalise the revenue element of some public transport services.
- 2.3 There is a need for any future guidance to set out more clearly the proposed arrangements for monitoring and managing the forward programme of regional priorities. Further to the RFA follow-up meeting held with the region the Regional Transport Board is broadly content with the proposals put forward to date by the Department for Transport but these should be available more widely.
- 2.4 It is understood that the proposal is to use the quarterly returns provided by local transport authorities to the Government Office will form the basis for monitoring programme expenditure. The results of this monitoring will be shared with the Board’s secretariat. In keeping with established principles, reports to the Board will be made on an exception basis, with only major differences in cost estimates that will have a significant implication for the rest of the forward programme being reported.
- 2.5 It is essential that future guidance makes it clear that prior to the Department for Transport seeking Ministerial approval for a significant cost increase on a Highways Agency scheme of regional significance it will first seek the views of the region. This is required because any such cost increase will have to be met from the RFA and consequently may have an implication for the rest of the forward programme.

### **3. Should the Department be more prescriptive about the way in which regions are invited to develop advice? If so, how?**

- 3.1 The benefit of the guidance in its current form is that it enabled the regions to develop governance arrangements that reflect and build upon existing regional structures. This has enabled governance arrangements to be established that, in general, commanded support amongst stakeholders.
- 3.2 In South East England we were able to build upon the work undertaken with the pilot Regional Transport Board to mainstream the Board and its work. While the Chairmanship and secretariat functions for the Board have now transferred to the Regional Assembly, the Board remains a partnership Board. In addition to the different constituencies represented by Regional Assembly, the Board also includes representatives from SEEDA, GOSE, the Highways Agency, Network Rail, Confederation of Passenger Transport,

economic and the environmental sector. In addition a protocol has been established that provides the Cabinet Member for each Local Transport Authority with the right to address the Board on matters relating to their particular authority. The Board operates in the public domain thereby ensuring that its advice to Minister is both transparent and robust.

**4. Particular difficulty was encountered in some regions in dealing with very large schemes, and also with schemes of mainly local rather than regional interest. Are there better ways of handling such schemes within the RFA process?**

4.1 In developing its advice the South East England Regional Transport Board had to deal with a very large scheme: the A3 at Hindhead.

4.2 There remains a need for the Government to review the designation of the Highways Agency network into national and regional routes. It can be argued that routes such as the A3 and A34 corridors have a national significance given their importance in linking the international gateways at Southampton and Portsmouth to the rest of the UK. The review of the designation of Highways Agency routes should be undertaken in partnership with the Regional Planning Bodies to ensure that the linkages with the statutory Development Plan are properly reflected. The recent consultation by the DfT on the role of the Highways Agency in the plan making process reinforces the importance of ensuring a better alignment between the designation of individual routes and the relevant regional spatial strategy.

4.3 There should be a mechanism within the RFA process that enables a region to seek additional funds over and above its normal allocation in order to deliver a very large scheme. Such an arrangement would need to be on a case by case basis and it would need to be accepted that the circumstances in which additional funds would be made available would be on an exceptional basis. Nevertheless there may be occasions where the scale of the problem to be addressed is of such magnitude that a very large scheme is the only practical solution. The onus would need to be on the region to present its case to the Government as part of its submission outlining regional priorities.

4.4 The Board is aware that concerns exist that the RFA process might preclude schemes of a more local nature being prioritised for funding. The experience to date in South East England is that the prioritisation methodology used to inform decision makers does enable schemes of a more local nature to emerge as priorities for funding. This is because the policy compatibility questionnaire used to provide information for the prioritisation methodology is focused on identifying outcomes.

4.5 The Government may wish to reconsider the current threshold for “major” schemes as an alternative way of handling schemes of a more local nature. An increase in the current threshold for major schemes from £5m to £10m may address this issue. However the implications of such a change for the

remainder of the transport budget would need to be considered in greater detail.

**5. The transport funding allocations comprised the amounts budgeted by the Department to cover :**

- **Local transport schemes for which local authorities seek specific grant from central government (generally those schemes over £5m); and**
- **Highways Agency schemes of regional rather than national importance**

**Should this coverage be extended to cover other types of transport spend, or reduced, in a future round of advice? If so how? In particular, should elements of rail expenditure be included within regional funding allocations? If so which ones, and how could this best be achieved?**

- 5.1 The work on implementation within South East England is at the leading edge of spatial planning. It has highlighted consistently the importance of aligning funding streams towards a common set of objectives as being critical to achieving efficient and effective delivery on the ground.
- 5.2 The existence of different funding streams to support delivery of planned growth is not in itself an insurmountable problem, although it could be argued that it introduces a level of unnecessary complexity to the task of delivery. The key issue is to ensure that the funds available are targeted at the priorities for investment and that where separate funding streams currently exist, their allocation is co-ordinated more effectively within a regional perspective.
- 5.3 Therefore in taking the RFA process forward the Government should consider combining the various transport related funding streams – RFA, Community Infrastructure Fund, Growth Area Fund, Transport Innovation Fund – into a single transport fund for the region.
- 5.4 Were such a fund created the opportunity would exist to use the work on prioritisation to promote a new approach to the allocation of funds available for infrastructure investment, that comprises three steps:
- Identify the infrastructure required to support delivery of planned growth;
  - Prioritise the list of infrastructure requirements;
  - Provide guidance/advice on the allocation of the funds available in accordance with the prioritised list of infrastructure requirements
- 5.5 The region has already adopted this approach in respect of its advice on investment in transport infrastructure. For example the region initially

prioritises infrastructure on the basis of the outcome focused information collected from delivery agencies. A judgement is then made as to whether the funding for a particular scheme is most appropriately found from the RFA or from another funding stream, including potential contributions from the private sector.

- 5.6 Such an approach enables the Board to give guidance to delivery agencies as to the most appropriate source of funding for their particular proposal. Where a number of potential funding streams exist this avoids the need for duplicate bids to be developed. Extending this concept further, the creation of a single transport fund for the region along the lines suggested above would simplify procedures while retaining the rigour necessary to ensure that the funds available are targeted at measures consistent with the statutory Development Plan. The net outcome would be to improve the speed of delivery.
- 5.7 Intellectually there is no question that there is a need for the decisions affecting rail expenditure to better reflect regional priorities. However it is accepted that the ability to disaggregate elements of the rail budget to the regional level is fraught with practical difficulties the majority of which are not easily surmountable.
- 5.8 The key to a potential solution again lies in the identification by the region of a clear set of regional priorities for transport investment; one that includes major capital investment in rail infrastructure.
- 5.9 The South East England Regional Transport Board has adopted such an approach. It enables the relative priorities of major capital investment in rail infrastructure to be assessed alongside all other modes. Such an approach is necessary if only to fully appreciate that a decision on whether or not to invest in any one mode inevitably has a consequence for other modes of transport. For example a failure to invest £100m in a rail scheme may ultimately require a more expensive, and less sustainable, roads based solution.
- 5.10 An inclusive of prioritised transport investments provides that the basis for the region providing advice to Government on potential options to be included within the invitations to tender issued as part of the franchising process. It is accepted that the assessment of franchise bids is one that has a high degree of commercial sensitivity associated with it. However, it is not impossible to envisage a situation in which the views on options of regional significance could be discussed with regional partners without compromising the assessment process.
- 5.11 The benefits of this approach to dealing with investment in rail infrastructure is that it potentially enables public sector money in the form of the RFA to lever in additional investment from the private sector into rail infrastructure.
- 5.12 While the focus of these proposals is on capital investment in rail infrastructure there may potentially be situations in which investment in the

provision of additional train services negates the need for capital investment in additional highway infrastructure. Such an approach is entirely consistent with the “Manage and Invest” strategy that underpins the Regional Transport Strategy and reinforces the urgent need for the Government to be conduct an urgent review of the way in which revenue investment in transport services is provided for. The Regional Transport Board would welcome the opportunity to discuss this issue at greater length with the Government.

**6. Should the Department be more prescriptive about which bodies should be involved in the preparation of advice and what consultation should take place? If so how?**

6.1 The infrastructure priorities required to support delivery of planned growth are identified as part of the statutory plan making process associated with the preparation of the Draft South East Plan. The RFA process is not about reviewing the list of infrastructure requirements per se, but prioritising them within an indicative amount identified by the Government.

6.2 The preparation of the Draft South East Plan has been the subject of the largest and most comprehensive public consultation and engagement exercised ever undertaken at a regional level. It would be inappropriate and indeed unnecessary to replicate this process as part of the RFA.

6.3 However it is accepted that the advice submitted by the region to the Government commands widespread support. The Regional Transport Board is a partnership board that enables views on the relative merits of individual schemes to be considered in an open and transparent way. Its mixture of representatives ensures that the views of different sectors interested in sustainable development are part of the decision making process.

6.4 It would be inappropriate for the Department to be more prescriptive about which bodies should be involved. As previously noted, the benefit of the guidance in its current form is that it has enabled the regions to develop governance arrangements that reflect and build upon existing regional structures.

**7. Are there ways in which the Department can further encourage the alignment of transport advice with regional economic, spatial and other strategies?**

7.1 This question has already been addressed in our response to question 5.

**South East England Regional Transport Board  
October 2006**