Local transport governance and finance in England, 2010-

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Section Business and Transport

This note explains the structures and reform of local transport governance and finance in England following the 2010 General Election.

The Conservative-Liberal Democrat Coalition Government, which came to power in May 2010, inherited a system of local transport organisation and finance from the Labour Government that it judged to be overly-centralised and unnecessarily complex. Consequently, it announced plans to devolve powers to local bodies to plan and fund their own transport developments, using both grant from central government as well as money raised elsewhere, such as from the private sector.

The Government now expects major local transport schemes to be delivered by Local Enterprise Partnerships (LEPs) and local authorities either alone or as part of new governance arrangements such as Combined Authorities and City Deals.

The various streams of local transport funding were consolidated into four main grants or allocations after the 2010 election. Funding for major local transport projects will be devolved to LEPs from 2015 as part of the Single Local Growth Fund recommended by Lord Heseltine.

Information on local transport under the previous Labour Government can be found in a separate note, SN4351, available on the Transport Topical Pages of the Parliament website.

Contents

1 The system inherited from the Labour Government, May 2010

The 1997-2010 Labour Government fundamentally overhauled the system of local and regional transport governance and finance in England. The details of what Labour did can be found in HC Library standard note SN4351.

1.1 Regional structures

In summary, Labour increased the regional voice in transport decision-making, building structures around the pre-existing Government Offices (GOs) for the regions. Within each region, a number of organisations lead the development of local and regional transport policy. The three key overarching bodies in each region (outside of London) were the Government Office, the Regional Assembly and the Regional Development Agency, whilst the local authorities themselves were generally responsible for implementing transport schemes (except rail and trunk road schemes which are the responsibility of Network Rail and the Highways Agency respectively). Each region generally had a mechanism or board by which these bodies interacted and made decisions.

Eight Regional Development Agencies (RDAs) were established under the *Regional Development Agencies Act 1998*, and were formally launched on 1 April 1999. The ninth, in London, was launched in July 2000 following the establishment of the Greater London Authority (GLA). Their primary role was to promote and enable economic growth in England's regions. For 2010-11, RDAs were allocated approximately £1.75 billion;[1] they also managed approximately £9 billion in European funding through the European Regional Development Fund (ERDF) and EU Rural Development Programme for England (RDPE).

The Labour Party committed itself in its 1997 election manifesto to "establish [...] regional chambers to co-ordinate transport, planning, economic development, bids for European funding and land use planning". Once in office, the Labour Government established RDAs to promote economic development within a region. It also encouraged the development of non-elected 'Regional Chambers' (all of which subsequently re-styled themselves 'Regional Assemblies') whose primary task was to scrutinise the work of the RDAs. One of the duties of the Assemblies was to produce a Regional Spatial Strategy (RSS). A key element of the RSS was the Regional Transport Strategy.[2]

In July 2007, the Labour Government published its *Review of sub-national economic development and regeneration* (the 'sub-national review', or SNR). The SNR mapped out a stronger role for local authorities in regional policy-making and accountability.[3] Democratic accountability for the regional tier would be shared by central and local government. Local authority leaders in the regions would be responsible for agreeing the regional strategy with the RDAs and for ensuring effective scrutiny of RDA performance. The assemblies, whose shortcomings were acknowledged in the review, were to be phased out.[4] This was legislated for in Part V of the *Local Democracy, Economic Development and Construction Act 2009* and came into force as of 1 April 2010.

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[1] for information on Grant-in-Aid to RDAs since 1999, see: HC Deb 11 Mar 2009 cc590-1W

[2] completely separate from these are regional planning assessments for the railways, introduced in 2006 to provide a link between regional spatial planning (including preparation of regional transport strategies) and planning for the railway by both government and the rail industry (HC Deb 16 February 2006, cc122-3WS)

[3] HM Treasury, BERR and DCLG, Review of sub-national economic development and regeneration, July 2007, paras 6.98 to 6.100

[4] ibid., para 6.98

1.2 Local structures

Local Authorities are responsible for delivering transport schemes on the ground. Local government in England (outside London) is structured in two ways. In parts of England, a single tier 'all purpose council' is responsible for all local authority functions (generally called Unitary or Metropolitan). The remainder of England has a two-tier system, in which two separate councils divide responsibilities between district and county councils. The transport responsibilities for each structure are as follows:

Where two tier:

- **County Councils** (e.g. Essex County Council) – responsible for producing local transport plans, general transport strategy, passenger transport and highways

- **District Councils** (e.g. Uttlesford District Council) – responsible for parking and other revenue collection from transport; also responsible for local planning decisions that invariably involve transport issues (for example, in the case of Uttlesford District Council, all planning decisions related to Stansted Airport go through them)

Where single tier:

- **Unitary Councils** (e.g. City of York, Thurrock etc) – responsible for producing local transport plans, general transport strategy, passenger transport and highways, parking and other revenue collection from transport

At a micro-level, Parish Councils are elected bodies with limited discretionary powers and rights, laid down by Parliament, to represent their communities and to provide services to them. Around 80 per cent of Parish Councils represent populations of less than 2,500 and are often a lobbying voice at a very local level for local transport improvements.

Prior to the relevant sections of the *Local Transport Act 2008* coming into force in February 2009, responsibility for setting overall strategies for transport services in the metropolitan counties outside London (Greater Manchester, Merseyside, South Yorkshire, Tyne and Wear, West Midlands and West Yorkshire) were split. The *Transport Act 1968* designated the metropolitan counties as 'passenger transport areas'. The *Local Government Act 1985* established a Passenger Transport Authority (PTA) in relation to each of those areas, with responsibility for planning local transport services (jointly with metropolitan district councils) and for procuring public transport services. The metropolitan district councils have responsibility for the local road network as local traffic authorities and local highways authorities.

Part V of the 2008 Act made changes to the organisational arrangements for the discharge of statutory transport functions in local authority areas. *Inter alia*, it renamed PTAs as Integrated Transport Authorities (ITAs)[5] and enables changes to be made to the constitutions and functions of the renamed ITAs. It includes provisions relating to the establishment of new ITAs, and to enable changes to be made to the boundaries of existing integrated transport areas. It also gives all ITAs power to promote or improve the economic, social and environmental well-being of their areas.

[5] the change of name does not apply in Scotland, where the Strathclyde Passenger Transport Authority remains as a statutory entity

The 2008 Act also expanded the duty on local transport authorities to develop policies relating to transport, so that these policies must cover all aspects of transport, rather than the more limited requirement relating only to transport facilities and services, and must take the protection and improvement of the environment (including mitigation of, and adaptation to, climate change) into account. In the six metropolitan counties this duty lies solely with the relevant ITA. The Act also amended the arrangements for preparing and publishing the Local Transport Plans (LTPs) which contain those policies. Since April 2011 ITAs have been able to produce or amend their LTPs on what timescales they see fit (previously it was on a five-yearly basis).

1.3 Funding mechanisms

The relationship between regional bodies and local authorities, in terms of how transport schemes are developed, prioritised and funded, has not always been straight forward. Essentially, under the system inherited from the Labour Government, the bigger schemes in local authority transport plans (i.e. those costing over £5 million) that had a regional as well as a local significance, were likely to be put in the regional transport strategy. But this did not happen as a matter of course – regional bodies assessed bids made to them by local authorities and then they produced a list of schemes, graded by importance, for which they would then bid for funds from the Government (as part of the Regional Funding Allocation).[6]

Alternatively, local authorities could bid to part-fund these schemes through their transport plans, and the costs of a large regional scheme could be shared between the region and one or more local authorities. A rejection of a local scheme by a regional body did not mean that it was the end of the scheme; rather that the local authority would have to find the money itself if it wanted to go ahead with it.

There were two main ways in which the Government provided financial support to local authorities for transport: revenue support (through the Revenue Support Grant) to support day-to-day expenditure; and financial support for capital investment to local authorities on the basis of their Local Transport Plans (LTPs). The first LTPs were submitted in July 2000 and covered the five-year period between April 2001 and March 2006. In December 2004, following consultation, the DfT issued new guidance to local authorities on the delivery of the second round of transport plans.[7] The second round of LTPs were finalised in March 2006 and covered the period from April 2006 to March 2011. In December 2008 the DfT issued a consultation on new draft guidance for the third round of LTPs.[8] The final guidance was issued in July 2009.[9]

The LTP funding received by each local authority was calculated by a formula, which was influenced by local pressures, plan quality and previous delivery. The LTP funding from DfT was divided into three blocks: Integrated Transport block to fund all non-maintenance transport schemes costing less than £5 million; maintenance allocations for structural local road maintenance; and major scheme allocations for significant local authority road schemes and public transport capital projects costing over £5 million.[10] In the first round of LTPs, running from 2001-2005, over £8 billion was available to local authorities, of which £1.6 billion was allocated to major schemes. The Secretary of State announced in December

6 *Government Response to the Committee's Twelfth Report of Session 2005-06* (fourth special report of session 2006-07), HC 334, 27 February 2007, para 23

7 DfT, *Full guidance on Local Transport Plans: Second edition*, December 2004

8 DfT, *Consultation on draft Guidance for Local Transport Plans*, December 2008

9 DfT, *Guidance on Local Transport Plans*, July 2009

10 DfT, *Guidance to Local Authorities seeking DfT funding for transport Major Schemes*, April 2005, para 1.3

2005 that the local transport capital settlement over the following five years would be around £8 billion again, £200 million of which was allocated for major schemes in 2006-07.[11]

In 2004, the Labour Government outlined its intention to allow the regions to prioritise local authority major schemes (see above) and some Highways Agency transport schemes, within the confines of an indicative funding pot for each region – the Regional Funding Allocation (RFA).[12] In January 2006, each region, led by the Regional Assembly and the RDA, submitted advice to Government on their regional priorities for transport.[13] The then Secretary of State for Transport, Douglas Alexander, having considered the advice from the regions, responded with details of those schemes in each region that the Government was minded to fund in 2006-07 and 2008-09. It also listed an indicative programme of schemes that could be progressed so that they were ready to be added to the programme where necessary, and start construction in the remaining RFA years, from 2009-10 to 2015-16.[14] In July 2008 the regions were asked to set out their priorities for the ten year period 2009-10 to 2018-19.[15]

2 Reforms of the Coalition Government, 2010-

2.1 Structural reform

The role of local government

The Coalition Government has abolished Regional Development Agencies (RDAs) and the Government Offices for the Regions, replacing them with Local Enterprise Partnerships (LEPs) (see below). One of the impetuses behind the abolition of the Government Offices and the RDAs was to devolve more power to local authorities. As such it will be local authorities themselves, in partnership with LEPs, which will have control over their transport plans and major schemes (see below).

As stated above, the Local Transport Plan (LTP) process, introduced by the Labour Government, was meant to ensure a more rigorous regime for local transport planning. It did this by the use of various criteria and targets, set out in the guidance. As time went on and the LTP process bedded down, the guidance tended to become less restrictive. The third round of LTPs, which took effect from April 2011, is for a longer timeframe than in the past: many LTPs will stretch into 2020 or beyond. It is up to local authorities to decide when to review their LTP. The final guidance for the third round of LTPs was issued in July 2009: following a brief suspension after the 2010 General Election it remains the relevant document for LTP preparation.[16]

In its January 2011 local transport White Paper, the Government stated its belief that LTPs remain the best way to plan and implement local transport policy. As part of this it would "expect local authorities will want to look closely at small scale transport improvement schemes, which can be very high value for money" and it encouraged local authorities to share "best practice information about the challenges and solutions identified when planning

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11 HC Deb 14 December 2005, c160WS
12 HM Treasury, *Devolving decision making: A consultation on regional funding allocations*, December 2004
13 following publication of a guidance document in July 2005; see: HC Deb 21 July 2005, cc109-110WS
14 HC Deb 6 July 2006, c51-52WS
15 DfT, *RFA Transport Advice: Supplementary Note*, July 2008, paras 8-9
16 DfT, *Guidance on Local Transport Plans*, July 2009

sustainable transport choices."[17] However, as indicated above, it does expect local authorities to work in concert with LEPs.

Local Enterprise Partnerships

Further information on LEPs can be found in HC Library note SN5651.

The Coalition Government abolished Regional Development Agencies (RDAs) and the Government Offices for the Regions, replacing them with Local Enterprise Partnerships (LEPs). Both the Conservatives and the Liberal Democrats committed to some sort of regional reform before the 2010 election; the proposals that eventually emerged were similar to those that had been proposed by the Conservative Party.[18] The Coalition Agreement pledged to abolish Regional Spatial Strategies and the Government Office for London and aid that the new Government would consider the case for abolishing the remaining Government Offices.[19]

In the first session of the current Parliament the Government legislated to abolish both Regional Spatial Strategies via the *Localism Act 2011*;[20] and the Regional Development Agencies (RDAs) via the *Public Bodies Act 2011*.[21] Also, in July 2010 the Secretary of State for Communities and Local Government, Eric Pickles, confirmed the abolition of the Government Offices for the Regions. He argued that they had "...become agents of Whitehall to intervene and interfere in localities, and are a fundamental part of the "command and control" apparatus of England's over-centralised state".[22]

The Government's proposals for Local Enterprise Partnerships (LEPs) were set out in a 29 June 2010 letter from the Secretary of State for Business, Vince Cable, and Eric Pickles to councils and business leaders. This stated that LEPs would "provide the strategic leadership in their areas to set out local economic priorities"; they would be expected to create the right environment for business growth in their areas "by tackling issues such as planning and housing, local transport and infrastructure priorities, employment and enterprise and the transition to the low carbon economy".[23] Further information on LEPs was published in the local growth White Paper on 28 October 2010.[24]

The Government gave details of the anticipated integration of LEPs and transport in the January 2011 local transport White Paper:

> We expect the Local Enterprise Partnerships to form a view on the strategic transport priorities which best support sustainable economic growth in their areas and to play a key role in implementing significant devolution of transport decision making to local

17 DfT, *Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen*, Cm 7996, January 2011, paras 4.11-4.13
18 see, e.g.: Conservative Party, *Control shift: returning power to local communities* (policy green paper no. 9), February 2009, p27; Conservative Party, *Invitation to join the government of Britain: The Conservative Manifesto 2010*, April 2010, pp24&74; and: Liberal Democrats, *Liberal Democrat Manifesto 2010*, April 2010, p26
19 HMG, *The Coalition: Our Programme for Government*, May 2010
20 see section 1.3 of HC Library research paper RP 11/03: *Localism Bill: Planning and Housing*; also, Eric Pickles announced the immediate revocation of RSSs in July 2010, see: HC Deb 6 July 2010, cc4-5WS
21 Section 30 and Schedule 6; this was announced in the June 2010 Budget, see: HM Treasury, *Budget 2010*, HC 61, June 2010, para 1.89; RDAs activities wound down to a final end date of March 2012, from which point LEPs assumed the RDAs' transport responsibilities (HMG, *Local growth: realising every place's potential*, Cm 7961, October 2010, para 2.27
22 HC Deb 22 July 2010, c28WS
23 *Letter from Cable and Pickles to local authorities*, 29 June 2010
24 op cit., *Local growth: realising every place's potential*, paras 2.8-2.9

> areas. The Government has already committed to considering whether and how capital funding for local transport major schemes can be devolved to local areas for the Spending Review period after 2014/15.
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> We are inviting Local Enterprise Partnerships immediately to demonstrate their potential to play a positive strategic role by engaging with local transport authorities and partnering bids to the Local Sustainable Transport Fund ... We will be looking for strong levels of partnership support, including from business, which Local Enterprise Partnerships should be in a good position to demonstrate. We also expect Local Enterprise Partnerships to play a role in co-ordinating across areas and communities in bidding for the Regional Growth Fund.
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> The Department for Transport will seek to work directly with a small number of Local Enterprise Partnerships towards agreeing a joint approach to the worst congestion hotspots in the major urban areas affecting both the local and national strategic networks within the Local Economic Partnership area. This will include the facilitation of sustainable economic growth, for example, where local trips are contributing so significantly to the demands placed on the network that any solution is dependent on wider action in the Local Economic Partnership area.[25]

In March 2011 the Transport Select Committee published a report on transport and the economy that raised some concerns about how LEPs would function as efficient and universal local transport planners, procurers and financiers.[26] There could be further issues around how LEPs will work with any combined authorities that are created over the next couple of years;[27] and elected mayors.[28]

Local Transport Bodies (LTBs)

In January 2012 the Government published a consultation document setting out how it intended local authorities, LEPs and other bodies to work together after 2015 to deliver major transport schemes.[29]

The outcome of the consultation was published in September 2012. This announced the key features of the new system for funding local major transport schemes. This announced that the primary decision-making bodies on the use of the devolved funding would be Local Transport Bodies (LTBs), voluntary partnerships of local transport authorities, LEPs and possibly others. Representation of other bodies such as District Councils, other public bodies and NGOs would be for local decision. LTBs would need to operate within assurance frameworks and have a high degree of transparency.[30]

In February 2013 *Local Transport Today* reported on the different governance models for local transport bodies (LTBs), being developed by local authorities. It gave some examples from around the country where some areas are restricting LTB membership just to local transport authorities and LEPs (but LEPs will not always have voting rights); others are broadening out their membership to include, for example district as well as country councils;

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25 op cit., *Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen*, paras 3.7-3.9

26 Transport Committee, *Transport and the economy* (third report of session 2010-11), HC 473, 2 March 2011, para 116

27 for further information on Combined Authorities, see: HC Library note SN6649

28 for further information on elected mayors, see: section 3 of HC Library research paper RP 11/02: *Localism Bill: Local government and community empowerment*; the issue of elected mayors and the role they might play in local transport was discussed in: "Elected mayors could muscle in on transport in 12 biggest cities", *Local Transport Today*, 24 December 2010 [LTT 561]

29 DfT, *Consultation Paper: Devolving local major transport Schemes*, 31 January 2012, paras 1.17-1.26

30 DfT, *Devolving local major transport schemes: Next steps*, September 2012, pp6-7

and others are extending their membership beyond councils and business.[31] These arrangements have been developed in accordance with the relevant Government guidance.[32]

In a speech on LEPs and transport given in April 2013 the Secretary of State for Transport, Patrick McLoughlin, said "with the new structure, we will be genuinely shifting power away from Whitehall into the hands of local transport bodies, accountable at the local level, and responsive to local economic conditions".[33]

City deals

Further information on city deals can be found in HC Library note SN5955.

City deals consist of central government offering the devolution of budgets and decision-making power on a bespoke basis to individual local authorities or groups of authorities.

In transport terms, Wave 1 of the city deals saw the devolution of local transport major scheme funding to Greater Birmingham and Solihull, Bristol and the West of England, the Leeds City Region, and the Sheffield City Region. This involved matching local resources with devolved transport budgets so cities have the power and resources to make strategic transport investments.[34] In February 2013 the Deputy Prime Minister announced that a further 20 cities had been invited to negotiate a city deal over the next year.[35]

The Heseltine Review: local transport delivery after 2015

Lord Heseltine published his report, *No stone unturned: in pursuit of growth*, in October 2012. His recommendations were not specific to transport. Generally, he called for "the drivers of our economy – business, central government and local leadership – [to be] be organised and structured for success". To this end, he recommended better focus at a local and national level on wealth creation and a key role for the private sector. He stated that:

> Central to my vision are enhanced roles for both LEPs [Local Enterprise Partnerships] and the chambers of commerce. I know critics will say that these bodies do not in all parts of the country currently have the capacity to deliver my vision. I have sat in the committees of government and heard those arguments many times. Indeed they are a central part of our problem. Because the scepticism is so deep about empowering local organisations, whenever faced with a problem the solution has been to take central control.[36]

He then set out a timetable between January 2013 and April 2015 to put in place what he considered to be the key actions to achieve growth. This includes things like LEP-driven growth strategies.

In its response, published in March 2013, the Government highlighted the proposals for a new Single Local Growth Fund. There are three areas which the Government sees as critical to the success of the Single Local Growth Fund: transport, housing and skills. The Single Local Growth Fund must include elements of all three budgets if it is to give local areas influence over the levers that matter for growth:

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31 "A hundred flowers bloom: LTBs devise diverse governance models, *Local Transport Today*, 22 February 2013 [LTT 616]

32 DfT, *Local frameworks for funding major transport schemes: guidance for local transport bodies*, November 2012

33 *Speech on Local enterprise partnerships and transport*, 18 April 2013

34 HMG, *Unlocking growth in cities: city deals – wave 1*, July 2012, p3

35 Deputy PM's office, "Deputy Prime Minister launches more 'City Deals'", 19 February 2013

36 Lord Heseltine, *No stone unturned: in pursuit of growth*, in October 2012, p184

> The Government believes that there is a very strong case for elements of the transport budget, such as the funding for major local transport schemes, to be included as such spending is integral to economic development. The Government has already begun to devolve this funding in a way that aligns with LEPs. The Government will build on the work which has been done so far, and ensure a smooth transition between the ongoing devolution process and the Heseltine reforms, so that the Government can move seamlessly towards integrating transport funding into the Single Local Growth Fund. The Government therefore expects all Local Transport Bodies (LTBs) to maintain momentum and continue to develop their assurance frameworks and provisional programmes of schemes.[37]

In effect, the Government envisages that LEPs and local authorities will work together in LTBs until 2015, at which point transport funding for major schemes will be allocated to LEPs as part of the Single Local Growth Fund. Some have expressed reservations about this. For example, *Local Transport Today* has reported that the Local Government Association is urging the Government not to include transport funding in the Fund due to concerns that the lack of ring-fencing could lead 'transport' money to be diverted into other areas.[38] Further details will be announced in the Spending Review on 26 June.

2.2 Funding reform – local major transport schemes

The way that Government funds major local transport projects is going to change radically from 2015 when major transport scheme funding is devolved to LEPs as part of the Single Local Growth Fund (see above). Further details will be announced in the Spending Review on 26 June.

The Governments reforms to local major transport scheme funding and general local transport spending cuts to date are described below.

The spending allocation to 2015

Following the 2010 General Election the then Chief Secretary to the Treasury, David Laws, announced £6 billion in **spending cuts for financial year 2010/11**. On 7 June the Secretary of State for Transport, Philip Hammond, explained where transport's share of those cuts would come from. It included a £309 million reduction in the Department's specific grants to local authorities.[39] This was followed, on 10 June, by the details of where the cuts in local authority transport grants would come from and how much would be cut overall:

- Integrated transport block (ITB) - £150.78m (this accounted for a quarter of the total allocation for IT block);
- Major projects - £61.4m;
- Yorkshire and Humber ITB transfer - £23.47m (this represented half of the 2010/11 transfer from major schemes to IT block);
- Capital detrunking - £6.75m (this represented a 20% reduction in the funding that was due to be paid for roads transferred from the Highways Agency);
- Principle Road Network funding - £5.92m (this represented a 20% reduction to the budget for work on the local authority primary route network);

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[37] HM Treasury/BIS *Government's response to the Heseltine review*, Cm 8587, March 2013, paras 2.20-2.21

[38] "Leave local major funding alone", *Local Transport Today*, 14 June 2013 [LTT 624]

[39] HC Deb 7 June 2010, c37W

- Urban Congestion Fund - £7.88m (capital funding only);
- Smaller grants - £15m (made up of £5m from Kickstart 2009, cancelling the scheme altogether, and £10m from other funding not allocated to individual authorities); and
- Road safety funding - £37.8m (split between revenue and capital and representing a 27% reduction in the revenue grant and all of the capital grant).[40]

In May 2010 David Laws wrote to Government departments asking them to re-examine all spending approvals since 1 January 2010 and all pilot schemes.[41] On the same day, there was a statement from the then Secretary of State for Transport, Philip Hammond that funding for all **major local transport schemes** which had *programme entry* or *conditional approval* were suspended and subject to review.[42] In 2010/11 the Chancellor and the Secretary of State announced a number of schemes that they would commit to funding.[43] Many of these major local schemes had managed to reduce the cost to Government of funding them, either by making changes to the original designs or increasing the proportion of funding from local authorities or third parties.[44] This culminated in a number of schemes being included in the National Infrastructure Plan, published in November 2011.[45]

The total available budget for local authority major schemes in the period up to 2014/15 is approximately £1.7 billion.[46]

More generally, after the October 2010 Spending Review the Department for Transport explained its intention to carry out a '**radical simplification**' and reform of local transport funding, moving from 26 grant streams to four by 2011/12. These four were a Local Sustainable Transport Fund (capital and revenue) see below; major schemes (Capital), see above; block funding for highways maintenance (capital); and block funding for small transport improvement schemes (capital).[47] Further details were set out in the January 2011 local transport White Paper:

> From 2011/12 to 2014/15, the Department for Transport will provide four grant streams in support of local transport (a significant consolidation from the 26 separate streams of the previous spending period). These grants are in addition to the Formula Grant provided to local authorities by the Department for Communities and Local Government, which authorities can use flexibly to spend on their local priorities. The four grant streams are:
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> - A local authorities **Major Schemes Programme** of over £1.5 billion capital funding over the Spending Review period to support large transport schemes (those costing over £5 million) which, because of their size, might otherwise be

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[40] CLG, *Local government's contribution to £6.2 billion efficiencies in 2010-11*, 10 June 2010, pp7-8 [HC DEP 2010-1284]

[41] HM Treasury press notice, "Chief Secretary sets out £6 billion reduction in 2010-11 spending", 17 May 2010

[42] HC Deb 10 June 2010, c35WS

[43] HC Deb 22 June 2010, cc176-177; HM Treasury, *Spending Review 2010*, Cm 7942, October 2010, para 1.33; HC Deb 26 October 2010, cc178-179; DfT, *Investment in Local Major Transport Schemes*, October 2010, paras 14-20 [HC DEP 2010-1881]; HC Deb 4 February 2011, cc60-62WS; HMT, *Autumn Statement 2011*, Cm 8231, November 2011, para A.12; and: DfT, *Local Authority Majors - Development Pool Schemes Scheme Decisions*, December 2011

[44] DfT, *Investment in Local Major Transport Schemes: Update*, February 2011, para 2.1 [HC DEP 2011-0205]

[45] HMT, *National Infrastructure Plan 2011*, November 2011, pp45-46; updated in 2012 and 2013

[46] op cit., *Investment in Local Major Transport Schemes*, para 10; £1.5 billion announced in 2010 and a further £170 million in 2011

[47] DfT press notice, "Transport Spending Review Press Notice", 20 October 2010; further information on local highway maintenance (i.e. potholes) can be found in HC Library note SN739

unaffordable. As already announced, the need to reduce the deficit means that we have had to look hard at the previous programme of schemes in order to prioritise those that offer the best value for money and will contribute most towards the delivery of regional and local goals. We are also committed to developing streamlined arrangements for prioritising major schemes for future spending review periods. These will give elected representatives and business interests a strong role in scheme prioritisation and, in due course, could provide an opportunity to devolve decisions to strong and successful Local Enterprise Partnerships. However we do not simply want to design a top-down mechanism. The opportunity is there for local authorities and Local Enterprise Partnerships themselves to propose imaginative and workable solutions and we will be discussing ways forward with partners during 2011.

- We are will provide more than £3 billion capital over the Spending Review period for **local highways maintenance**, to safeguard the largest single public sector asset, with a time-limited £6 million fund to drive greater efficiency in delivery, working in partnership with local government. The funding available for highways maintenance recognises the economic and social importance of well maintained highways to local communities.

- We are also supporting continued investment in small local transport improvement schemes by providing more than £1.3 billion capital funding for the **integrated transport block**. This will support authorities in delivering integrated transport schemes that improve road safety and accessibility, reduce congestion and carbon and help achieve other key goals at the local level. Taking the highways maintenance funding and the integrated transport block together, these grant streams represent the larger proportion of the Department for Transport local transport capital funding and, in both cases, funding is allocated according to a formula based on need, rather than through a more burdensome bid-based process.

- The **Local Sustainable Transport Fund** (LSTF), which will provide £560 million of revenue and capital funding (£350 million revenue, £210 million capital) to enable local authorities to bid for funding to support the delivery of sustainable measures that support economic growth and reduce carbon emissions, delivering cleaner environments, improved safety and increased levels of physical activity.[48]

The figures for 2011-15 were given in table 6.1 of the paper:

Local Transport Funding 2011/12 to 2014/15				
Spend item £m	*2011/12*	*2012/13*	*2013/14*	*2014/15*
Committed major schemes*	418	160	29	10
New major schemes	0	204	306	417
Maintenance	806	779	750	707
Integrated Transport Block	300	320	320	450
Local Sustainable Transport Fund	80	140	160	160
- Of which revenue**	50	100	100	100

48 op cit., *Creating Growth, Cutting Carbon: Making Sustainable Local Transport Happen*, para 3.16

- Of which capital	30	40	60	60
Total	1,604	1,603	1,565	1,764
* These figures are based on current estimates of spend on committed schemes. Actual spend will depend on the progress of individual schemes. ** The great majority of transport revenue funding is provided to local authorities via the Department for Communities and Local Government's Formula Grant.				

In its March 2013 response to the Heseltine review, the Government stated that:

> In January 2013, the Department for Transport provided each LTB with an indicative population-based funding level but was clear that these figures were purely assumptions to be used for planning purposes. They are based on the total amount of funding for local major schemes in the Spending Review 2010, distributed between LTBs on the basis of population (2017 forecast). The actual allocations will be determined in future Spending Rounds.[49]

Proposed arrangements from 2015 onwards

As described above, the way major local transport schemes will be managed and delivered is changing after 2015 when this funding stream is absorbed by the Single Local Growth Fund and decisions on local major transport projects will be taken by LEPs. The Government's response to the Heseltine review stated that the money available through the Single Local Growth Fund (SLGF) would be set in the June 2013 spending round.[50] The Government announced that there would be £2 billion available via the SLGF for skills, housing and transport in 2015-16; a further £5 billion of transport funding would be put into the SLGF from 2016-17 to 2020-21; and LEPs would have responsibility for how €6.2 billion (£5.3 billion) of EU Structural and Investment Funds is spent.[51]

The Government had previously consulted on devolving the local major transport funding to LEPs and local authorities to spend based on decisions taken in Local Transport Boards (see above).[52] In October 2012 the National Audit Office published a report raising questions about the accountability of LTBs and calling for clarity on exactly how these new bodies would spend money.[53] These criticisms – particularly the question about accountability – remain in light of the proposal to give responsibility and funding to LEPs via the Single Local Growth Fund.

2.3 Other funding streams and grants

After the 2010 General Election the Government announced a number of other funding mechanisms, other than Government grants, which local authorities may pursue in order to pay for transport projects, these include: the Local Sustainable Transport Fund (LSTF); the Regional Growth Fund (RGF); raising money on the basis of future business rates; PFI; and a proposed Green Investment Bank.

[49] op cit., *Government's response to the Heseltine review*, Box 2.C, p43
[50] ibid., p50
[51] HMG, *Investing in Britain's Future*, Cm 8669, June 2013, p57
[52] op cit., *Consultation Paper: Devolving local major transport Schemes*, paras 1.64-1.76
[53] NAO, *Funding for local transport: an overview* (session 2012-13), HC 629, 25 October 2012

Local Sustainable Transport Fund (LSTF)

As stated above, following the October 2010 Spending Review, the DfT confirmed that 26 grants currently going to local authorities to support various transport initiatives would be scrapped and replaced with four funding streams, one of which would be a Local Sustainable Transport Fund (LSTF). The DfT described the fund as follows:

> We are establishing a £560 million local sustainable transport fund to challenge local authorities outside London to bid for funding to support packages of transport interventions that support economic growth and reduce carbon emissions in their communities as well as delivering cleaner environments and improved air quality, enhanced safety and reduced congestion.
>
> This replaces a range of previous grants for sustainable forms of travel. It represents a significant increase in funding for sustainable travel, which the Government believes can both support economic growth and reduce carbon emissions.
>
> Responding to calls from local government, the Fund will include a mix of £350m revenue and £210m capital funding over the next four years to maximise the toolkit of options available to local authorities
>
> A small proportion of the fund will be allocated to provide continued funding for the successful Bikeability scheme, which offers high quality cycle training for young people. For the remainder of the funding, we will invite local authorities to develop packages of low cost, high value measures which best meet their local needs and effectively address local issues.[54]

In December 2010 the Transport Minister, Norman Baker, published further details of the scheme. He said that a portion of the LSTF would be put aside for Bikeability training to 2014-15; with further funds in 2011-12 specifically for Links to Schools, Bike Club and walking to school initiatives; the Transport Direct cycle journey planner; and business to business initiatives on alternatives to travel. The application process was designed to be as flexible as possible, with little direction from the Department and bids are encouraged in conjunction with the community/voluntary and/or private sector.[55]

There have been three rounds of funding from the LSTF. The first round of small projects (£5m or less) was announced in July 2011. Funding for these projects covers 2011-15. The second round of small projects was announced in May and June 2012. Funding for large projects (over £5m) was announced in June 2012. Funding for these projects covers 2012-15.[56]

Regional Growth Fund (RGF)

Full details of the RGF can be found in HC Library note SN5874.

The Regional Growth Fund (RGF), was announced in June 2010, alongside proposals for Local Enterprise Partnerships (LEPs). The Department for Transport announced that it would be contributing around a third of the funding for the RGF and that bids for local transport schemes "that unlock sustainable economic growth" would be eligible for submission to the

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54 op cit., "Transport Spending Review Press Notice"

55 HC Deb 13 December 2010, cc82-84WS

56 all awards are listed in: DfT, *Local Sustainable Transport Fund 2011-15*, September 2012

fund.[57] Twenty-one transport schemes and bids were approved as part of the first and second RGF announcements.[58]

In the 2012 Autumn Statement, the Chancellor announced a further £310 million for the RGF which will be extended into 2015-16. The RGF is now worth over £2.7 billion over the five years from 2011-12 to 2015-16. It is intended to promote the private sector in areas in England most at risk from public sector cuts.

The Government has announced the successful bidders from the first round (worth £450 million); the second round (£950 million); and the third round (worth £1.05 billion). These allocations are subject to a due diligence process. Many of the first, second and some of the third round projects have now received final funding approval. A fourth round worth £350 million closed for applications on 20 March 2013.

Tax Increment Financing (TIF)

Full details of TIF can be found in HC Library note SN5797.

Deputy Prime Minister Nick Clegg announced in September 2010 that the Government would allow local authorities to use tax increment financing (TIF) – borrowing against future income streams – in order to finance infrastructure projects. *Local Transport Today* describes it as:

> Tax Increment Financing (TIF) has long been championed as the way to get transport projects vital for redevelopment off the ground. But will the Government's proposals make TIF an attractive funding mechanism for all authorities, or just a few?
>
> Tax Increment Financing (TIF) may sound complex but the basic concept is reasonably simple: local authorities borrow the funds to deliver infrastructure vital for development and repay the borrowing from the increase (the 'increment') in business rates generated by the new economic activity.
>
> [...] Scotland is leading the way in the UK, with three TIF pilots already selected and the Scottish Futures Trust and Scottish Government are currently scrutinising bids for three more. Two of the pilot schemes have, however, attracted unwanted headlines in recent months. Uncertainty surrounds the £84m TIF package for Edinburgh's waterfront project, following the change of ownership at project partner Forth Ports. Meanwhile, in Glasgow, a plan to use TIF to fund £80m of public realm work to complement the Buchanan Galleries shopping mall extension has angered the owners of a rival shopping centre, which says the TIF project will harm the vitality of the rest of the city centre. A legal challenge to the plan has been mooted.
>
> In England, ministers plan to implement TIF in 2013/14 and outlined the possible delivery mechanisms as part of this summer's Local Government Resource Review consultation on allowing local authorities to retain business rates.[59]

TIF has been used in the United States for approximately forty years and has generally been seen as a success. Nonetheless, differences in the tax systems mean that there will be differences between TIF in the UK and TIF in the US.

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57 op cit., "Transport Spending Review Press Notice"

58 Transport Committee, *Counting the cost: financial scrutiny of the Department for Transport 2011-12* (fifteenth report of session 2010-12), HC 1560, 23 February 2012, para 17

59 "Tax Increment Financing: a new source of transport funding for all, or a few?", *Local Transport Today*, 18 November 2011 (LTT 584)

The Labour Government had previously announced that it would introduce accelerated development zones in order to enable the development of TIFs.

Private Finance 2 (PF2)

The Private Finance Initiative (PFI) was announced in 1992, with the aim of achieving closer partnerships between the public and private sectors. It was one of a range of policies introduced by the Conservative Government to increase the involvement of the private sector in the provision of public services. Following two reviews of the PFI by Sir Malcolm Bates, the Labour Government has actively continued to pursue the delivery of a wide range of public services through this means. PFI entails transferring the risks associated with public service projects to the private sector in part or in full.[60]

There have been a number of PFI schemes in the transport sector since 1997 and a list of both signed projects and those in procurement is available on the data.gov.uk website. As part of the October 2010 CSR the DfT reassessed local transport PFI schemes in development or procurement and "identified those that can proceed, taking into account value for money, affordability and their relative stage of development".[61] These were almost exclusively street lighting schemes and highway improvements.[62]

In December 2012 the Government published its revised approach to PFI: the new model is called PF2 (Private Finance 2).[63] Capital spending on public infrastructure is a devolved matter and so PF2 will apply in England only. PF2 projects are like PFI projects in that they will be commissioned by the public sector from a predominantly private sector body through a long-term contract, generally covering the design, construction and maintenance of infrastructure, paid for over the life of the contract. There are however a number of changes to the model.

Green Investment Bank

Full details of the Green Investment Bank can be found in HC Library note SN5977.

Before the announcement of its creation in the Budget 2011, there was debate between departments on the form a Green Investment Bank would take and the level of finance to be provided to it. In that Budget it was announced the Bank would have an initial investment of £3 billion and will not be allowed to raise its own capital until at least 2015. The Bank will be able to carry out a wide range of transactions – including equity, debt and risk mitigation products – and is expected to catalyse an additional £15 billion of investment in green infrastructure by 2014/15.

The Government published the five priority areas for investment for the bank during the current spending review period, together with the criteria for deciding on its location, in December 2011. It also announced the creation of an interim body, Green Investments UK, which would have £775 million available to invest from April 2012. The location of the Bank, Edinburgh and London, was announced in March 2012.

Legislation that would enshrine the 'green' purpose of the bank, providing powers for it to operate including funding, and ensuring its operational independence from Government are set out in Part 1 of the *Enterprise and Regulatory Reform Act 2013*.

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60 further information on PFI generally can be found in HC Library Research Paper RP 03/79

61 op cit., *Investment in Local Major Transport Schemes*, para 13

62 ibid., Annex A, p15; a list of those schemes going ahead, those with provisional approval and those that will not proceed is given in Annex B, p22

The European Commission approved state aid for the bank on 17 October 2012. It was then officially launched by Vince Cable at the Heriot-Watt University Conference Centre on 28 November 2012.

[63] HMT, *A new approach to public private partnerships*, December 2012