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FINANCING SCHEMES OF TRANSPORT INFRASTRUCTURE

Addendum 1

Transmitted by the Government of the United Kingdom

Note: The attached document reproduces a Finance Brief, which sets out the forms of funding and procedures that are followed for allocating Central Government capital budgets on the local transport side in the Department for Transport of the United Kingdom.

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LOCAL TRANSPORT PAYMENTS TO LOCAL AUTHORITIES

The LTP Process and bidding for resources

1. Local Transport Plans (LTPs) replaced the old Transport Policies and Programmes (TPP) system of bidding under which authorities were allocated funding for individual schemes rather than a wider strategy. The LTP system is built around 5-year integrated transport strategies, devised at local level in partnership with the community. The system provides Local Authorities with more discretion, freedom and responsibility and allows them to better tailor solutions to meet local needs (principles set out in the 1998 Local Government White Paper In Touch With The People).

2. The first Full LTPs were submitted in July 2000 for the 5 years from 2001-02 to 2005-06. Bids for resources were reflected in LTP-F finance forms submitted by each authority at the same time and these itemized on a scheme by scheme basis the full cost of what each authority was planning to deliver over the 5 year period covered by the plans. In December 2000 DTLR provided firm allocations for the first year of the full LTPs (2001-02), with indicative allocations for the following four years of the planning period.

3. For 2002-03, authorities have been asked to provide Annual Progress Reports (APRs), providing updates on how delivery of their LTPs is progressing and revised finance forms reflecting the latest financial figures. Major scheme progress and any supplementary bids for resources will need to be considered carefully, with our recommendations being considered by Ministers and their decisions announced in the 2003-04 settlement.

4. The threshold for major schemes is £5m and they are appraised using the New Approach To Appraisal (NATA). Once accepted, major schemes will be supported up to a threshold agreed with the local authority which submitted the scheme, though cost increases and slippage are considered via the APR process. A decision on potential funding options is also taken when schemes are accepted and Public Private Partnerships (PPP), including the Private Finance Initiative (PFI), are in some cases considered to deliver better value for money than conventional funding.

Overall resources available for distribution

5. The Government's 10 Year Plan for Transport -Transport 2010 – announced a major step change in transport investment with £180 billion of public expenditure and private investment for transport. Some of this money will be channelled through the LTPs process.

6. Our annual capital and resource baselines are confirmed on a three-year rolling basis through Spending Reviews. We are currently bidding for Spending Review 2002 resources, which cover the financial years 2003-04 to 2005-06.

Types of capital funding issued via the LTP Settlement

7. Transport Supplementary Grant (TSG) is given under Section 87 of the Local Government Finance Act 1988. It is a cash grant used for capital expenditure on highways and the regulation of traffic. Up until 1999-2000 it was also payable for structural maintenance of principal road carriageways and the assessment and strengthening of bridges on primary routes (these are now funded through Basic Credit Approvals (BCAs)). Roughly half the cost of each major road schemes costing over £5m is provided in the form of TSG.

8. Up to July 2000 London Boroughs were also eligible for TSG and were included in the Local Transport Capital Settlement. They were, however, removed from the list of defined councils in s.88 of the above Act when the Mayor of London took over responsibility for their financing and no TSG has been issued to the London Boroughs since the 1999-2000 settlement.

9. Annual Capital Guidelines (ACGs) are allocations to authorities issued in the form of basic credit approvals. They are borrowing approvals which an authority can use on any area of expenditure within their authority. ACGs are issued by most Government Departments for health, education, transport, housing, etc.

10. With the introduction of the Single Capital Pot for the 2002-03 financial year (see more below about the SCP), this form of funding has become by far the largest element of our capital allocations. Included within the ACGs that we allocate is an element of Receipts Taken Into Account (RITAS). This process makes allowance for local authorities to retain some of the receipts that they collect within the year and channel them directly into their capital spending.

11. Maintenance and Integrated Transport Block allocations to local authorities are now paid out through BCAs. The Integrated Block allocations are assessed on the basis of LTP/APR bids and the respective needs of the authorities

12. Supplementary Credit Approvals (SCAs) are a commonly used form of funding for local transport capital purposes. Prior to the introduction of the SCP, they were the largest element of our capital funding, with maintenance and integrated block funding being paid out in this format. They differ from BCAs in that they are normally "ring-fenced", i.e. restricted to specified areas of expenditure, the definitions of which can be as narrow or as broad as the issuing department wishes. An authority receiving SCAs is given a certificate which they can then pass to their bank or lending authority to borrow amounts up to the level specified. Repayments are then made in subsequent years through the Revenue Support Grant (RSG) system.

13. Strictly speaking, SCAs can be given for any period, but the Chancellor decided in 1998 that they should normally be issued for 2 years. SCAs are allocated for both 1 and 2 years. If they are not used within the period specified on the certificate given to the receiving authority, the funding is returned to the Consolidated Fund. LTP do, however, undertake an SCA reallocation exercise following the end of each financial year to redistribute any SCAs that authorities are unable to use. With Ministers' agreement, the SCAs that are handed back are redistributed to other authorities that may either have emergency pressures, or ones that are able to bring expenditure forward reducing future pressure on scarce resources.

14. Grants under Section 56 of the Transport Act 1968 (sometimes referred to as Public Transport Facilities Grant) are issued at the Department's discretion to cover half the cost of public transport schemes costing over £5 million. Transport Circular 3/89 refers. Roughly half the cost of each major public transport scheme costing over £5m is provided in the form of a S56 grant.

15. Grants under Section 13 of the Industrial Development Act 1982 are given to local highway authorities and developers towards the cost of providing new or improved access roads to industrial/commercial developments in Assisted Areas, which will generate employment. The level of grant available is limited to no more than 30% of eligible expenditure.

Types of Resource Funding issued

16. The resource funding allocated in the Integrated Local Transport area relates mainly to bus grants and subsidies as follows:

- A Rural Bus subsidy is a direct grant allocated to local authorities on a formulaic basis, related to the numbers of people living in rural areas;

- Rural Bus Challenge and Urban Bus Challenge allocations are also direct grant payments, paid to local authorities following the submission and approval of specific schemes;

- Concessionary fares are local authority expenditure that is included in Local Government's SSA system and supported through Rate Support Grant allocations; and

- Fuel Duty Rebate payments are also direct grant payments, but to bus operators rather than local authorities.

17. Other resource grant support is paid out for the Home Zones initiative, Travel Awareness, Green Transport Plans and the Centres of Excellence Initiative.

18. Apart from revenue support allocated by ODPM, local authorities receive funding for small-scale rural transport projects (e.g. community bus schemes) through the Rural Transport Partnership Scheme managed by the Countryside Agency (a statutory body sponsored by DEFRA).

Introduction of the Single Capital Pot

19. Modernizing Local Government: In Touch With The People announced the introduction of a Single Capital Pot (SCP) for the bulk of central Government capital support to local authorities. Ministers agreed that the Single Pot will start in 2002-03, with the majority of local transport capital resources being included at the outset.

20. £1.1 billion of the £1.58 billion capital resources announced in the 2002-03 LTP Capital Settlement has been allocated via SCP. Of these resources, both maintenance allocations including bridge repair and strengthening works and integrated transport block minor works will

be issued as part of the SCP. Major schemes costing over £5 million, whether public transport, road or maintenance majors, will be outside the Pot and continue to be issued as roughly 50% Grant and 50% Supplementary Credit Approvals over the lifetime of the schemes.

How the Single Capital Pot works

21. The maintenance element of our contribution to the Pot is paid on the basis of Road Policy Division's maintenance formula. The minor works integrated transport block contribution will be assessed on the basis of LTPs/APRs as this does not readily take to a formula approach. The allocations are determined on the basis of LTP plan and APR quality compared with the criteria in our guidance, taking into account the authority's assessment of their own need (i.e. the level of bid it has submitted) and value for money. Together, the maintenance and minor works elements make up 95% of our total contribution to the Pot.

22. The remaining 5% of our contribution is included in the 5% of the total Pot allocation that is paid out at Ministers' discretion. This is broken up into three elements, with roughly 16% of the 5% relating to the quality of authority's capital strategies and their Asset Management Plans (AMPs). In our case the LTPs will be the AMPs. The balance of the 5% (roughly 84%) is allocated on an assessment of service performance using a 5-point scale ranging from very poor to very good.

Joint Plan areas and payments to Passenger Transport Authorities (PTAs)

23. There are several joint plan areas within the LTP process and each of the larger metropolitan plan areas has a PTA, joint plans being mandatory for PTA areas. A precise split of allocations to respective authorities and the PTA within these joint plan areas needs to be agreed with the authorities concerned during the LTP settlement process.

24. Passenger Transport Authorities (PTA) - and their executives continue to be funded through SCA allocations despite the introduction of the SCP. As they are single purpose authorities they are outside the scope of the SCP.

Audit Procedures

25. Auditors appointed by the Audit Commission carry out an audit of LTP capital resources paid to local authorities, a year in arrears of their distribution. LAs are now required to submit a finance form reference "LTPAUD" which confirms outturn figures for the previous financial year. The auditors check that the figures are a true and fair representation of the capital resources spent and that they have been spent on the types of expenditure for which they were allocated.

Transport Programme Policies

26. Prior to the introduction of the LTP system, the Department operated a Transport Programme Policies system of Capital distributions to local authorities, based on an annual settlement process. The main difference with the old system was that an element of Transport

Supplementary Grant was paid out to cover half the cost of capital road repairs and bridge repairs. Local Authorities were not asked to provide five-year transport plans at that time.

Other Funding Sources

27. Local Authorities are at liberty to apply for some ERDF funding for their schemes. We also have certain bus initiatives where Capital Modernisation Fund provisions have been bid for and these CMF provisions are transferred to our central budgets to be used with other central Government voted budgets.

Proposed Changes To The Capital Finance System

28. The planned introduction of the prudential system in [2004] will give local authorities much more discretion and flexibility in delivering capital investment. Under this system, local authorities will no longer require Government permission to borrow and will now be able to determine their own programmes for capital investment but will have to judge for themselves how much capital spending they can afford to finance. Any external borrowing will have to be kept within affordable and prudent levels, in accordance with the criteria of the Prudential Code being developed by CIPFA (Chartered Institute of Public Finance and Accountancy).

29. The additional investment that local authorities will be able to undertake is intended to supplement Government supported investment, not replace it. The prudential system does not necessitate a change in the way support for capital investment is provided. It is being developed to be compatible with any, or a variety of, means of capital support but it does provide an opportune time to consider what options are available. The Government is still considering what form that support should take – whether revenue, capital or a mix of the two and intends to consult in the spring with all interested parties. Available statutory opportunity to make the proposed changes will dictate the final introduction dates of the changes.

PFI Funding

30. When Local Authorities submit their bids for major scheme funding, we require them to set out whether the schemes are suitable for funding via the PFI or conventional route. We then appraise the scheme taking account of the PFI views and options quoted. Several of our larger public transport schemes have followed the PFI funding route, being supported by notional credit approvals issued to the Department by HM Treasury. These credit approvals are subsequently supported by special grant allocations. Any scheme that we wish to agree to fund via this route, needs to be approved by the Performance Review Group at H.M. Treasury which meets roughly quarterly. This function was previously carried out by the Office of Government Commerce (part of the Treasury).

31. We find that with major road schemes authorities are sometimes reluctant to follow the PFI route rather than receive conventional funding as it generally takes longer to get started on PFI schemes as preferred bidders have to be secured, the scheme must stand up in appraisal terms using the PFI methodology and contracts have to be signed before the support will be provided.