The Revenue-Capital Mismatch

How resource funding cuts could damage the effectiveness of capital investment in local transport networks

March 2015

Pedro Abrantes and Tom Ellerton

pteg Support Unit
Wellington House
40-50 Wellington Street
Leeds – LS1 2DE
0113 251 7445
info@pteg.net

Content

Executive Summary

The next few years will see an upward trend in local transport capital grant funding from central government, supported by a wide-ranging consensus about the contribution of local transport networks to economic growth. In contrast, Local Authorities have seen a sustained decline in resource funding, driven by deep cuts to the Department for Communities and Local Government's (DCLG) budget. And there is no sign the cuts are about to stop.

This places Local Transport and Highways Authorities in a predicament. They have the money to deliver capital investment but are struggling to find the resources to operate and maintain those new facilities or, indeed, to plan and prioritise new schemes. As the mismatch between capital and revenue funding grows, this could ultimately damage the effectiveness of capital investment in local transport networks.

The purpose of this report is to explore how resource funding constraints are affecting the delivery of local transport capital schemes and how this is likely to evolve over the next few years.

Key findings

Our analysis highlights the following four key implications.

Skills shortage

With falling staff numbers, and a steep reduction in recruitment, there is an emerging skills shortage. This adds to the pressure on existing staff and could create bottlenecks in scheme planning and delivery.

Strategy, planning and scheme development

Getting local transport capital schemes ready for delivery requires significant resource spending. However, resource funding cuts have left many local authorities' transport departments unable to maintain a pipeline of 'oven-ready' schemes.

Costs of bidding

The growth in competition funding for capital schemes has created additional pressures on declining transport department resource funding. This makes it difficult to predict and manage resource requirements and takes staff focus away from scheme delivery and long term strategy and development. It can also lead to cost inflation down the line as schemes have to proceed from very preliminary designs.

Revenue v capital: distorted incentives and revenue funding squeeze

Current funding mechanisms favour capital over resource spending, even when this may not represent best value for public money. Ultimately, this could be expected to eat away at the productivity of public spending and could also have other unintended consequences if new capital schemes are prioritised over maintaining existing infrastructure, supporting bus networks and other initiatives which play an equally key role in meeting wider social and economic objectives.

Recommendations

Based on our analysis, we conclude the report with the following recommendations.

Improved understanding of local transport funding mechanisms

Although public debate around local transport funding centres on Department for Transport (DfT) grants, a larger share of transport spending is actually funded by DCLG. Deep cuts in DCLG funding can therefore have a severe impact on transport spending even as DfT funding is on an upward trend. We hope that this report improves awareness, across government, of the variety of funding mechanisms which support local transport and that this leads to a more balanced and better overall deal for local transport at the next Spending Review.

Greater long term funding certainty

Greater certainty over central government funding cycles would enable local authorities to focus on the long term picture and to allocate internal resources and deliver capital schemes more efficiently and effectively. Interviewees suggested five to ten year allocations as a sensible time range and this is something that we recommend HM Treasury (HMT) and the DfT consider at the next Spending Review.

Devolution in place of piecemeal competition

Constant bidding competitions create short term uncertainty, which makes it difficult to plan staffing and other resources efficiently. Moreover, constantly having to bid for small capital grants diverts already scarce resources from more productive activities and amounts to a deadweight loss. We would like to see a move away from piecemeal funding competitions and towards greater devolution based around formula grants or less onerous application processes. This would allow local authorities to prioritise those projects which best address local issues whilst being able to quickly respond to a changing context.

Greater predictability over competitive funding rounds

Despite the move towards greater funding devolution, some transport funding may well continue to be allocated on a competitive basis. If this is to be the case, then we would encourage government departments to set a clear grant award timetable far enough into the future similar, for example, to the rail franchising programme or to rail Control Periods. This would enable local authorities to plan their resources, from scheme development through to delivery, in a more efficient way, squeezing more value out of available resources.

Review grant conditions and accounting treatment of capital and revenue spending

The distinction between capital and revenue spending is often a false dichotomy and this can prevent local authorities from adopting the best value for money solution or from getting the most out of new infrastructure. We recommend that HMT, DCLG and DfT review the rules that apply to the classification of local transport expenditure, as well as the conditions attached to funding grants, so as to introduce greater flexibility and clarity into the system where this is justified. We believe that this could ultimately improve the productivity of public spending.

Part 1: Background information and funding context

1. Introduction

1.1. According to the Institute for Fiscal Studies (IFS), the period between 2010/11 and 2014/15 saw the largest real terms cut in total UK public spending since at least the 1960s[1]. Departmental resource spending has been cut by an average 7.8% in real terms, with unprotected departments seeing cuts more than twice as high. At the same time, capital spending has fallen by 13.6%. And according to the 2014 Autumn Statement, there is yet more to come, with an implied reduction in departmental budgets of 14.1% between 2015/16 and 2019/20.

1.2. Given this bleak outlook, it could be argued that local transport capital funding has not fared too badly over this Parliament. Our analysis of successive Budgets suggests that, after a substantial cut between 2010/11 and 2012/13[2], local authority funding from the DfT has been gradually recovering. And, by 2015/16, the budget available to local authorities through key capital grants[3] will be 16% higher in real terms than at any point during the term of the previous government[4]. This seems to reflect a growing consensus across government about the importance of investment in local transport networks in order to support growing economies[5].

1.3. Despite this, local authorities face significant resource funding challenges which could threaten their ability to deliver this growing volume of capital spending in the most efficient and effective way. These constraints will also have an impact on the on-going operation and maintenance of new facilities which could reduce the future benefits which are gained from the initial investment.

1.4. The key issue is the sustained decline in resource, or revenue, funding which has accompanied the recent boost in transport capital budgets. Our analysis suggests that the planned increase in DfT's overall capital budget between 2014/15 and 2015/16 will be outweighed by a ratio of 2:1 by cuts to its resource budget. But more importantly, this has been driven by deep cuts to funding from the DCLG, which, combined with Council Tax, makes up the majority of local transport funding in England outside London.

1.5. But why should cuts to resource funding have anything to do with the delivery and effectiveness of capital schemes? One reason is that it takes a certain proportion of resource funding to deliver new investment. Much of this can be 'capitalised', which means that scheme-related resource spending is funded from capital grants. However, the emerging skills gap in local transport and the uncertainty caused by bidding competitions can have a negative impact on local authorities' ability to plan ahead and deploy resources in the most effective way.

[1] IFS Green Budget 2015 http://www.ifs.org.uk/uploads/gb/gb2015/ch5_gb2015.pdf, p.109
[2] We estimate that this amounted to close to a 25% real terms cut in DfT's local transport budget relative to the 2010 pre-election budget.
[3] Including DfT's contribution to the Single Local Growth Fund
[4] See ***pteg*** (2013) Spending Review: Transport Number Crunch http://www.pteg.net/resources/types/briefings/hmt-2013-spending-review-transport-number-crunch; our analysis indicates that DfT funding to be made available in 2015-16 through key local transport capital grants will exceed the previous government's 2010-11 budget by 16% in real terms.
[5] See, for example, ***pteg*** (2014), Transport works for growth and jobs. http://www.pteg.net/resources/types/reports/transport-works-growth-and-jobs; and HMT (2013), Investing in Britain's future. https://www.gov.uk/government/publications/investing-in-britains-future

1.6. Local transport resource spending covers a lot more than just scheme design, procurement and project management. It also includes staff involved in public consultation, marketing, operations and, crucially, all the officers doing the planning, policy and strategy necessary to devise, develop and prioritise schemes.

1.7. The other key reason is that the distinction between capital and resource spending is, to some extent, an artificial one. The term capital spending, or investment, tends to be used to refer to long-lived assets which provide a stream of benefits, and are repaid, over a much longer period of time than that over which the scheme is delivered. So, for example, highways maintenance undertaken by local authorities tends to be mainly treated as resource spending because it is a regular activity undertaken year on year. However, the effect of a given maintenance activity may well last for a longer period of time. And, moreover, maintenance may serve to extend the useful life of a long lived asset thereby delaying the need for entirely new investment. So, despite the accounting distinction, capital and resource spending often contribute towards the same objective, and this is particularly so in the case of transport.

1.8. One less obvious challenge arises from the fact that much of the recent increase in local transport capital funding has been allocated via competitive grants. This forces local authorities to divert already scarce revenue funded resources towards time-consuming bids and also creates added uncertainty which makes it more difficult to plan resources efficiently, rendering an already difficult situation worse.

1.9. The purpose of this report is to better understand how resource funding constraints are affecting the delivery of local transport capital schemes and how this is likely to evolve over the next few years. The report concludes by proposing some relatively simple measures through which central government could help ensure that transport funding gets the biggest bang for its buck.

1.10. The report is structured into three main parts:

- Part 1 (Introduction plus chapters 2-3) provides background information on local government and local transport funding and expenditure.
- Part 2 (chapters 4-7) summarises the results of an online survey and one to one interviews with a sample of local government officers working in transport departments.
- Part 3 (chapter 8) summarises our findings and puts forward a set of recommendations.

2. Local government funding and expenditure

Funding and spending context

2.1. Although local transport is seen as the preserve of the DfT, we estimate that, in 2014/15, the DfT will have contributed only around £3 billion to local authority budgets, compared to an estimated gross expenditure of over £13 billion[6] on transport functions. If we exclude capital spending and funding linked to the Greater London Authority (GLA), the corresponding figures would be close to £2 billion from the DfT, compared to total spending of £10 billion. The difference between the two figures is comprised of local income from sales, fees and charges, from Council Tax and from DCLG.

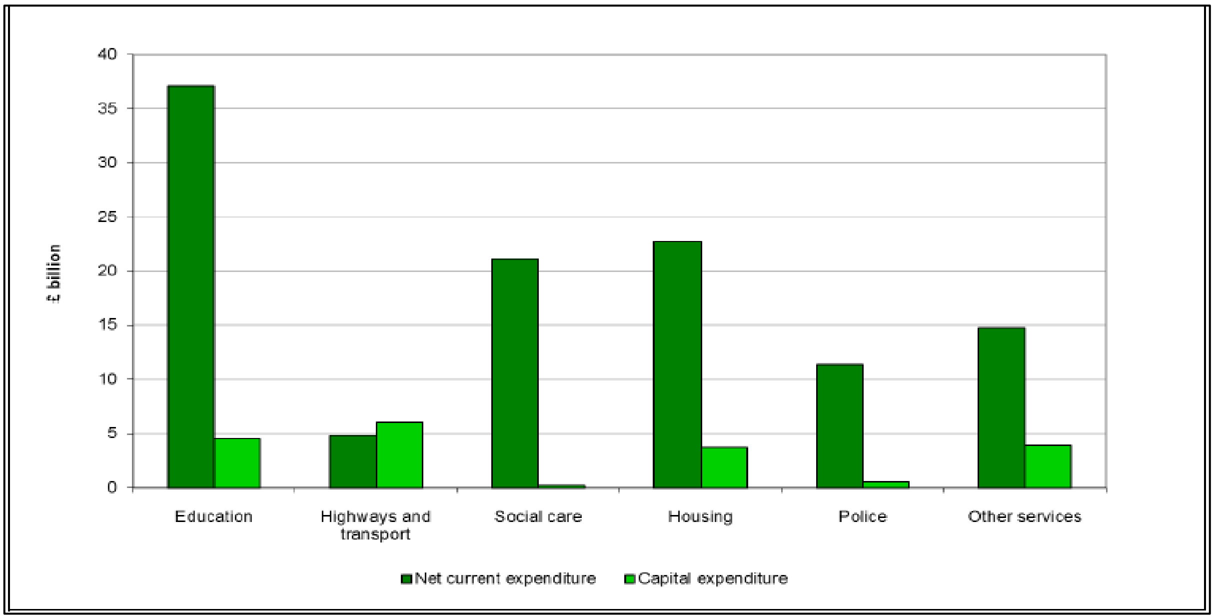
2.2. Although it is difficult to calculate the figure precisely, **we estimate that DCLG's contribution to local transport budgets outside London is close to twice as large as DfT's**. DCLG funding plays an even greater role in the context of resource spending, given that much of DfT's funding comes in the form of capital grants. In order to understand the financial constraints facing local transport and highway authorities it is therefore essential to understand wider trends in local government funding and expenditure.

2.3. Local government funding is a complex area, given the sheer diversity of grants and mechanisms, degrees of ring-fencing and the variety of services which this funding supports. But a few key background facts should help better understand where transport fits into the wider picture. In this chapter, we try to highlight key trends and their implications for local transport.

2.4. Figure 1 shows the overall level of net[7] local government expenditure by service type, split by capital and revenue, for 2012/13, the latest year for which information is available. Education, housing and police are essentially funded from ring-fenced sources, such as direct grants from relevant government departments (mainly Department for Education, Department for Work and Pensions and the Home Office) and local revenue (mainly rental income from council properties).

[6] This is a projection based on outturn DCLG statistics for 2012/13.
[7] Net of sales, fees, charges and other income, which amounted to £2.8 billion in 2012/13, bringing gross current expenditure up to £7.6billion.

Figure 1. Local government net expenditure by service type 2012/13



Source: DCLG (2014), Local Government Financial Statistics England No.24.

2.5. The majority of transport capital expenditure has typically been funded by direct grants from the DfT, the largest of which (excluding GLA grants) being the Highways Maintenance grant which totalled close to £800 million in 2014/15 and will come to almost £1bn per year from 2015/16 onwards. With the move towards the Single Local Growth Fund in 2015/16, some of the grant funding previously provided by the DfT will no longer be ring-fenced to transport although Local Authorities and Local Enterprise Partnerships (LEP) will need to make the case to central government departments how they intend to spend the money at least at a strategic level.

2.6. On the other hand, the majority of transport revenue spending, as well as revenue spending on social services; environment; culture; planning; fire and rescue; and central services is funded from non-ringfenced sources. Altogether, net spending on this group of services came to around £50bn in 2012/13.

2.7. In 2012/13, about half of the net spending identified above was funded from Council Tax (£22.6bn) and Council Tax Benefit Grant (£4.2bn). The remainder came from DCLG's Formula Grant, which was made up of redistributed non-domestic rates (£23.1bn) and Revenue Support Grant (£0.4bn). Starting in 2013/14, a proportion of non-domestic rates (£10.8bn) is now retained by Local Authorities at source, with the remainder of generated income reverting back into the Revenue Support Grant. Between 2008/9 and 2010/11, DCLG also distributed an Area Based Grant (worth £4.3bn in 2010/11), which was aimed at areas of high deprivation.

Key recent changes to local government funding

2.8. If we take non-ringfenced funding sources, there have been seven main policy changes introduced by the current government:

- The withdrawal of Area Based Grants in 2011/12;
- The rolling in of a number of direct grants into Formula Grant in 2011/12, accompanied by changes in the allocation formula and reductions in the overall level

of funding available - this included the DfT's Special Grant for the English National Travel Concession;

- Introduction of the New Homes Bonus[8], introduced in 2011/12 and averaging around £0.5m per year;
- Reductions in Revenue Support Grant, mainly taking place in 2012/13, 2014/15 and 2015/16;
- Introduction of Business Rates Retention in 2013/14, which has had some distributional impacts for the most deprived urban areas. Due to transition funding, most of these impacts will be felt during 2014/15;
- Introduction of ring-fenced Public Health funding in 2013/14, worth around £2.7bn per year;
- Introduction of the Better Care Fund in 2014/15, aimed at integrating health and social care services. Total funding comes to £3.8bn but is essentially a de-ring-fencing of NHS money. However, there may be distributional implications as it will be allocated by formula.

Single Local Growth Fund

The idea of a Single Local Growth Fund (SLGF) was introduced in 2013, following Lord Heseltine's report into local economic growth, and will come into effect from 2015/16 onwards. The SLGF essentially pools together previously ring-fenced grants from the DfT, DCLG and the Department of Business Innovation and Skills (BIS), alongside some new funding, into a single grant worth around £2bn per year.

The DfT will contribute around £1.2bn of the annual total, the majority of which has come from Major Schemes, the Integrated Transport Block, the Local Sustainable Transport Fund and DfT's contribution to the former Regional Growth Fund. Funding is being allocated mainly on a competitive basis with decisions having already been made on the distribution of about £7bn. Money is allocated to Local Enterprise Partnerships on the basis of Strategic Economic Plans produced for their area.

2.9. There have been some other important policy changes affecting ring-fenced local government funding, notably in the areas of welfare reform, transport, skills and economic development. In relation to welfare reform, we assume in this paper that the impact of policy changes will be felt only on ring-fenced services. In practice, however, these changes are likely to have a knock-on effect on the demand for other council services, in particular social care, which could further squeeze the amount of funding available for transport and other services.

Impact on metropolitan districts

2.10. Table 1 summarises the impact of recent policy changes on local government resource spending power to 2015/16[9]. The figures show that, in general, metropolitan districts

[8] The New Homes Bonus is a grant paid by central government to local councils. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.

[9] The variety of funding sources and changes in local authority responsibilities make it difficult to compare the financial position of local authorities over time. For that reason, DCLG has produced its own estimate of local authorities' resource spending power since 2010/11, which attempts to take all relevant changes into account. Although some stakeholders have disputed the accuracy of this

were hit the hardest at a very early stage due to the withdrawal of the Area Based Grant (ABG). Subsequent cuts have been more evenly spread between different authority groupings but the severe pain from the first round of cuts is still being felt across metropolitan areas. Figure 2 shows the profile of cuts over time.

2.11. What this table does not show is the relative scale of cuts between individual authorities. The withdrawal of ABGs hit the largest metropolitan districts especially hard, with nominal cuts close to 9% in some areas. Subsequent reductions in Formula Grant had the biggest effect on those authorities with a proportionately narrow council tax base, including both poorer urban and rural districts, as well as those with a high rate of unemployment. The implementation of business rates retention is likely to have the most negative effect in those areas with persistently high unemployment rates. However, this is one funding stream which has the potential to grow over time as the economic recovery begins to set in. The New Homes Bonus has favoured fast growing suburban authorities in the South East whereas the Public Health grant and NHS social care funding have been more favourable to London boroughs and large urban districts.

Table 1. Local Authorities change in resource spending power since 2010/11

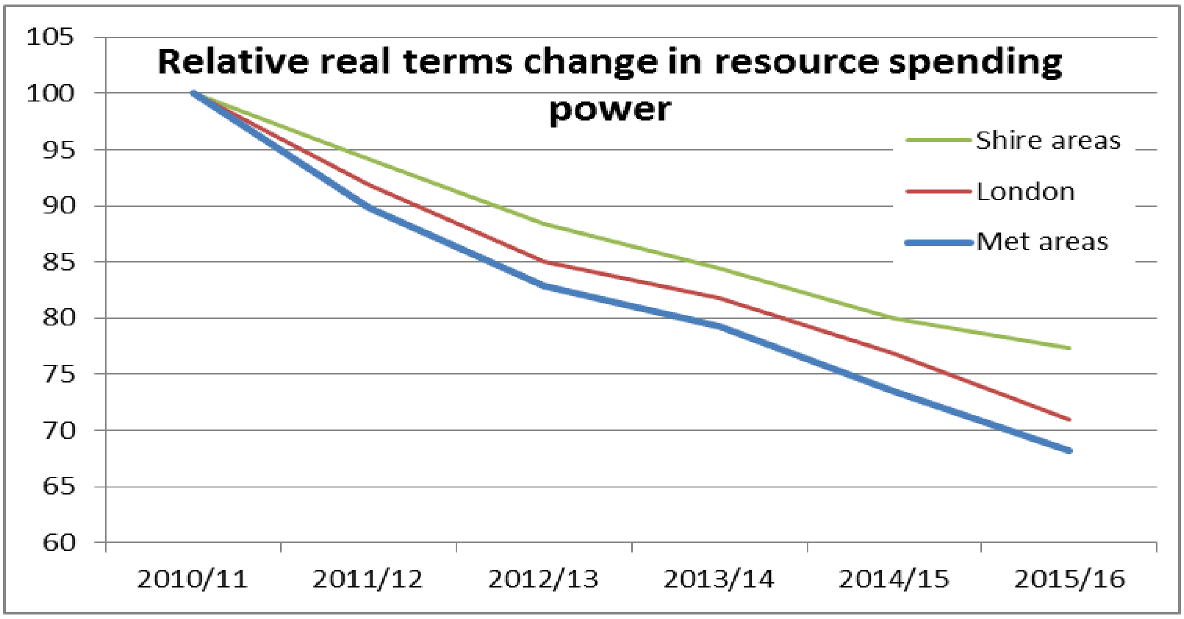
	11/12	12/13	13/14	14/15	*15/16*	Cumulative effect (2010/11-2015/16)	**C.E. (real terms)**
Met areas	-7.0%	-4.1%	-1.2%	-4.6%	*-3.6%*	-22%	**-35%**
London	-4.9%	-4.0%	-0.8%	-3.4%	*-4.2%*	-18%	**-31%**
Shire areas	-2.6%	-2.8%	-1.5%	-2.9%	*-0.5%*	-11%	**-24%**

N.B.: includes NHS Public Health grant, transition grants and council tax grants; RPI inflation: 2014/15 inflation assumed to equal annual inflation to December 2014, i.e. 1.6%; 2015/16 inflation assumed to equal Bank of England's target of 2%.

*Source: **pteg** analysis based on DCLG Local Government Finance Settlements and analyses of changes in local authorities' revenue spending power*

indicator, it remains the only consistent measure of local government's financial position available to us.

Figure 2. Changes in local government resource spending power 2010/11 to 2015/16



*Source: **pteg**, based on DCLG Local Government Funding Settlement figures.*

2.12. Figure A, in the appendix, gives an idea of the relative distribution of cuts across England. It shows the biggest impact on urban unitary authorities[10], metropolitan urban districts in the North West, South Yorkshire and the West Midlands, as well as parts of Norfolk, Cumbria and Northumberland. Some London boroughs, as well as some districts to the South West of the capital, are actually expected to see a nominal increase in funding over time.

Declining funding and growing costs of service provision – the 'jaws of doom'

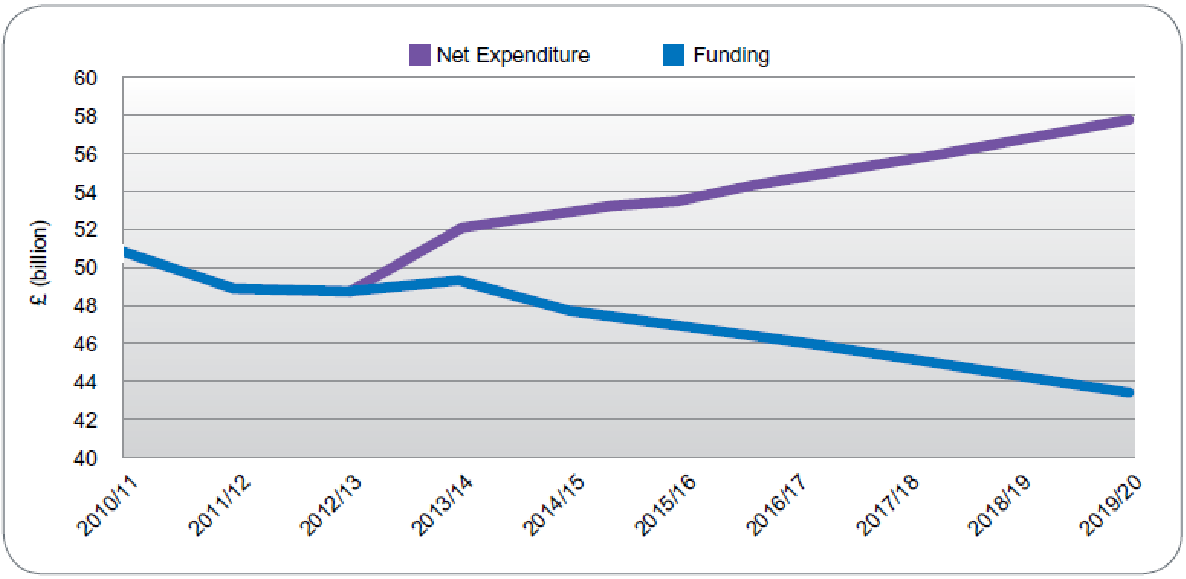
2.13. Although the funding cuts highlighted will, on their own, have had severe implications for local services, several stakeholders including the Local Government Association (LGA), SIGOMA (representing Municipal Authorities), ***pteg*** and individual local authorities have highlighted the double whammy that will result from the expected increase in the cost of service provision. For example, our own analysis suggests that the cost of the English National Concessionary Travel Scheme in Passenger Transport Executive (PTE) areas (which Local Transport Authorities have a statutory obligation to reimburse bus operators for) is likely to increase at the rate of inflation over the next decade, while funding is declining at least in line with cuts in local government resource funding[11].

2.14. The most comprehensive analysis of this issue has been done by the LGA[12] in a 2013 report. Prior to the LGA's work, the London Borough of Barnet had produced its 'graph of doom' in mid-2012 and Birmingham City Council (BCC) produced its 'jaws of doom'

[10] E.g.Nottingham, Derby, Leicester, Bristol, Plymouth, Norwich.
[11] ***pteg*** (2012), Concessionary Travel: the funding time bomb for PTEs. http://www.pteg.net/resources/types/briefings/concessionary-travel-funding-timebomb-ptes
[12] LGA (2013), Future funding outlook for councils from 2010/11 to 2019/2020,

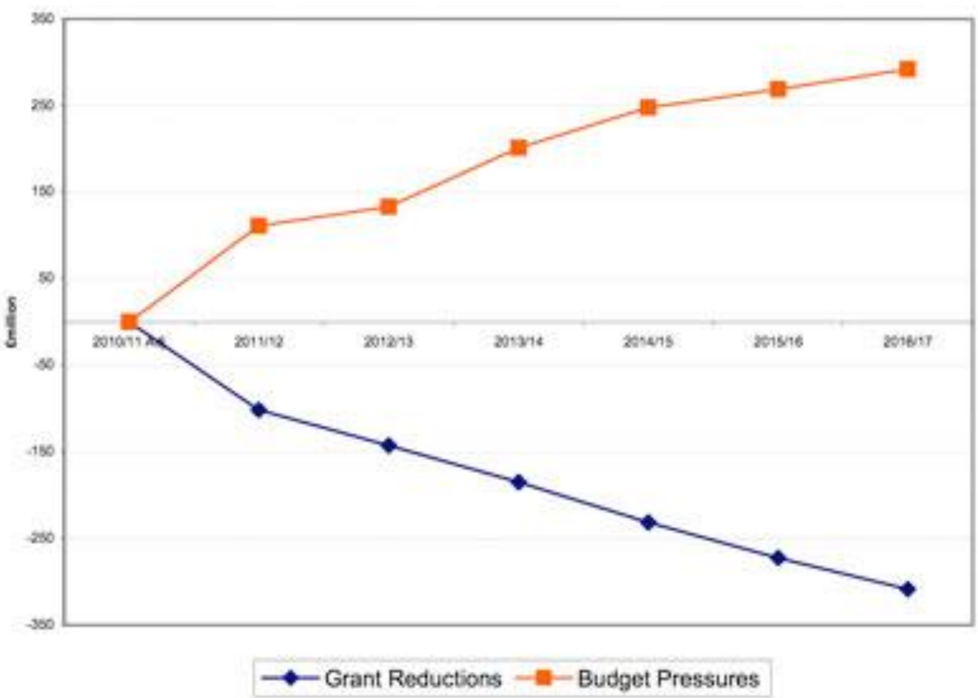
graph at the end of 2012. The key graphs from the LGA report and BCC's press release are reproduced below in figures 3 and 4.

Figure 3. Projected local government funding against net expenditure



Source: LGA (2013) Future funding outlook for councils from 2010/11 to 2019/20.

Figure 4. Birmingham City Council's 'jaws of doom' graph



Source: Birmingham City Council budget consultation document (2012)

2.15. The LGA's forecast suggests that the cost of service provision will increase broadly in line with inflation. This is largely driven by above inflation rises in the cost of adult social services which, in turn, is assumed to squeeze the amount of funding available for other services.

2.16. While the LGA's analysis shows funding matching expenditure between 2010/11 and 2012/13, it does not tell us what local authorities have had to do to in order to achieve this. The graph can therefore be misleading when used to assess the impact of funding cuts to date. BCC's graph is therefore perhaps more appropriate to describe the cuts in spending that have taken place as the result of grant reductions, although it does not immediately tell us how cuts relate to base levels of expenditure.

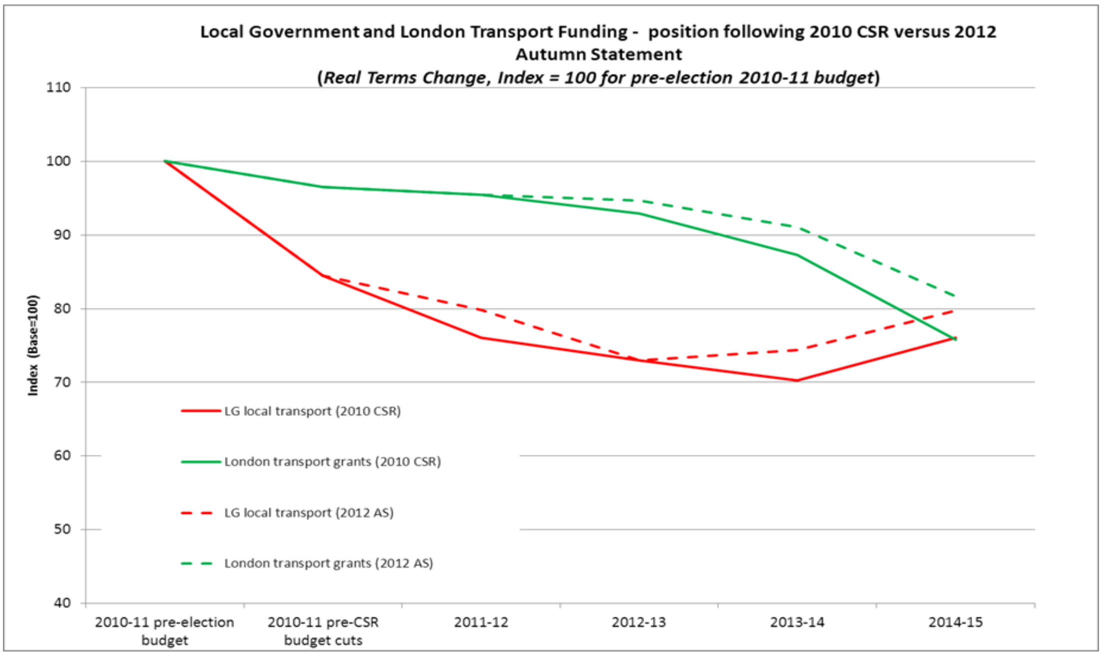
2.17. It could be argued that no provisional DCLG budget exists for years beyond 2015/16 and hence that forecasts of a funding crisis by 2020 are speculative. While it would be good news if these forecasts turned out to be wide of the mark, recent analysis of the 2014 Autumn Statement by the Institute for Fiscal Studies suggests that the pace of government cuts between 2015/16 and 2019/20 could actually outstrip those observed between 2010/11 and 2014/15[13]. Moreover, local government funding is one of the largest unprotected budgets and is therefore likely to be disproportionately hit by future cuts.

2.18. Our analysis suggests that, whichever way one looks at it, there will continue to be severe pressures on local government revenue funding in the near future.

3. Local transport funding and expenditure

3.1. DfT local transport funding saw a big cut in 2010/11. Our analysis of successive budgets[14] suggests that capital funding has since been gradually recovering (see figure 5), although this been funded in part by sustained cuts to revenue budgets.

Figure 5. Local government local transport funding following 2010 CSR and 2012 Autumn Statement.



*Source: **pteg** (2013), Transport number crunch,* *http://www.pteg.net/resources/types/briefings/transport-number-crunch*

[13] IFS (2015), Green Budget 2015, chapter 7. http://www.ifs.org.uk/uploads/gb/gb2015/ch7_gb2015.pdf

[14] ***pteg*** (2013), Transport number crunch. http://www.pteg.net/resources/types/briefings/transport-number-crunch

3.2. By 2015/16, the budget available to local authorities through key capital grants[15] will be 16% higher in real terms than at any point during the term of the previous government[16] (see table 2).

Table 2. DfT capital budget (£million), 2014-15 to 2020-21

	2014-15	2015-16	2016-17	2017-18	*2018-19**	*2019-20**	*2020-21**
HS2	-	832	1,729	1,693	*3,300*	*4,000*	*4,498*
Highways Agency	*1,652*	1,497	1,907	2,316	*2,614*	*3,047*	*3,764*
Net Rail	*4,157*	3,548	3,681	3,770	*3,789*	*3,824*	*3,859*
TfL capital grant	*928[i]*	925	941	957	*973*	*990*	*1,007*
LA majors	*497*	819	819	819	*819*	*819*	*819*
LA maintenance	*779*	976	976	976	*976*	*976*	*976*
ITB	*450*	458	458	458	*458*	*458*	*458*
LSTF	*80*	100	?	?	?	?	?
Pinchpoint fund	*80*	?	?	?	?	?	?
RGF	*175*	?	?	?	?	?	?
Other (e.g.: cycle ambition, green bus)	?	?	?	?	?	?	?
	8,900	*>9,500*	?	?	?	?	?

***Notes**: (i) under resource spend in DfT's 2010 CSR press release, presumably in error.*
(*) Beyond the usual timeframe of a Spending Review

*Source: HMT 2013 Spending Round; originally published in **pteg** (2013), HMT 2013 Spending review: transport number crunch.*

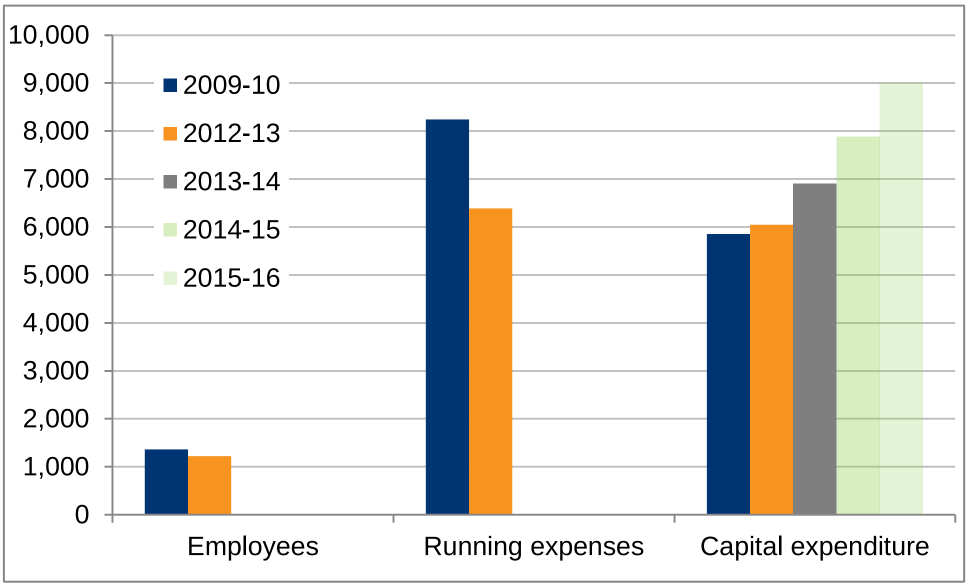
3.3. This seems to reflect a growing consensus across government about the importance of investment in local transport networks in order to support growing economies. At the same time, there has also been a trend towards an increased number of competitive grants including several rounds of the Local Sustainable Transport Fund, the Pinchpoint Fund, the Cycle City Ambition grant, two rounds of the Better Bus Areas competition and the Regional Growth Fund (which has a transport component but is administered by BIS). Moreover, a substantial proportion of the Integrated Transport Block and Major Schemes budgets will revert into the Single Local Growth Fund, which has already required significant expense in bidding costs by local authorities.

3.4. How, then, have these different trends for DfT and DCLG funding affected transport spending? DCLG's annual report 'Local Government Financial Statistics England' sheds some more light on this issue. Figure 6, below, represents the absolute level of spending on transport services by local authorities in England in 2009/10, 2012/13, in the case of capital spending, in 2013/14 (this reflects the latest figures available at the time of writing). The figures are split into employee costs, running expenses and capital spending, and include the GLA and London Boroughs[17]. In the case of capital expenditure, we have projected expenditure based on the information provided in the 2013 Spending Round.

3.5. These figures confirm that there has been a recent recovery in local government capital spending. Relatively steady capital budgets in the first two years of this Parliament have been followed by real terms growth since 2013, which is predicted to continue in 2014/15 and 2015/16.

[15] Including DfT's contribution to the Single Local Growth Fund.
[16] See ***pteg*** spending round paper and budget number crunch for an in-depth analysis: **pteg** (2013), HMT 2013 Spending Review: transport number crunch. http://www.pteg.net/resources/types/briefings/hmt-2013-spending-review-transport-number-crunch
[17] The Local Government Financial Statistics includes separate capital spending figures for the GLA. In 2009/10 that figure came to £2.699bn; in 2012/13 it was £3.016bn and in 2013/14 it was £3.378bn.

Figure 6. English Local Authority transport spending (current prices)



Source: ***pteg*** *analysis based on DCLG (2014), Local Government Financial Statistics No.24*

3.6. In contrast, **between 2009/10 and 2012/13, total transport-related employee costs went down by 10% and other running expenses fell by 22%** (both figures in nominal terms). The reduction in employee costs is broadly in line with the general trend in local government purchasing power (down 5% in shire areas and 11% in metropolitan areas between 2010/11 and 2012/13) while running costs have been cut at an even faster pace.

3.7. The reduction in running expenses seems to have come largely from substantial cuts in general procurement costs (which include consultancy fees); funding for subsidised bus and rail services; on-going maintenance and operations of highways and public transport networks; traffic management; and road safety initiatives. On the other hand, the cost of concessionary reimbursement, one of the largest single items of revenue expenditure, remained relatively stable over this period at close to £1.2bn per year.

3.8. The reduction in staff costs was primarily driven by cuts in highways maintenance, traffic management, road safety and parking departments. Meanwhile, public transport coordination (PTC) and transport planning, policy and strategy (TPPS) saw an increase in staff-related costs. One factor explaining the increase in PTC and TPPS staff costs could have been the introduction of the Local Sustainable Transport Fund (LSTF) which provided mainly revenue funding, much of which has gone towards labour-intensive schemes such as behaviour change, education and marketing initiatives. However, all this funding is time limited and, once it runs out, these activities will inevitably stop unless savings can be found in other parts of the revenue budget.

3.9. Other factors explaining this increase in staff-related costs this could be reductions in consultancy spending, internal re-structuring (where staff roles have been re-categorised) or the need to expand certain areas of the organisation to cope with the increase in competitive grant funding.

3.10. Moreover, aggregate administrative figures tell us very little about differences between authorities. For example, London boroughs and the GLA are likely to make up a substantial proportion of total staff costs and, over the period for which data is available, these authorities have seen a very different trend in both revenue and capital funding to other parts of the country (see, for example, figure 5).

3.11. In order to gauge whether differences between authorities could form part of the explanation, we have looked at the published annual accounts for the relevant transport bodies covering the six English metropolitan areas, and whose staff would likely come under the definition of TPPS or PTC. While there are important variations between authorities, explained in part by administrative re-structuring and changes in responsibilities, **the six PTEs have seen an average reduction[18] in the number of employees of almost 10% between 2009/10 and 2013/14**.

3.12. Overall, our analysis confirms that local authority transport revenue spending has gone down significantly in recent years and will continue to fall in the near future, at a time when capital funding is on an upward trend. Although there are signs that the impact of funding cuts has not been uniform, it is difficult to affirm with certainty how different transport services have been affected. We turn to this question in the second part of the report, where we discuss the results of an online survey and in-depth interviews with a sample of local transport and highways authorities.

[18] We have excluded staff changes due to expanding or reducing responsibilities in order to ensure that this is a like for like comparison as far as possible.

Part 2: Research findings

4. Data collection methodology

4.1. Having established that Local Government Transport Departments are coming under increasing budget pressures, this section will now present evidence from empirical research to explore the full impact of this on the ground. To add depth, and substantiate our understanding, we aimed firstly to gather evidence on the impact of revenue funding cuts to date and secondly to gauge views on the likely implications of revenue funding cuts to the future delivery of capital schemes.

4.2. The research was run in two parts:

- A short survey (see Figure B in the Appendix), comprising fifteen questions, in the form of statements which respondents are asked to express degree of agreement with, as well as multiple choice questions. The survey was designed to understand the current funding context on transport in local government, exploring how revenue cuts had impacted on different functions and how different authorities had responded to this. The survey was circulated by Association of Transport Coordinating Officers, Core Cities and the Association of Directors of Environment, Economy, Planning and Transport, covering the majority of Local Government transport teams in England. This enabled a broad spread of responses. The survey received 21 full or partial responses, with all questions receiving at least 14 responses.
- One-to-one interviews with seven senior officers from local transport and highway authorities to explore in greater depth some of the issues highlighted in the responses to the online surveys. Interviews were completed with PTEs, Combined Authorities, City Councils and County Councils from the Midlands and North of England. Another purpose of this task was to obtain specific examples of how revenue funding constraints have had a direct impact on the planning and delivery of capital schemes.

4.3. All information provided through the survey and the interviews has been anonymised.

4.4. The analysis combines information from the online survey and the in-depth interviews conducted, setting out key common themes and providing insight into their impact on the functioning of Local Government on transport.

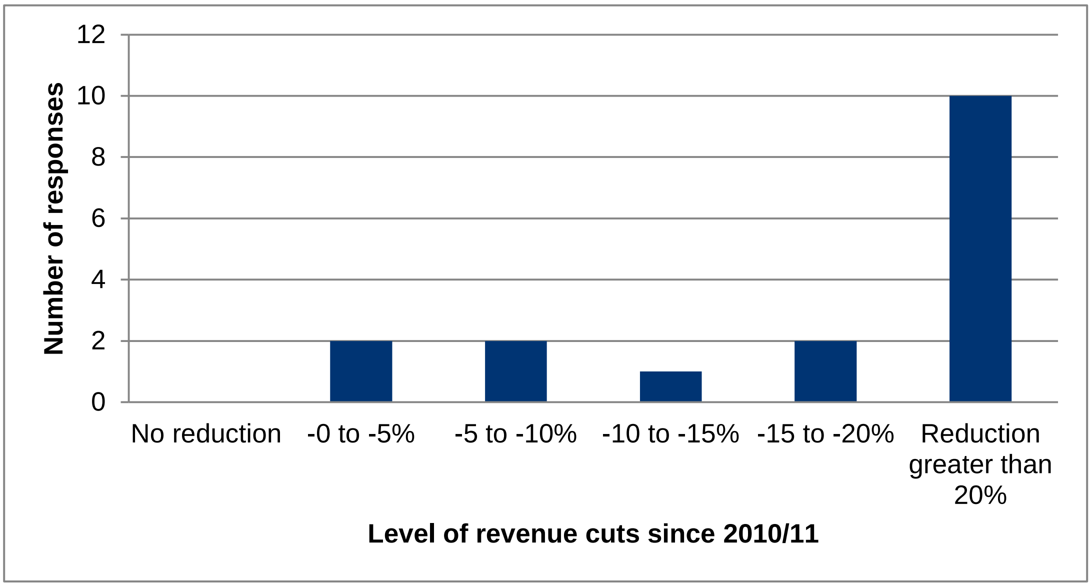
4.5. We first set out the scale of cuts experienced by local authority transport departments. Building on this, we then explore how authorities have responded to increasing revenue budget pressures and the implications for the delivery of capital schemes.

5. Survey and interview results: scale of transport department budget cuts

5.1. A key objective of the survey was to explore the extent of revenue budget cuts experienced by Local Government transport departments, in effect setting out the scale of revenue pressures faced. Respondents were asked to provide ’an estimate of the change in revenue budget experienced between 2009/10 and 2014/15‘. Of the seventeen responses to this question, ten authorities had experienced a ’reduction greater than 20%’. This is broadly consistent with the evidence discussed in part one of this report.

5.2. Our best estimate of the average cut based on this data is 15%, although this is a lower bound as it assumes that all authorities selecting “reduction greater than 20%” experienced 20% cuts. In the interviews, a number of authorities said they had experienced 50% budget cuts since 2010/11 with further cuts expected. Other authorities interviewed reported no budget cuts in actual terms, implying real terms cuts of around 5-10% due to inflation.

Figure 7. Responses to the level of revenue budget cuts experienced since 2010/11



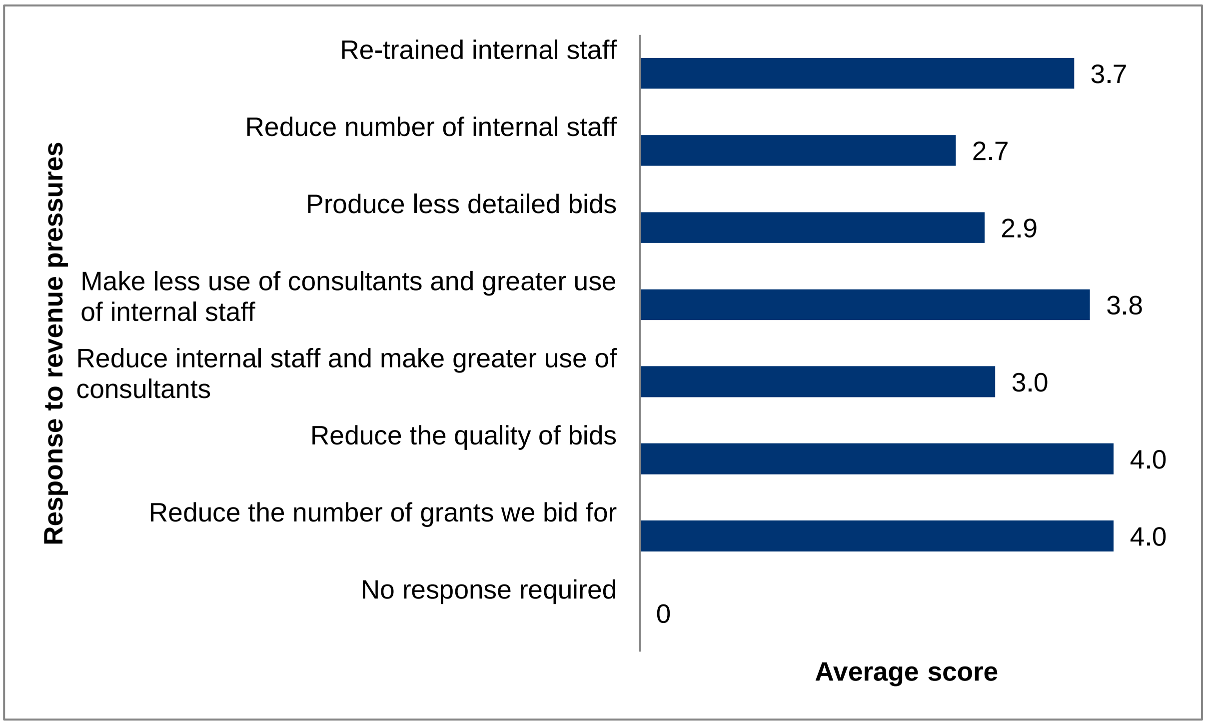
5.3. However, even where budget cuts had been minimal, it was suggested that the increase in competitive capital funding rounds was placing increasing pressure on available resources.

5.4. The interviews indicated that the increasing pressure authorities are facing to reduce revenue spending might not be having the desired impact. A common thought was that cost savings due to revenue budget cuts were being more than offset by reduced efficiency and effectiveness of capital spend.

6. Survey and interview results: response to budget cuts

6.1. Whilst it is important to understand the level of cuts experienced by authorities, what is more central to this report is how authorities have responded to these changes and what functions have been most impacted upon. Respondents were asked to rank a range of responses to declining revenue budgets, with one being the most important response and nine being the least. There was also an option to select “no response required”. No respondent selected this option, suggesting that even where there had been no real terms revenue budget cuts, other factors had created pressures on revenue budgets. The average rankings are presented in figure 8.

Figure 8. Response to revenue funding cuts and pressures[19]



6.2. On average, the three most important ways (those with an average closest to ‘1’ the most important response) that authorities have responded to revenue budget pressures have been to “reduce the number of internal staff”, to “reduce the number of internal staff and make greater use of consultants” and to “produce less detailed bids”. However, all approaches received a significant number of responses, suggesting local authorities have explored a range of options and have come up with different solutions.

Reduce headcount and re-train staff

6.3. Two thirds of survey respondents ranked one of the two options related to reducing internal staff as the most important response to revenue budget cuts. The interviews found the levels of staff reduction had varied widely, ranging from a handful of compulsory redundancies up to one authority losing 45% of staff since 2010, with further cuts expected. With the cuts, and the lack of recruitment especially at graduate level, it was noted that the youngest member of one transport team was now 32 years old. Further staffing cuts were expected in the next year from at least four of the seven authorities interviewed.

6.4. Reducing staff numbers poses a conundrum for authorities. With the current increase in competitive capital funding, workloads have increased but, with large budget cuts, reducing staff numbers has been seen as the only way to protect other local services:

> *“A large part of our revenue budget is set. We have costs such as the national concessionary travel scheme and then we have our vital services and maintenance*

[19] An average response has been generated for each option (i.e. if all authorities answered ‘2’, the average response would be ‘2’) where a higher figure implies that authorities placed greater importance on the response.

which we have to deliver. So in reality many of the cuts are coming out of much smaller areas of the budget and unfortunately staffing costs are one of the easiest things to change".

6.5. Interviewees talked about how this strategy had been successful in protecting the delivery of services and schemes in the short term, but highlighted potential long term impacts:

"The scale of negative effects on Capital Scheme Delivery so far has been mitigated by the redeployment of internal resources however this is not sustainable in the longer term".

6.6. It was apparent that shrinking staff numbers were already causing some problems, particularly the ability to respond to peaks in workload, typically created by capital bid rounds:

"When we get one bid at a time we can just about cope, there might be an impact elsewhere but we can usually mitigate for this. However when bids come back to back or in numbers greater than one there is going to be delays elsewhere, we just haven't got the resource to do everything all the time. We don't have the staff anymore".

6.7. With increasing pressures being placed on a declining staff base, there is a decreasing level of flexibility in authorities' capacity to absorb peaks in workload, making delays in projects more common when staff have to be pulled from other tasks.

6.8. Where individual authorities reported fewer redundancies, staff reductions had mainly occurred through natural turnover, with staff numbers falling by 10-15% through this process. Although this was seen as a more acceptable approach, it was still reported as placing strains on remaining staff. Another response was for authorities to 'up skill' their staff members, increasing internal resource and providing greater flexibility in the skill base. This response however relies on staff members with an appropriate set of skills being available from other areas of the business when required (i.e. it will not work when all members of staff are working at full capacity).

Use of consultants

6.9. Six respondents selected 'reducing internal staff and making greater use of consultants' as their main response. This was the single most common response, with interviewees explaining that they turned to consultants in response to peaks (e.g.: during bidding rounds or during project mobilisation) and for specialist skills. Whilst consultants are more expensive on an hourly basis, fixed price contracts can reduce long-term budget commitments.

6.10. One reason given for the shift from internal staff to consultants was the perceived ability to categorise their expense as capital expenditure, meaning consultants do not put pressure on shrinking revenue budgets[20]:

[20] There were wide variations in accounting rules. The majority of authorities spoken to capitalised the costs of the consultants during the bid phase. However, there were extremes, with some authorities capitalising none of the bidding process and others capitalising internal staff costs as well as the cost of scheme development.

"We are able to capitalise consultants costs meaning that we can use them for short term relief when there are peaks in workloads or we require a specialist skill. This is often around bids when we just don't have the resource to respond".

6.11. The use of consultants was seen as positive in the sense that the additional support allowed for higher quality work to be submitted during workload peaks, reduced the level of upheaval to internal staff and provided a general boost working capacity.

6.12. However, it seems clear that the use of consultants can only replace internal capacity to a point before fees begin to outweigh longer term savings. With increasing uncertainty over budgets and the number of bids to be made, there is a tipping point where the use of consultants will result in increasing costs and will become unsustainable.

Number and quality of bids

6.13. The third most important response selected was to 'reduce the number of grants we bid for'. During interviews, this was also linked with a reduction in the quality of bids. This was a consequence of greater pressure on revenue budgets, on the one hand, and the short lead times associated with the majority of bids, on the other. When a request to contribute to a bid comes onto somebody's desk, one respondent noted that:

"It can easily take over a whole week or more of your time, meaning you have to stop all other projects that you are working on which can impact on delivery times".

6.14. 45% of respondents to the online survey indicated that there had been a recent capital funding round that their authority had decided not to bid for due to a lack of specialist staff or available revenue budget.

6.15. Interviews suggested that this number might in practice be even higher, with all interviewees suggesting that they had to be selective and miss certain bidding rounds out due to staffing pressures:

"Bids create a real peak in work flow that we can struggle to cope with sometimes and which lead to some very long days in the office, this is made even worse when bids come in back to back or close together as there can be "no end in sight".

6.16. Bidding puts additional pressure on already scarce resources; not only does this mean that resources are diverted away from delivery and tangible outputs but it also means that authorities will increasingly find it difficult to bid for grants and some of the available money may go unspent or get misallocated. With revenue budgets cuts looking set to continue, this is going to become more problematic.

7. Survey and interview results: impact on transport delivery

7.1. The survey and interviews identified five key areas that had been impacted upon due to changes in the funding process. These were: strategy, planning and scheme development, the cost of bidding, the cost of uncertainty, a skills shortage, and distorted incentives.

Strategy, planning and scheme development

7.2. Ten out of the fifteen authorities rated ‘scheme development’ as the first or second most negatively impacted area, with ‘strategy and planning’ selected nine times. It was apparent that both aspects of work have been scaled back, with resources focussed on bidding for new money and on delivering prior commitments.

7.3. Interview responses suggest that this has not yet had a visible impact on the delivery of capital schemes. Authorities generally have a long term strategy and within this, a range of schemes worked up to various levels of readiness. So far, this has helped authorities to mitigate against the reduction in scheme development activity[21]. However, the number of schemes left in reserve seems to have dropped quickly. One interviewee said:

> *“The problem is we now have virtually no schemes that are worked up to a suitable level to put forwards for future funding rounds. This problem is really going to become apparent over the next couple of years”.*

7.4. A common phrase through interviews was that the “bottom drawer of schemes was becoming empty”. This implies that authorities no longer have schemes that they can draw on to put into ad hoc funding rounds:

> *“We had a large reserve of schemes at the start of the cuts period. However this is all gone and the problem is we cannot afford to replace them. We have no money as the capital budget is fully used and we cannot recharge any of the costs – so how are we going to develop new schemes?”*

7.5. With a reduction in the number of schemes ready to go into funding rounds more work will be required to prepare bids, increasing pressure on available resources and potentially constraining authorities’ ability to respond to short term funding competitions.

7.6. Preparing schemes quickly could also reduce certainty over the costs and benefits. As a result, funding could be increasingly allocated to sub-optimal projects and it is also possible that greater deviations from projects costs and benefits become more common. Savings from recent cuts to revenue budgets could therefore end up being offset by reduced effectiveness and greater time lags for new capital investment.

7.7. The low level of priority given to scheme development was at least partially a response to the current bidding process as authorities were unsure on the nature of schemes that would be required for bidding rounds.

> *“We don’t keep any schemes in reserve as you do not know what funding bids are coming up. We can’t afford to spend time developing schemes and then not have them fit in a bid”.*

[21] This practice varied between authorities. It was common for authorities to have a bank of schemes that they could draw on for funding bids, although this was not always the case, with some preferring to have a smaller list of defined priorities.

Costs of bidding

Quantity and quality

7.8. Seven out of fifteen authorities surveyed stated that 'bid preparation' was the most, or second most, negatively affected area of business. Whilst also cutting the number of bids submitted, there was a general consensus that the quality of bids submitted had decreased due to revenue pressures. Preparing a bid was set out as a time consuming task that creates problems given reduced revenue budgets and staffing. In order to keep up with the number of bids being announced, one interviewee commented that:

> *"With the short lead up and turnaround times provided to us we have no choice but to rush the bid and just do the best job that we can. When you are already working flat out and have no spare resource what else can you do? Does this lead to the highest quality bid possible? No. Has the quality of our bids decreased? I would say yes".*

7.9. Another interviewee added:

> *"It's not that we don't put 100% into bids any more. It's just with less people and more work to do 100% is not what it used to be, it is definitely a lower quality".*

7.10. With very short lead up times and the reduction in scheme development work, the delivery of a project can be compromised from the start, with one authority stating that:

> *"If a project goes wrong the foundations of the problem are usually found in the bidding process. You are fighting fires before you have even started due to the process at the moment. This makes bidding more risky. You either have to deal with the problems at the local level or go begging for more money".*

7.11. Interviewees therefore felt that the risk surrounding some bids was increasing:

> *"We got given three weeks to provide full WebTAG evaluation of a scheme, this was just not possible as it can take months. So we don't know the benefits of the scheme in detail. But also we have the same problems on the costs. Things are getting missed or problems are emerging and creating funding holes because we either couldn't risk resourcing a full costing process or because the timelines didn't let us"*

Deadweight

7.12. To understand the pressure that bidding places on local authority revenue budgets, the survey explored the internal and external budget requirements of different size bids and the delivery of the projects (see annex B for a copy of the survey – this section refers to questions 8-11). Respondents were presented with two scenarios:

- £100 million scheme where DfT was expected to provide £50 million;
- £5 million award from the DfT.

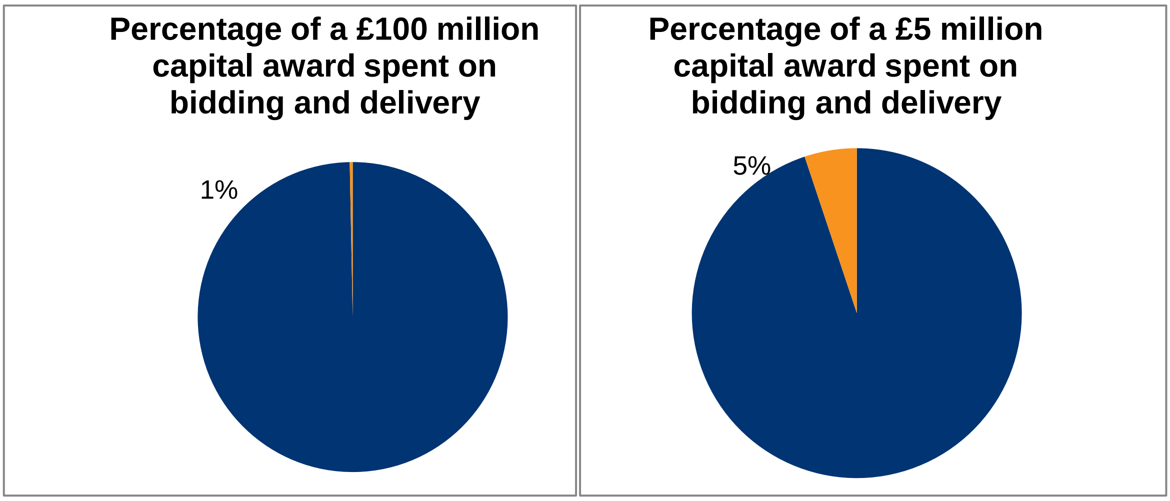
7.13. Focussing on the £100 million scheme, the average answer for bidding-related staff time was around four full time equivalent (FTE) staff years with an average external resource requirement of around £200k. This would suggest spending of around £310,000 on the bid, or **0.3%** of value of the grant.

7.14. Looking at the amount of resource required if the £100 million project was funded, nine of the fourteen respondents selected 8 to 11.9 FTE staff years, with nine also selecting £300,000 plus for external resource. Assuming this amount to be £300,000 (taking into account the lower answers), this gives a range from £540,000 to £660,000 to deliver the project (**0.5-0.6%** of total cost).

7.15. In total, to bid for and deliver the £100 million project, an authority would be looking at a cost of around £850k to £970k. This is in the range of **0.85% to 1%** of total project value.

7.16. Looking at the bid and delivery of a £5 million project, ten of the seventeen respondents indicated that to bid for and to deliver[22] a project of this scale would require 2 to 3.9 Full Time Equivalent (FTE) staff years. Assuming an average staff cost of £30k per annum (based on information gained in interviews), a bid would require £60-120k of staff resources. Additionally, authorities were asked about the level of external resource that they would require. Thirteen of the seventeen respondents selected an amount of over £50k, with nine selecting an amount over 100k. This suggests that the total resource required to bid for and deliver a £5m of capital funding was in the region of £110,000 to £270,000. This amounts to between **2% and 5.5%** of the value of the capital grant.

Figure 9. Comparison of the revenue cost of bidding for and delivering different sized capital funds



7.17. Assuming that the bid takes a similar proportion of scheme-specific revenue spend as in the £100 million example, this would imply bid costs of between £36,000 and £90,000, or 0.7% to 1.8% of the total value of the award (compared to 0.3% for a £100m scheme).

7.18. This evidence suggests that economies of scale exist in bidding for capital grants and delivering capital schemes. Breaking down capital grants into ever smaller funding competitions is therefore likely to reduce the effectiveness of public spending.

[22] The pilot survey revealed that authorities found it difficult to break down the revenue costs of a notional £5m project into bidding and delivery. We therefore decided to ask about the combined cost of bidding and delivery in the hope of obtaining a more accurate if less disaggregate response.

7.19. This evidence also shows that bidding costs can represent a significant proportion of local authority revenue spend on transport capital schemes. Greater emphasis on competitive grants therefore implies fewer resources become available for project delivery, for strategy and scheme development or for spending on other services funded from revenue budgets.

The cost of uncertainty

7.20. As discussed above, submitting bids is a revenue intensive task, consuming a non-negligible proportion of the revenue budget of local authority transport departments. With authorities not always given sufficient advance warning of upcoming bids it becomes more difficult to plan resources effectively. With further uncertainty over whether bids will be won, this also makes it difficult to plan the number of delivery staff required.

7.21. Interviewees talked about the significant risk of bidding for funding and the 'appetite' to take this risk. An interviewee commented:

> *"Surely the key question is about risk appetite for a district to bid and then not be successful? In which case the costs have to be written off".*

7.22. Authorities are left with a decision around the risk and reward for specific funding rounds. There needs to be willingness to bid, and not gain, capital funding, effectively writing off a proportion of the revenue budget.

> *"Bidding is a risk. We capitalise the costs of consultants, but we lose the time that we put in and if we do not win the bid we lose the cost of the consultants. We have to capitalise it out of our existing capital funds which inevitably means that something else has to be compromised down the line".*

7.23. So the consequence of not winning the bid goes further than simply not gaining additional funding, it also acts to reduce local funding pots and potentially prevent other small capital projects being implemented.

7.24. Authorities were found to be more selective about the awards they bid for, but not for reasons of efficiency or maximising outcomes. One authority talked about the consequence of this and how they now avoid bids for certain types of transport project.

> *"We have not bid for money in 'X' area as we have not traditionally been strong there. We tried and were not successful so have not done so again. Rather we have chosen to focus our resources on areas that we are regarded by government as being strong in to try and increase our success in bids."*

7.25. Although this seems a sensible local authority response, it does not necessarily help to address the range of local transport issues in the most effective way.

Skills shortage

7.26. With revenue budgets tightening, authorities have been cutting employee numbers whilst taking on very few new junior staff. Consequently, the talent pool has shrunk and when recruitment opportunities emerge, it can be very difficult to find applicants with the appropriate skill level:

"With the lower level of recruitment the number of graduates taken on has fallen significantly. In turn, this has reduced the number of people in the market with three to five years' experience, making recruitment in this area almost impossible. In turn, the number of graduates coming through is also falling meaning that we are developing a skills gap."

7.27. It can often be the more experienced members of staff who are lost through voluntary redundancy programmes or as the result of uncertainty and worsening working conditions. This has added further to the skills shortage and also seems to be reducing productivity:

"The problem is whilst we have managed to protect our scheme development department from the worst cuts we have lost some of our best staff. Through the cuts process we have not necessarily been able to keep hold of the ones that we would want to. This means that we are short of some specialist skills as well as those that are willing to go the extra mile."

7.28. With other sectors, including the Civil Service, Highways Agency and Network Rail not experiencing similar pay freezes, Local Government is at a disadvantage in the job market.

7.29. A further problem could emerge at the end of the Local Sustainable Transport Fund (LSTF) cycle in 2016. LSTF has been a major revenue funding boost for local authorities, enabling staffing levels to be increased and revenue intensive projects, such as introducing smart ticketing. With the end of the LSTF fund looming and authorities being unsure as to whether there will be a replacement fund, it is possible that significant staffing capacity will be lost and where schemes have been part implemented they may be stopped:

"LSTF has been a major boost to us as it has allowed us to retain a higher number of staff than would have been possible otherwise. This has enabled us to start some very valuable projects such as smart ticketing…with the uncertainty over what is going to happen in 2016 we are not sure what is going to happen to these projects and the staff. As it stands they might stop as we won't have a budget for them".

Revenue v capital: distorted incentives and revenue funding squeeze

7.30. The mismatch between the availability of capital and revenue funding has in some cases changed local authorities' approaches to funding rounds, with authorities bidding strategically in an attempt to reduce on-going revenue budgets.

7.31. In the situation below, the authority in question legitimately bid to replace signalling equipment using a capital fund meaning that on-going revenue funded maintenance would be significantly reduced in the short term:

"Through a recent fund we looked to replace a lot of our signalling equipment. The equipment didn't need replacing as such but by replacing it we were able to get

money from DfT rather than having to fund it out of our revenue costs as the new infrastructure is a capital cost and will be cheaper to run. Revenue resources are scarce so we are always looking at ways in which we can reduce costs".

7.32. Another authority gave us the example of tendering out a set of bus routes operated with a small fleet of buses. Whilst the purchase of a bus may be classed as a capital expenditure its on-going maintenance and running costs are classified as revenue costs. On the other hand, new buses are cheaper to run and maintain. Faced with this problem, an authority may choose to buy its own bus fleet and then procure the operation of services only. The easier availability of capital funding could distort this decision.

7.33. Another critical issue is the fact that cuts in revenue funding constrain an authority's ability to pay for the on-going maintenance and operation of a facility originally paid for by a capital grant. And it can also mean that budgets available for important complementary areas of revenue expenditure such as subsidised bus services or spending on sustainable transport schemes are being squeezed. This can prevent society at large from reaping the maximum benefit from a given initial investment and, in the extreme, it can prevent local authorities from funding revenue schemes which make an vital contribution to wider social and economic objectives.

7.34. One respondent illustrated this problem well with a simple example:

"A bus stop costs us £5,000 to put in and is a capital cost. That cost is not a problem to us, we can go and put lots of new bus stops out there to fill gaps in the network and replace old ones with a better facility. The problem is the £500 cost of annual maintenance per stop. With each new stop we have to do more with less so something has to become more efficient or get cut".

7.35. Another illustration of this issue came in the context of real time passenger information:

"When we first purchased real time information it was a capital cost, we were buying displays and computer equipment. We installed it at most of the stops in our area. However we are in a position where now if we want to update the system and improve it for the user, say by creating a mobile app or updating the database, that would be a revenue cost which we cannot afford. It is a similar story with adding displays to the stops without them. We can afford the expensive bit, purchasing the actual displays, but we can't afford the maintenance or the extra data we would have to store as we would have to pay higher revenue costs. With the decreasing budget we have to do more and more with less money so we just can't keep adding to our asset base"

7.36. One important problem faced by many transport schemes is that while being highly beneficial to society at large, they may not always generate a sufficient revenue stream to pay for their operating and maintenance costs in full. Yet, operation and maintenance can be an integral part of the success of new investment:

"We've just built a new town centre bus station. It is much better than the old outdoor stands that were in a bad way. It's indoor, has nice facilities and creates a much

better impression. However it is going to cost us a lot more to maintain, more cleaners, more lights, heating, and staff. We have to find that money from somewhere else which means we either need to make more savings or cut something. Because we don't run the buses we have very limited scope to make money out of the project, so we cannot cover the revenue costs. This means that we can't provide this standard of service across other parts of our district, we can get the capital to build it but we can't afford to run the things".

7.37. Several respondents also highlighted that pressures on revenue funding mean that areas of expenditure such as subsidised bus networks, sustainable transport schemes and many other initiatives aimed at supporting people into work or education are increasingly under threat. It was recognised that these measures can often be just as effective at meeting wider social and economic objectives as many capital schemes and one respondent argued that "*we risk throwing out the baby with the bath water*".

Part 3: Conclusions and recommendations

8. Conclusions and recommendations

Conclusions

8.1. The next few years could create opportunities for improved local transport provision given the upward trend in capital grant funding from the DfT. However, local authorities face other significant funding challenges which could threaten the effectiveness of new investment and may ultimately undermine the performance of local transport networks.

8.2. Crucially, Local Authorities have seen a sustained decline in resource funding, driven by deep cuts to DCLG funding. At the same time the increase in competitive grants for DfT funding has placed additional pressure on already scarce resources.

8.3. One key challenge is that resource and capital funding are complementary. Some resource spending is essential in order to deliver capital schemes in a timely, efficient and effective manner. Cuts to resource spending can therefore undo the benefits from growth in capital funding.

8.4. Moreover, the distinction between resource and capital spending is, to some extent, artificial. Transport problems can be addressed in different ways. In many cases, resource or revenue schemes can be more effective, and represent better value for money, than capital spending.

8.5. Based on an online survey and in-depth interviews with a sample of local highway and transport authorities, we have tried to understand what the impact of resource funding cuts has been and how this is affecting the delivery of local transport schemes. Our analysis has highlighted four key themes.

Skills shortage

8.6. With falling staff numbers, and a steep reduction in recruitment, there is an emerging skills shortage both in local authorities and in consultancies. This adds to the pressure on existing staff and could create bottlenecks in scheme planning and delivery. The pool of qualified workers with three to five years' experience has shrunk significantly. The problem is only likely to get worse as the next wave of experienced staff retires.

Strategy, planning and scheme development

8.7. Getting local transport capital schemes ready for delivery requires significant resource spending on scheme development in advance by local authority transport departments. However, resource funding cuts have left many local authority transport departments unable to maintain a pipeline, or bank, of schemes once current capital schemes have been delivered.

Cost of bidding

8.8. The growth in competition funding for capital schemes has created additional pressures on declining transport department resource funding given greater unpredictability, both in terms of uncertainty around when such funding competitions will emerge and what they will cover, and in terms of whether or not a local authority's bid will be successful.

8.9. Bidding for grant funding has a non-negligible cost (which we estimate could amount to up to 1.8% of total costs for a £5 million scheme), and creates peaks and troughs in the workload for authorities which have shrinking transport teams which are also losing skilled and experienced staff. This makes it difficult to predict and manage resource requirements.

8.10. They also take staff focus away from scheme delivery and long term strategy and scheme development work. As a result, there is strong evidence that more local transport authorities are reducing the number and quality of bids, or both. There is also widespread concern about the knock-on consequences this has for the delivery of those bids in terms of their ultimate costs and benefits.

Revenue v capital: distorted incentives and revenue funding squeeze

8.11. The current funding rules may distort the decisions of local authorities, who are encouraged to favour capital over resource spending, even when this may not represent best value for public money. Ultimately, this could be expected to eat away at the productivity of public spending and could also have other unintended consequences if new capital schemes are prioritised over maintaining existing infrastructure, supporting bus networks and other initiatives which play an equally key role in meeting wider social and economic objectives.

Recommendations

Improved understanding of local transport funding mechanisms

8.12. The issues identified in this report are ultimately driven by local government revenue funding cuts. DCLG is one of the largest unprotected government departments and has seen some of the biggest cuts. Transport makes up a relatively small proportion of total local government spending and the problems that arise in terms of revenue support for capital schemes seem to be something that does not cross DCLG's radar.

8.13. There is some recognition from HMT and DfT of the revenue and capital funding mismatch for Local Authority transport departments. However, to date little has been done to deal with this. We hope that this report will contribute to addressing this issue and will lead to a better deal for local transport funding overall at the next Spending Review

Greater long term funding certainty

8.14. All our interviewees cited greater funding certainty as a key change that would enable them to allocate internal resources and deliver capital schemes more efficiently and effectively. The main suggestion was for central government to move towards longer funding cycles, with five to ten year budgets being regarded as a sensible way forward.

8.15. The main attraction of longer funding cycles is the ability to think about the longer term rather than constantly having to refine budgets in line with changing grants and priorities. This would also allow for a greater focus on strategy and planning.

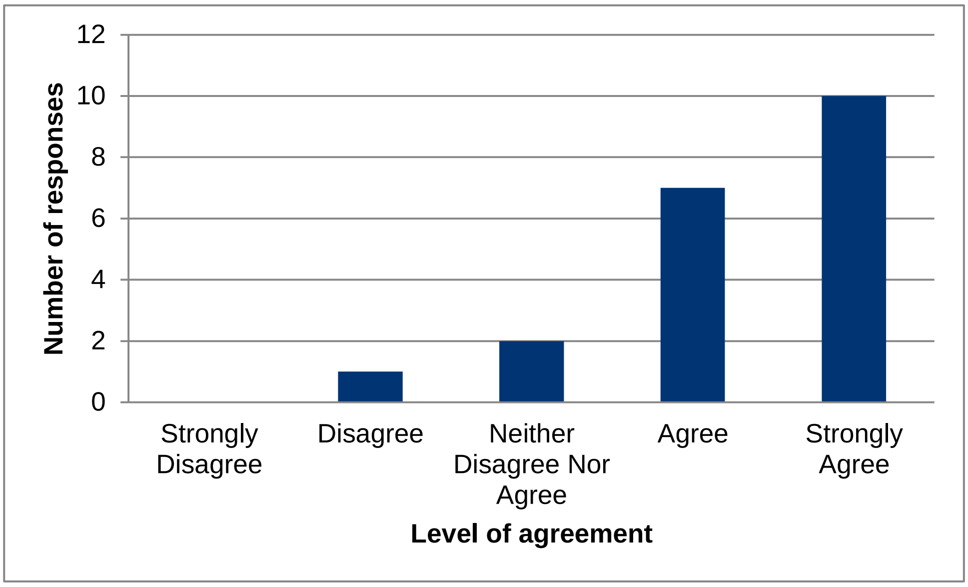
> "*If we could have a funding cycle more like Network Rail and their control periods we could plan ahead much more efficiently. There is so much waste at the moment as we cannot put long term plans in place due to the increasing uncertainty over our funding. If a much larger part of our funding could be set out over a five or even ten year period that would allow us to determine the number of staff that we need, work*

up schemes and actually look at how to implement them in the best way for the local area. We can't do that with the current system. You are constantly guessing with the staff you need and scrambling to get money in all the time"

Devolution in place of piecemeal competition

8.16. In our online survey seventeen out of twenty respondents (85%) either agreed, or strongly agreed, that the devolution of transport funding would allow them to implement capital projects in a more efficient way and deliver greater value for money.

Figure 10. Responses to whether devolution would benefit local authorities



8.17. The main problem cited with the current approach was the constant short term uncertainty over the level of capital funding to be delivered meaning that it was not possible to reliably set revenue budgets and staffing requirements in advance:

"*We are constantly fighting a resourcing battle. Our staff numbers are fine for today's work but if next week's bid comes off, or the one the week after it is likely that we are going to be under resourced. You can't change these things and get the right people in quickly either*".

8.18. Funding certainty and devolution would make it easier to prioritise projects with the best long term returns rather than ones that either fit into specific bidding processes or can be delivered within a department's timescales. It was felt that in some situations this would allow authorities to increase the potential effectiveness of available capital funding.

"Localism means just that - let Local Authorities decide where to spend the money to meet local needs. Don't waste money continually bidding against each other for scraps of cash in bidding fashion parades. And, DfT, stop wasting money employing checkers to check the work of the checkers"

Greater predictability over competitive funding rounds

8.19. Although there seems to be a strong shift towards greater funding devolution across government, the DfT has a tradition of competitive funding grants and it may well be that a residual amount of funding continues to be allocated in this way. However, if this is to be the case, then we would encourage government departments to create greater certainty for bidders by setting out clear timescales in advance, for example in a way similar to the rail franchising programme and control periods.

8.20. Having knowledge of what funding was likely to be available and a clear idea of timescales would allow authorities to plan and implement projects in a more efficient way:

> *"DfT knows what funding it has and when awards are likely to be made available. It could help us out by creating a calendar setting out a rough date and timescales of planned funding awards. This would really help us to plan our time more effectively and be ready for the bidding processes which are often quite frantic when they actually come around".*

8.21. Through being aware of upcoming funding bids and likely pressures on resources, authorities could utilise their staff more efficiently, planning time rather than constantly having to respond to new emerging pressures. This could help to avoid large peaks in workflows and potentially reduce the requirement for expensive consultants.

Review grant conditions and accounting treatment of capital and revenue spending

8.22. In transport, capital and resource spending are either complementary (e.g., in the case of planning, policy, strategy and project management) or they can actually contribute to similar objectives in different ways (if we compare, for example, new infrastructure with on-going maintenance). Classifying different interventions as either capital (i.e., good) or resource (i.e., bad) distorts funding and spending decisions by central and local government.

8.23. We recommend that HMT, DCLG and the DfT review the rules that apply to the classification of local transport expenditure as well as the conditions attached to capital funding grants, so as to introduce greater flexibility and clarity into the system where this is justified. We believe that this could ultimately improve the productivity of public spending.

A. Appendix

Figure A Spatial distribution of local government funding cuts across England

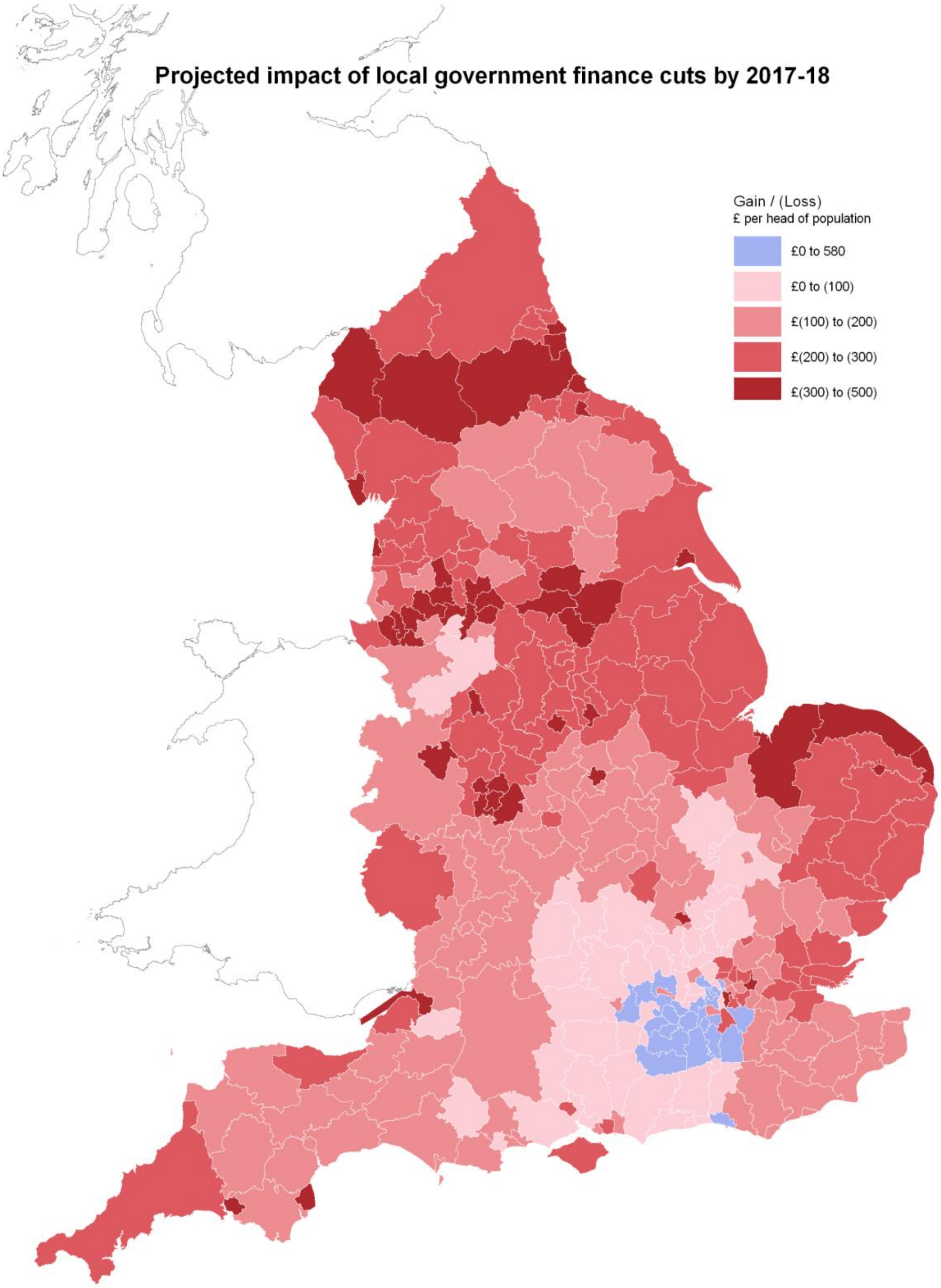


Figure B. *pteg* revenue V capital funding survey

pteg revenue V capital funding survey introduction

Introduction
Recent cuts in local government funding have led to a growing disparity between the amount of capital and revenue money available to deliver local transport. This could impose constraints on local authorities' ability to deliver capital schemes efficiently, effectively or at all. Officials in the Department for Transport and in Treasury have expressed concerns over this issue. However, more systematic evidence is required in order to get this message to other parts of government.

The purpose of this survey is to gather views from the local government community about the impact of revenue funding cuts on the delivery of transport capital schemes. The results of this survey will form the basis for a report which will be published in the New Year and shared with central government departments.

This project is being conducted by the Passenger Transport Executive Group (pteg; www.pteg.net), with support from ATCO, Core Cities and ADEPT.

Notes:
All survey responses will be treated anonymously.
Please answer each question to the best of your knowledge. You can leave blank any questions that you are unable to answer.
The survey should take around 5 minutes to complete.

1. Does your authority have responsibility for delivering transport capital schemes?

- Yes
- No

2. Please indicate your degree of agreement with the following statements

	Strongly Disagree	Disagree	Neither Disagree Nor Agree	Agree	Strongly Agree
Revenue budget cuts have had a negative impact on my authority's ability to bid for capital funding grants over the past 4 years?	○	○	○	○	○
Resource budget constraints have prevented my authority from seeking transport funding from bodies other than the UK government?	○	○	○	○	○
Revenue budget cuts have had a negative impact on my authority's ability to develop plans or designs for new capital schemes?	○	○	○	○	○
Revenue budget cuts have had a negative impact on the quality of bids that my authority has been able to submit for capital funding grants?	○	○	○	○	○
Revenue budget cuts have had a negative impact on my authority's ability to deliver capital schemes in a timely and cost-effective manner?	○	○	○	○	○
An increase in revenue budgets would allow my authority to deliver greater value for money from available capital funding?	○	○	○	○	○
Devolution of transport funding (whereby a local authority would have greater certainty and autonomy over spending decisions) would allow my authority to implement transport capital schemes more effectively and to deliver greater value for money?	○	○	○	○	○

3. Has there been a recent capital funding round which your authority has decided not to bid for due to lack of specialist staff or available revenue budget?

- Yes
- No

If yes, please state the funding programme

4. Which areas of your authority's work relating to transport capital schemes do you feel have been most negatively affected by revenue budget cuts? Please rank the following areas, where 1 represents the area worst affected

	Rank
No negative impact	
Strategy and planning	
Scheme development	
Scheme prioritisation	
Scheme design	
Bid preparation	
Public consultation	
Procurement	
Project management	
Monitoring and evaluation	

Please use the box below to make any other comments

5. How have you responded to revenue budget pressures, in relation to the funding and delivery of capital schemes? Please rank the following approaches in order of importance, where 1 represents the most important

	Rank
No response required	
Reduce the number of grants we bid for	
Reduce the quality of bids	
Reduce internal staff and make greater use of consultants	
Make less use of consultants and greater use of internal staff	
Produce less detailed bids	
Reduce number of internal staff	
Re-trained internal staff	

Please use the box below to make any other comments

6. Please provide an estimate of your authority's annual resource and capital (if relevant) budgets, linked to transport functions?

	0 - 4.9	5 - 9.9	10 - 24.9	25 - 49.9	50 - 99.9	100+
Resource (£m)						
Capital (£m)						

7. Please provide an estimate of the change in revenue budget experienced by your authority between 2009/10 and 2014-15?

No reduction	-0 to -5%	-5 to -10%	-10 to -15%	-15 to -20%	Reduction greater than 20%

Suppose that your authority is planning to spend around £5m on a transport capital scheme, which will take two years to deliver. The budget has been approved but there is no detailed design and no public consultation has been undertaken. Please provide a ball-park estimate of the number of staff and additional resources (for example, in the form of consultancy fees) which you expect delivering a scheme of this scale would require. Try to include all activities linked to the project, such as senior staff time, legal documents etc

8. Full time staff-years

	0 - 0.9	1 - 1.9	2 - 3.9	4 - 5.9	6+
FTE staff-years					

9. External resource

	0 - 24	25 - 49	50 - 99	100 - 149	150+
External resources (£k)	○	○	○	○	○

Suppose that your authority is about to put together a bid to government for a capital project worth £100m, to which central government is expected to make a 50% contribution

10. How much staff time and financial resources would you expect to commit?

	0 - 1.9	2 - 3.9	4 - 7.9	8 - 11.9	12+
To the bid (FTE)	○	○	○	○	○
To the project if funded (FTE)	○	○	○	○	○

11. How much additional resource (time and money) would you expect to commit?

	0 - 49	50 - 99	100 - 199	200 - 299	300+
To the bid (£k)	○	○	○	○	○
To the project if funded (£k)	○	○	○	○	○

12. We are seeking to get more in-depth information about specific schemes to illustrate the overall findings in our report. We are also interested to hear any views on alternative funding mechanisms which could help address revenue funding cuts. All information provided will be treated anonymously. Would you be prepared to meet with the project's lead Researcher for about 1 hour to discuss your experience?

○ Yes

○ No

If yes, please provide your name and email address

13. Please use this box to provide any further comments about the survey

14. Please provide the name of your authority (Optional)

15. If you would like to receive further information about the results of the survey, please provide your email address (Optional)