



House of Commons

Committee of Public Accounts

Funding for local transport: an overview

Twenty-fifth Report of Session 2012–13



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*Report, together with formal minutes, oral and
written evidence*

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Committee of Public Accounts

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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at www.parliament.uk/pac. A list of Reports of the Committee in the present Parliament is at the back of this volume. Additional written evidence may be published on the internet only.

Committee staff

The current staff of the Committee is Adrian Jenner (Clerk), Sonia Draper (Senior Committee Assistant), Ian Blair and James McQuade (Committee Assistants) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk

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Summary

The Department for Transport (the Department) works with local partners to deliver many of its policies. Local authorities play a key role in planning and commissioning transport services, such as bus and light rail, and providing and maintaining roads and other local infrastructure. They spent a total of £8.5 billion on transport in 2010-11. The Department provided around a quarter of this (£2.2 billion), with the rest raised locally from council tax, from the £411 million surplus raised from parking levies, or from the Department for Communities and Local Government formula grant.

In 2011-12 the Department provided £1.2 billion to local authorities for highways maintenance and small transport projects in the form of two un-ringfenced formula-based grants. Local authorities were free to spend these funds on any capital projects of their choice, including projects without any transport element. The Department does not monitor how un-ringfenced grants are spent and there is insufficient information to determine the impact of the Department's contribution on local authorities' spending decisions and therefore to achieving the Department's objectives.

The Department plans to devolve more control over its funding to the local level (raising the proportion of resources which are not ringfenced portion from 60% to around 80%); and new local transport bodies will take on some decision-making responsibilities previously held centrally. Full details of how the new system will work are still to be determined and there is uncertainty over how the arrangements will work in practice. The Department could not clearly define how it would ensure cross-boundary projects would be funded and agreed in the new landscape. It accepted that it will have to rely on local goodwill and departmental influence. The Department accepts that transparency of data will help make local accountability work, but it needs to define what information is needed to judge value for money, monitor transport risks including those arising from local budget cuts, and clarify under what circumstances it may intervene in response to poor performance.

Implementing these changes may weaken the existing limited accountability and transparency arrangements, and we are not confident that government has thought through these risks. The Department believes that local bodies will naturally work together to fund and deliver large transport projects. But there is a risk local transport bodies, in a period of substantial funding pressure, will not take sufficiently strategic and joined-up decisions, putting national or regional investment objectives at risk.

On the basis of a report by the Comptroller and Auditor General,¹ we took evidence from the Department for Transport, as well as from local government and academic representatives, on the Department's funding for local transport.

1 C&AG's Report, *Funding for local transport; an overview*, Session 2012-13, HC 629

Conclusions and recommendations

- 1. The Department's mechanisms for controlling the use of its funding are not clear.** In 2011-12 the Department provided £1.2 billion to local authorities, principally for highways maintenance and integrated transport, in the form of non-ring fenced grants that local authorities could spend on any capital projects, including non-transport ones. In practice local authorities spent £2.9 billion on transport projects, significantly more than they received from the Department, but there is insufficient information to determine whether and how the Department influenced local decisions so that the funding it provides met the policy objectives it had set. The Department should set out the basis on which it determines the level of funding for local transport, and clarify its processes so that it can measure what impact this funding is achieving in meeting its objectives for local transport. We are concerned that the rigid procedures which the Department requires to be applied in deciding how to distribute funds will be less effective than clear criteria for reporting outcomes and judging value for money.
- 2. Better local transport data is needed to monitor local authority performance and drive value for money.** The lack of consistent and comprehensive local transport data means that the Department cannot assess the impact of budget cuts on performance and prevents comparisons being made between local areas to help to identify unsatisfactory performance. The Department should specify what data are needed to assess local performance and take the necessary steps to ensure it is available, whether working in partnership with others or mandating minimum data requirements. The Department should ensure that transparent mechanisms are in place to ensure that funds raised from parking charges are spent on transport.
- 3. The Department is not clear when or how it will intervene in cases of local transport failure.** While there are examples of the Department intervening in response to high-profile crises (such as the winter salt shortages) it is not clear how the Department identifies areas at risk or poor performance and what circumstance would trigger the powers of intervention. Although legislation sets out around 300 transport-related statutory duties for local authorities, these are of limited use as they are framed very broadly with no defined minimum standards, for example, on road condition. The Department should clearly set out, in its accountability systems statement, the information it will use to identify a failure or an unacceptable reduction in the standard of provision, the circumstances under which it would intervene, and what form that intervention would take.
- 4. As major project funding becomes more decentralised, there is a risk that local transport bodies will not take sufficiently strategic and joined-up decisions.** The Department created new local transport bodies as voluntary partnerships primarily between local authorities and local enterprise partnerships. From 2015, they will decide which transport projects should be prioritised within their area and oversee effective delivery. However, there are a number of risks around how they will operate in practice given their relatively small size, including what incentives there will be for neighbouring bodies to work together and how larger, sub-national projects will be

approved. We expect the Department to work with local bodies to identify risk areas, design ways to encourage collaboration and to pilot its proposed approach before it is implemented.

5. **The accountability arrangements for the new non-statutory local transport bodies are unclear.** The new local transport bodies will have an accountable body, usually a local authority subject to its own audit arrangements, to account for funding received. But there appear to be no audit arrangements which will allow Parliament to scrutinise local transport bodies' spending decisions. The Department should ensure that the C&AG has full audit access to local transport bodies. Similarly, the Treasury should ensure that all other departments who provide funding to non-statutory local bodies, such as local enterprise partnerships, have adequate assurance arrangements over how their funds are spent or allocated, and that the C&AG has full audit access rights.

1 The Department's assurance for its local transport funding

1. The Department for Transport (the Department) sets the national policy and funding framework for transport. It works with local partners to deliver many of its policies.² In total, 19% of its 2011-12 expenditure was on local transport, of which £2.2 billion went to local authorities to fund the delivery of services and infrastructure. About 40% of this funding is provided as 'ringfenced' grants linked to specific projects and objectives, with the remaining 60% 'un-ringfenced' with no restrictions requiring it to be spent on transport purposes. This includes £1.2 billion in the form of a highways maintenance grant and integrated transport grant.³

2. Local authorities have over 300 statutory transport duties to plan and commission services, manage road infrastructure and safety, support the transport needs of particular groups (like the elderly and disabled) and provide information to the public. In 2010-11, they spent £8.5 billion on transport in England. Most of this funding comes from locally raised funds such as council tax and parking levies, or from the Department for Communities and Local Government formula grant. Local authorities in England raised Â£1,295 million from sales, fees and charges on parking, and spent £884 million on parking services, leaving a surplus income of £411 million.⁴

3. We asked the Department how it could assure Parliament that the substantial amount of funding it gives local authorities which is not ringfenced, is used to achieve its policy objectives⁵ and why it allocates the funding precisely using a formula and then fails to monitor whether local authorities spend it on the policy objectives the Department wants to support.⁶ The Department said that, consistent with government policy, local authorities are free to use funds for capital expenditure on transport or on other activities, and it did not monitor the expenditure.⁷ It believed that its labelling of funds had a strong influence on the way money was spent but admitted it was not binding.⁸ The Local Government Association told us that how much of this money was spent on transport would vary between local authorities.⁹

4. The Department explained that it does "not seek to follow through every pound or how it is used" for funding that is not ringfenced.¹⁰ The Department defined its accountability as operating within a framework with local authorities accountable to their electorate for

2 C&AG's Report, para 1

3 C&AG's Report, key facts, para 1.11

4 C&AG's Report, paras 2-3, Ev 20

5 Q 37

6 Qq 37-40

7 Qq 29-30

8 Q 56

9 Qq 4-5

10 Qq 37-38

decisions about how they use funds.¹¹ The Department said that it relied on local accountability systems for providing assurance that monies were spent on the purposes for which they were intended.¹² In practice, local authorities add to departmental resources and in 2011/2012 spent nearly £3 billion on capital investment in transport.¹³

5. In contrast to un-ringfenced funding, the Department has specific systems designed to ensure it gets value for money for its ringfenced funds. It sets its own criteria for allocating and paying funds through competitive bidding systems and requires monitoring and evaluation.¹⁴ We questioned whether this was too focused on requiring local authorities to comply with processes and rules at the expense of examining outcomes.¹⁵ The Department told us it was responding to criticism that it had been overly prescriptive and was trying to improve both its own accountability and local accountability by ensuring there are transparent data available both publicly and to the Department to enable assessment of value for money across local authorities.¹⁶

6. The Department prescribes some standard data that local authorities must report, primarily via the Department for Communities and Local Government 'single data list'.¹⁷ It told us that it had sufficient data to assess the performance of local authorities in delivering transport outcomes but admitted more needed to be done to make data comparable and consistent across local authorities and more readily available.¹⁸ The Department referred to winter salt as an example of incentivising local authorities to comply with its data requests.¹⁹ The Department acknowledged it would be possible to do more with existing data, for example, publishing an analysis of local authority spending on road maintenance against road condition and casualty rates.²⁰

7. The Department also emphasised the importance of transparency and good quality, meaningful data on spend and performance as a way of identifying potential failure or significant drops in local transport performance.²¹ We asked the Department when it would intervene because of service failure. The Department asserted that it had responded appropriately to specific cases of failure, such as the winter salt shortages and the Sheffield Supertram²² and pointed out that it faced a different situation to other departments in that transport involved a wide range of services and statutory duties, with no prescribed minimum standards against which it can clearly define thresholds for specific actions. The

11 Qq 42-43

12 Q 47

13 Qq 48-50, 54

14 Q 92; C&AG's Report, para 3.4

15 Qq 100-104

16 Q 60

17 Q 65

18 Qq 46, 58-59, 63

19 Qq 64, 66-67

20 Q 118

21 Q 63

22 Q 106

Department recognised it could do more to define a framework for minimising and dealing with different types of failure.²³

8. The lack of minimum standards could be a particular risk given local authorities face significant budget cuts over this Comprehensive Spending Review, with a 28% fall in Department for Communities and Local Government formula grant, the main source of local revenue funding.²⁴ Some witnesses suggested this would put significant pressure on local authorities and transport was particularly vulnerable to cuts as it competes with other higher priority services like social care.²⁵ An area of particular concern was around the ability to maintain local roads in a satisfactory condition given a severe backlog of maintenance work, worsening weather and increased traffic. The Department argued that efficiency gains could be made in the way road maintenance is undertaken.²⁶

23 Q 107

24 Qq 116-117

25 Q 9

26 Qq 6, 10-11, 117

2 Ensuring devolved arrangements work in practice

9. The Department is changing the way that it allocates funds to local authorities. It is looking to devolve more responsibility to the local level in three main areas:

- Changing its largest bid-based fund for major projects into a formula grant for new local transport bodies to manage.
- Enabling local authorities to have a more direct relationship with bus operators.
- Giving local bodies the option to take on more responsibility for managing rail services in their area.

Plans for the first area are the most advanced, while bus and rail proposals remain in the consultation phase.²⁷

10. Overall, the proposals mean that local bodies will have discretion over more of the Department's funding, rising from around 61% currently to an estimated 81%. There will also be new structures for making decisions.²⁸ From 2015, local transport bodies will take on responsibility for establishing a programme of local projects and allocating funding within their area. The Department previously led this process with a central assessment of bids. It will now distribute the funding to transport bodies via a population-based formula and set a framework within which bodies have to operate. The Department is requiring common appraisal standards for local transport bodies.²⁹

11. Thirty-nine local transport bodies are being established, mirroring the geography of Local Enterprise Partnership (LEPs). They will be voluntary partnerships of local transport authorities, LEPs and other transport-related bodies, usually established on a non-statutory basis.³⁰ We asked how large infrastructure projects which span the boundaries of several transport bodies would go ahead and who would consider these wider regional or sub-national needs.³¹ The Department considered that common sense would prevail and maintained that there were examples where local bodies had come together to pool funding across boundaries. In response to concerns that budget cuts may have left insufficient funding for such projects and that there were no incentives for local authorities to collaborate,³² the Department noted that local transport bodies were larger than individual local authorities and said that it would encourage them to work together.

27 C&AG's report, para 2.6, 2.9

28 C&AG's report, para 2.7

29 Qq 67, 99; C&AG's report, para 2.6, Ev 19

30 Q 71; C&AG's report, para 2.8

31 Qq 26-28

32 Qq 78-81

However, the Department admitted that it was not a perfect system and that there would always be some issues with boundaries.³³

12. The Department is not providing any funding for the secretariat costs of the new local transport bodies and it expects one of the local authority members to provide support. The new bodies will be ‘committees’ of existing local transport authority staff, and will not involve hiring new staff.³⁴ The Department was unclear whether the representatives would be paid a special allowance for this additional work, but said the responsibilities should be integrated into existing work.³⁵

13. We asked who would be auditing the local transport bodies and local enterprise partnerships. The Department explained that a local transport body would have an accountable body for any funding it receives – usually a local authority – which would be subject to its own audit requirements, and that there would also be an audit requirement for the local transport bodies themselves.³⁶ The National Audit Office’s access to local authorities is clear, but its access to local transport bodies is not. While the National Audit Office may be able to follow public funding, it may not necessarily have access to the evidence supporting decision-making by local transport bodies.³⁷

33 Q 82

34 Qq 83-85

35 Qq88-91

36 Qq 20-22, 69

37 Qq 70, 86

Formal Minutes

Wednesday 23 January 2013

Members present:

Margaret Hodge, in the Chair

Stephen Barclay
Jackie Doyle-Price
Mr Stewart Jackson
Fiona Mactaggart

Mr Austin Mitchell
Nick Smith
Ian Swales
Justin Tomlinson

Draft Report (*Funding for local transport: an overview*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 13 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Twenty-fifth Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report (in addition to that ordered to be reported for publishing on 14 January 2013).

[Adjourned till Monday 28 January at 3.00 pm]

Witnesses

Wednesday 28 November 2012

Page

Stephen Glaister, Director, RAC Foundation, **Councillor David Sparks OBE**, Vice-Chairman, Local Government Association, and **Tony Travers**, Director, London School of Economics

Ev 1

Philip Rutnam, Permanent Secretary and **John Dowie**, Director of Local Directorate, Department for Transport

Ev 6

List of printed written evidence

- 1 Department for Transport
- 2 Tony Travers

Ev 18

Ev 20

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2012–13

First Report	The Government Procurement Card	HC 1915
Second Report	Mobile Technology in Policing	HC 1863
Third Report	Efficiency and reform in government corporate functions through shared service centres	HC 463
Fourth Report	The completion and sale of High Speed 1	HC 464
Fifth Report	The Regional Growth Fund	HC 104
Sixth Report	HM Revenue & Customs: Renewed Alcohol Strategy	HC 504
Seventh Report	Immigration: The Points Based System – Student Routes	HC 101
Eighth Report	Managing early departures in central government	HC 503
Ninth Report	Preparations for the London 2012 Olympic and Paralympic Games	HC 526
Tenth Report	Implementing the transparency agenda	HC 102
Eleventh Report	Improving the efficiency of central government office property	HC 288
Twelfth Report	Off-payroll arrangements in the public sector	HC 532
Thirteenth Report	Financial viability of the social housing sector: introducing the Affordable Homes Programme	HC 388
Fourteenth Report	Assurance for major projects	HC 384
Fifteenth Report	Preventing fraud in contracted employment programmes	HC 103
Sixteenth Report	Department of Health: Securing the future financial sustainability of the NHS	HC 389
Seventeenth Report	Department of Health: The management of adult diabetes services in the NHS	HC 289
Eighteenth Report	HM Treasury: The creation and sale of Northern Rock plc	HC 552
Nineteenth Report	HM Revenue & Customs: Annual Report and Accounts 2011-12	HC 716
Twentieth Report	Department for Energy and Climate Change: Offshore electricity transmission – a new model for infrastructure	HC 621
Twenty-first Report	The Ministry of Justice's language service contract	HC 620
Twenty-second Report	British Broadcasting Corporation: Off-payroll contracting and severance package for the Director General	HC 774