

**Local Transport Funding: An Assessment of the
Implications of Funding Restraints**

Guidance Document

by A Binsted and C Brannigan

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TRL Limited



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**Local Transport Funding: An Assessment of the Implications of Funding
Restraints
Guidance Document**

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by A Binsted and C Brannigan (TRL Limited)

Prepared for:

**DISTILLATE: Design and Implementation Support
Tools for Integrated Local Land use, Transport and
the Environment**

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1 Introduction

1.1 Background

Identifying and obtaining appropriate funding for both capital investment and for operation is a recognised barrier for the effective planning and implementation of transport and land-use schemes by local authorities. This issue has been addressed within the UK DISTILLATE (Design and Implementation Support Tools for Integrated Local Land use, Transport and the Environment), a UK EPSRC (Engineering and Physical Sciences Research Council) funded project which seeks to enable significant improvements in the ways in which sustainable transport and land use strategies are developed and delivered in the UK. More effective and efficient selection, planning and delivery of schemes and projects will enhance the sustainability of urban areas and the quality of life of people who live in them. The DISTILLATE research programme has therefore been divided into seven projects which cover the range of different activities that are involved in the development of sustainable urban transport and land use strategies. The study team, co-ordinated by the Institute for Transport Studies (ITS) comprised researchers from TRL, University College London (UCL), Stockholm Environment Institute (SEI), and Heriot-Watt University.

Please see the website for more details of the DISTILLATE programme: www.distillate.ac.uk.

1.2 Aims of Deliverable

This discussion note is aimed at both transport practitioners and the funders of transport and land use schemes and projects. It aims to inform readers of the potential negative impacts that elements of the current funding regime can have upon the effective planning and implementation of transport and land use schemes. It is hoped that this document, which is based upon extensive consultation and research activities within the wider DISTILLATE project, will highlight areas where the provision and application of sources of funding are compromising the effective delivery of transport and land use projects and identify where there is scope to improve the relevant funding mechanisms. The focus of this report will be upon the potential implications that funding barriers and sources may have on transport schemes and projects that are being financed, but it will also touch upon the potential impacts upon local authorities themselves.

As with other deliverables produced as part of the DISTILLATE Funding Project, this document builds upon an earlier scoping study which revealed that financial, institutional and cultural barriers are faced by local authorities when delivering sustainability in transport and land use. All subsequent research has sought to identify the implications of different funding strategies and contractual arrangements in order to achieve a more effective delivery of sustainable transport and land use schemes.

Please note that the consultation responses included within this report have been anonymised for confidentiality.

1.3 Content

This guidance document provides a brief overview of the implications to both transport and land use projects that result from the barriers to identifying and obtaining funding that have been revealed by numerous DISTILLATE research activities. The focus of the discussion is based on the implications themselves, but the funding issues that cause them are also touched

upon. Chapter 2 provides an overview of the methodology used. Chapter 3 is the main body of the guidance, which explores the implications of funding barriers, including:

- Scheme fails to be implemented;
- The type of scheme implemented;
- Details of scheme may be altered;
- Reduced cost effectiveness of investment;
- Delays to scheme delivery; and
- Increase in cost of scheme.

Chapter 4 explores the positive implications of local transport funding process, and Chapter 5 provides a summary and recommendations.

2 Methodology

This guidance note has drawn largely on the research undertaken within the DISTILLATE Funding Project as a whole. Reports, meeting minutes and feedback were reviewed to identify material and evidence relevant to this note. Full details of the activities undertaken within the project are provided within the *DISTILLATE Funding Project Research Report* (Brannigan, Binsted and Paulley, 2008). An overview of these activities is provided below:

- **Organisational Behaviour and Barriers Surveys:** Two rounds of a DISTILLATE-wide survey were administered to local transport planners, and a set of interviews were conducted with local transport planners and their counterparts (health, environment, land use, and corporate policy) regarding the barriers associated with the delivery of sustainable transport solutions.
- **Literature Reviews:** Three literature reviews were conducted during the project period, identifying and discussing literature related to the funding, planning and implementation of transport and land use projects.
- **Local Authority (LA) Case Study Research:** Five case studies were developed associated with the DISTILLATE Funding Project. The case studies were developed in conjunction with relevant local authority officers and focused on the following:
 - Cycling strategy and NCN route development;
 - A showcase bus route;
 - City Centre Redevelopment including transport improvements;
 - An airport rail link; and
 - Infrastructure provision for a new housing development.
- **DISTILLATE Funding Workshop:** A workshop was held to which local authority practitioners were invited, focusing on the funding related barriers to successful implementation of transport schemes and projects. The workshop included detailed discussion on the following barriers/issues:
 - Local authority barriers;
 - Funding barriers;
 - Partnerships;
 - Revenue funding;
 - Capital funding; and
 - Innovative funding mechanisms.
- **Local Authority Consultation:** Consultation with stakeholders, primarily local authority practitioners, was sought on a regular basis within the DISTILLATE consortium. In relation to this research discussion note, local authority contacts were contacted by telephone to discuss in more detail any experience they may have had relating to the implications funding restraints on transport-related schemes and strategies.

3 Implications of Funding Barriers

The barriers to successfully implementing transport and land use projects identified throughout the DISTILLATE project have encompassed institutional, technical and political issues which have been impacted by the funding process. The key barriers identified can be summarised as follows:

- Overcoming the organisational constraints of a lack of staff time and resources;
- Dealing with high levels of funding uncertainty;
- Overcoming the constraints of narrow leadership interests and political will;
- Complementing the technical capabilities of tools and officers;
- Effectively managing partnerships;
- Addressing the ‘capital-rich revenue-poor’ mismatch;
- Effectively managing the potentially adverse impacts upon local transport priorities of funding streams which relate to funding bodies;
- Overcoming the difficulties relating to funding ‘soft’ transport schemes.

Local authorities employ a range of mechanisms to help accommodate and manage some of the negative impacts that result from these funding barriers. Many of the barriers are however inherent to the funding process and the conditions imposed by funders. It is therefore of paramount importance that funders of transport and land-use schemes are also made aware of these barriers and the wide-reaching impacts that they can have upon scheme design and delivery. Six key implications of funding mechanisms that may be experienced by local authorities are discussed in the following sections:

- Scheme fails to be implemented;
- The type of scheme implemented;
- Details of scheme may be altered;
- Reduced cost effectiveness of investment;
- Delays to scheme delivery; and
- Increase in cost of scheme.

3.1 Scheme fails to be implemented

Schemes may fail to go forward due to:

- Relatively poor availability of revenue funding;
- Necessity to meet funding stream bidding criteria
- Uncertainty of the bidding process;
- Difficulty in quantifying scheme benefits;
- Lack of suitably skilled staff; and
- Lack of political will.

As highlighted by a Passenger Transport Executive (PTE) officer, there will always be a compromise when it comes to implementing transport schemes, and it is inevitable that not all schemes will be implemented. DISTILLATE research activities have however identified that a number of elements inherent in the funding process have a direct impact upon whether or not schemes go ahead.

Shortfalls in revenue reported by a number of local authorities have acted as a constraint in terms of the staff time that they are able to finance. Studies have identified that this can lead to there being insufficient capacity within local authorities to deliver projects and schemes to match the available capital (CfIT, 2005; DfT, 2005). Participants at the DISTILLATE funding workshop estimated that approximately 30% of project costs were staff time, which could not be charged to projects. This can make it difficult for local authorities to produce projects to deliver Local Transport Plans (LTPs) and can undermine the impact of increased capital allocations. This is likely to be a particular issue within rural local authorities where projects tend to be more resource intensive (DfT, 2005). A unitary authority stated that the implication of a lack of revenue upon staff resources was such that one team consisted of only one member of staff and an admin assistant, whereas the work of this individual should have been supported by two senior engineers, transport planners and junior technicians. This has had a direct impact upon the delivery of capital schemes, and also upon their capacity to identify additional funding sources.

Research activities have also suggested that projects may not go ahead because the resource intensive nature of identifying, bidding for and managing separate funding streams can reduce the resources available for the delivery of projects, or can be prohibitive. This is an issue of particular prominence given the increasingly wide variety of funding sources that are available to supplement LTP allocations. A Metropolitan Borough Council highlighted that almost all funding sources have different bidding mechanisms and monitoring regimes which need to be understood, and that this process is very resource intensive. They also identified that the rate at which the eligibility criteria and levels of funding awarded change adds to the complexity of the process. One of the PTEs anticipated that there are a large number of resource streams that could be tapped into if they had the staff time to identify them. They stated that the result is to apply primarily for the most basic and well known funding streams, and that if they were to look for other sources of funding then this would be a job in itself, which would somehow need to be funded.

A unitary authority provided details of a National Cycle Network (NCN) Route that they were completing as an example of a project where decisions on which sources to bid for were based upon the effort required to complete an application versus the likely benefit. The result of this was that relatively few applications were turned down, but that funding streams which could have provided significant levels of funding were not bid for. The DEFRA Rural Enterprise Scheme, for example, would have required the completion of a new business case, which was deemed to be too resource intensive to be worthwhile. This is linked to another issue identified, namely that the inherent risk involved in the bidding process and the initial financial outlay in bidding, which cannot be recovered, can form a barrier to obtaining finance for schemes that could have large implications for local transport networks but that may not otherwise go ahead. The House of Commons Transport Committee (2006) found that between 5 and 15% of total scheme costs are being spent without the proposal receiving any guarantee of funding.

Costs can be particularly high when new business cases need to be prepared and when it is difficult to quantify the benefit of schemes. A transport practitioner highlighted the fact that the uncertainty regarding the success of bids could also contribute towards schemes not going ahead by jeopardising sources of funding commitment from elsewhere. The assessment of schemes for their suitability for private finance can be equally resource intensive and involve the same concomitant risk.

The lack of suitably trained local authority officers can pose another barrier to financing schemes. Difficulties faced when trying to increase levels of private finance, which have been identified by numerous DISTILLATE research activities, can have an impact upon the viability of public sector assets and may mean that funding is not secured for their construction. From a more political angle literature reviews undertaken suggest that levels of private finance from Section 106 (S106) Agreements can also be jeopardised by a reluctance to risk the developers in question choosing to relocate elsewhere. S106 Agreements have the potential to provide a relatively large and stable revenue base, and as such failure to pursue them can result in local transport schemes not going ahead.

The implementation of schemes can also be jeopardised by political pressures. The perceived public acceptability of certain policy interventions, such as congestion charging and workplace parking levies, is key in determining whether schemes are implemented. Therefore, the level of political support surrounding transport schemes may be instrumental in their implementation. The implication of not financing such schemes can be wide-ranging, particularly as demand restraint measures, such as road pricing, have the potential to generate large amounts of revenue and can therefore support the implementation of a number of other schemes. This issue is discussed further in Section 3.2.

The ultimate result of this implication is that local transport networks and progress towards government objectives may suffer as a result of transport or land use schemes not being delivered.

3.2 The type of scheme implemented

The type of scheme implemented could be influenced by:

- Relatively poor availability of revenue funding;
- Necessity to meet funding stream bidding criteria;
- Constraints imposed on how resources from some sources can be spent;
- Phasing of funding provision;
- Lack of political will;
- Difficulty in quantifying scheme benefits; and
- Uncertainty of developer contributions.

From a strategic level one of the most fundamental impacts that funding provision can have is upon whether or not a certain type of scheme goes ahead.

The findings of both a questionnaire issued to local authorities as part of the DISTILLATE project and a subsequent funding workshop indicated that the lack of available revenue has had particular implications upon the provision of socially necessary public transport services. Revenue is largely unavailable for bus services which are not viable in business terms, which can mean that many services are not provided and that innovative passenger transport schemes may not be pursued because whilst the capital requirements can be funded the revenue implications cannot. Consultations with a unitary authority reflected the experience of many other local authorities, which is that even if they are successful in bidding for funding to support bus services such funding sources come with a time limit, and once the funding has run out the revenue costs need to be covered by another source. The relative shortage of revenue funding can mean that services are then discontinued or severely curtailed, and that all of the benefits of the original scheme are lost. Rural bus schemes in particular are prone to not breaking even at the end of the funding period, which jeopardises continued provision.

The relative lack of revenue funding can also have implications for the ability of local authorities to finance school and workplace travel plans. Local authority respondents to the DISTILLATE-wide survey disseminated at the beginning of the research project in 2004 indicated that the relatively poor level of revenue funding has meant that implementation of more innovative revenue dependent schemes has been hindered. These concerns were echoed in a second survey that was issued in 2006, at a DISTILLATE funding workshop and in recent consultations with local authorities, all of which identified that there were insufficient resources available for the design of innovative or alternative transport projects, particularly for 'soft' transport schemes, such as walking and cycling, compared with those available for more traditional transport schemes like road building. This has been linked in part to the relative difficulty of appraising the potential benefits of these schemes compared to schemes which exhibit time and financial savings (Binsted and Brannigan 2008b).

Discussions with local authorities identified that an increasing amount of projects are revenue based, such as those based upon 'smarter choices', and that financing these projects has been a challenge. Consultations with local authorities identified that they are becoming increasingly adept at using project management skills in response to the need to effectively address some of the barriers faced when implementing transport schemes. One result has been that the whole life costings need to be taken into account when appraising a project, and, as stated by a City Council, this can mean that long term revenue costs affect whether schemes are taken forward or not.

The implementation of a cycle/shared use route case study which is currently being constructed by a unitary authority demonstrates how a relatively low cost 'soft' transport scheme has struggled to obtain funding. The result has been that a wide range of funding sources have had to be applied for to complete the route. The NCN Route, which cost just over £2 million, required 25 different funding sources to be identified ranging in value from £250 to £250,000. Sources of funding obtained include the former Countryside Agency, the Arts Council, Coloroll and Asda developer contributions, DfT grants, and regional funding (list not exhaustive). The difficulties in obtaining funding for this scheme had a number of direct implications, including a reduced availability of staff time for employment on other projects, and long term maintenance issues arising from the need to downgrade the specification of the scheme to correlate with available capital. This in itself is another major problem, as revenue to maintain off-highway cycleways is particularly difficult to obtain.

This relatively poor availability of funding for maintenance schemes is another implication of the relatively poor availability of revenue funding, with the result being that maintenance schemes may be replaced by capital works for which funding is more readily available. A 2005 report commissioned by the DfT and undertaken by Atkins, along with discussions during a DISTILLATE funding workshop, highlighted that the increasing difficulty that local authorities are faced with when maintaining infrastructure can result in schemes that require a high degree of revenue funding being cancelled (DfT, 2005).

A review of the literature indicates that local authorities are likely to alter or bias their transport scheme proposals to reflect the criteria of available funding pots. This can have a number of additional implications and can mean that the type of scheme designed, and possibly implemented, is not necessarily that which would best meet local needs. Consultations with a PTE, for example, highlighted that rather than implementing schemes which could have the biggest impact upon the local transport network solutions tend to be based around the funding that is available. Whilst they recognise that this is not the most effective approach to planning transport projects, they have found that this is the best way to operate within the constraints of the funding process. Similarly a City Council explained how schemes are designed around restrictions regarding what certain funding sources can and cannot be used to finance.

The Eddington Review (2006) is one of several high profile reports which have expressed a concern that altering transport scheme proposals to reflect funding stream criteria could cause

local problems to be sidelined in order to access funding pots. This concern was echoed in discussions at the DISTILLATE funding workshop, where transport officers from one local authority stated that they were unable to support transport schemes which would enhance local quality of life and economic development because they did not correlate well with the key priorities of central government. The response was that this can undermine the bottom-up approach advocated for LTPs. It is however an implication that will almost inevitably occur as local authorities competitively bid to obtain funding. Several authorities with whom we consulted outlined that a considerable amount of staff time can be spent tailoring bids to whatever the bid criteria may be. Consultations also highlighted that schemes can also be altered in a similar manner to correlate with the planned phasing of revenues from S106 Agreements.

The Transport Innovation Fund (TIF) is a funding pot that requires local authorities to submit local scheme proposals which comply with two relatively narrow central government priorities – congestion and productivity. The House of Commons Transport Committee (2006) states that LTP Regional Funding Allocations are expected to reach £850 million in 2014-15, whereas the Transport Innovation Fund budget is £2.55 billion. There is an increasing amount of concern being expressed that such sources of funding will result in Local Transport Plan frameworks being overlooked in favour of funding streams which focus upon central UK and EU governmental objectives. The potential negative impact of this approach has widespread implications as there is less chance of successful delivery and of attaining the best value for money if schemes are designed which impose national objectives on localities in order to enhance likelihood of funding. The House of Commons Transport Committee has referred to such funding pots as '*a form of central Government micromanagement of local transport planning*' (2006).

One PTE has made the choice of which schemes to deliver based upon European funding criteria. The funding pot dictated that it would part fund a major infrastructure project delivered within a two year period. The scheme that was implemented was therefore chosen on the basis of which would be the most eligible for match funding, and equally which would be deliverable within the specified timescales. Scheme prioritisation was in this case based largely upon the availability of funding as opposed to local need.

The criteria of funding pots can also impact scheme design by imposing phasing and timing constraints on the allocations awarded. Again changes made to the type of scheme in order to better synchronise it to funding available may result in the implementation of a different type of scheme that originally envisioned. The nature of projects implemented can also be impacted by the timing of allocations and when funding bodies require monies to be spent within a set time frame. Combined with the unpredictability of year-on-year allocations this can result in the delivery of short term as opposed to more complex schemes. This need to spend finance in a specified period can have a particular impact upon projects with long lead times as designing projects can be time consuming. At the DISTILLATE workshop a representative from a Regional Development Agency stated that they decided to go ahead with a project with a rail component for the sole reason that it would have a shorter lead-in time than other projects that could have been more effective, some of which would have required three years' modelling. A knock on impact is that this approach, necessitated by funding criteria, can lead to short termism in the planning cycles of local authority transport departments.

As mentioned in Section 3.1, political pressures can influence the implementation of certain schemes. One PTE stated that they were keen to bid for the Transport Innovation Fund (TIF) owing to the vast amounts of finance available. The political reaction to the need to include a road user charging element in the bid to be awarded funding however meant that the bid had to water down road user charging proposals, and on this basis their application was unsuccessful and their access to the largest source of funding outside of the LTP process was denied.

Public transport projects can also be jeopardised by political pressures. Local government can be particularly sensitive to levels of taxation and the long lead time of public transport projects, which can mean that other types of project are ultimately favoured.

A similar issue can be experienced in relation to revenue payments from developer contributions; they tend to be unpredictable, of a short term nature, and the future of schemes that they support can be jeopardised when the funding stops. The impact of the uncertainty of developer contributions is discussed in Sections 3.4 and 3.5.

3.3 Alteration of Scheme Details

Scheme details may alter as a result of:

- Relatively poor availability of revenue funding;
- Necessity to meet funding stream bidding criteria;
- Constraints imposed on how resources from some sources can be spent;
- Phasing of funding provision;
- Lack of political will;
- Funding criteria;
- Scheme delay;
- Uncertainty of developer contributions;
- Cost increases; and
- Partnership working.

There is a considerable amount of overlap between this implication and that relating to the type of scheme that is funded as details of transport and land use schemes are likely to be altered along the lines outlined above. Consultation with local authorities has however suggested that it is an implication that is also worth referring to in its own right.

One of the most direct ways in which schemes are altered is when things do not go according to plan. Funding can be allocated to support various projects, but sometimes the time that elapses between gaining funding approval and receiving firm costs from contractors can cause the scheme cost to increase. Delays caused to schemes by other means, as discussed in Section 3.5, can have the same effect.

A PTE that provided us with feedback is one of many authorities who have had to downgrade the specification of a scheme as a result of cost increases (due to differences in predicted and confirmed costs). The local authority has had to alter the specification of station enhancements and public interchange schemes in the past, and as a result elements of the schemes to enhance information provision and accessibility were not implemented. They reported that the result can be that the project is transformed into something quite different from what was originally specified. This can have numerous impacts, the most obvious being that it can reduce the cost effectiveness of the investment, as discussed in Section 3.4.

An issue identified by consultations which was not found to be widely reported within the literature reviewed was that funding criteria can change during design or implementation, and that funding bodies can expect the project being funded to be altered accordingly. The concern was demonstrated by experience of using the Heritage Fund but there was a general consensus that there is the potential for partners, particularly those within Non-Governmental Organisations (NGOs) and the charitable sector, to request the local authority's approach to

be changed as a result of alterations to their funding criteria. The potential unpredictability of such sources of funding was therefore highlighted as being a risk and deterrent to its use.

3.4 Reduced cost effectiveness of investment

The cost effectiveness of an investment may be reduced due to:

- Relatively poor availability of revenue funding;
- Necessity to meet funding stream bidding criteria;
- Constraints imposed on how resources from some sources can be spent;
- Constraints imposed on when resources can be spent;
- Uncertainty of developer contributions; and
- Uncertainty over long term allocation and availability of resources.

The impact of this implication can range from the strategic to the local level. Consultations with a PTE, for example, highlighted how the need to reduce the specification of a Quality Bus Corridor Scheme in response to delays and a subsequent increase in costs resulted in the incorporation of a considerably lower degree of bus priority than originally intended, which has a direct impact upon the effectiveness of the intervention. On a significantly smaller scale their decision to exclude toilets from new bus stations, as a result of a lack of revenue funding to maintain them to an acceptable standard, has had political implications.

The poor availability of revenue funding relative to capital funding can serve to erode the cost effectiveness of the initial capital investment in transport schemes. DISTILLATE research activities have identified that local authorities may not have access to the revenue support required for the ongoing servicing and maintenance of capital assets. One potential outcome is that the assets become unsustainable and the infrastructure less effective, thereby diminishing the benefits and value of the investment. Another is that revenue based schemes are substituted for more easily funded, although sometimes more costly, capital works.

Literature reviews conducted have identified that the cost effectiveness of the investment can also be compromised as a result of schemes being skewed to reflect funding criteria. When schemes are funded which may not have otherwise been high priorities for local authorities there is a greater likelihood that schemes which may not offer the highest returns are implemented, as mentioned in Section 3.2. The overall scheme cost can also increase as a result of needing to meet funding stream bidding criteria and the time scales imposed by the bidding process.

Funding streams can also impose constraints in relation to the way in which funds are spent, which again may not correlate with need and necessitate less effectual application. Some of the funding obtained from a regional body by a unitary authority to assist the construction of a cycle path could only be used in relation to derelict land, for example, which resulted in inefficiencies. This experience of the unitary authority also serves to highlight how the relative lack of flexibility regarding when funding can be spent can also reduce the effectiveness of investment.

Consultations with the authority identified how the phasing of funding and associated time restrictions dictated how work was carried out. A funding allocation that they obtained from the Aggregates Sustainability Levy Fund (ASLF) in 2003, for example, needed to be spent by April 2004. If the cycle route could have been constructed over a longer period in more manageable sections, as opposed to officers trying to get as much of the scheme completed by April 2004, then the quality of the resultant scheme would have been greater. Longer planning horizons and greater certainty of future funding allocations would have been of

particular benefit for the authority given the environmentally sensitive context of the route, which imposed additional restrictions. This case study also provides an example of how inadequate funding provision and a lack of future funding commitment can result in available funds being stretched and the scheme specification downgraded accordingly, thereby decreasing the quality of the scheme and increasing future revenue implications.

The preference of local authorities to be able to roll underspends forward was identified in the questionnaire survey undertaken in 2005. This is one facet of the uncertainty of funding provision which we have identified as being a key barrier to the effective delivery of transport projects (Binsted and Brannigan, 2008b). In the 2005 DISTILLATE survey over 40% of local authorities stated that the uncertainty over LTP allocations until approximately five months into the year had caused some hindrance to the achievement of scheme objectives, which has a direct impact upon the effectiveness of the way in which the resources are deployed. A longer term work plan is necessary if local authorities are to effectively implement and fund schemes. The fact that local authorities are penalised if allocations are not spent within the specified time frame further decreases the chance that investments will provide the optimum value for money.

Problems can also arise when local authorities obtain funding from the private sector. The 2005 DISTILLATE survey, for example, identified that private sector funding was the key area in which the achievement of scheme objectives was hindered. Almost 20% of local authorities stated that private sector funding had caused a '*large hindrance*' to the achievement of scheme objectives, and a further 25% said that private sector funding had caused '*some hindrance*.' One County Council surveyed was left out of pocket as a result of relying on developer contributions to finance a bus scheme. The developer agreed that once the first 100 properties in a new development were occupied they would finance the public transport project, however the Council made the decision to finance the scheme in advance of completion of the development. The housing development was delayed and this resulted in the Council having to support a bus scheme which was not financially viable and which was serving a development with no residents. Had the housing development not experienced technical delays this revenue support could have been instrumental in encouraging more sustainable travel behaviours of residents, but as a result of the uncertainty of when funds from a S106 Agreement would be made available it could have been more effectively invested elsewhere.

3.5 Delays to scheme delivery

Delays may occur in scheme delivery due to:

- Relatively poor availability of revenue funding;
- The partnership working process;
- Lack of suitably skilled staff
- Amount of detail required in the production of bids;
- Uncertainty of developer contributions.
- Cost increases;
- Inadequate planning;
- Uncertainty of the bidding process; and
- Phasing of funding provision.

The capital rich revenue poor context that many local authorities operate within is a factor which can result in transport schemes that require a high degree of revenue funding being

delayed. This can often result in cost increases (discussed separately in Section 3.6), which can cause further delay to fund the shortfall. The business case submitted for a unitary authority's cycle route, for example, did not contain sufficient technical input. Sustrans prepared the report but the engineering details were not adequate enough to cost and derisk the project. This lack of adequate advance planning in turn led to cost increases, inadequate availability of funding, and subsequent delay to scheme delivery. During further consultations the authority stated that one of the most significant impacts upon delivering transport schemes is the lack of revenue to support the provision of trained staff.

The lack of sufficient input from suitably skilled staff can lead to delay in a number of ways. One aspect of this which has been repeatedly identified in DISTILLATE research activities, and which is perhaps symptomatic of the generally poor availability of revenue funding, is in relation to partnership working. A unitary authority have detailed their misgivings of partnership working owing to the extensive consultation processes that are involved at each stage of delivery, and it is widely recognised that partnerships can be extremely complex and time consuming to establish and maintain. The generally poor availability of suitably skilled local authority staff to effectively manage partnerships can therefore lead to delay and mean that transport and land use projects do not benefit from the advantages of partnership working. A City Council reported that they may not have had the resources or expertise to progress their city centre redevelopment project at the necessary pace had it not been for the formation of a partnership. They benefited in part from lengthy negotiations undertaken by the partnership, which took the form of an Urban Regeneration Company.

Another issue in relation to partnership working, which was identified during a local authority survey but not widely reported on within the literature reviewed, is that delays can result from decisions to use Private Finance Initiative (PFI) to finance a scheme as a result of political objectives. The influence of political pressures can mean that the decision is not easily supported by the financial business case or public sector model comparator and that a last minute decision is made to switch to more traditional funding streams, which in turn can incur unnecessary delay.

The initial DISTILLATE questionnaire survey identified that the often large amount of information required by funders before committing to funding schemes can lead to lengthy delays to delivery from the outset. The uncertainty regarding the outcome of bids, particularly when applying for relatively large sources of finance such as from the DfT's Major Schemes grant, and the timing of approvals throughout the bidding process can also result in considerable delays to projects being implemented. The delay experienced can be greater when local authorities are bidding for numerous sources of funding as the phasing can often be out of synch. When constructing part of the National Cycle Network (NCN) a unitary authority, for example, experienced long periods between applying for funding and hearing of the outcome. Effective planning was made particularly difficult as the allocations of funding and the decision making processes of different funding bodies were not synchronised. This implication was also identified in the DISTILLATE survey of local authorities. The delay incurred by one authority as a result of conflicting timescales meant that schemes funded by the Single Regeneration Budget (SRB) and Challenge Funding were devised outside of their local transport plan.

Another private source of funding which can cause delay to scheme delivery is S106 Agreements. DISTILLATE literature reviews identified that S106 funding can give rise to delays owing to the fact that it often does not correlate well with the planned phasing of a project. This was backed up by the local authority survey in which over 50% of local authorities stated that S106 funding had caused '*some hindrance*' to the achievement of scheme objectives. The phasing of S106 funds are often dependent upon the timing of developments themselves and so tend to be out of the control of local authorities (see the example above related to the uncertainty of developer contributions, in Section 3.4).

The relatively unpredictable nature of developer contributions and the impact that this can have upon other schemes and their phasing was highlighted by several local authorities with whom we consulted. Developer contributions are, however, negotiated on a case by case basis, and so whilst they can be risky their potential for negatively impacting upon scheme delivery could be minimised by more effective management.

One potential consequence of delay to scheme delivery is that the local needs and priorities that a scheme was designed to address may have changed by the time of delivery.

3.6 Increases in Scheme Costs

Scheme costs may increase due to:

- Delays to delivery;
- Inadequate planning;
- Lack of suitably skilled staff;
- Lack of advance funding;
- Phasing of funding provision;
- Necessity to meet funding stream bidding criteria;
- Relatively poor availability of revenue funding;
- The partnership working process.

The discussion of this implication will be brief as there is a lot of overlap between this implication and that of the previous section because when delay is experienced then this often has a direct impact upon the cost of a scheme. Similarly increases in cost can result in delay as local authorities seek to identify ways in which the shortfall can be funded.

The significance of the cost implications that can result from schemes being delayed can be evidenced from experience of a Regional Transport Partnership (RTP) in relation to a rail link between a city centre and regional airport. The project was expected to be completed in 2008, although owing to numerous delays the scheme has now been in the planning stages for 15 years and is due to be completed in 2010. In 2004 the total scheme cost was estimated at £160 million, but it is now expected that, as a result of delays, costs could reach £210 million. Central Government continues to support the project but on the condition that the RTP explore all possible options for financial contributions to the project. This has caused further delays to implementation and incurred further costs.

Cost increases can also be attributed to a lack of suitably skilled staff. As outlined previously a lack of suitably skilled input to the business case for the unitary authority's cycle route meant that the full cost of the scheme was underestimated. This resulted in an inadequate availability of funding, delay, and a further increase in costs.

This report has already discussed the potential for schemes to be altered to meet the criteria of funding pots, and it can be common for the cost of schemes to increase as a result of changes being made to the type or design of transport scheme to be implemented. Concerns over revenue implications of schemes can result in planned revenue based projects being replaced by capital works, for example, which can be more costly.

4 Positive Implications of the Local Transport Funding Process

Transport projects are likely to benefit from:

- Access to large amount of capital and revenue;
- Partnership working;
- Enhanced focus provided by funding criteria;
- Longer term funding allocations.

When discussing the potentially negative implications that can arise from the funding process it is also important to reflect upon the many positive implications, the most obvious being that a wide range of funding providers give local authorities access to large amounts of both capital and revenue without which the effectiveness of the transport system would be greatly compromised. A City Council is one of the local authorities with whom we have consulted who detailed that the increase in capital funding from the DfT, for example, has accelerated the implementation of transport projects, and that a number of key transport schemes have been developed as a result.

Numerous DISTILLATE research activities have identified the hazards and potential pitfalls of partnership working. Equally, however, they also identified that private finance can, and does, significantly enhance the chance of a project being delivered to time and budget – and indeed in some cases being delivered at all. Partnership working can also be a means to help redress the imbalance between capital and revenue allocations. Revenue rich partners can run and maintain an asset to an agreed standard. Their formation can greatly reduce the risk placed upon local authorities, with the private sector often bearing costs associated with delays or increased project costs (DETR, 2000; HMT, 2006; ODPM, 2002; RTPI, 2002; Vickerman, 2002). It is in recognition of the vital part that they can play in delivering projects that a section of the Funding Toolkit developed by this project (Binsted and Brannigan, 2008b) has been dedicated to partnerships as a mechanism to obtain funding. One City Council, for example, outlined that partnership working was fundamental to obtain and manage their funding package. Partners have remained engaged throughout, and members have contributed negotiation skills, commercial expertise, risk management and entrepreneurial flair. The City Council have raised doubt over whether they would have had the resources or expertise to progress the scheme at the necessary pace without partnership working.

Local authority consultations were effective in highlighting how local authorities are becoming more adept at managing some of barriers faced, and this has increased their ability to overcome some of the more negative impacts outlined above. A Metropolitan Borough Council, for example, told us how they have been successful in bidding for exceptional maintenance funding on numerous occasions, and that they decentralise minor budgets to finance very localised schemes. Increasingly project management capabilities have also been honed to overcome some of the challenges identified by the DISTILLATE project. One County Council discussed how enhanced management expertise has improved delivery, and that systems are in place to address any unanticipated problems that may arise.

A PTE detailed how they employ similar practices to help ensure that schemes implemented are as effective as possible, both in terms of value for money and meeting local objectives. They also view any potential constraints constructively, with barriers viewed as ways in which they can obtain more focus. The PTE have found that extensive internal and external consultations, scheme prioritisation, detailed consideration of LTP and accessibility criteria are all key to ensuring that they spend money in the most effective manner. Some persistent problems, such as the relatively poor availability of revenue funding, are also managed, for

example by capitalising as much revenue expenditure as possible, and using capital funding to reduce revenue costs.

Funding bodies are also evolving to enable more effective delivery of local transport schemes. A sentiment echoed by numerous local authorities was that the longer term allocations now provided by the DfT, for example, have been fundamental in programming, designing and delivering projects more effectively. A Metropolitan Borough Council was one of several bodies consulted with who are now able to adopt a much more integrated approach to scheme delivery and a far stronger long term planning cycle owing to the enhanced certainty of funding from the LTP.

5 Summary and Recommendations

5.1 Summary

DISTILLATE research activities have identified a number of negative implications that can arise from the funding of the funding process. These are:

- Schemes fails to be implemented;
- The type of scheme implemented is changed;
- Details of scheme are altered;
- The cost effectiveness of the investment is reduced;
- Scheme delivery is delayed; and
- The overall cost of the scheme increases.

Consultations have effectively highlighted that the negative implications associated with sources of funding can be wide-ranging, as can the effect that they have upon local transport networks. When considering the potential negative impacts upon scheme delivery it is therefore also important to consider the more widespread impacts that these can have, for example in relation to the achievement of LTP objectives and the meeting of targets in other service areas.

The negative implications of funding mechanisms on transport and land use projects are likely to diminish as local authorities adapt to the provision and supplement LTP allocations with finance from external sources. Consultations with local authorities have also identified that through greater application of project management skills and an increasing awareness of the constraints imposed by the funding process projects are being planned and implemented more effectively.

Local authorities who appear to be managing potential impacts most effectively tend to be those who have not overcome the barriers faced to avoid the implications, but instead those who have learnt to work effectively within the constraints. Local authorities appear to be moving away from creating lists of projects which would benefit their transport network, and instead look at the funding available and work within these boundaries. This appears to be the most effective approach, but it is not necessarily one which will be of most benefit to local transport objectives, and designing solutions based upon what finance is available as opposed to on an understanding of which schemes are likely to have the greatest impact could be seen to undermine the value of the investment. This approach does not enable Local Authorities to develop transport strategies based upon the objective and problem based approach as advocated by wider DISTILLATE research.

Evidence suggests that funding bodies are also becoming increasingly aware of the potential implications that the funding process can have upon scheme delivery. Local authority consultations highlighted, for example, that the Department for Transport's decision to now provide longer term allocations has been very beneficial. The positive impact that this change has had reinforces the need to ensure that funding providers are aware of the negative implications of funding streams.

The scope of this report has only enabled it to touch upon the range of negative implications associated with funding provision that were identified by research activities. Consultations have identified that the experience varies greatly between local authorities, which adds to the complexity of the issues discussed.

The main Funding Project deliverable is a Funding Toolkit (Binsted and Brannigan, 2008b), which is a guidance document aimed at transport planning professionals. The Toolkit outlines potential barriers to obtaining funding and suggests ways in which they can be overcome. The possible solutions outlined within the document suggest ways in which the impacts of funding barriers, detailed within this discussion note, could be overcome or more effectively managed. The Toolkit may therefore be considered in conjunction with this discussion note to highlight ways in which local authorities are overcoming some of the funding distortions detailed within this note.

5.2 Recommendations

This discussion note has highlighted the significance of a number of factors in reducing distortions to transport schemes. For local authorities these include:

- Acknowledging the importance of project management skills to overcome constraints imposed by funding processes;
- Disseminating best practice to improve awareness of how distortions to transport schemes as a result of funding sources can be minimised;
- Enhancing internal awareness of alternative external sources of funding with an aim to looking beyond traditional sources for finance;
- Consider all scheme proposals in relation to local objectives and be mindful of the negative impacts of tailoring project designs to funding opportunities available.

Recommendations for the funders of transport schemes that have arisen from this research include:

- Identifying ways in which some of the constraints on the schemes delivered by local authorities can be removed;
- Enhance the extent to which approvals are based upon local contexts, and base decisions upon local conditions;
- Consulting with local authorities and other recipients of funding to enhance awareness of the implications of some of the funding criteria and elements of the funding process.

The Funding Toolkit (Binsted and Brannigan, 2008b) details ways in which local authorities may be able to overcome some of the negative implications that arise from the funding process. The Local Transport Funding Guidance for Funders of Transport Schemes (Binsted and Brannigan, 2008a) also recommends ways in which funders could reduce the incidence of distortions to transport schemes. Both of these documents should therefore be referred to for more extensive recommendations that have arisen from the Funding Project research activities.

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