Report of the Review Group on Integrated Transport Block Funding Formula

1. The Brief

1.1 The group was set up in July 2011 to review the Integrated Transport Block funding formula, considering all potential options.

1.2 This was further to a consultation exercise on Local Transport Funding that was held in August 2010. The summary of responses to this consultation committed to establishing working groups to review the formula used for the Highways Maintenance and Integrated Transport funding blocks. The Highways Maintenance Review Group will issue its own report.

2. The Review Group

2.1 The meetings were chaired by Mostaque Ahmed and Will Walker of the Department for Transport (DfT). The group was comprised of representatives from:

Local Government Association (LGA)
Clive Harris, LGA
Adrian White, Durham County Council
Andrew Ross, Cheshire East Council
Charles Soutar, Staffordshire County Council

Association of Directors of the Environment, Planning and Transport (ADEPT)
Grahame Bygrave, Norfolk County Council

Passenger Transport Executive Group (pteg)
John Fenwick, Nexus

Association of Transport Coordinating Officers (ATCO)
Bruce Thompson, Devon County Council or
Tracy Jessop, Norfolk County Council

DfT’s Local Capital Programmes and Delivery Division
Mostaque Ahmed
Will Walker
Fran McMahon

DfT’s Buses and Local Transport Statistics Team
Anna Heyworth

2.2 The Campaign for Better Transport (CBT) declined to send a nominee, but was invited, on two separate occasions, to submit a written response.

2.3 The review group met three times during 2011: on 27 July, 21 September and 1 November. The minutes of these meetings were published on the Department’s website at: http://www.dft.gov.uk/publications/local-transport-capital-block-funding. Following the issuing of this report, the group will be disbanded.
3. Terms of reference

3.1 The review group was established to consider the existing formula and advise DfT on the following: the appropriate structure of a formula, the variables to be used and their weightings, to distribute Integrated Transport Block funding for the future, possibly from 2013/14 onwards; technical issues relating to particular variables being considered for inclusion in the formula; any other relevant considerations for the introduction of the formula.

3.2 The group was aware that decisions on changes to the formula would rest with ministers and they are likely to consult more widely before deciding on any changes.

3.3 The full terms of reference can be found at: http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/itbfrg-tor.pdf

4. Background and potential changes to the IT Block Formula

4.1 The existing formula was created in 2005 and the report of the working group which provided advice on its construction can be found at http://webarchive.nationalarchives.gov.uk/20091203084251/http:/www.dft.gov.uk/pgr/regional/ltp/blockformula/reportofltpblockformulaproje3652

4.1A The existing formula is needs based, with elements on accidents, deprivation, congestion, environmental quality, rurality and other factors. An analysis of past IT Block expenditure by spending area informed the relative weightings for the elements in the formula. A full explanation of the existing formula is available at: http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/it-block-formula-explanatory-note.pdf

4.2 Potential changes to the formula can be divided into three groups: changes to the elements in the existing formula, new elements and changes to the weightings of the elements within the formula. The group looked at the validity of the variables in each element of the current formula and possible data set changes to these variables. It then discussed changes including the addition of new elements and revised weightings.

5. Data change scenarios: Validity of variables in the current formula

5.1 The review group considered the validity of the six elements used in the current IT Block funding formula: objective one areas, road safety, public transport, congestion, air quality and accessibility.

5.2 There were three elements for which there were no immediate proposals from the Department to consider new data sets.

5.2.1 Objective One Areas: less than 1% of current formula
Objective One Areas are part of the European Commission’s regional policy. It was considered that this element of the formula was not one on which the group could advise.

5.2.2 **Public Transport: 30% of current formula**
The current element uses data on local bus and light rail passenger journeys, based on data supplied by local authorities. The Department is now using data supplied by operators to produce local authority estimates of passenger journeys and there may be concerns about the difference between these two sources of data. The group agreed on the possibility of using Smart Ticketing data sometime beyond 2015, once the robustness of the data had been established.

5.2.3 **Air quality: 5% of current formula**
The group agreed that the use of air quality management areas (AQMA), as the basis for this element was too simplistic and possibly anachronistic. The group agreed that this element might be recognised within the congestion element of funding, i.e. there is a link between congestion and poor air quality.

5.3 There were three elements for which there had been improvements in the data sets available since the formula was first devised. Scenarios using alternative data sets were presented to the group and these were discussed at some length.

5.3.1 **Road Safety: 20% of current formula**
The current formula for road safety is based on the average number of KSI and slight casualties on LA managed roads between 2005 and 2009. The group considered two alternative scenarios.

5.3.2 The first scenario was the rate of KSI and slight casualties per billion vehicle miles on LA managed roads for 2005-2009. This scenario was needs based, allocating more funding to LAs with higher levels of road casualties. It also enabled the level of traffic on LA roads to be taken into account.

5.3.3 The second scenario was the change in the number of road casualties over the decade 1995/99 to 2005/09 on LA managed roads. This scenario allocated more funding to LAs that improved road safety. However, it allocated the same levels of funding to LAs, with very different types and sizes of road network, achieving the same rate of reduction.

5.3.4 The group considered variations in the abilities of local authorities to influence trends in road casualties. Rural authorities with a large network of high speed roads need capital for improvements, but metropolitan authorities in deprived areas need revenue funding for training and education schemes.

5.3.5 The group agreed that there should be some method of funding
that did not penalise LAs for improving casualty rates, however it was not clear to the group if either of the scenarios presented was an improvement on the current method of calculation.

5.3.6 **Congestion: 25% of current formula**
The current formula for congestion uses population data by settlement size. The group debated an alternative: average vehicle journey times (flow-weighted) during the weekday morning peak on LA managed A roads for 2009-10\(^1\). Those authorities with longer journey times per mile would receive higher allocations of funding.

5.3.7 In the new scenario more money was given to congested areas and the group raised the issue of need versus reward. The new scenario also resulted in an East/West split with unitary authorities receiving more funding and metropolitan counties receiving less. Average journey time is not necessarily a good measure of congestion and the new measure did not include vehicle occupancy.

5.3.8 The group agreed the current indicator for congestion was not a good measure and this alternative could be a move in the right direction, but it was felt that the indicator, as presented, did not yet sufficiently address this aspect of the formula.

5.3.9 **Accessibility: 20% of current formula**
The existing formula is based on the 2001 Census data on household car ownership, alongside the 2007 Index of Multiple Deprivation and the latest residential population data.

5.3.10 The group discussed an alternative scenario that used DfT’s 2010 accessibility statistics on the average shortest journey time to the nearest employment centre\(^2\) (an Output Area with more than 500 jobs). A minimum journey time of 10 minutes was applied. The longer the journey time, the larger the share of funding allocated.

5.3.11 The group noted that the new formula did not take car ownership into account. In rural areas many people will prioritise car ownership. It also removed the link with deprivation and did not take patterns of working into account, e.g. night work and shift work were not included in the calculations.

5.3.12 There was a consensus that the original formula, although complex, was a fairer and better way of allocating funds for accessibility.

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\(^{1}\) DfT Congestion Statistics (table CGN0201b), published at: [http://assets.dft.gov.uk/statistics/tables/cgn0201.xls](http://assets.dft.gov.uk/statistics/tables/cgn0201.xls)

\(^{2}\) Other services could have been selected, for example, hospitals or schools but the principle remains. The 2010 Accessibility Statistics are available at: [http://www.dft.gov.uk/statistics/releases/accessibility-2010](http://www.dft.gov.uk/statistics/releases/accessibility-2010)
6. Data change scenarios: Population

6.1 Two elements of the current formula, congestion and accessibility, are based on population data. The group agreed there should be a refresh of population data based on information from the 2011 Census as soon as practically possible.

7. Formula change scenarios: Addition of new variables

7.1 The group considered which, if any, new variables should be added to the formula, taking into account the Government’s emphasis on carbon and economic growth and what it had said about walking and cycling in its response to the autumn 2010 consultation. Where new variables were suggested, the review group considered the robustness and availability of data.

7.1.1 Carbon

There was an aspiration to have carbon reduction measures recognised in a revised formula.

7.1.2 The group discussed the use of the 2008 DECC carbon dioxide emissions estimates for local authorities – the road transport emission figures with the motorway element removed. This data is based on local level traffic data from DfT, alongside national information on vehicles, emissions, etc.

7.1.3 The group noted that basing funding on carbon emissions led to a North/South split. It also raised the issue of need versus reward; a formula based purely on levels of carbon emissions could lead to more funding for higher emissions – a perverse incentive. The group questioned how much influence local authorities had over road based emissions and hence whether a data set based on road based emissions was fair. The current state of the economy puts more pressure on economic growth and, if unconsidered, leads to higher levels of carbon. The group noted that measures to reduce carbon (e.g. the installation of charging points for electric vehicles) are costly.

7.1.4 The group agreed that measures to reduce carbon emissions might be covered by measures to tackle congestion and additional carbon benefits might arise from increases in public transport patronage (to the extent that there are modal shift from cars). However, it recognised that if a suitable indicator could be constructed, which did not provide the perverse incentive mentioned above, then it would be preferable to include a specific carbon element within the formula.

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3 Further information is available at:
http://www.decc.gov.uk/en/content/cms/statistics/local_auth/co2_las/co2_las.aspx

Trunk A roads are included as DECC does not have figures for just local authority managed A roads. It may be possible that this could be developed for use in the formula.
7.1.5 **Economic growth**
The group acknowledged that economic growth is a key driver for national and local government and discussed how this could be incorporated into a revised formula. There were issues around the most appropriate measure for growth.

7.1.6 The group was presented with a number of possible scenarios for economic growth including: GVA\(^4\), level of employee earnings\(^5\) within each authority and number of working age people in employment\(^6\) within each authority.

7.1.7 It was agreed that using GVA emphasised the North/South divide with the South East and the East gaining most. The group said the link between GVA and transport need was not clear; higher GVA did not necessarily give rise to transport need.

7.1.8 The allocation of funds based on the level of employee earnings was not popular with the group. Any measure based in employee earnings will emphasise the North/South divide, with more money going to the South East. The group also questioned the link between employee earnings and transport need. Funding is needed where there is potential for economic growth – areas of high unemployment might offer this potential. Conversely, areas of high growth might still be areas with suppressed demand, offering the potential for further growth. There was agreement that working age population felt like a better measure of growth, although this population is declining, in relative terms, in the shire counties as the population ages.

7.1.9 There was some discussion around whether the congestion and/or accessibility elements of the formula might act as a proxy for economic growth, but the group did not reach a definite conclusion.

7.1.10 **Walking and cycling data**
In the summary of responses to the 2010 consultation the Department said it was strongly minded to include walking and cycling measures in the future formula. However the group noted that of the three suggested additions to the formula this was probably the one which had the least resonance with local authorities as a policy driver.

7.1.11 There was some debate about whether the inclusion of this data in the funding formula would be based around need or would be used as an incentive. The group agreed that the physical size of the LAs and their

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\(^6\) Based on the Office for National Statistics Annual Population Survey 2010: number in employment aged 16-64
nature (urban or rural) may have an influence on levels of walking and cycling.

7.1.12 Data on walking and cycling might be available from the Active People Survey from spring 2012. The survey questioned a sample of at least 500 people in each local authority about sport and active recreations, including walking and cycling.7

7.1.13 In the absence of the Active People Survey results, the group observed that while data (on the impacts) relating to some walking and cycling projects was significant and robust, in general non-project specific walking and cycling data was, to date, patchy and inconsistent. Robust, standardised data with national coverage on which to base an element of the revised formula did not appear realistic in the short term.

8. Formula change scenarios: New formulae

Weightings

8.1 The review group considered the impact of weightings in the current formula. These weightings were originally based on historic spend patterns. The group noted the Parliamentary Accounts Committee’s recent review of formula based grant8 and its recommendations.

8.2 In general it was agreed that the weightings given to the different elements are not used by LAs as a guiding principle for determining spend. However, the group acknowledged that weightings were a useful way for the Department to indicate priorities. The group agreed that the weightings given to the elements in a revised formula would be something for ministers to decide.

8.3 The group looked at several formula change scenarios. They looked at scenarios based 100% on population, 100% on carbon and 100% on economic growth. These scenarios were included for illustrative purposes only, so that the group could look at the impact of different elements on the current IT formula. There was no suggestion that a future formula would be based on a single element.

8.4 The group went on to discuss a number of composite formulae, based on a mix of old and new formula elements. These were:

- **Population**
  50% residential population, 50% IT formula

- **Carbon**
  35% CO2, 35% resident population, 30% IT formula

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7 Further information on the Active People Survey is available at: http://www.sportengland.org/research/active_people_survey.aspx
8 Public Accounts Committee - Fifty-Fifth Report: Formula Funding of Local Public Services. The report can be found at http://www.publications.parliament.uk/pa/cm201012/cmselect/cmpubacc/1502/150202.htm
8.5 These scenarios enabled the group to see how a composite formula could balance out the changes to funding across different areas, reducing the differences between the North and the South which are most apparent when carbon or GVA is used as the sole element in the formula.

8.6 The group agreed that the current transport priorities for local authorities are reducing congestion and opening up areas for growth. In a composite formula the group said more weighting should be given to economic growth and less to carbon reduction, although it was noted that changes to the formula might come into effect after a number of years and both of these objectives are expected to be long term goals.

9. Need versus reward

9.1 It was agreed by the group that perverse incentives (e.g. KSIs) are not really perverse; there is no evidence that local authorities fail to improve road safety in order to maintain funding. However, the group would prefer to see measures that do not penalise authorities for making improvements.

9.2 The group was aware of the potential to create a genuinely perverse incentive e.g. by amending the current formula to give higher levels of funding to authorities with higher levels of carbon emissions.

9.3 The Local Government Resource Review was based on an ethos of empowering local authorities rather than just allocating funds according to need. It was agreed by the group that it must be for ministers to decide if the formula should continue to be wholly needs based.

10. Timing of changes

10.1 The group discussed the timings of data refreshes and any changes to the current formula. The group agreed there was intrinsic value in certainty and in knowing future budget levels as early as possible. This was seen to be of greater importance than an absolute reflection of reality in terms of current data. It was therefore agreed that data refreshes should not take place between spending reviews.

10.2 The group recommended that, subject to overall Government budgets, indicative allocations should be adhered to for 2013/14 and 2014/15.

11. Impact of changes

11.1 Inevitably with any changes to the formula there will be local authorities that gain and others that lose. The group noted how the impact of some
proposed changes was dependent on local authority type, but the impact of others was dependent on geographical location, with some changes emphasising the North/South divide.

11.2 The group agreed that floor dampening might be helpful in the short term, but could lead to problems in the long term. Any ‘dampening’ should be proportionate to the level of change in the formula. It was also noted that distributional implications of any changes would be highlighted to Ministers so that they could weigh these up against other objectives.

12. Conclusions

12.1 The group did not want to make specific recommendations to ministers, but would like the following points to be considered in any review of funding:

**Current formula**

- Smart Ticketing data could be used for the public transport element of the formula beyond 2015 (although as the formula has to be set in advance of 2015 it may not be incorporated for the next spending review)
- Air quality measures could be moved into the congestion element of funding
- There should be some method of funding that does not penalise LAs for improving levels of road casualties
- The current indicator for congestion - based around population - is not a good measure. However, the group has been unable to agree an alternative
- The existing accessibility measure is a fairer way of allocating funds than any alternative presented to the group
- The relative simplicity of the current formula should be retained

**New variables**

- Carbon emissions might be covered by measures to tackle congestion and increasing public transport patronage
- ONS data on labour market statistics could be used to measure the economic potential of an area
- The accessibility and/or congestion elements of the current formula might act as a proxy for economic growth
- If any new elements are added to the formula, ministers need to decide if funding will be based on need or incentive
- Consideration should be given to a LAs ability to influence activities
- The impact of any changes should be considered with reference to both local authority type and geographical location.
- Care should be taken to avoid the creation of perverse incentives
Additional points

- The stability of funding levels is important and data refreshes should not take place between spending reviews
- Indicative allocations should be adhered to for 2013/14 and 2014/15
- The Local Government Resource Review was based on an ethos of empowering local authorities rather than just allocating funds according to need

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