

## **Report to the Transport for South Hampshire Joint Committee**

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**Subject:** Local Transport Board Prioritisation Methodology

### **Purpose of the Report**

This report informs the Joint Committee of the need to develop a prioritisation methodology to support the work of a Local Transport Body (LTB) for the Solent Local Enterprise Partnership (LEP) area, and seeks approval of a proposed preferred approach for funding criteria and a prioritisation methodology. Full approval of the Funding Criteria and Prioritisation Methodology will be initial tasks for the LTB, once established. This report also seeks approval for further work on the potential for LTB funds to be awarded as loans for qualifying transport schemes and the merits of an investment panel to provide further assurance on decision-making.

### **Recommendations**

- 1. That the Joint Committee notes the need to develop a prioritisation methodology to support Local Transport Body scheme prioritisation.**
- 2. That the Joint Committee approves the proposed Prioritisation Criteria to be applied to schemes seeking consideration for funding by the Local Transport Body.**
- 3. That the Joint Committee approves the proposed Prioritisation Methodology as its preferred approach for Local Transport Body scheme prioritisation.**
- 4. That the Joint Committee approves further work to consider the potential for Local Transport Body funds, in some circumstances, to be awarded as a loan, and for the establishment of an Investment Panel to provide further assurance of Local Transport Body decision-making.**

## **Introduction**

1. The invitation from Department for Transport (DfT) for Local Transport Authorities (LTAs) and LEPs in LEP areas to establish LTBs has been described in agenda item 7, which also set out the function, membership and assurance requirements of LTBs and how Transport for South Hampshire (TfSH) and its partners propose to take this work forward.
2. As part of this process a prioritised list of transport schemes must be submitted by LTBs to DfT by July 2013. A basis for that prioritisation will first need to be agreed by the LTB, following its establishment. Whilst the prioritised list will not need to be fixed, it is required by DfT to provide an indication of the Value for Money that DfT capital expenditure on major transport schemes can be expected to deliver and so support its settlement negotiations with HM treasury.

## **Prioritisation Requirements**

3. It is important to distinguish between the two assessment steps that transport schemes seeking access to devolved local major transport scheme funding must progress through.
4. First, an initial prioritisation of transport schemes is required for July 2013. LTBs are responsible for determining the most appropriate prioritisation criteria to use, but DfT expects that, as a minimum, the following to be considered:
  - (a) value for money;
  - (b) deliverability;
  - (c) environmental; and
  - (d) social/distributional impacts.

Prioritisation must be evidence-based, robust and based on clear objectives and the prioritisation methodology must be published.

5. Second, whilst schemes prioritised for July are not required to have been through Transport Business Case and WebTAG (DfT's Transport Appraisal Guidance) assessment, they will need to do so before an irreversible funding decision is made by the LTB.
6. Each scheme prioritised by the LTB will need to have a Transport Business Case and WebTAG assessment developed by the promoting authorit(y/ies). This can be costly and scheme promoters need to be mindful of this.
7. The remainder of this report focuses on the initial prioritisation stage. Details of the process for developing business cases post-prioritisation will be developed once the LTB has been established.

## Funding Criteria

8. It is important to consider where TfSH is, in terms of transport scheme identification. Agenda item 5 proposes for adoption a Transport Delivery Plan (TDP). The schemes included within the TDP have been identified following a process that is consistent with DfT WebTAG advice and therefore, more than satisfies the level of prioritisation expected by DfT. The schemes within the TDP have been sifted from an initial list of almost 400 schemes, respond to evidenced constraints that are impeding sustainable economic growth, and support the strategic objectives of the strategic bodies in the area.
9. Given the robustness of the TDP (as reported in agenda item 5) and the criteria imposed on this ring-fenced funding by DfT, it is proposed that the LTB should only consider proposals for devolved local major transport scheme funding that are included within the TDP. Schemes within the TDP (or that are subsequently added to the TDP) have been identified following a process that accords with DfT prioritisation requirements and seek to support sustainable economic growth and so provides a strong foundation from which to develop schemes for delivery.
10. Devolved local major scheme funding is capital only and proposals submitted to the LTB for consideration must, therefore, be for a 100% capital funding request. It will be important that each scheme proposed to the LTB has a clearly defined scope, so that expected outputs and outcomes can be understood at prioritisation. In addition, it will also be an imperative for this fund to support economic growth and support the generation of employment growth as well as leveraging in external funding. Schemes that improve productivity in the sub-region, that can lever in external funding and can unlock development potential should be viewed more favourably.
11. It is proposed that the principle, in some circumstances, of LTB funds being applied for as a loan for schemes that meet the fund criteria is considered further. This may be appropriate for development sites that require enabling transport infrastructure to realise their potential. Funds would then be repaid on sale of the land, or from future revenues. However, schemes applying for a loan will be assessed on the same basis as other schemes.
12. The current DfT Major Schemes Programme is operating at a Benefit Cost Ratio (BCR) of 4:1, which is excellent, considering DfT identify a BCR of 2:1 as “High”. It is unlikely that most schemes at LTB prioritisation stage will have a BCR available to support their case, and as such it is proposed that a BCR is not a requirement for scheme prioritisation. There is an inherent danger in reporting headline information on BCRs at an early stage of scheme development, and these are more appropriately reported through more detailed work. Furthermore, as scheme proposals are likely to be at different stages of

their development the LTB would not be comparing like with like (in terms of level of confidence) and decision-making could be misinformed.

13. In addition, it is important to note that value for money is not defined solely by the BCR for a scheme. The calculation of a BCR through WebTAG does not capture all value for money considerations, and it will be important that these are fully reported in full the Transport Business Case of those schemes prioritised for funding. However, for prioritisation, it is recommended that promoters identify the likely value for money (high to low) and explain from where the benefits are likely to be derived.
14. As LTB schemes will need to be delivered within the period 2015-19, confidence in delivery will need to be an imperative. There will also be a credibility issue at stake. The TfSH Local Transport Authorities have developed a strong track record of delivery and it is considered that this has been a factor in recent funding successes. This track record needs to be maintained.
15. A minimum project cost threshold of £2 million is proposed for schemes seeking consideration by the LTB. The previous major scheme fund set a £5 million minimum threshold, but this has been removed in the 2015-19 devolved structure and whilst DfT no longer require a minimum scheme cost threshold they recommend LTBs to impose a "*minimum cost threshold appropriate to the area and budget of the LTB.*" Given the indicative level of funding for the four year period is expected to be in the region of £29 million, a £2 million lower threshold is recommended.
16. In consideration of the above, the following eligibility criteria are proposed for schemes or packages of schemes to be considered for prioritisation by the LTB:

Schemes must:

- (a) be included (or will be included) within the TDP;
- (b) have a clearly defined scope;
- (c) comprise a 100% capital funding request;
- (d) be supported by a local contribution (public and/or private and revenue and/or capital) of at least 25% of overall project cost. This 25% local contribution can be applied after 2019 (*with higher local contributions viewed more favourably in scheme prioritisation*);
- (e) have a capital cost of £2,000,000 or above;
- (f) support the generation of employment growth (*with higher employment growth viewed more favourably in scheme prioritisation*);
- (g) be expected to deliver 'high' value for money; and
- (h) be deliverable within the period 2015-19.

17. In addition, it is proposed that the LTB has the ability to use LTB funds in combination with other funding pots to support the delivery of projects where transport is just one component. However, in these circumstances, LTB funds must be ring-fenced to fund the transport component either in part or full, to ensure compliance with DfT criteria for this funding pot.

### **Prioritisation Methodology**

18. For prioritisation, DfT recommend the use of their Early Assessment and Sifting Tool (EAST). EAST is a decision support tool that quickly summarises and presents evidence on options in a clear and consistent format. It provides decision-makers with relevant, high level, information to help them form an early view of how options perform.
19. EAST has been designed so that it can be applied without having to obtain detailed evidence. This flexibility allows options to be considered at an early stage of development, which is likely to be the case for schemes seeking prioritisation by the LTB. Furthermore, EAST is consistent with Transport Business Case principles in that the issues respondents are asked to consider when assessing the economic impact of schemes are the same as those they will need to address in a more detailed way in a full Transport Business Case (following prioritisation).
20. The areas assessed within EAST are presented in Appendix 1. Assessment generally uses a *scale of impact* (for example, low to high or red to green, or cost thresholds) and also provides for supporting text to be input.
21. An area that is lacking from the Economic Assessment of EAST and which is recommended to be included as a local augmentation to EAST is employment growth. It is proposed that employment growth is added as a new assessment line within the Economic Assessment. The response to this will require the expected number of direct and indirect jobs to be identified. A free text field would also be used to describe additional, indirect employment creation.
22. A proposed prioritisation process to be followed by the LTB is set out in the six steps, below:
  - Step 1:** Using the TDP as a base, promoters select those schemes that they wish to propose for devolved local major transport scheme funding. This will ensure commitment from the delivery body.
  - Step 2:** Each scheme promoter completes a short *Expression of Interest* (EoI) form on a consistent template (to be developed) that provides an opportunity to 'sell' the case for a transport scheme or package of schemes. The template will capture the information proposed within this report.

- Step 3:** LTB Members hold a workshop to review the applications, agree on a prioritised list of schemes and award programme entry (subject to the later submission of a Transport Business Case and WebTAG assessment). This step will invite promoters to present their proposals and answer questions, provide supplementary information and a final chance to 'sell' their scheme.
- Step 4:** Report presented to a meeting of the LTB providing details of all Eols and recommendations for prioritisation, programme entry, and phasing. There will be an opportunity for non-LTB members to challenge/support proposed decisions at this stage.
- Step 5:** Prioritised list reported and ratified at a meeting of the LTB.
- Step 6:** Results of prioritisation published on the TfSH/LTB website and notified to DfT.

### **Independent Scrutiny**

23. The Assurance Framework guidance states that business cases must be independently scrutinised by a suitably qualified person or persons in transport business case appraisal. DfT do not require prioritisation to be independently scrutinised, but it is recommended that the prioritised list of schemes is independently scrutinised.
24. It is also proposed that consideration be given to the establishment of an investment panel, which would review decisions of the LTB and provide further assurance on LTB decision-making, value for money and links with wider programmes of investment. The investment panel would be advisory only and have no decision-making power.

### **Conclusion**

25. This report has identified the requirement of LTBs to develop and agree a prioritisation methodology to support scheme prioritisation of LTBs. The report has also set out the work TfSH has already undertaken with regard to prioritisation through the TDP and how this can be used to support LTB prioritisation. This report also proposes a preferred TfSH approach for an LTB funding criteria as well as a preferred approach for a LTB prioritisation methodology. Finally, the report also identifies areas of work to be explored further, including the potential for LTB funds to be awarded as loans and the potential for the creation of an investment panel to provide further assurance on LTB decision-making.

Section 100 D - Local Government Act 1972 - background papers

**The following documents disclose facts or matters on which this report, or an important part of it, is based and has been relied upon to a material extent in the preparation of this report.**

NB the list excludes:

1. Published works.
2. Documents which disclose exempt or confidential information as defined in the Act.

TITLE

LOCATION

None.