



URBAN TRANSPORT GROUP

The Local Transport Lottery

The costs and inefficiencies of funding local transport through ad hoc competitions

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1. Introduction

- 1.1. Local Government funding is both complex and fragmented. It is made up of a range of different funding streams including Council Tax, business rates retention, the local government funding settlement, and ad hoc funding pots from central government. Up until the last Budget, it had also been in steep decline.
- 1.2. As overall revenue funding fell for local government, access to capital funding has become increasingly dependent on winning competitions set by national government, sometimes for what are relatively small pots of money. This is despite repeated assertions from Whitehall that it is in favour of the devolution of powers and decision making to local government.
- 1.3. Between 2016 and 2019, 82% of the short-term funding made available by government required councils to bid competitively¹, placing additional strain on already stretched revenue budgets.
- 1.4. We previously explored the implications of excessive reliance by national government on competitive funding for local transport in 2015 through a report on the wider topic of “Revenue Vs Capital Mismatch”, which found that constant bidding competitions create continual uncertainty, making it difficult to plan staffing and other resources efficiently. The competition process also diverts scarce resources away from more productive activities and amounts to a ‘deadweight loss’.
- 1.5. This new research expands on that earlier research by taking a more in-depth look at the implications of excessive reliance on competition funding through surveys of, and interviews with, senior officers responsible for the planning and delivery of local transport policies, programmes and projects.
- 1.6. In undertaking this work we aim to show how excessive reliance on competition funding impacts on local authorities’ ability to deliver value for money and the pressures that it places on authorities and their staff.

2. The funding context for local government

- 2.1. Although the last Budget took a different tack, local authorities have experienced significant revenue funding cuts during the last decade significantly impacting on their spending power and their head counts.
- 2.2. Recent work by the Joseph Rowntree Foundation found that in real terms, local authorities in England lost 27% of their spending power between 2010/11 and 2015/16².
- 2.3. Urban areas have been hit hardest, with a cut of £386 for each person who lives in a city compared to £172 for non-city dwellers³.
- 2.4. During this time there has been an increase in the number of competition funds. Since 2010, almost £6.8 billion has been made available through competitive funding pots. Analysis suggests that the number of small funding pots has increased dramatically in recent years⁴.

¹ LGC, Revealed: Whitehall’s £6.8 bn ‘penny packets’

² <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/Summary-Final.pdf>

³ <https://www.centreforcities.org/wp-content/uploads/2019/01/19-01-28-Cities-Outlook-2019-Full.pdf>

⁴ LGC, Revealed: Whitehall’s £6.8 bn ‘penny packets’



Year	MHCLG Competitive Funding Pots	Value
2016	6	£233 million
2017	1	£0.45 million
2018	13	£391 million
2019	21	£2.4 billion

- 2.5. Indeed, 82% of the short-term funding made available by government required councils to bid competitively during this four year period⁵, placing additional strain on already stretched revenue budgets.
- 2.6. The average pot size varies by department but can be very small, with only the Department for Transport having an average pot of over £100 million whilst the Home Office promoted a funding pot valued at £5 million.

Department	Funds	Value	Average
MHCLG	57	£4.8 bn	£84 m
DfE	14	£462 m	£33 m
Defra	9	£448	£38 m
DfT	5	£814	£163 m
Cabinet Office	4	£53 m	£13 m
Home Office	1	£5 m	£5 m
Other	11	£117 m	£11 m

- 2.7. To put this into context for an individual authority, Wakefield Metropolitan District Council submitted 12 applications in the year June 2018 to June 2019, seven of which were successful in securing almost £19 million⁶. That is an average of less than £3 million per bid and a success rate of just over 50%.
- 2.8. Centre for Cities' "Cities outlook" says that the focus on Brexit has left cities in a difficult position with a lack of government attention on national policy. The very centralised system of governance in England means that local government lacks the autonomy to take the initiative and deliver schemes that would help boost their economies. The short-term nature of funding means that they are not able to plan forward with any stability⁷.

⁵ LGC, Revealed: Whitehalls £6.8 bn 'penny packets'

⁶ LGC, Revealed: Whitehalls £6.8 bn 'penny packets'

⁷ <https://www.centreforcities.org/wp-content/uploads/2019/01/19-01-28-Cities-Outlook-2019-Full.pdf>



3. Research approach and findings

3.1. In order to understand in more detail the implications of excessive reliance on competition funding for local transport, the Urban Transport Group (UTG) has carried out this additional research which is based on:

- A survey completed by eleven senior officers responsible for delivering local transport policies, programmes and projects at some of England's largest urban transport authorities.
- One-to-one interviews carried out with five of those senior officers to explore in greater depth some of the issues highlighted in the responses to the online survey.

3.2. All information from the surveys and the interviews has been anonymised.

3.3. The analysis in this report combines the findings from the online survey and the in-depth interviews, to set out common themes and provide insight into the impact of competition funding on the efficiency and effectiveness of the current approach to the funding of local transport by national government.

The high cost of competition funding

3.4. In order to assess the costs of competition funding, we used the survey to identify the staff and wider resource costs (the latter is mostly made up of consultancy spend) that transport authorities would expect to commit to a hypothetical competition for a small project (£5 million) and for a large project (£100 million).

3.5. To do this the respondents were asked to select an option from a sliding scale of ranges of staff and revenue spend. We then selected the median response to give us a typical range of staff and revenue spend on bids. These are set out in the tables below.

Typical staff and resource costs for preparing a bid for a £5 million project

	Staff (full time equivalent)	Resource cost (£)
Lower end	1	0
Upper end	2	24,000

Typical staff and resource costs for preparing to bid for a £100 million project

	Staff (full time equivalent)	Resource cost (£)
Lower end	2	100,000
Upper end	4	199,000

3.6. In order to put a cost on staff time allocated to the bid we assumed that the work would be carried out by a number of different members of staff on very different levels of remuneration. We have made a conservative assumption that the overall balance of involvement of different



staff would result in a total cost of £35,000 for each full-time equivalent staff member working on the bid.

3.7. On this basis we can conclude that:

- The typical cost of bidding for a £5 million project is between £35,000 and £94,000. This is between 0.7% and 1.9% of the cost of the project itself.
- The typical cost of bidding for a £100 million project is between £170,000 and £339,000. This is between 0.2% and 0.4% of the total amount of funding.

3.8. The cost of bidding for a £5 million pot is three to five times less than bidding for a £100 million fund, despite the reward of the latter being twenty times greater. This shows that the costs of bidding for funding for a small project are disproportionate when compared with the costs of bidding for a large project.

3.9. We can also use these figures to look at the absolute costs of bidding for competition funding.

3.10. So, if there was a competition for three awards of £5 million each and there were six bids, the total bidding costs would typically amount to between £210,000 and £564,000 of which between £105,000 and £282,000 would have been spent on the three unsuccessful bids.

3.11. If there was a competition for two £100 million awards and there were three bids in total, then the typical total overall bidding costs would be between £510,000 and £1,017,000, of which between £255,000 and £508,500 would have been spent on unsuccessful bids.

3.12. To provide a third scenario, if an individual authority is bidding for ten £5 million funds and two £100 million funds in a year, they might typically spend up to £1,618,000 on bidding for these schemes.

3.13. These scenarios are all based on either a relatively small number of competitions or on the impact on a single area. If we were to scale up these numbers to reflect the impact on more authorities, or of more competitions, then sums of far greater magnitude would result.

3.14. These scenarios also indicate the drain on limited staff resources that competition funding entails (something we explore in more detail in section 4).

3.15. From these scenarios we can conclude that:

- The staff and resource costs in preparing a bid are high in absolute terms;
- The costs of preparing a bid for a small scheme are disproportionately high when compared with the costs of preparing a bid for a large scheme (the cost of bidding for a £5 million project is typically three to five times less than bidding for a £100 million project, despite the value of the latter being twenty times greater);
- Bidding for numerous, often short-term, projects is a major drain on limited available staffing which could be far better deployed as part of a longer-term strategic approach to urban transport planning and delivery.



4. The inefficiencies and impacts of excessive competition funding on the planning and delivery of local transport

- 4.1. Having explored the resource implications of the bidding process we will now look at the impact on local authorities' wider capabilities and capacity. In this respect the surveys found that the principle impacts of excessive reliance on competition funding were:
- The pressures on revenue budgets due to high consultancy costs for bid preparation
 - The impact on the workforce and the day job of constant disruption from bidding
 - The ability to develop and deliver long-term strategies in the context of the churn of meeting unpredictable competition deadlines with their unpredictable outcomes
- 4.2. These findings were all explored further through the in-depth interviews.
- 4.3. The Transforming Cities Fund was mentioned in most surveys and by all interview participants, so section 5 of this report looks at this fund and the differing experience of authorities that received a direct award and those that have had to bid for funding.

Bidding for funding in the context of falling revenue spend

- 4.4. The survey highlighted that all authorities (a mixture of Combined Authorities and their constituent districts) had been subject to significant revenue budget cuts over the last five years.
- 4.5. When asked to provide an estimate of how their authority's overall revenue budgets had changed over the last five years, 5 out of 9 participants answered that there had been a reduction greater than 20%.
- 4.6. In the context of competitive bidding, the most cited impact of revenue budget cuts was the reduced headcount.

'It's not just the impact on the revenue budget, it's the extra strain that repeated rounds of funding puts on the staff. We have less staff now so we already have people covering more areas of work and do not have the resilience we used to have. They've got their own work to do on top of this constant bidding cycle.'

- 4.7. We then explored which areas of authorities' work had been most severely affected by reduced revenue funding. Scheme development was reported as the most significantly affected with bid preparation; strategy and planning; and monitoring and evaluation also highlighted.
- 4.8. The repeated rounds of unpredictable competition funding (in the context of constrained staffing resources due to falling revenue budgets) has led to authorities leaning more on consultancy support for competition bids

'Each time a competition fund is announced we have to decide can we do it ourselves or do we need some support?'

- 4.9. Where it is decided that a consultant is needed, further strain is placed on the revenue budget. The scale of consultant support cannot be predicted at the start of a year and the increase in the number of competitive funds means that they are being called on for support more often.



'The problem has got worse with the increase in the number of funds that we are having to bid for. This increases our revenue risk as we need the technical support more and more often at the moment. This is money that we could be spending on something else.'

The challenges for staff of unpredictable competition funding

- 4.10. Competitive funding rounds exacerbate the problems of a reduced headcount, taking people away from their day jobs at short notice and distracting them from meeting long-term local transport challenges in a strategic and systematic way.

'One of the aspects of the process of responding to competitive bids is the disruption to the existing workloads. When bids that usually have short deadlines to respond to are launched it inevitably means that people are pulled off of their existing work as the limited (revenue) resource we have is reassigned to the bid. This means that other projects or policy work is affected, sometimes significantly. In addition, it leads to more pressure on an already stretched workforce which in turn affects health and wellbeing.'

- 4.11. A key challenge of responding to repeated bidding rounds is the disruption that it causes to normal workloads and work requirements:

'One of our main problems is that people are taken away from their day-to-day jobs every time a bid comes in, which is getting ever more regular. This really disrupts the work that we are able to do and creates spikes in demand for resource which can be hard to meet.'

- 4.12. Sometimes when there are a number of conflicting priorities it means that authorities have to ration what they can and cannot bid for.

'Sometimes we just have too much on and we have to let a bid go that we would normally be interested in. Our staff can only do so much at once.'

- 4.13. There were further examples where people have not bid for funding due to a lack of resource:

'There have been a couple of funds that we have had to say, sorry we just don't have the resource to focus on that as well. If you already have a big bid on such as Transforming Cities Fund and the districts don't have any resource to help you then some of the smaller funds have to slip by.'

- 4.14. Making a similar comment, another authority commented that they probably need to be more selective going forward to help the quality of their bids

'Sometimes I think we need to be a bit cleverer and not bid for everything. I understand the pressure to do so but your bids can suffer as a result of this. I think we will be better at prioritising in the future.'

The unintended consequences of tight deadlines for competitive funding pots

- 4.15. Tight timelines for funding competitions create other problems locally, with authorities having to find schemes that are ready to go and fit with the timelines of the bid.



'Timescales meant promotion of well developed "ready to go" schemes, appropriate schemes with good criteria fit, good BCR [benefit cost ration], good deliverability but not necessarily the best possible schemes that could have been promoted.'

- 4.16. The timescales for funding competitions exacerbates the challenges for authorities of inadequate staffing resources for developing a pipeline of schemes which are linked to coordinated long-term strategies. Instead, to meet competition deadlines it can be a case of either adapting whatever schemes are available to best fit the criteria or putting together projects at short notice which seek to fit the criteria in the time available but may not be the best option if there had been more time or resource available.

'Selected schemes have not been as well developed as we would have liked, when bidding for money. This is largely due to the time pressures of having to get the bid finalised.'

- 4.17. Because of the timescales, criteria and pressure to win competitions, the costing of projects is not always as well worked through and accurate as it could be. This can lead to problems down the line, particularly around cost escalation.

'The criteria are always restrictive and business cases have to be squeezed and squeezed to get a good bid. The downside of this is that we sometimes underbid for the schemes we are delivering resulting in an almost guaranteed overspend.'

- 4.18. Whilst the intention of competition funding is to reward the "best bids" on grounds of innovation and cost effectiveness, an unintended consequence can be that competition funding can obstruct innovation and value for money by distracting resources away from long-term strategies and well developed projects in favour of the pursuit of novelty, quick fixes and projects where there hasn't been the time or resource to cost and assess them properly.

5. Case study: The Transforming Cities Fund – two different approaches to one funding pot

- 5.1. The Transforming Cities Fund (TCF) provides an illuminating example of the ramifications of two different ways of allocating funding from the same pot
- 5.2. The creation of the £1.7 billion TCF was announced as part of the Autumn Budget 2017. The aim of the fund is to "drive up productivity and spread prosperity through investment in public and sustainable transport in some of the largest English city regions⁸"
- 5.3. The significant funding that individual authorities can access from the fund has the benefit of providing a major injection of capital into packages of linked improvements. However the two ways in which the fund has been allocated - direct award and competition - provides a good example of the dis-benefits of the latter. And funding over three years, though relatively long by the standards of central government funding pots, is short-term for efficient long-term planning of city region transport projects and in developing and building the skills and resources necessary for delivering them.

⁸ DfT, 2018, Transforming Cities Fund: Call for Proposals, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689407/transforming-cities-fund-call-for-proposals.pdf



- 5.4. The funding was allocated in two ways. For Mayoral Combined Authorities, with an existing, directly-elected Mayor, half of the funding was allocated on a devolved per capita basis with “freedom to invest on strategic transport priorities, whether they be for light rail, bus rapid transit, cycling, or other public and sustainable transport improvements⁹”.
- 5.5. The remaining funding is to be allocated by a competitive process that aims to identify the city regions with the strongest case for investment.
- 5.6. It emerged through the interviews that the experience between the two funding routes has been quite different to date.
- 5.7. These interviews showed that whilst the fund was welcomed by all, the competitive element was a much more resource intensive, disruptive and inefficient process than the direct award.
- 5.8. It was estimated by one authority that they had spent over £500,000 of their revenue budget on the bid, whilst a recent Local Transport Today article quoted the Finance Director for North East Combined Authority (NECA) saying that they had spent over £1 million.
- 5.9. A senior officer from an authority which had to bid for the funding said:
- ‘It is a significant pot of money so we have had to pull a large number of staff together through 2019, which equates to 4.6 full time employees. This involves a couple of internal secondments, which then need to be covered and some fixed term appointments. We also have consultants in place so will have spent about £500,000 of our revenue budget on the bid. This has been a 20 month process to see what we will get at the end of it.’*
- 5.10. Similar themes emerged from other interviews relating to the length of the process and the level of commitment required:
- ‘The process has gone on for a long time when you consider that authorities with a direct award have been able to get on with planning and spending their money. We have spent a big chunk of our revenue budget on the bid and there is a chance that we will receive an amount that would have been very similar to a formula approach. Sometimes you wonder what the value of the bid is.’*
- 5.11. This contrasts with the experience of authorities who have received a direct award, where there was a much greater level of certainty over what they had to spend and what projects would be included.
- ‘With having the direct award we were then able to work with our partners to develop a programme of schemes that will deliver benefits across the region... This has been a very different process to when we have submitted bids as we have had the time and ability to think strategically.’*
- 5.12. Whilst the three year funding timeline is welcomed, in terms of the budget certainty that it provides, this is still relatively short-term in the transport world given that transformative transport schemes can take years to develop and implement.

⁹ DfT, 2018, Transforming Cities Fund: Call for Proposals, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/689407/transforming-cities-fund-call-for-proposals.pdf



‘There is a tension between what can be transformative and what can be delivered in three years, so you don’t always get the best schemes put forward. A three year timeline will rule out a number of transformative schemes. It leaves very little time to develop and actually deliver something. So whilst we can put forward some good schemes there are others that we can’t even consider.’

5.13. This was raised in a number of interviews.

‘We have to bear in mind that schemes need to be delivered by 2023, so that rules some out from the start.’

5.14. And:

‘Also, it is only three years of funding. We need a longer pipeline. Short-term competitions don’t deliver this. If we had the confidence that there was a long-term funding pipeline we could develop a long-term plan to deliver transformational schemes.’

5.15. The short-term approach to competition funding appears to prevent some of the most transformational schemes from being included in bids.

5.16. Short-term funding cycles are problematic for developing a pipeline of schemes to deliver transport outcomes over a period of time. Short-term funding cycles can mean that authorities are uncertain about what funding will be available to them moving forwards and what schemes they would be able to include.

‘We have some confidence to continue to develop a pipeline of work beyond this fund as something will come up, but there is uncertainty as to what this will be, what the timescales will be and what we can put in.’

5.17. This can also impact on the schemes that are put forwards for a particular bid.

‘It might be that we make our scheme selection based on the knowledge that we have at the time, but then when we see the next round of funding announced we think gosh, if only we had known that, we would have included scheme B as this would have allowed us to build on it.’

5.18. This is an inefficient way of working as it does not allow authorities to plan in a strategic way. Rather it can lead to schemes being put together to suit funding requirements rather than schemes that can provide the greatest impact over time. Whilst competition funding can encourage schemes with the highest BCR’s to be put forward for funding this is only for the schemes that fit the criteria and are deliverable within the funding timelines, so are not necessarily the best value for money schemes overall.

5.19. Overall the TCF should bring significant improvements to local transport, however, it still brings with it inefficiencies, particularly where it is allocated on the basis of competition.

6. Conclusions

6.1. Modern and efficient urban transport is vital to the proper functioning of large urban areas. Local transport funding is needed to keep roads safe and well maintained, to support bus services and the infrastructure they rely on, and to provide modern, well maintained and attractive transport interchanges. With transport the largest source of carbon emissions, it is



also critical to achieving demanding targets for carbon reduction as well as contributing to greater resilience of cities as weather events becomes more extreme. At the same time, urban transport networks also need to respond to the demands and opportunities from new technologies and business models (including connected and autonomous vehicles, new forms of micro-mobility and far greater availability of data).

- 6.2. Although for many years there has been much high level talk from national government about support for greater devolution of decision-making, and the need for greater stability of local transport funding, the fact remains that whereas there is long-term funding deals for national rail and roads, funding for local transport remains excessively reliant on ad hoc and unpredictable funding competitions.
- 6.3. This report examines the implications of this for the efficient and cost effective planning of local transport in the city regions.
- 6.4. It does this through surveys and interviews with senior executives at some of England's largest urban transport authorities. The findings are both quantitative (through scenarios based on cost and resourcing estimates from the surveys) and qualitative (using the words from the interviews themselves). There is also an in-depth case study of one bidding competition in particular (the Transforming Cities Fund).
- 6.5. The main findings of the report are that:
 - The costs of competition funding is high in absolute terms (the costs of bidding for the Transforming Cities Fund is in the region of £1 million for some authorities).
 - The costs of preparing a bid for a small scheme is disproportionately high when compared with the costs of preparing a bid for a large scheme (the cost of bidding for a £5 million project is typically three to five times less than bidding for a £100 million project, despite the reward of the latter being twenty times greater).
 - Bidding for short-term projects is a major drain on limited available staffing which could be far better deployed as part of a longer term strategic approach to urban transport planning and delivery.
- 6.6. The report also found that:
 - The unpredictability and short-term nature of excessive reliance on competition funding can distort priorities with sub-optimal projects being brought forward on the basis they meet competition criteria rather than that they would be the best scheme overall.
 - The constant and unpredictable churn of competition funding disrupts and distracts from the task of developing and implementing longer term integrated planning and delivery and from building up a pipeline of schemes.
 - The number of small competitive pots has increased dramatically over recent years, increasing the burden on local authorities for relatively small gains.
 - The need to respond quickly to ad hoc competitions leads to higher consultancy spend which takes funding away from supporting, developing and maintaining the levels of in-house staff.
 - More authorities are now reducing the number of competitions they bid for (or are considering doing so) due to lack of resources.



- 6.7. There was also a strong consensus from the survey and interviews that there is a compelling case for long-term stability for local transport funding for at least five years, and preferably ten.

'Given how long transport investments take we need indicative allocations for over five years, preferably ten so we can develop a pipeline and get the schemes away.'

'A longer time period, say 5-10 years, would allow us to implement our developments in a much more strategic way. We could make long-term decisions on what we needed to prioritise and the order that schemes were to be implemented. We could develop complementary packages to go together around the edge of the big schemes to help get the most benefit out of them. We can do some of this in the current system, but it is definitely harder.'

- 6.8. At a time when, more than ever, we need a long-term and strategic approach to ensuring that cities have the transport networks they need in order to support their wider environmental, economic and social goals, we have continued to see excessive reliance on short-term competition funding. The impact of the high costs and inefficient nature of this approach have also been magnified by cutbacks in wider revenue funding which means these costs and inefficiencies take a greater toll - so much so that more authorities on more occasions no longer have the resources to devote to bidding.
- 6.9. There continues to be a big gap between high level rhetoric about devolving decision-making on local transport and Whitehall's inability to resist the temptation to puppeteer on local transport in practice. National highways and national rail both now have long-term funding deals from national government. This report demonstrates the logic of going further and extending this approach to local transport funding. This approach would also be in line with the National Infrastructure Commission's recommendations in its National Infrastructure Assessment for cities to have devolved infrastructure budgets for locally determined urban transport priorities.