

## Overcoming Financial Barriers

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The funding process and the availability of both revenue and capital funding can create a barrier to the effective design, implementation and maintenance of sustainable transport and land-use schemes. The DISTILLATE Funding Project therefore sought to identify the nature of these barriers, how they are being experienced by local authorities, and the ways in which they could be overcome. This paper provides an overview of the findings of this project. The methodological approach included a series of consultations with transport practitioners and their counterparts in public health, environmental strategy, land-use planning and corporate policy units, three literature reviews, semi-structured telephone interviews with transport practitioners, two workshops and continual engagement with five case-study partners. The results of these research activities have been encapsulated within a Funding Toolkit, which has been designed to enable significant improvements in the way in which local authorities can manage, and overcome, funding barriers. Other research products include a guidance note for the funders of transport schemes, which provides stakeholders with an overview of the barriers faced by local authorities and recommendations about how they can be alleviated. This paper gives an overview of the research findings and details the role that both local authorities and the funders of transport and land use schemes can play in alleviating the impact of funding barriers.

*Keywords:* barriers; funding; local transport plans; scheme delivery; sustainable transport

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### 1. Introduction

#### 1.1 Background

This paper is one of a series on a UK research programme, DISTILLATE (Design and Implementation Support Tools for Integrated Local Land use, Transport and the Environment), which carried out research into six barriers deemed of particular importance to UK local authorities, and developed a series of products designed to support local authorities in their decision-making. The DISTILLATE research programme was funded under the UK Engineering

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and Physical Sciences Research Council's Sustainable Urban Environment initiative, which placed a particular emphasis on research which met the needs of practitioners. It also sought research proposals which were multi-disciplinary, reflecting the complex nature of the problems to be tackled, and multi-institutional, given a concern that no one institution might have the critical mass of research skills needed.

The DISTILLATE programme responded to these challenges by involving local authorities and related actors directly in the research programme and by bringing together the research skills of two interdisciplinary transport research groups, a planning school, a policy-oriented research centre, and a national research establishment. It was designed to help overcome those barriers to decision-making which were judged to be most serious, and most amenable to research-led solutions. It set itself a vision of helping to achieve a step change in the way in which sustainable urban transport and land use strategies are developed and delivered. Further details of the programme as a whole, and of the role of the project reported in this paper, are provided in the overview paper (May, 2009).

Identifying and obtaining appropriate funding both for 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 was addressed within the DISTILLATE Funding Project, which is one of seven projects that comprised the DISTILLATE research programme. It sought to identify and examine the barriers faced by local authorities when identifying and using funding for transport and land use projects. Its key objectives were to:

- Understand the funding procedures which affect transport and land use projects and how these procedures affect project design and implementation;
- Develop improved methods for dealing with different funding barriers and suggest how issues should be handled during the planning stages;
- Understand how constraints relating to funding provision may affect the project's outcomes;
- Produce a toolkit and guidance documents encapsulating these findings and the resulting recommendations.

This paper gives an overview of the findings of the DISTILLATE Funding Project research. Barriers to obtaining funding, the implications that these barriers can have for transport schemes, and the ways in which these barriers can be overcome are discussed in turn within the following sections. Section 2 provides an overview of the funding issues and barriers identified by the research, which are referred to throughout the paper. Section 3 describes the impacts that these barriers can have on transport schemes. Section 4 outlines the guidance developed to help minimise the impact of funding barriers. Section 5 details some of the ways in which local authorities have effectively overcome or managed these barriers, and Section 6 presents some key conclusions that can be drawn from the research.

### *1.2 Transport funding in the UK*

Transport projects in the UK have traditionally been financed by the state, and capital and revenue allocations from central Government remain the largest source of funding for UK local authorities.<sup>3</sup>

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<sup>3</sup> In the UK a distinction is made between capital and revenue funding. 'Capital' can loosely be defined as a fixed investment, for example the acquisition or extension of an asset. Revenue, on the other hand, refers to maintenance and operational costs, such as staff time.

In England, capital funding allocations are informed by Local Transport Plans<sup>4</sup> (LTPs), which most local transport authorities (county councils, unitary authorities and partnerships in metropolitan areas other than London) are required to produce and maintain under the Transport Act 2000. The exception to this is Transport for London<sup>5</sup> (TfL), for whom central Government allocations are instead based upon measures contained within the Mayor of London's Transport Strategy, which outlines proposals for improving transport in London. LTPs, along with associated Annual Progress Reports on the delivery of their strategy, are used to inform decisions on capital funding.

Revenue funding is received separately via the wider local government financial settlement. The main transport element of this is allocated for highway maintenance, although none of the revenue funding is ring-fenced for transport. The transport sector must instead compete with other local authority services, such as education and health, making it necessary for transport practitioners to make strong internal cases for support for the local transport networks.

The private sector also plays a large role in the financing of transport projects. The benefits to be attained from securing private sector finance, particularly for schemes that are relatively large-scale and complex, are recognised by local authorities across the UK (see DfT, 2006; Eddington, 2006; HoCTC, 2006). Private sector investment is typically delivered through Public Private Partnerships<sup>6</sup> (PPPs) and to a lesser extent the Private Finance Initiative<sup>7</sup> (PFI). Local authorities are also becoming increasingly adept at matching central Government capital and revenue allocations with finance from external sources (DfT, 2006). Alternative sources of funding have evolved as traditional funding mechanisms have become increasingly unable to bridge the growing gap between operating expenses and revenues or to satisfy increasingly complex and diverse transport needs.

Table 1 below contains examples of these relatively innovative sources of finance, and also examples of more traditional sources of transport funding. Some of the more innovative sources of funding are being used in the UK, although others are still in the early stages of development. Details of each of these sources of funding can be found in Binsted and Brannigan (2008a).

## **2. Characteristics of the funding process which affect transport and land use projects**

The research and consultation activities conducted within the project identified a range of institutional, technical and political issues which have created barriers to the effective delivery of transport and land use projects. A questionnaire survey that was developed and administered amongst UK local authority partners as part of the DISTILLATE Organisational Behaviour and Barriers Project in 2004 (see Hull 2009) was instrumental in helping to identify the issues faced by local authority practitioners.

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<sup>4</sup> LTPs set out each authority's local transport strategies and policies for a five year period. They detail how authorities will deliver the key transport objectives of central Government in the context of Regional Transport Strategies.

<sup>5</sup> TfL is a statutory body created by the Greater London Authority Act 1999. It is directed by a management board, whose members are appointed by the Mayor of London.

<sup>6</sup> The term PPP can be used to describe any collaboration between public and private bodies.

<sup>7</sup> A PFI refers to a partnership in which contractors pay for the construction costs of infrastructure and then rent the asset back to the public sector.

**Table 1. Examples of more traditional and more innovative sources of funding**

Examples of more traditional sources of funding for transport	Examples of more innovative sources of funding for transport
Authority's own capital resources (e.g. local taxation, special levies)	Business Improvement Districts <sup>10</sup>
European Union Objective One/Two	Business rate levy <sup>11</sup>
Local Transport Plan settlement (Basic Credit Approval)	Land value taxation/site value rating <sup>12</sup>
Private Finance	Local authority business grant incentive <sup>13</sup>
Section 106 agreements <sup>8</sup>	Local sales tax <sup>14</sup>
Single Regeneration Budget <sup>9</sup>	Transport Development Areas <sup>15</sup>
Other local regeneration funds	Work Place Parking Levies <sup>16</sup>

The Behaviour and Barriers Project conducted two questionnaire surveys, one in 2004 and the other in 2007, and a series of follow up interviews with transport practitioners and their counterparts in public health, environmental strategy, land-use planning and corporate policy units in 2006. Respondents were asked to comment on the perceived importance of, and their satisfaction with, numerous elements of the design and delivery process for Local Transport Plans (LTPs). The results of the consultations clearly highlighted that practitioners felt that financial barriers compromise the effective delivery of transport policy.

The consultations were conducted over a four year period, throughout which funding mechanisms were perceived by both transport practitioners and officers from other service sectors to distort transport scheme selection and choice. The respondents stated that there are insufficient resources available (particularly revenue), and that procedures to access funding to support the design and implementation of sustainable transport solutions are inadequate (Hull, 2009). The experience of practitioners with individual sources of funding was also explored by the surveys. In 2004 private sources of funding, major highway grants and regeneration related

<sup>8</sup> A legally binding form of planning obligation made by a landowner under Section 106 of the Town and Country Planning Act 1990 in conjunction with granting planning permission. The Agreements require developers to secure provision of, or improvement to, existing infrastructure to meet the needs of, and alleviate the problems generated by, the new development.

<sup>9</sup> Funding from UK Regional Development Agencies for investment in local regeneration projects.

<sup>10</sup> A BID is a form of public-private partnership where businesses in a defined geographical area volunteer to pay an additional tax to invest collectively in local improvements, thereby enhancing their trading environment.

<sup>11</sup> A levy can be charged on businesses valued based upon the value of their premises. Levies can be raised within a defined geographical area.

<sup>12</sup> A means of raising revenues from land uses by charging land owners in relation to the benefit that they will get from increases in land value that result from changes in transport provision.

<sup>13</sup> Introduced in 2003 the Local Authority Business Growth Incentives (LABGI) scheme is a form of business tax. It gives local authorities an incentive to increase their non-domestic rate by enabling them to keep any increase in the rateable value (as opposed to giving it to central government).

<sup>14</sup> A sales tax can be levied on the purchase of consumer goods. Revenue from this tax can then be allocated to transport improvements. It is sometimes referred to as a 'consumption' tax.

<sup>15</sup> A TDA is an integrated land use/transport planning approach. TDAs are well designed, higher density, mixed use areas situated around points that are well served by public transport. They enable the promotion of more sustainable transport choices.

<sup>16</sup> Introduced by the Transport Act 2000 the levy allows local authorities to charge companies and organisations for each commuter car parking space provided in a specified work place.

funding streams were all linked to severe delays (Hull and Tricker, 2006), whilst in 2007 major scheme funding,<sup>17</sup> Section 106 Agreements and EU grants were perceived to be the sources of funding most likely to cause delays to scheme delivery and to hinder scheme objectives (Hull, 2009). The surveys also identified that many local authorities have little awareness of the wider range of funding sources, particularly relatively innovative funding mechanisms.

The Organisational Behaviour and Barriers surveys highlighted the existence of a number of funding barriers to the delivery of land-use and transport projects, each of which was later confirmed by subsequent research activities, which included extensive literature surveys and further in-depth consultations with local authority partners. The significance of these barriers has recently been reinforced by a number of key policy drivers, such as the Eddington Review<sup>18</sup> (2006) and the Lyons Inquiry<sup>19</sup> (2007). These barriers are briefly summarised below.

### 2.1 *Inconsistencies Between Local Objectives and Those of Funding Agencies*

The current funding framework means that Local Authorities only have a limited control over the types of scheme which are implemented as they are constrained by the availability of specific funding streams and the eligibility criteria of the available sources of funding. This is viewed by some practitioners as a form of Government centralisation, which is undermining the bottom-up approach advocated for LTPs.

Priorities and targets set by central Government for the development of LTPs, and the financial penalties for missing those targets, can have undesirable effects at the local level (see also Marsden and Snell, 2009). 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. This sentiment was echoed by others who stated that scheme prioritisation has to be based upon the funding available, rather than on schemes which would have the most positive impact.

The requirement to bid for certain funding streams was seen as an aspect of government centralisation as the eligibility criteria for such funding did not necessarily represent local objectives (see Page et al., 2009). A number of transport authorities consulted made specific reference to the need for bids for some funding sources to be 'innovative.' One local authority, for example, stated that it had been unable to meet a number of basic needs of its transport network and that it had instead devised 'innovative' bids that would be of less direct benefit but that would be more likely to receive funding.

### 2.2 *The 'Capital Rich Revenue Poor' Mismatch*

One of the key barriers to the effective delivery of transport and land-use schemes is the mismatched availability of capital and revenue funding. In the DISTILLATE organisational behaviour and barriers survey a lack of revenue funding was outlined by all stakeholders as being a '*pressing*' issue. The survey found that the poor availability of revenue funding for public transport schemes was of particular concern (Hull, Tricker and Hills, 2006). The Commission for

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<sup>17</sup> Grant funding can be awarded by the DfT to help finance accepted major road or public transport schemes. Schemes normally need to cost in excess of £5 million to qualify.

<sup>18</sup> The Eddington Review was jointly commissioned by the Chancellor of the Exchequer and the Secretary of State for Transport to examine the long-term links between transport and the UK's economic productivity, growth and stability. The Review recommended a number of reforms to the planning, funding and delivery of transport interventions.

<sup>19</sup> The Lyons Inquiry is an independent inquiry commissioned by the Chancellor and Deputy Prime Minister. It examined the role, function and funding of local government and considers the current and emerging strategic role of local government and how it should be funded.

Integrated Transport<sup>20</sup> (CfIT) (2005) identified that 75% of local authorities are dissatisfied with the level of revenue funding available to them as it has not matched the increased provision of capital funding. This has raised issues over how the operation, servicing and maintenance of new capital assets will be funded, and also over the implementation of certain types of policy.

The capital-rich revenue-poor problem is caused in part by the fact that revenue funding provided to local authorities is not ring-fenced for transport and must instead compete for resources with other services, such as education and health. A DfT review found that 84 of the 106 authorities and districts surveyed spent less than the allocated Standard Spending Assessment<sup>21</sup> (SSA) amount on transport, with revenue funding having been transferred to other services (DfT, 2005). CfIT (2005) identified that there was a correlation between the performance of a local authority and whether its transport allocation was being diverted to other areas.

### 2.3 *Lack of Staff Time and Resources*

The resource intensive nature of identifying, bidding for and managing separate funding streams and the lack of available staff and skills are often cited as being significant obstacles to obtaining finance. This is an issue of particular prominence given the increasingly wide variety of competitive funding sources which are available to supplement the LTP capital allocation and the rate at which they change. Local authorities can incur significant costs when identifying appropriate and available sources of funding, and when preparing bids for this funding. All funding streams require time consuming proposals and appraisals to be carried out to ensure that the often extensive eligibility criteria are fulfilled. The UK Department for Transport<sup>22</sup> (DfT) does not meet any revenue costs incurred in preparing bids, which means that the bidding process can form a barrier.

The experience of one local authority in securing funding for a shared space route demonstrates how resource intensive the funding process can be. The authority had to acquire funding from over 25 different sources to finance a route that cost just over £2 million. Many of the applications made needed to be tailored to the sources being pursued, which itself required a considerable level of staff commitment, and, whilst this is thought to have increased the success rate, some applications were rejected. This led to the implementation of a scheme of a lower quality than had originally been proposed, which will ultimately have revenue implications associated with the higher cost of maintenance likely to be required.

### 2.4 *Narrow Leadership Interests and Political Will*

Political will at a number of levels is a key factor in the acquisition of funding and in the implementation process.

In the UK political will has a direct impact upon the amount of revenue funding allocated to the transport sector. Revenue is allocated to local authorities as a lump sum, and local political decisions dictate the proportion that is allocated to transport.

Political will can also have a direct impact upon the types of project that are approved and developed. One local authority stated that the pressures and agendas of politicians, parish councils, other members and business groups routinely have an impact upon the transport projects that are implemented, and therefore need to be considered during the early stages of

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<sup>20</sup> CfIT is an independent body, established in the 1998 Integrated Transport White Paper, which advises the Government on integrated transport policy and reviews progress towards meeting objectives.

<sup>21</sup> SSAs are used to distribute the revenue support grant (RSG) to local authorities. It represents the Government's view of what each local authority needs to spend to deliver a standard level of services. It is calculated based upon the demographic, physical, economic and social characteristics of each authority.

<sup>22</sup> In England, the DfT is the government department responsible for setting and delivering the national transport strategy.

scheme design. It proposed a series of enhancements for a section of a major road, with an emphasis on bus priority. However, subsequent political decisions led to the scheme implemented focusing on enhanced road capacity with elements of bus priority significantly downgraded.

Political support also needs to be evidenced across the life of a project, which in the case of transport projects can span many years. The consistency in leadership between tiers of Government and at each level over time can be poor, and without continued technical and political support the available finance for, and effectiveness of the infrastructure may diminish.

The role of political support is demonstrated through the experience of a case-study partner of developing a rail link. Technical and bureaucratic processes have resulted in the scheme being in preparation for over 20 years, and continued scheme development and financing would not have been possible for this length of time without continued political support. Another local authority consulted did not experience similar support. It also developed a large scale transport scheme over a period of several years and, whilst central government initially appeared keen to support the project, priorities changed whilst the project was still in the process of being approved. This resulted in the scheme being rejected, with the loss of considerable amounts of investment on the behalf of the local authority.

Political will to implement certain funding mechanisms can be influenced by perceived public acceptability. This is particularly the case in relation to revenue streams which would depend on extra charges, such as road user and congestion charging. Governments are also sensitive to levels of general taxation, which can mean that public transport funding is increasingly vulnerable to political pressures.

Local authorities can also be reluctant to press for Section 106 Agreements and other types of land value tax since they might encourage development to go elsewhere. This can be an obstacle to increasing levels of private finance which have the potential to make a significant impact upon local transport initiatives.

### *2.5 Problems in Managing Partnerships*

The need for partnership working, both to secure funding and to increase integration between transport and other service areas, is increasing. Many of the DISTILLATE case study local authorities are experienced in forming partnerships and noted their value in attaining funding and delivering effective projects, but a number of concerns were also raised. It was mentioned that partnership working can be costly and can lead to an effective gridlock in the decision making process. Many of the problems evolve from the potential difficulties of managing a large number of partners and the subsequent delays and miscommunications which can result. This is of particular concern given that local authorities often lack the skills and resources required to form and maintain a successful partnership (see Forrester, 2009).

### *2.6 High Levels of Funding Uncertainty*

The funding process is imbued with a degree of uncertainty which can make effective long-term planning problematic. DISTILLATE research has shown that this is a criticism that can be levelled at the vast majority of funding sources, including funding obtained through the LTP process and private finance, and which has considerable implications for scheme design and delivery.

Local authorities stated that greater certainty at an earlier stage of the '*likelihood, level and availability of funding would make... decisions easier*' (Hull and Tricker, 2006).

The uncertainty in relation to funding provision stems largely from the requirement for funding to be bid for with no guarantee that the proposed scheme will be approved. Even if funding bids are approved there can still be uncertainty over when funding will be made available. Moreover, it will often be unclear whether funding will be available to ensure the effective operation of the asset or service over its lifetime.

### 3. Impacts of Funding and Funding Barriers on Transport Schemes

The funding barriers detailed in the previous section have a number of wide-reaching implications both for the choice of transport and land use schemes funded and for the local authorities who implement them. The project report 'Local Transport Funding: An Assessment of the Implications of Funding Restraints' (Binsted and Brannigan, 2008c) contains a full analysis of these potential implications. The key implications, both negative and positive, are detailed below.

#### 3.1 Negative Implications

Figure 1 below links the key barriers to the potential implications that they can cause and evaluates the severity of the impact, based upon DISTILLATE research findings.

Implications:		Scheme doesn't go ahead	A different scheme is funded	Scheme details are altered	Scheme delivery is delayed
Barriers	Lack of staff time and resources (organisational constraint)	✓✓✓	✓✓	✓	✓✓
	High levels of funding uncertainty	✓	✓✓	✓	✓✓✓
	Narrow leadership interests and political will	✓	✓	✓	
	Managing partnerships	✓			✓✓
	Capital rich revenue poor mismatch	✓✓✓	✓✓✓	✓✓✓	✓✓
	Funding streams that relate to national transport priorities	✓✓✓	✓✓✓	✓✓✓	✓

- ✓ Slight influence
- ✓✓ Moderate influence
- ✓✓✓ Large influence

Figure 1. Funding barriers and their implications.

A key consequence of many of these implications can be that local transport strategies and progress towards central government objectives suffer as a result of transport or land use schemes being altered, delayed, or not delivered. Funding barriers can also result in local needs and priorities not being met, and schemes being devised outside the LTP. Costs can increase, delay can be incurred, and the cost effectiveness of schemes can significantly decline – issues that authorities consulted appear commonly to face. The impacts tend to be not only project specific but also more wide reaching. One local authority, for example, stated that it had negotiated

Section 106 funding from developers but that delays in the development led to long periods in which the approved schemes could not be progressed. This led to deadlines being missed which not only affected the accessibility of, and service provision to, the development, but also resulted in a loss of sequencing with other projects and synergy benefits not being realised.

The response to instances where funding barriers reduce the effectiveness of transport and land use schemes was found to vary between authorities. One council stated that it did not proceed with schemes whose effectiveness is compromised by such barriers, whilst a more frequent response was that scheme specifications are downgraded or the type of scheme altered.

At a strategic level one of the most fundamental impacts that funding provision can have is upon whether or not certain types of schemes go ahead. The lack of revenue funding can result in capital intensive projects, which may be less cost effective than alternatives that are more difficult to fund, being implemented. Implications for schemes that are particularly vulnerable to the impacts of funding mechanisms are discussed below.

### **3.1.1 *Public Transport Services***

The lack of available revenue has particular implications for the provision of socially necessary public transport services. Revenue is largely unavailable for bus services that 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. The experience of many local authorities was that even if they were 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 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. A similar issue can be experienced in relation to revenue payments from developer contributions; they tend to be of a short term nature, and the future of schemes that they support can be jeopardised when the funding stops.

One local authority consulted stated that whilst a priority was to support a modal shift to public transport, in one instance the lack of required revenue led it to invest the capital earmarked for the public transport network into increasing the number of dropped kerbs instead.

### **3.1.2 *Smarter Choices and Other 'Soft' Transport Schemes***

The relatively poor level of revenue funding has meant that implementation of more innovative revenue dependent schemes has been hindered. There are insufficient resources available for the design and implementation of innovative transport projects, particularly for 'soft' transport schemes, such as walking, cycling and travel planning, compared with those available for more traditional transport schemes like road building.

### **3.1.3 *Maintenance Schemes***

A lack 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 (DfT, 2005)

### **3.1.4 Road User Charging**

The perceived public acceptability of certain policy interventions, such as congestion charging and workplace parking levies, is key in determining whether schemes are implemented. The implication of not implementing 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 delivery of a number of other schemes.

### *3.2 Positive Implications*

When discussing the potentially negative implications that can arise from the funding process it is also important to reflect upon the many positive implications that are experienced, such as the access it gives local authorities to large amounts of capital. The consultations conducted through the project indicated that increases in levels of capital funding in particular have accelerated the implementation of transport projects. A number of local authorities also reported that funding constraints have made them more creative in terms of the schemes implemented and approaches adopted. Increased emphasis on delivery was also reported, which again was thought to have had positive impacts upon management practices.

The range of funding opportunities that are available to local authorities is continuing to increase, which should have a further positive impact upon the implementation of transport and land use schemes. The 'Local Transport Funding: An Assessment of the Implications of Funding Restraints' (Binsted and Brannigan, 2008c) discussion note produced by this project provides recommendations to both local authorities and the funders of transport schemes on ways in which distortions to transport schemes can be minimised.

## **4. Developing guidance**

The DISTILLATE Funding Project resulted in the production of three forms of guidance:

1. Local Transport Funding Toolkit for Local Authorities
2. Local Transport Funding Guidance for Funders of Transport Schemes
3. Local Transport Funding: An Assessment of the Implications of Funding Restraints.

These products were created based upon the findings of two surveys conducted by the Organisational Behaviour and Barriers Project and three literature reviews. They also drew heavily upon the findings of a case study report that was based upon ongoing consultations with five Local Authority partners, a workshop attended by transport consultants, academics and practitioners, and a series of Local Authority telephone consultations. For details of these research activities see Brannigan et al (2008). The consultation activities helped to develop both the content and approach of the Funding Project, and a further workshop was organised to test the deliverables.

The main product is the 'Local Transport Funding Toolkit for Local Authorities' (Binsted and Brannigan, 2008a), a guidance document aimed at transport planning professionals within local authorities in the UK. The Toolkit aims to help transport practitioners both in identifying alternative sources of funding to traditional approaches, and in highlighting potential pitfalls at an early stage. The Toolkit also contains a range of case-studies that demonstrate experience of these funding barriers and ways in which the issues have been overcome in practice. It is comprised of four sections and two appendices:

- Section One provides an overview of the barriers to identifying and obtaining funding for transport and land use schemes identified through the DISTILLATE project.

- Section Two indicates how to overcome these barriers. The problem is presented, followed by potential solutions. Funding sources and case studies are cross referenced with appendices.
- Section Three identifies funding considerations by scheme type. For example, if a local authority is considering implementing a cycling scheme, it is able to consult this section to identify any funding sources that could be used for cycling, and relevant case studies.
- Section Four discusses the role of partnerships as mechanisms to obtain, and effectively utilise funding.
- Appendix A is a matrix of available funding sources, at the European, National, Regional and Local level. Each funding source is described along with the types of scheme that it can be used for, case studies, benefits and challenges associated with its use.
- Appendix B provides case study examples of funding sources being used for a variety of schemes in practice.

This Toolkit aims to help transport practitioners in both identifying alternative sources of funding to traditional approaches, and in highlighting potential pitfalls at an early stage. The Toolkit also contains a range of case-studies that demonstrate experience of these funding barriers and ways in which the issues have been overcome in practice.

The second product, 'Local Transport Funding Guidance for Funders of Transport Schemes', (Binsted and Brannigan, 2008b) is a guidance document aimed at the bodies that fund transport and land use schemes. It provides stakeholders with an overview of the barriers faced by local authorities and the potential implications that each of these funding barriers may have both upon the projects that they are helping to finance, and upon the local authority itself. The report also contains, where appropriate, suggestions for the ways in which the relevant funding mechanisms may be improved. It is envisaged that this document will be used by the private sector, the voluntary and charitable sectors, and by all levels of government.

The third document, 'Local Transport Funding: an Assessment of the Implications of Funding Restraints' (Binsted and Brannigan, 2008c), examines the implications of various funding barriers to the delivery of transport schemes, and the wider ramifications. It serves to highlight the way in which funding sources can distort planned schemes. This guidance document also provides recommendations, aimed at both local authorities and the funders of transport schemes.

## **5. Improved methods for dealing with funding barriers**

Local authorities are becoming more adept at managing some of the barriers that funding can cause to scheme development and delivery, which makes them increasingly able to overcome some of the potentially negative implications relating to funding mechanisms (Binsted and Brannigan, 2008c). Increasing experience of funding sources is leading local authorities to put contingency systems in place should any problems be encountered. A diverse range of approaches can be adopted to help alleviate the impact of funding barriers. The full details of these practices are detailed in the Funding Toolkit (Binsted and Brannigan, 2008a), and a number of these approaches are outlined below.

### 5.1 *Managing Inconsistencies Between Local Objectives and Those of Funding Agencies*

Seeking to enhance locally generated revenues, as these provide the most flexibility in terms of investment decisions, is clearly one approach to giving local authorities more control over schemes implemented. Road user charging schemes, land value taxes, Business Improvement Districts (BIDs) and developer contributions or agreements can all generate income which can be invested directly into the local community therefore bypassing the need to meet national eligibility criteria. Local authorities are also identifying their own solutions. One local authority, for example, was considering introducing a 'roof tax' on developments in its area. The tax would be at a rate of £10,000 per roof with either all or a significant proportion of the revenue raised being earmarked for the transport sector.

Local authorities should also explore the scope to tailor funding acquired from other sources, with funding opportunities from Regional Development Agencies<sup>23</sup>, charities and trusts perhaps having more potential to be tailored to local priorities than central government sources. Prudential Borrowing<sup>24</sup> does not require local authorities to seek the consent of central government for transport schemes, and is therefore also likely to have some potential to reduce the need to change schemes to correlate with national priorities. Resources such as the Funding Toolkit will be instrumental in increasing awareness of alternative sources of capital and revenue funding. It also helps local authorities to identify the extent to which each can be tailored to local conditions.

For this barrier to be truly overcome it will, however, be necessary for action to be taken by the funders of transport schemes. Providing local authorities with more control over the way that revenue and capital are spent and increasing the emphasis on local rather than strategic level information when deciding which bids to approve could go some way to reducing the impact of this barrier upon local transport networks (see Binsted and Brannigan, 2008b, for steps that funders of transport schemes can take to this effect).

### 5.2 *Addressing the 'Capital-Rich Revenue-Poor' Mismatch*

Developing stronger internal cases for transport investment and allocating scheme champions for revenue intensive projects to effectively communicate their benefits can help to reduce the likelihood of revenue allocations being diverted to other service areas. CfIT (2005) states that the importance of transport revenue spending could perhaps be detailed in relation to the delivery of wider corporate and community objectives.

It is also important for local authorities to supplement LTP revenue allocations by generating revenues locally where possible. Resources such as the Funding Toolkit can be used to make local authorities aware of the full range of opportunities available for increasing access to revenue that can be earmarked for reinvestment in local transport networks, and also to highlight funding pots that provide financial support specifically for revenue intensive projects, such as walking, cycling and travel planning schemes. The Toolkit also gives advice on how revenue can be treated as capital. One approach identified in the workshop was to classify staff time as intellectual property. Another example was the recruitment of additional staff at the beginning of

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<sup>23</sup> RDAs are public bodies that were established by the Government in 1998 (with the exception of the London Development Agency, which was established in 2000 as a body of the Greater London Assembly). There are nine RDAs in England, each of which is responsible for the quality of life, economic development, and regeneration of their region.

<sup>24</sup> Prudential Borrowing is a source of capital that transport authorities can borrow from either the Public Works Loan Board (a body with access to funds from the UK National Loans Fund and therefore able to offer competitive borrowing rates) or directly from the market in the form of a loan. The finance can be used as the authority sees fit, although borrowing must satisfy the conditions of a Code that exists to ensure that the borrowing is affordable.

the first LTP period specifically to implement certain projects. Many partners identified the need for guidance on the types of activity that would normally be funded from revenue which could be charged to the capital pot. The only advice available at present is for the capitalisation of revenue to be supported by auditors<sup>25</sup> to maximise its effectiveness (DfT, 2004).

A range of other strategies have been adopted by local authorities to help manage the revenue short-fall. These include: seeking to establish partnerships with revenue-rich partners, such as bus operators; investing in high quality materials to reduce revenue implications; identifying opportunities to jointly procure services; and increasing levels of private investment to supplement revenue allocations. One local authority had started to buy buses so that it could reduce the tender prices for operating the services, which subsequently reduces revenue requirements. The procurement of advertising contracts has also provided local authorities with access to revenue. This can involve letting advertising space at bus shelters, which can be used to fund the maintenance and enhancement of the bus infrastructure.

For this barrier to be eliminated it will need to be addressed by the funders of transport schemes. The project report 'Local Transport Funding Guidance for Funders of Transport Schemes' (Binsted and Brannigan, 2008b) recommends that local government is given more control over the way in which revenue and capital are spent, that local and capital expenditure are integrated, or that ongoing maintenance charges be included as part of the capital charge for new infrastructure works. In the short term revenue support to the bidding process would help to alleviate the burden on local authorities.

### 5.3 *Overcoming the Organisational Constraints of a Lack of Staff Time and Resources*

Documents that provide guidance and bring funding sources together in a single point of reference, such as the Funding Toolkit, will help to free up staff time by highlighting ways in which additional revenue can be raised to help cover costs. The Funding Toolkit also enables local authorities to identify ways in which other practitioners are overcoming challenges faced. Local authorities identified, for example, that some auditors itemise staff time as intellectual property and class it as a capital resource, which enables some staff time spent on bids to be recouped.

Local authorities can pursue funding sources that raise revenue to help cover the costs incurred in the bidding process, or which bypass the bidding process altogether. There are a number of revenue streams that local authorities can consider to raise finance that can be earmarked for reinvestment in the transport network. Congestion and road user charging, off-street parking levies, advertising, developer levies and taxes that raise funds from those who benefit from transport measures are examples of such revenue streams. Other potential sources of funding which have the scope to reduce the burden of the bidding process on local authorities, but for which there are no implementation mechanisms currently in place include property, environmental and tourist taxes.

Local authorities can use such locally generated sources of revenue funding to support applications for other sources of funding. The revenue raised can be used to enable Prudential Borrowing, for example, which enables local authorities to borrow for capital investments for local transport improvements without seeking the consent of the government.

The formation of partnerships can be a way of alleviating the burden of a lack of staff time. Staff time and resources are required to ensure that local authority staff have the expertise to successfully set up and manage partnerships, but they can also be crucial in securing funding and

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<sup>25</sup> Auditors, either public or private, conduct financial audits of local authority accounts ensure that financial statements have been properly prepared, and that they represent value for money.

making the most effective use of resources. Further details are given in the section on partnership funding in the Funding Toolkit, and also in Forrester (2009).

#### 5.4 *Overcoming the Constraints of Narrow Leadership Interests and Political Will*

The nature of this concern is likely to vary considerably between local authorities, and so different approaches will need to be undertaken to address these issues by different local authorities.

It is likely that local authority management would benefit from being made aware of the full range of funding sources which are available to them, associated benefits and the extent to which they can help to fund specific transport projects. This could help to broaden the scope of leadership interests and diversify the range of funding sources applied for. This information is again provided within the Funding Toolkit, which details the various funding mechanisms that can be used to support different types of scheme and the benefits that can be accrued from each.

Transport practitioners can also seek to enhance the public perception (and hence political support) of what tend to be politically unpopular charging mechanisms, such as road user charging, by more effectively communicating the benefits to be obtained, schemes that the revenues can be used to fund, and the implications of not pursuing such funding sources. It is likely to be of even greater significance to lobby internally for projects and schemes throughout their lifecycle to help obtain, and retain, consistent political support. The most effective way of doing this seems to be having a champion for each scheme who can continue to support and communicate the benefits of the project and the potential for the value of the initial investment to be eroded if financial support for its maintenance is not forthcoming.

#### 5.5 *Effectively Managing Partnerships*

Many practitioners have a negative view of partnership working, and efforts should be made to alter this perception by clearly outlining the benefits (Forrester, 2009). In particular it will be helpful to demonstrate that partnership working can be used as a mechanism to obtain funding and to deliver transport and land use projects to time and to budget.

Local authority staff should receive the necessary training to establish and effectively manage partnerships, define and distribute responsibilities and accountability, and foster support for the partnership at all levels. In one instance a local authority negotiated with a developer for S106 Agreements and also for their collaboration in travel planning initiatives. This helped to overcome the barrier of staff time, with developers both contributing their own time and covering the cost of time for others. It also helped to overcome barriers to implementing revenue intensive transport schemes, with the developer eventually financing the creation of a 'car club'<sup>26</sup>.

On a larger scale a case-study partner saw partnership working as partly responsible for the success in obtaining funding for the majority of improvements to a city centre, which include extensive transport improvements. A partnership comprising local and regional government bodies along with English Partnerships<sup>27</sup> was established at the outset and given responsibility for the city centre regeneration project. Funding was provided by a range of local, regional and national agencies, all of whom contributed towards different parts of the overall strategy. The partnership was instrumental in obtaining and managing these diverse sources of funding as its

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<sup>26</sup> Car clubs enable users to book one of a pool of cars for either hours or days at a time. Use is often charged by the hour. It has been estimated that each 'car club car' can replace approximately 10 private cars (CarPlus, 2008).

<sup>27</sup> English Partnerships was the UK government's national regeneration agency, although since December 2008 it has been part of the Homes and Communities Agency, which is the housing and regeneration delivery agency for England.

clear remit enabled it to focus upon pursuing and exploiting a range of funding opportunities that local government may have struggled to find the revenue and staff time to support. Commercial expertise contained within the partnership also enabled it to prepare bids, mediate negotiations between groups, develop contractual arrangements to improve cash flow, secure advance funding, and attract more entrepreneurial private sector partners.

### 5.6 *Dealing With High Levels of Funding Uncertainty*

Local authorities are likely to make most effective use of resources by applying for fewer funding sources but spending more time tailoring funding applications to the criteria of these sources. Documents that provide a greater understanding of the range of sources of finance available, such as the Funding Toolkit (Binsted and Brannigan, 2008a), can further help to increase the probability of funding being attained by enabling local authorities to make a more informed decision on which sources of funding to bid for. The Funding Toolkit can also be used to help local authorities identify whether there are any funding sources that do not need to be bid for.

Increasing levels of private investment in transport schemes could help to alleviate some of the uncertainty experienced in relation to bidding for funding sources. Local authorities could form legally binding agreements with developers, for example, to provide a steady revenue stream over an agreed period. Taxing and charging mechanisms and advertising revenues also provide a continuous source of funding that can be earmarked for reinvestment in the transport network. The acceptability of revenue raising mechanisms such as road pricing, congestion charging, Tax Incremental Finance<sup>28</sup>, LABGI, and property and environmental taxes, can be enhanced if it is emphasised that those targeted stand to benefit the most from the schemes. Revenue raised from these sources can also be used to make repayments on Prudential Borrowing for capital, which again enables the bidding process to be bypassed thereby reducing uncertainty further.

Funding uncertainty is likely to remain inherent to the funding process, but as detailed in the DISTILLATE guidance note to funders of transport schemes (Binsted and Brannigan, 2008b) there are a number of steps that funders can take to help local authorities manage the risk. These include increasing the level of advice and guidance provided to local authorities, seeking to provide a steady stream of finance over an agreed period rather than sporadically, and providing financial assistance with which to develop proposals.

## 6. Conclusions

Research undertaken through the DISTILLATE project highlights the range of barriers which local authorities face when identifying and obtaining funding for transport and land use projects. These barriers have a number of implications, each of which has been shown to undermine the ability of local authorities to effectively deliver schemes that have been designed to fulfil locally defined needs and priorities.

Local authorities are becoming increasingly adept at obtaining and managing both capital and revenue funding and constraints are being viewed constructively, with barriers seen as ways in which transport departments can gain more focus. The barriers do, however, remain, and whilst there is evidence that their impacts are being managed more effectively it seems inevitable that they will continue to skew the transport and land use schemes being delivered. Many local authorities still do not have experience of using what are widely considered to be relatively

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<sup>28</sup> Enabled by Lord Rogers' Urban Task Force in 1999 Tax Incremental Finance is a way in which regeneration of urban areas can be financed. It enables capture of some of the increase in land value produced as a result of rising land values caused by infrastructure development. It involves the designation of a zone around the transport infrastructure responsible for the increase in land value, and an increased tax of these properties to reflect the increase in value.

traditional funding sources, such as private funding, some central Government funding streams, or European funding (Hull and Tricker, 2006). Local authorities are aware that their knowledge of the availability of funding sources is limited, but resource limitations do not make it feasible to allocate the staff time to expand this knowledge.

There are many examples of good practice where local authorities have employed numerous approaches to try and manage some of the potentially negative implications of funding mechanisms. However, it needs to be recognised that the barriers are externally driven. Therefore, unless the organisations that provide funding for transport and land use projects are aware of the issues faced by local authorities, they will remain constrained by the external framework in which decisions crucial to local transport networks will need to be made.

An increasing body of literature, driven in part by the end of the LTP1 period and the publication of prominent reports such as the Lyons Inquiry and the Eddington Review, is suggesting that central Government policy is not providing a framework which is conducive to overcoming funding barriers. Such literature focuses upon the potential for structural reforms of local government to strengthen the role of local authorities, and to separate capital and revenue budgets. Local authorities should be given more control over the funding process and remove some of the barriers which are currently constraining effective scheme design and delivery.

In the long-term relatively large-scale shifts will be needed in the way in which funding is provided, but in the short-term there are a number of relatively straight-forward changes which could be made by funders to enhance the effectiveness of transport solutions. An enhanced awareness of the increasingly diverse range of sources of funding that are available to help finance transport and land use projects would be of great use to local authorities.

The fundamental influence of funding barriers on the design and delivery of transport schemes has resulted in the Funding Project inputting to many of the projects undertaken by other members of the DISTILLATE consortium. There are synergies with the work on option generation (see Jones et al, 2009) and on improved indicators (see Marsden and Snell, 2009) who found that the availability of funding for option development and monitoring, respectively, compromises the effectiveness of transport strategies. There is also a connection with the findings of the Indicators Project and the Appraisal Project (see Page et al, 2009). These two projects highlight that basing funding on the fulfilment of certain indicators, and the relatively narrow approach that the DfT takes to valuing transport schemes, results in certain schemes being more likely to get funded than others, sometimes resulting in a shift in focus from local priorities to national targets and a distortion of projects to fulfil national funding eligibility criteria.

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