

SCRUTINY COMMISSION- 14 DECEMBER 2005

REGIONAL FUNDING ALLOCATIONS ADVICE

**JOINT REPORT OF THE CHIEF EXECUTIVE AND DIRECTOR
OF HIGHWAYS, TRANSPORTATION AND WASTE
MANAGEMENT**

Purpose of Report

1. To invite the Scrutiny Commission to consider responses by the Cabinet on advice to the Government on the allocation of regional funding for transport, housing and economic development.

Policy Framework and Previous Decisions

2. At its meeting on 23 November the Cabinet agreed responses to a consultation paper on Regional Funding Allocations. The questions asked in the paper, and the comments agreed by the Cabinet on 23 November are set out in Appendix 3.

GOEM's deadline for submission of comments on the consultation paper was 12th December. The responses agreed by Cabinet has, therefore, been submitted to meet this deadline. The views of the Scrutiny Commission will be taken into account by the Cabinet when it comes to a view on the final draft of the Regional Funding Allocations advice early in the New Year.

Context

3. The Government is seeking advice from regions on their priorities for investment in transport, housing and economic development. Advice is being sought as an input to Government policy development in advance of the next Budget, and as a result regions are required to submit advice to the Government by the end of January 2006.
4. This year the proposals for Regional Funding Allocations contain two new innovations:
 - for the first time, there will be regional transport funding allocations for three years up to and including 2007-08, in line with the regional housing and regional economic development allocations already published; and

- indicative longer term planning assumptions for regional allocations, beyond the three years of the current spending review, across the three funding streams.
5. These clearer planning assumptions are aimed at providing a basis for regions to advise the Government on regional priorities, on the basis of realistic funding assumptions, in order to improve future spending decisions. Each region is expected to align its regional strategies for transport, housing and economic development and to produce a shared set of realistic priorities that are affordable and deliverable. In return, regions have the opportunity of increased influence through the Spending Review over expenditure. The funding streams include:
- a. Economic Development – the Regional Development Agency single budget, decisions on which will remain with the emda Board;
 - b. Housing – the Regional Housing Pot;
 - c. Transport – capital funding for major schemes (more than £5m each) under the Local Transport Plan system, Highways Agency Schemes other than those on routes of greatest strategic national and international importance, and rail expenditure as details become available both on franchises and on infrastructure
6. The indicative funding allocations for the East Midlands are as follows:

	Transport	Housing	Economic Development	Total
2005-6	£71m	£116m	£156m	£343m
2006-7	£73m	£125m	£163m	£361m
2007-8	£74m	£143m	£167m	£384m

7. In the East Midlands the responsibility for co-ordinating preparation of the regional advice rests with GOEM. In line with the Government's requirements, however, the advice will need to be endorsed by at least the Board of emda and the Regional Assembly. The latter will be considering the advice at its meeting on 20th January 2006.
8. The timetable for the preparation of, and consultation on, the advice is attached as Appendix 1. The following arrangements have been, or are being, put in place:
- A project team, made up of representatives from GOEM, emda and the Regional Assembly, has been established;
 - GOEM has appointed ARUP to co-ordinate a regional response and to develop a consultation paper on Draft Regional Priority Options for a targeted consultation with key stakeholders. This paper (hereafter referred to as the ARUP Consultation Paper) was issued on 8th November. The questions asked in the paper, and the responses agreed by the Cabinet on 23 November are

set out in Appendix 3. The responses have been submitted to GOEM to meet its 12 December deadline;

- Regional groups are being established to develop the advice in relation to the Transport and Housing blocks, which will be led respectively by GOEM and the Assembly. Emda is liaising with ARUP to ensure the economic development priorities in the emerging Regional Economic Strategy are reflected in the advice. In addition an overarching Regional Funding Allocation Reference Group has been set up to co-ordinate preparation of the final advice document – membership of this group is shown in Appendix 2;
- The Regional Assembly's Board has established a sub-group, chaired by Mr Parsons CC, to steer the strategic input of the Assembly into the process;
- GOEM has organised a series of consultation events, held on 9th, 11th and 15th November.

The remainder of this report provides an update on progress, and issues, relating to the individual funding blocks.

Transport

Background

9. The Government requires each region to determine its proposed programme of transport investment with supporting infrastructure. Regions are required to provide this information on regional priorities up to and including 2015-16. Regions should show how their proposals can be accommodated with the overall indicative allocations for each year.
10. The current 3-year funding allocation for transport in the East Midlands Region is as follows:

2005/06	£71m
2006/07	£73m
2007/08	£74m

In projecting beyond this period the Government advice is to add 2% per annum inflation.

11. The scope of the transport allocations is for:
 - Local Transport major schemes over £5m
 - Highway Agency investment in major schemes valued at over £5m on roads of regional significance.

12. This excludes roads on the Highway Agency network which are of national strategic significance. For example in the East Midlands the M1, M69, A14, M42 are designated of national strategic significance whereas the A46, A1, A5, A42, A52 and A453 are designated as of regional significance.

The process devised by the Government Office of the East Midlands (GOEM)

13. In order to respond to Government on the regional prioritisation GOEM has devised the following process. (See flow chart attached as Appendix 2).
14. The Regional Assembly's Transport Advisors Group (TAG) has appointed consultants Steer Davis Gleave to develop a methodology for prioritising the regions major schemes. The brief for the Consultant has been agreed by the region's Highway Authorities on behalf of the Regional Assembly.
15. The result of prioritisation work will be submitted to the Regional Funding Allocation Regional Transport Group (RFARTG) chaired by GOEM and comprising the authorities responsible for delivering major transport infrastructure in the region. The members of the RFARTG are responsible for:
- Determining the proposed priorities from their perspective as delivery agents
 - Explaining emerging priorities to, securing the endorsement of, their elected representatives
16. As the output from the TAG is not expected to be fully available until mid-December and the Government has asked for the region's advice on priorities to be submitted in January 2006 it is essential that engagement with elected representatives across the region takes place prior to the TAG output being available. RFARTG will continue to consider the priority of schemes working in parallel with TAG. This will culminate at a meeting on 12 December at which RFARTG will consider the TAG output in the light of its own work on priorities. When the transport scheme priority lists have been agreed by the RFARTG and elected representatives it will be forwarded to the Regional Funding Allocation Reference Group (RFARG).
17. The RFARG will consider the proposed transport priorities in the context of proposed regional priorities for housing and economic development. RFARG will then produce a final advice document which will be passed to the Regional Assembly and emda for their joint formal endorsement prior to being submitted to Government.

Major Schemes in Leicestershire

18. The recently produced Provisional Local Transport Plan 2006/2011 approved by the County Council on 13 July 2005 sets out in Chapter 11 the two major scheme proposals during the LTP period, namely:-
 - A47 Earl Shilton Bypass (scheduled 06/07)
 - Loughborough Town Centre Transport Project (scheduled 09/10)

19. Beyond the second LTP period Chapter 8 lists the following locations where bypasses have been identified for future consideration:-
 - Kegworth (funded separately by Government as part of M1 widening)
 - Melton Mowbray
 - Kibworth
 - Wymeswold
 - Sharnford
 - Lutterworth
 - Syston

Issues to be addressed

20. Inevitably over the period the value of schemes proposed across the region far exceeds the £871m funding available hence the need for prioritisation. However, in the case of the Highway Agency schemes, there is a real risk that virtually no funding would be made available for local highway authorities in the region. Over the next 10 years, the Highways Agency schemes alone amount to more than £1b. They are also generally more expensive and for example the A46 improvement Newark to Widmerpool is estimated to cost £220m. This scheme alone will swallow up the whole of the regional allocation for 3 years.

21. Smaller local transport projects and bypasses will potentially have great difficulty competing against the larger Highway Agency schemes which will be of greater regional significance.

22. The process must therefore provide some balance between the local and regional priorities for it to be fully endorsed by individual authorities.

23. One important criterion for schemes scheduled early in the programme will be deliverability and in this respect A47 Earl Shilton Bypass is well positioned as it has been through all the statutory processes and if given full approval by the DfT in December, works could commence in 2006.

Summary

24. This work will continue in earnest over the next 2 months but in the timescale available there could be some real difficulties in obtaining consensus within the region. The Lead Cabinet Member for Highways and Transportation in his role on the EMRA Transport Group will be fully briefed on the process. Once the proposed priorities are available a further report will be presented to Cabinet.

Housing

25. An officer sub-group of the Regional Assembly's Housing Group is leading work on this process, working closely with GOEM (which chairs the Housing Board) and ARUP who are putting together the Draft Regional Priority Options paper. The sub-group includes representatives from the Regional Assembly, emda, GOEM and the Housing Corporation.
26. The allocation of funding for housing is of less direct significance for the County Council than that for transport. The funding of affordable and special needs housing does, however, impact on the well-being of Leicestershire residents. In commenting on the Milton Keynes/ South Midlands sub-regional strategy the County Council has previously expressed concern about the redirection of resources away from Leicestershire and other parts of the East Midlands to support growth in parts of Northamptonshire.

Economic Development

27. Processes already exist for establishing regional economic development priorities, principally through the development of the Regional Economic Strategy (RES) and emda's associated corporate and business plans. In this context emda has decided not to establish a group to consider the economic development aspects of the advice but is working closely with the project team and ARUP to ensure the economic development priorities in the emerging RES are appropriately reflected in the final advice document.
28. The RES is currently being reviewed by emda. Once a draft revised RES has been produced it will be reported to Cabinet and Scrutiny Commission.

Resource Implications

29. The regional funding allocations advice will influence the provision of funding to support transport, housing and economic development in Leicestershire. Of particular significance for the County Council is the influence which this process could have on the funding of major transport schemes in Leicestershire. More detail on transport-related resource implications are set out in paragraphs 9 to 24. The Director of Resources has been consulted on the resources implications of this report.

Timetable for Decisions

30. The regional funding allocations advice must be submitted to the Government by the end of January 2006. The Regional Assembly will be considering the draft advice at its meeting on 20th January 2006. Further consideration by the Cabinet in early January would be appropriate, to enable the County Council's views to be fed into the discussion at the Regional Assembly meeting. The Scrutiny Commission's comments will be considered by the Cabinet in early January.

Recommendations

31. Members are invited to comment on the Cabinet's responses to the ARUP consultation paper detailed in Appendix 3 to this report.

Equal Opportunities Implications

No implications.

Background Papers

Regional Funding Allocations: Guidance on Preparing Advice. HM Treasury. July 2005

East Midlands Regional Funding Allocation Advice: Consultation Paper. ARUP/ GOEM. November 2005.

Circulation under Sensitive Issues Procedure

None.

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Appendices

Appendix 1 – Consultation Timetable
Appendix 2 – Regional Funding Allocation – Transport
Appendix 3 – Proposed Responses

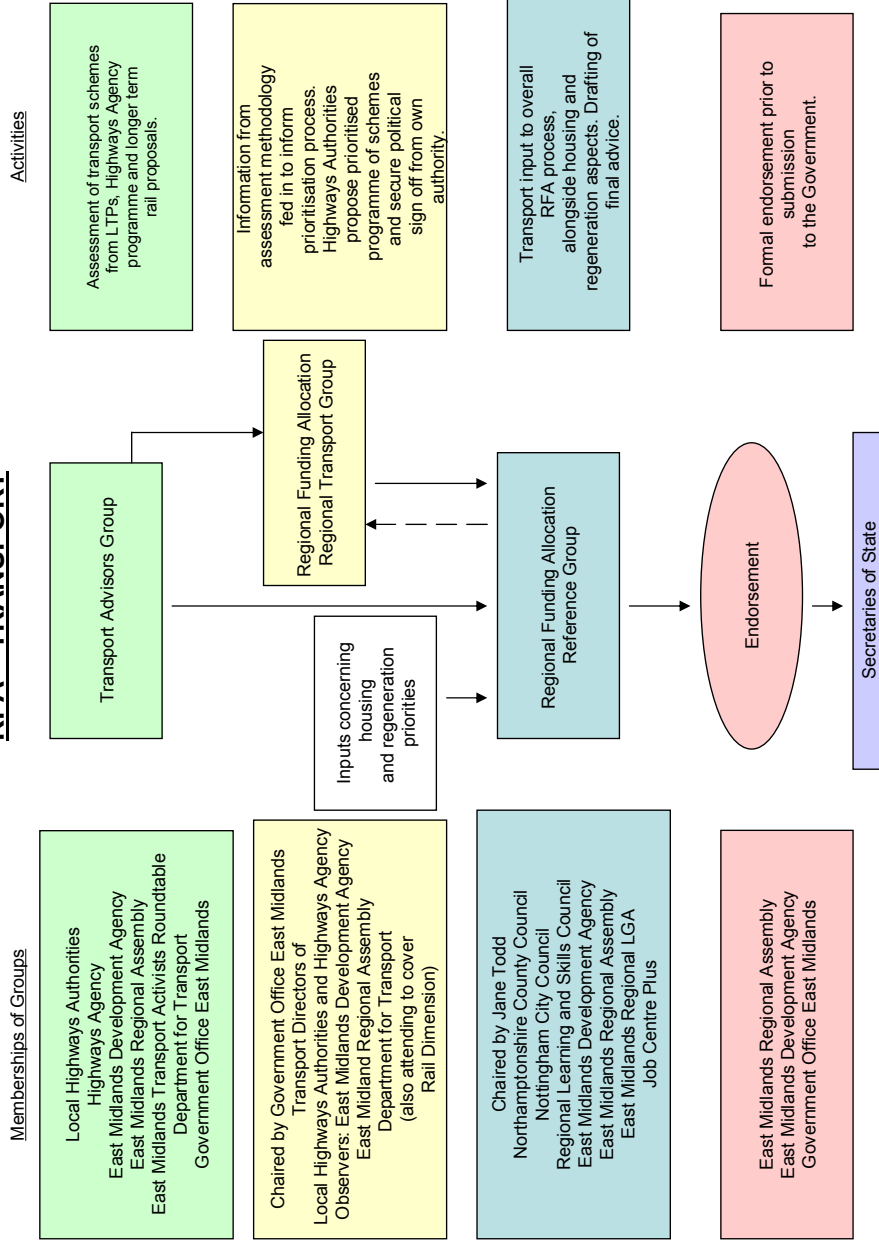
**EAST MIDLANDS REGIONAL FUNDING ALLOCATION
CONSULTATION TIMETABLE**

<u>INITIATION of CONSULTATION</u>		
<i>“Regional funding allocations - Guidance on preparing advice”, published jointly by HM Treasury; Department for Transport; Office of the Deputy Prime Minister; Department of Trade & Industry on the 26 July 2005</i>		
CONSULTATION MILESTONES	DATE	ACHIEVED
STAGE 1 CONSULTATION – The Way Forward 1 August to 30 September		
<p>1. <i>Key Stakeholders event to agree the way forward:</i></p> <p><i>Outputs:</i></p> <ul style="list-style-type: none"> ❖ <i>Agreed process for producing regional advice;</i> ❖ <i>Agreed membership of Regional Funding Allocation Reference Group;</i> ❖ <i>Agreed governance arrangements for Programme Management; Project Management; Inter Organisation Co-ordination; Consultation; Final Advice Sign Off;</i> ❖ <i>Agreed to commission consultants to produce draft regional priorities consultation document and final advice to Government.</i> ❖ <i>Suggestions made for potential consultant list.</i> 	11 August 2005	11 August 2005
2. <i>Invitations to Tender for Regional Funding Allocation work distributed.</i>	9 September	9 September
3. <i>Project Team appointed (representatives from East Midlands: Regional Assembly, Development Agency and Government Office).</i>	26 August	26 August
4. <i>Consultants appointed and briefing session completed</i>	By 30 September	Appointed and briefed ARUP on the 30 September
STAGE 2 CONSULTATION: Funding Block Activity 1 -20 October		
<p>5. <i>Regional Funding Allocation Housing Group, Regional Economic Strategy Group, Regional Funding Allocation Transport Group to produce regional priorities for their respective funding blocks.</i></p> <p><u>Economic Development</u> <i>Regional Economic Strategy Group (co-ordinated by East Midlands Development Agency) to work with consultants to produce draft set of regional economic priorities.</i></p> <p><u>Housing</u> <i>East Midlands Regional Funding Allocation Housing Group (co-ordinated by East Midlands Regional Assembly) to work consultants to produce draft set of regional housing priorities.</i></p> <p><u>Transport</u> <i>East Midlands Regional Funding Allocation Transport Group commissions work on the methodology to produce priorities.</i></p> <p><i>East Midlands Regional Funding Allocation Transport</i></p>	<p>Early October</p> <p>Early October</p> <p>18 September (ongoing)</p> <p>Early October</p>	<p>Consultants appointed work in progress</p>

<i>Group (co-ordinated by Government Office for the East Midlands) to work consultants to produce draft set of regional transport priorities.</i>		
<i>6. Visioning Workshop facilitated by Regional Funding Allocation Consultants with the members of the three regional funding allocation groups for each of the three funding schemes and other key regional organisations.</i>	<i>Mid October</i>	
<i>7. Draft Regional Priority Options Consultation Paper produced by Regional Funding Allocation Consultants.</i>	<i>by 26 October</i>	
<i>8. Draft Regional Priority Options Consultation Paper agreed by Regional Funding Allocation Reference Group.</i>	<i>by 26 October</i>	
<i>9. Project plan agreed by core Project Team</i>	<i>23 September</i>	
STAGE 3 CONSULTATION: Communication and Awareness Raising 1 September to 31 January 2006		
<i>10. Clear communications with our key regional stakeholders (through Websites, Mail Outs, Press Releases, Presentations at key meetings and themed events)</i>	<i>11 August</i>	<i>ongoing</i>
❖ <i>Communication with Regional Stakeholders</i>	<i>Early November</i>	
❖ <i>Themed Consultation Events for the Business Sector; Local Government; Voluntary and Community Sector</i>	<i>1 November</i>	
❖ <i>Targeted Mail Out of RFA Priorities Consultation Paper to key organisations.</i>	<i>14 September</i>	
❖ <i>Dedicated Web Pages on the Government Office for the East Midlands Website.</i>	<i>September - January 2006</i>	
❖ <i>Press Releases distributed by the Government News Network</i>		
STAGE 4 CONSULTATION: Final Advice Document Sign off by Regional Funding Allocation Reference Group and endorsed Key Regional Organisation Boards 1 to 31 January 2006		
<i>11. Sign off of final advice document by Regional Funding Allocation Reference Group.</i>	<i>7 January 2006</i>	
<i>12. Endorsement of final advice document by East Midlands Regional Assembly.</i>	<i>January 2006 (tbc)</i>	
<i>13. Endorsement of final advice document</i>	<i>January 2006 (tbc)</i>	
CLOSE OF CONSULTATION : East Midlands Regional Funding Allocation Advice Document submitted to Treasury by 31 January 2006		

Appendix 2

RFA – TRANSPORT



APPENDIX 3

REGIONAL FUNDING ALLOCATIONS ADVICE **PROPOSED RESPONSES AGREED BY THE CABINET ON** **23 NOVEMBER, 2005**

General Comments

1. The County Council welcomes the opportunity to be involved, alongside regional and local partner organisations, in the preparation of advice to the Government on regional funding allocations for transport, housing and economic development investment. The active involvement of those organisations delivering policy and schemes on the ground should help to make the process more responsive to the needs and aspirations of the region's residents and businesses.
2. The County Council does, however, have concerns about the speed with which the advice is being prepared. The time made available for making comments on this consultation paper (under five weeks) does not do justice to the importance of the issue.
3. The consultation paper prepared for GOEM by ARUP could have done more to help focus discussion on some of the key strategic decisions which will need to be taken. For instance the development of strategic scenarios for future investment could have been very useful.
4. The funding allocations for each block are assumed to be spent in parallel, increasing year by year in relation to inflation. This may not be the most effective way of delivering the region's priorities. For example, it might be that housing and economic development initiatives will be brought forward more effectively if they are preceded by transport investment. This would require increased transport investment in the early years with spend on economic development and housing delayed accordingly.

Consultation Question 1: Do you agree that these are the right strategic priorities for the region to provide the framework for the region's advice on the Regional Funding Allocation? (see section 2.4)

5. The strategic priorities for transport, housing and economic development listed in section 2.4 of the Consultation Paper are very much based on the existing regional policy context and provide an appropriate broad framework within which to develop the advice relating to the three individual funding blocks.

6. It is extremely important, however, that these topic-specific strategic priorities are not viewed in isolation. They need to be considered in the broader context provided by the region's sustainable development framework (the Integrated Regional Strategy). The strategic priorities in section 2.4 focus almost exclusively on economic and social issues and there is very little reference to the environmental benefits or impacts of investment in transport, housing and economic development. In relation to transport, for example, the priorities could be supplemented by a reference to the role of investment in improving environmental quality, for example through modal shift, the provision of bypasses, lorry route management, low noise surfacing and other measures. It is of concern that the priority 'Supporting development and economic activity in towns and cities' neglects to mention the importance of the quality of the environment in towns and cities, and the role transport investment can play in securing environmental improvements.

Consultation Question 2: What do you think are the three main transport issues for the East Midlands? (see section 3)

7. Given the scale of transport investment needs across the region it is very clear that the funding to be allocated falls well below the amounts required.
8. For the County Council the three key transport issues facing the region are:
- The need for **adequate investment in key strategic corridors** such as the M1, A14, A46, A42 and A5. Such investment will be essential if the region's economic potential is to be realised;
 - Securing **environmental and safety improvements** through a wide range of measures to tackle congestion, road safety, pollution, and the impact of traffic especially heavy lorries throughout the County. Such action will improve the quality of life of the region's urban and rural communities, but also make a very significant contribution to meeting the regions' economic development and housing priorities;
 - Making transport investments which contribute to **improving the vitality and viability of the region's urban areas, market towns, and other rural centres** by making them more attractive to both economic and residential investors;
9. In support of the above the revised Leicestershire Community Strategy 2005-8 identifies the following as priorities:
- Vital and thriving market town centres and village centres (pp26-7)
 - Safe roads with reduced congestion (pp48-9)

10. In relation to each of the issues identified above it is very important that the highways investment covered by the RFA complements other investment in transport, particularly investment in rail. The current lack of information about rail investment will make a strategic multi-modal approach to transport funding allocations very difficult.

Consultation Question 3: What do you think are the three main housing issues for the East Midlands? (see section 4)

11. The key main housing issues for the region, in the County Council's view, are:
- **Accommodating future levels of new housing provision in a sustainable way**, in particular by maximising the provision of homes within existing urban areas and on previously developed sites, and by ensuring there is good choice in the housing market (in terms of dwelling type, size, tenure and price). An important component of this will be **improving the condition of existing housing stock**, particularly in urban areas. If this is done successfully it will support efforts to revitalise cities and towns, complement initiatives to improve public transport and reduce congestion, encourage a better balance between the locations of homes and jobs, and relieve pressure for residential development on greenfield sites. The ongoing work on the Regional Plan will be the key mechanism for addressing this issue.
 - **Improving the supply of affordable and supported housing.** From a Leicestershire perspective there is a particular concern regarding the provision of affordable homes in rural communities to meet the needs of local people. At a more technical level the County Council remains concerned that over-reliance on the Index of Multiple Deprivation for allocating affordable housing resources is disadvantaging those in need of affordable homes who do not live in the most deprived areas. The County Council also wishes to restate its view that growth in the MKSM area to meet the needs arising in the South East should not lead to a diversion of affordable housing funding away from other parts of the East Midlands.
12. In support of the above the revised Leicestershire Community Strategy 2005-8 identifies the following as a priority:
- Access to affordable and energy efficient homes (pp40-1)

Consultation Question 4: What do you think are the three main economic development issues for the East Midlands? (see section 5)

13. The review of the Regional Economic Strategy will be the main mechanism by which key economic development issues for the region will be identified. The County Council will be contributing its views to that review.
14. The key economic development challenges set out in emda's recent consultation document 'Creating a Flourishing Region Together' provide a good summary of the main issues facing the region.
15. The County Council would particularly wish to emphasise the following:
 - The need to respond positively to the challenges posed by **globalisation**, including by developing good trading links with emerging world economies (such as China and India). The County Council has itself made significant progress in this area through its trading and other links with Sichuan province in China;
 - The **important role of cities, other urban centres and market towns** in driving the regional and sub-regional economies. This forms a key part of the emerging Local Area Agreement for Leicestershire;
 - The need to support the **diversification and strengthening of the rural economy** in the face of competitive pressures and changes to the Common Agricultural Policy. The County Council led Leicestershire Rural Partnership (LRP) has commissioned and recently taken receipt of a major study of Leicestershire's rural economy which will inform local action in this area. Local delivery partnerships such as the LRP, which works very closely with the Leicester Shire Economic Partnership, provide an effective mechanism for meeting regional priorities through local initiatives.
16. In support of the above the revised Leicestershire Community Strategy 2005-8 identifies the following as priorities:
 - A strong, diverse economy (pp20-1)
 - Thriving market towns and village centres (pp26-7)

Consultation Question 5: Do you think the Transport, Housing and Economic Development challenges facing the East Midlands are set out correctly? Are the main linkages made across the three areas? Are there any additional issues that should be considered?

17. The consultation paper provides a good summary of the challenges facing the region in relation to the three funding areas. As mentioned above the main gap is the lack of reference to the potential benefits and impacts of investment on the region's environment, and also the role environmental quality will have in supporting the economic development and housing aspirations of the East Midlands.
18. The linkages across the three areas of funding are poorly developed. There are appropriate cross-references provided within the lists of strategic priorities and challenges but little sense of how the funding might be aligned to maximise its impact. Achieving effective integration and alignment is unlikely to be a straightforward process and it may therefore need to be seen as a longer term objective rather than something which can be resolved by the end of January 2006. An important existing gap is a lack of understanding about the impacts of investment in one funding block on the achievement of priorities in the other blocks.

Consultation Question 6: What would be the issues and implications for identifying investment priorities of a 10% increase or decrease in the long term investment planning assumptions?

19. A 10% decrease in the funding allocation for transport would clearly make a difficult funding situation even more so. More generally it is recognised that a significant proportion of the regional funding allocation for transport is likely to be invested on a relatively small number of large schemes. This should not, in the County Council's view, prevent investment in smaller high priority major schemes across the region. Inclusion of these smaller schemes will also help to provide flexibility in the annual funding allocations and 'smooth out' the peaks and troughs in expenditure normally associated with a programme of large schemes.