

**DRAFT GUIDANCE TO LOCAL AUTHORITIES  
SEEKING DfT FUNDING FOR LOCAL TRANSPORT  
MAJOR SCHEMES**

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# 1. Policy and Rationale

## 1.1. What are Major Schemes?

- 1.1.1. Major Schemes are significant local authority highway and public transport capital projects. Most involve substantial investment in infrastructure that would otherwise be beyond the means of a local authority.
- 1.1.2. The minimum cost of a scheme that the Department would consider funding as a Major Scheme has traditionally been £5m (gross). For the vast majority of schemes this threshold will remain. However, the Department does recognise that some small LTP areas may find it difficult to fund schemes that are less than this amount through other sources. We will therefore consider bids for schemes under £5million in certain circumstances. See section 1.3 for further information.
- 1.1.3. A local authority scheme does not automatically need to be funded or approved by the Department as a Major Scheme if the gross cost is greater than £5m. Authorities are free to use their block allocations to fund schemes, either on their own, or alongside other sources of funding, without submitting schemes for approval by the Department. In such cases it would be for the local authority to ensure that the scheme was the best value for money means of achieving its objectives.
- 1.1.4. 'Maintenance Majors' and 'maintenance exceptional schemes' are not addressed specifically by this guidance, although the same general principles apply.
- 1.1.5. Bids under the Community Infrastructure Fund (CIF) or the Transport Innovation Fund (TIF) are not considered to be Major Schemes and are not addressed by this guidance. Guidance on the relationship of the Transport Innovation Fund to major projects will be issued in due course.

## 1.2. Major schemes within the LTP context

- 1.2.1. Major Schemes will continue to form an important part of the second round of Local Transport Plans, although the relationship between major schemes and LTP targets will change with the second round of LTPs. Authorities are encouraged to develop their second round LTP targets on the assumption that there are no new majors.
- 1.2.2. Accordingly, bids for majors should be aimed at complementing and enhancing LTPs, as well as delivering additional benefits. The LTP2 guidance states that any major scheme must form an integral part of an authority's LTP, and reflect the principles of LTP development such as
  - **Setting transport in a wider context:** ensuring that plans for regeneration, housing development and local services are informed by realistic expectations about transport improvements;
  - **Locally relevant targets:** addressing the question of what transport targets need to be set in order to support wider objectives - in particular for economic growth and social inclusion;

- **Identifying the best value for money solutions:** demonstrating how an authority will deliver its targets, and deliver the best possible outcomes to society with the available funding; and,
- **Indicators and trajectories:** setting trajectories for the key targets, in a way that reflects the planned implementation of projects, policies and programmes.

1.2.3. There is also the expectation that major schemes submitted during the second LTP period (2006-11) would already have been identified within second LTPs; especially those schemes put forward in the earlier years of LTP2.

### **1.3. Schemes under £5m**

1.3.1. By definition major schemes will be large proposals, which is why we have normally set a lower limit of £5m. However, the Department recognises that some schemes that cost less than this can still represent a significant undertaking for smaller authorities. Accordingly, the Department will consider providing additional support for certain capital integrated transport schemes costing less than £5m.

1.3.2. Special provisions for these 'exceptional schemes' were made in the latest LTP guidance. We are keen to integrate these sub-£5m schemes into the Major Schemes system and will treat them in the same way. Bids for schemes under £5million should therefore be made in the same way as for other majors. However the following conditions apply for scheme bids under £5million:

- They must cost more than 75% of the authority's average projected annual indicative integrated transport block or maintenance allocation for LTP2, whichever is most relevant to the scheme;
- They must cost more than 50% of an authority's average projected combined indicative integrated transport and maintenance allocations;
- No more than one sub-£5m scheme bid may be submitted by the same authority in any 12 month period.

1.3.3. For non-metropolitan joint plans, the relevant block allocations are those related to the authority. The Department will not support bids for sub-£5m schemes in metropolitan areas, as they will have sufficient resources and flexibility to be able to fund them from block allocations. For the same reasons, the Department may decline to support sub-£5m scheme bids on the grounds that the authority could have made use of the funding flexibilities available to joint LTP areas, but did not take up an opportunity to join one.

1.3.4. These schemes are different from 'maintenance exceptional schemes'.

## Pilot or Demonstration Schemes

- 1.3.5. Any LTP authority may submit, for consideration as a Major Scheme, a demonstration or pilot project costing less than £5m, provided that the promoting authority can demonstrate that the scheme would respond to a local transport need, and show that the proposal would be the best value for money way to meet that need. The cost thresholds in section 1.3.2 do not apply to demonstration or pilot projects.
- 1.3.6. Authorities contemplating such a proposal must discuss their ideas at an early stage with their regional Government Office, and will be expected to take full account of any advice given. The Department and the Government Office will expect more early discussion with the authority for a pilot scheme than for other schemes and will provide case specific guidance as appropriate.
- 1.3.7. An important test of pilot or demonstration schemes is that they should include significant innovative elements which have not previously been tested and which would be reasonably replicable in other authorities, with the potential to unlock indirect benefits. Possible examples would be schemes involving new modes, including those generally termed 'ultra light rail', or those which include the novel application of technology for example in the area of ticketing. It will be for the promoting authority to make the case that a scheme should qualify for treatment as a pilot or demonstration scheme. If the Department does not accept this case then it will treat any resulting bid as a major scheme in the normal way, or expect it to be funded through an authority's IT block if it is under £5m and does not meet the criteria for a sub-£5m scheme (see 1.3).

## **1.4. Rail Schemes**

- 1.4.1. The Guidance for Second Local Transport Plans noted that the Department would be prepared to consider supporting rail projects with LTP funds. Such projects should be primarily aimed at delivering local transport benefits in the context of the LTP, and should be demonstrably supported by key rail industry partners. Other schemes, such as public transport interchanges, may also have an impact on the railway.
- 1.4.2. Authorities proposing such schemes will need to show consistency with the relevant rail strategies, such as Regional Planning Assessments and Utilisation Strategies. Authorities will also need to take account of relevant guidance, such as the SRA's [Guide for Promoters of New Stations](#). The case for the scheme will need to take account of financial and operational impacts on the rail network and rail services.

## **1.5. Development of options**

- 1.5.1. The starting point for preparing a major scheme bid is to identify the problems to be addressed, and the objectives that the bid would support. The bid should not start from an assertion about a preferred modal solution. The LTP should analyse the transport needs of the area in question and set out how those needs can be met using Integrated Transport block funding. Authorities may then draw up options for meeting any needs which cannot be met using block funding alone.

- 1.5.2. The assessment of alternatives should start from an initial wide base of possible options. Those options should include measures that reduce or influence the need to travel as well as those that involve capital spend. Whilst the Department leaves this process to individual authorities we require a clear understanding of why some particular options are preferred to others. Each option must be assessed against local, regional and central Government objectives, in terms of consistency with regional strategies and contribution to LTP objectives and should take account of best practice, wider local authority experience and the sustainability of the proposal. Scheme bids should demonstrate a clear path from identifying the problem to arriving at a preferred solution.
- 1.5.3. Appraisals submitted to the Department must include a detailed assessment of the scheme against the alternative options that would, as far as possible, broadly meet the same objectives. It is important that these should also be compared against a realistic do minimum scenario. The testing of alternatives is not an add-on to the appraisal but an integral part of the process of determining the preferred option. Any major scheme for which the appraisal of alternative options is considered inadequate or where the Department considers alternative options to be preferable, will not be accepted for funding. Authorities should state in their scheme bids which options have already been discarded without being fully worked up, and the reasons and evidence for discarding them.
- 1.5.4. For public transport schemes options should include: different technologies, such as bus based schemes instead of light rail; or lower cost alternatives, such as bus lanes or shorter lengths of busways compared to fully segregated busways. For highway schemes there should be a consideration of different link/junction standards and other alternatives to address the problems in the area, such as public transport provision, demand management policies, traffic management measures and strategies. We would expect authorities promoting highway schemes to consider at least one public transport alternative and to undertake an appropriate level of analysis on it. Assessment of detailed option designs should form part of the sensitivity analysis in determining the optimum configuration of the scheme.
- 1.5.5. Promoting authorities should consider whether their scheme proposals are compliant with EU State Aid rules. These are described on the [DTI website](#).

## 2. Major Scheme Bids

### 2.1 *Elements of the Major Scheme Business Case*

2.1.1. Traditionally the Department has asked local authorities to base their bid case for major local transport schemes primarily on the scheme appraisal based on NATA. However even the best designed schemes can run into problems if the arrangements for their planning and delivery are inadequate, or if the financial arrangements or commercial aspects are unsatisfactory

2.1.2. The Department needs to consider five key aspects of scheme bids:

- **Strategic** - how the scheme fits with the LTP, regional strategies and priorities, and wider objectives
- **Appraisal and value for money** – the scheme's benefits, including non-monetised benefits, and costs
- **Delivery** - how the scheme will be delivered to time and budget, and how successful implementation will be ensured
- **Financial** - Funding sources, financial risk and financial sustainability
- **Commercial** - the strategy for procurement and management of commercial risks

2.1.3. Most major scheme bids should already be covering these areas, but we would like bids in future to be clearly structured in these sections. These documents will be known as the 'Major Scheme Business Case', replacing the previous 'Annex E submission'.

2.1.4. The bulk of any major scheme bid in terms of volume will usually be the Appraisal and value for money aspect, covered in Chapter 3 and Delivery, which is covered in Chapter 4.

2.1.5. The Strategic, Commercial and Financial aspects are described below.

#### Strategic

2.1.6. The Strategic Case is essentially the 'fit' of the scheme in terms of wider objectives. We expect major scheme bids to be for those schemes that will enhance the objectives of the LTP or the wider objectives of the authority, such as regeneration and social inclusion. Major scheme bids should be explicit about how they would help to deliver LTP targets and to what extent targets could be stretched were the scheme to be funded. Where the benefits of a scheme would only be realised after the second LTP period, bids should make reference to the potential of the scheme to meet the longer term objectives of the authority.

2.1.7. The Strategic case will also need to show the fit with the strategies of regional authorities, notably the Regional Transport Strategy/Regional Spatial Strategy, within which the LTP sits. Where appropriate, the Strategic Case should also describe the fit with other transport delivery agencies' plans and objectives.

#### Financial

2.1.8. It is essential that promoting authorities develop a sound financial plan for proceeding with a major scheme bid. This should consider all sources of funding, the conditions associated with each of them, and the financial risks and contingent liabilities that may result should any funding stream fail to materialise. It should also consider the longer term financial sustainability of the scheme, and should have robust plans to ensure the affordability of any ongoing costs for operation or maintenance. The Department will not approve schemes where significant financial contributions from other sources appear to be at risk, unless there are robust contingency plans for meeting the gap.

2.1.9. This section will be particularly important in high value or complex schemes with more than one funding contributor and/or ongoing revenue implications. For simpler schemes and those which do not have an ongoing revenue implication, this section may only need to include a short statement.

#### Commercial

2.1.10. Most major schemes will involve procurement of some description. The process for any procurement required should be identified at the earliest stages. The procuring authority should also consider and investigate the capacity and appetite of the supplier market to deliver the specific requirement. For some schemes such as road construction projects this may be relatively straightforward. However for more individual schemes authorities may need to liaise closely with potential suppliers in advance of formal procurement.

2.1.11. In the initial bid the Department would expect to see an outline procurement strategy but would expect this to be expanded at subsequent approval stages to show how the supplier market had been assessed, sourcing options, risk transfer, tendering timetables, and contract management arrangements.

2.1.12. It is important to identify the commercial risks of the scheme - for example, where any revenue risks lie - and demonstrate how these would be addressed and shared between the parties involved.

## **3. Appraisals and value for money**

### **3.1. Appraisal requirements**

3.1.1. An overview of the appraisal requirements for major public transport and highway scheme bids is provided at WebTAG. The same appraisal requirements apply to all schemes submitted to the Department for funding, including schemes under £5m (see section 1.3), but the level of detail required in the appraisal will be proportional to the scale and complexity of the scheme. If in doubt, promoting authorities should consult the Department for a steer on whether their proposed approach is proportionate.

### **3.2. What does the DfT require from scheme promoters?**

3.2.1. It is the promoting authority's responsibility to construct a robust appraisal of the proposed scheme. Webtag provides an overview of the different elements of the required appraisal. The appraisal information allows an assessment of the scheme's value for money to be made in officials' advice to Ministers (see section 3.6). This information is reported under the following headings.

- Scheme description
- Problems and objectives identified
- Assessment of alternative options
- Capital costs
- Operating costs
- Risk assessment and optimism bias
- Traffic/passenger modelling/assumptions
- Worksheets for NATA objectives (all items in the NATA checklist are required)
- Transport Economic Efficiency data
- Sensitivity and scenario analyses
- Supporting analyses
- Overall vfm conclusions

3.2.2. Promoting authorities should follow these headings for the appraisal section of their Major Scheme Business Case as far as is possible. WebTAG also sets out what supporting information, including audit trail, is needed as an evidence base for the vfm assessment. If the evidence made available to the Department is insufficient for this assessment then scheme bids may be rejected.

### **3.3. Proportionality**

3.3.1. The principles set out and framework provided by Webtag apply to all schemes submitted to the Department. However, the level of detail should be proportionate to the scale and complexity of the scheme. In particular:

- *Options:* Any submission should carry at least two options - the

preferred option and a lower cost alternative - fully through appraisal. Each should be appraised against the do minimum option. Large major schemes (>£20m) may also need to carry a 'next best' option through the appraisal process.

- *ASTs and accompanying worksheets:* For smaller schemes (<£20m) non-quantified ASTs are sufficient for all options except the preferred and low-cost option. There may be some flexibility in the level of detail required as schemes can differ greatly in terms of their impact, gross cost and funding sought. Early contact with the Department is advised for a discussion on a case-by-case basis.
- *Risk assessment:* For smaller schemes it may be acceptable to assess the probability of any one outcome occurring using a simple four-point scale.
- *Monitoring and evaluation:* should be proportionate and cost-effective.

3.3.2. The Department is aiming to produce additional guidance to clarify the requirements for schemes below £5m (see section 1.3), along the lines of the Highways Agency's [Project Appraisal Report \(PAR\) guidance](#). PAR provides a simplified approach to estimating some scheme impacts and benefits for smaller highways schemes.

### **3.4. *Proportionality in the cost benefit analysis and modelling requirements***

3.4.1. Information on the expected costs and benefits (including those that cannot be quantified) is essential for all schemes. However, the requirement for detailed modelling and collection of bespoke evidence will vary with the scale and complexity of the scheme. Promoters of small schemes should seek out and use of the best available information and methods referred to in the guidance. Promoters of larger schemes should consider commissioning bespoke evidence and models in accordance with the guidance and in consultation with the Department.

### **3.5. *Appraisal of Pilot or demonstration schemes***

3.5.1. Pilot or demonstration schemes (see 1.3.5) are different in that they may not always demonstrate good value for money as stand-alone projects; or some of the benefits of the pilot may not be picked up under the traditional appraisal methods. They are generally innovative and depend on indirect benefits that are usually uncertain and difficult to quantify. An appraisal should be carried out in line with the guidance and promoters should seek early discussion with the Department on a case-by-case basis regarding assessment of the indirect benefits.

### **3.6. *Value for money***

3.6.1. The detailed appraisal information from the NATA process allows an assessment to be made of the value for money (vfm) offered by a proposed scheme. Advice to DfT Ministers from officials on the vfm

offered by each proposed scheme is formulated in line with the [DfT Guidance on Value for Money](#).

- 3.6.2. That guidance, published on our website in December 2004, is about the clear and consistent assessment of value for money for officials putting submissions to DfT ministers about investment decisions and choices. It covers all spending proposals that are funded by the Department or require the Department's approval.
- 3.6.3. Value for money measures the benefits for each £1 of costs. The assessment of vfm must account for all impacts of a transport investment proposal, not just those impacts that can be presented in monetary terms within the benefit/cost ratio (BCR). Impacts on the environment, regeneration, accessibility and integration must also be accounted for.
- 3.6.4. The DfT Guidance on Value for Money explains how both the BCR and other impacts can be assessed, especially in the technically difficult area where benefits are not readily monetised. The result of this analysis will place any scheme into one of four vfm categories: high, medium, low or poor.
- 3.6.5. The presumption is that, purely on grounds of value for money, the Department should generally fund:
  - no projects with poor VfM
  - very few projects with low VfM
  - some, but by no means all, projects with medium VfM
  - most, if not all, projects with high VfM
- 3.6.6. Ministers make the decisions, and value for money is only one of a number of considerations that they take into account. Where Provisional Approval or Programme Entry was given before this guidance was in place, and there are no changes to design or costs, the approval status will be a significant factor in the decision on whether to proceed.
- 3.6.7. Authorities and scheme promoters are encouraged to look at the DfT Guidance on Value for Money and to consider the likely vfm of a scheme early in the process and at various stages of development. This may help provide the early opportunity to think how a scheme could be improved or to consider alternative options, if it looks as though it offers only low or poor vfm.

## 4. Delivery and Implementation

### 4.1. Requirements in support of major scheme bids

- 4.1.1. In future, as part of the approvals regime, we will be assessing the quality of authorities' project management and delivery arrangements at various stages of implementation. These are key factors in delivering successful projects.
- 4.1.2. Improvements in major scheme delivery, particularly improvements in project management and procurement, have the potential to make a significant contribution to the Local Government target set, following the Gershon Efficiency Review, to achieve 2.5% or £6.45 billion of efficiency and productivity improvements over the three years to 2007/8.
- 4.1.3. The information and documentation we will be requesting is no more than we would ordinarily expect promoting authorities to have in place, and we recognise that many authorities already provide such information with their scheme appraisals.
- 4.1.4. This is not about imposing additional hurdles for their own sake or finding reasons to delay or stop schemes. We want to approve high quality schemes that offer the best value for money and have the best chance of effective delivery. We hope that our scrutiny, review and challenge to authorities' project plans and delivery arrangements will help to maximise overall scheme quality.
- 4.1.5. In assessing the potential deliverability of schemes the track record of the promoting authority in implementing previous major schemes may be taken into account.

### 4.2. Application of Project Management Principles

- 4.2.1. The Department will not prescribe the use of any particular project management methodology, although we would expect authorities to be adopting some sort of formal project management for the development and delivery of major schemes.
- 4.2.2. Neither is it the aim of this document to provide detailed guidance on project management. Authorities are already able to make use of the various guidance and information available on project management and procurement. These include:-
  - Office of the Government Commerce (OGC) have a web-based resource, the [Successful Delivery Toolkit](#) and the following priced publications
    - [Managing Successful Projects with PRINCE2](#)
    - [Managing Successful Programmes](#)
    - [Management of Risk: Guidance for Practitioners](#)

- 4ps produce [guidance on procuring local authority transport schemes and services](#) as well as general advice on project management
- The [Regional Centres of Procurement Excellence](#) will provide expertise and spread good practice
- The [National Procurement Strategy for Local Government](#).
- The [Successful Transport Decision-Making Handbook](#) was produced by the EU funded GUIDEMAPS project. This was sent to all authorities in February 2005.

4.2.3. In addition many of the key principles of project management are already embedded in the [WebTAG guidance on major scheme appraisal](#), such as the requirement to fit into wider business objectives, in this case the Local Transport Plan, and the need to have a clearly defined outcome and critical success factors that support this.

4.2.4. We have summarised below the areas in which the Department will be taking a particular interest and in which we will be expecting promoting authorities to provide evidence. We have also given examples of some of the questions we may need to ask.

4.2.5. There is no prescribed format for the submission of this information in new bid submissions but if authorities are using the PRINCE2 methodology then a copy of the [Project Initiation Document](#) will suffice.

#### Governance and staffing

4.2.6. We need to be assured that the scheme will be adequately managed and resourced and that the key roles and responsibilities of all those involved are defined from the outset. There should be clear arrangements for reporting and decision making that are understood by all those involved in the project.

4.2.7. This is critically important in particular in projects involving more than one authority or where other partners or funding contributors are involved.

4.2.8. Key questions include:

- Who is the Senior Responsible Owner (or Project Owner) and the Project Manager?
- Who is on the project board?
- What decisions need to be taken by either the SRO or project board?
- Is the size of the project team and skills mix adequate?

#### Risk Management

4.2.9. WebTAG provides guidance on the identification of risks and the analysis of their impact and likelihood. Further guidance is provided below on risk management.

4.2.10. It is essential that a risk register is maintained and reviewed regularly throughout the project so that any new or previously unforeseen risks may be identified and the assessed impact or likelihood of existing risks revised if appropriate.

4.2.11. There should be a nominated owner for the maintenance of the risk register as a whole and for each specific risk, where those cannot be externally transferred.

4.2.12. The level of risk that remains after internal controls have been exercised (the 'residual risk') should be identified, monitored and re-assessed as necessary.

4.2.13. Key questions include:

- How often is the risk register reviewed? Who has overall risk management responsibility?
- Do all risks have clear owners?
- Have the risks been adequately assessed?
- Are the mitigation plans to reduce the risks adequate?
- Are the contingency measures adequate?
- How will any financial risks be funded?

#### Project Plan and Milestones

4.2.14. The Project Plan is typically presented in the form of a GANTT chart with key outputs and milestones and key dates clearly identified.

4.2.15. Key questions include:

- Have all the key dependencies been identified (those that are internal and dependencies to other projects)?
- Is the critical path clearly identified?
- Have clear outputs/milestones been identified?
- Are the time estimates realistic and commensurate with the resources devoted to the project?
- What are the impacts of delay?

#### Stakeholder Analysis

4.2.16. Effective stakeholder management can be of critical importance in minimising difficulties or delays later on in progressing statutory procedures or public consultation.

4.2.17. It is important at the outset to identify all the key stakeholders. They could include other authorities, statutory consultees, landowners, transport operators, local residents, utilities companies etc. They can be grouped according to the potential impact of the project upon them, how important they are in order to help deliver the project, how likely they are to support the project etc.

4.2.18. A communication plan should be drawn up to describe how the various stakeholders will be kept informed and consulted; how closely they need to be involved and when. Very important stakeholders may warrant representation on the project board (e.g. a bus company whose

participation is essential to the success of a public transport scheme). Others may need to be consulted to varying degrees. For others merely to be kept informed may be sufficient.

4.2.19. Key questions include:

- What key stakeholders have been identified?
- Which are critical to the success of the project?
- How are they being consulted or involved?
- What are their desired outcomes?

### **4.3. Gateway Review**

- 4.3.1. A Gateway Review is an assessment of a project or programme carried out at crucial junctures in its development, in order to provide assurance that it can progress successfully to the next stage. Its focus is on whether the appropriate framework, processes and resources are in place; it does not duplicate the appraisal of the value for money case for a scheme.
- 4.3.2. The Gateway process is owned and administered by the Office of the Government Commerce (OGC) and is explained in detail on their [website](#).
- 4.3.3. Although the OGC itself conducts reviews primarily for Central Government, local authorities are able to benefit from Gateway Reviews conducted by [4ps](#). The process is recognised as adding significant value - the National Procurement Strategy recommends it is adopted for all new projects. It is also a key enabler assumed in the Gershon efficiency review.
- 4.3.4. Gateway Reviews are for the benefit of the promoting authority's Senior Responsible Owner (SRO). Reports of Reviews will not be made available to the Department. But the application of the Gateway process will itself provide reassurance to the Department. We are therefore keen for local authorities to put their major schemes through Gateway Reviews. Before submitting a major scheme bid authorities should use the [Project Assessment Spreadsheet](#) (PAS) (available on the [4ps website](#)) to assess and score the risk level of the scheme and determine whether a Gateway Review is required, and at what level.
- 4.3.5. For schemes with a gross cost of £40m or over, Gateway Reviews will be mandatory unless the risk score from the PAS indicates that a review is not required. The Department will not consider new schemes falling into this category for approval at any stage unless an appropriate Gateway Review has been carried out (see 5.1.11). For schemes which have already been accepted for Provisional Approval (at March 2005) a Gateway Review may be required before procurement starts.
- 4.3.6. It is the authority's responsibility to initiate and plan for a Gateway Review; however authorities may find it helpful to discuss the scope of the Review with the Department in advance.
- 4.3.7. Gateway Reviews are free of charge to the receiving authority, although there is of course some resource cost, and authorities

participating in the Gateway Review programme provide reviewers to support reviews performed in other authorities.

### ***The Gateway process***

- 4.3.8. The Gateway process provides assurance and support for Project Owners in discharging their responsibilities to achieve their business aims by ensuring that:
- the best available skills and experience are deployed on the programme or project
  - all the stakeholders covered by the programme/project fully understand the programme/project status and the issues involved
  - there is assurance that the programme/project can progress successfully to the next stage of development or implementation
  - more realistic time and cost targets are achieved for programmes and projects
  - knowledge and skills among central and local government staff are improved through participation in review teams
  - advice and guidance to programme and project teams are provided by fellow practitioners
- 4.3.9. A key element of the Gateway Review process is the use of independent and experienced reviewers to perform a top down review of programmes and projects.
- 4.3.10. The teams vary in size but typically are made up of either three or four people. Each review takes about three to four days, with a draft report being provided to the Senior Responsible Owner before the team leaves the site. Dependant on the risk level of the programme/project, the review team may be independent to the organisation under review, or they may be from the organisation under review but independent to the programme or project in question.
- 4.3.11. There are five OGC Gateway Reviews during the lifecycle of a project, Three before contract award, one post contract award looking at service implementation and a final review seeking confirmation of the operational benefits. A full description of the Review stage workbooks is can be found on the [OGC website](#).
- 4.3.12. OGC Gateway Review 0 is a programme-only review that is repeated throughout the programme's life; it can be applied to policy implementation, business change or other types of delivery programme. It sets the programme review in the wider policy or corporate context. In the case of Local Transport Major Schemes, authorities may wish to arrange a Gateway 0 Review which could be applied to their LTP and any existing or planned majors over the LTP period. The Department will also be arranging a Gateway 0 Review of its own programme management function.

- 4.3.13. Gateway reports will include recommendations with a RAG (Red/Amber/Green) status allocated to each recommendation, and to the project as a whole. The project must be given a 'Red' status if any individual recommendation is Red.
- 'Red' status means that remedial action must be taken immediately.
  - 'Amber' status means that the project should go forward with actions on recommendations to be taken before the next Gateway Review.
  - 'Green' status means the project is on target to succeed but may benefit from the uptake of the recommendations.
- 4.3.14. For schemes where a Gateway Review is mandatory the Department will require a written statement by the authority's Section 151 officer
- that a Review has been carried out
  - whether or not it was given a 'Red' status
  - that the remedial action for any 'Red' recommendations has been carried out.

#### **4.4. Scheme progress monitoring**

- 4.4.1. The Project Management documentation supplied to the Department will include project milestones which will need to be updated as necessary at each approval stage (see Chapter 5). The Department will use these milestones to monitor scheme progress until completion. The nature and number of milestones will vary according to the size, complexity and type of scheme in question. The Department will require authorities to submit quarterly progress reports on progress towards milestones.
- 4.4.2. Following Full Approval, grant payments will be based on the successful completion of project milestones and not, as previously, simply at regular intervals of time. Where there is a long time span between natural project milestones authorities should identify key interim stages wherever possible and payments may be made subject to satisfactory progress being demonstrated. This will be agreed on a case by case basis.
- 4.4.3. In support of each payment claim, authorities will be expected to provide evidence that the agreed milestone has been reached. For schemes requiring a Gateway Review we will expect a Gateway 4 Review to be carried out prior to the final payment.
- 4.4.4. Management of major schemes will continue to be one of the criteria taken into account when we assess Annual Progress Reports. Our assessment of progress will be based on the information and knowledge we have gathered as part of our scheme monitoring and not solely on the authorities' statement of scheme progress within the APR.
- 4.4.5. It is imperative that the promoting authority immediately brings to the attention of the Government Office and the Department any arising

issues which put the timetable or cost of the project at risk. Such issues must be raised at the time they occur and should not be withheld from the Department until the next milestone or review point.

- 4.4.6. The monitoring of a scheme's *progress* as described in this section is distinct from the monitoring and evaluation of the scheme's *impact* as described in Chapter 6

#### **4.5. Cost Increases, design changes and scheme delays**

- 4.5.1. When authorities present their Major Scheme Business Case, it is important that they show how they have arrived at the cost estimates for the scheme. As demands on LTP funding grow, the Department will carefully scrutinise all cost increases, and will be unlikely to support those arising from poor project planning and management by the local authority. When the Department accepts a scheme at any stage of the approval process, the approval will define a capped approved sum, which will include an appropriate allowance for expected risk based on a Quantified Risk Assessment (QRA). In addition, the Department will continue to require an allowance for optimism bias to be included as a cost in the appraisal process, and will keep the optimism bias levels set out in the WebTAG Major Scheme Appraisal guidance under review.
- 4.5.2. Promoters of schemes currently in the Programme (i.e. those with a designation of Provisionally Approved) are reminded that this status is subject to these schemes not suffering significant cost increases or design changes (see section 5.2.8). In all cases, the Department will first look to the local authority to fund any cost increases from its own funds, including integrated transport block funding, or other resources. The Department will not fund cost increases where authorities have not made an adequate attempt to secure such funding. Before bidding for a cost increase we will also expect authorities to have considered what could be delivered within the original cost envelope, for example by adjusting the scheme's scope or specifications.
- 4.5.3. In cases where the above options have been exhausted or do not meet the total funding requirement the authority should make a formal bid for a cost increase to DfT. We will consider each cost increase bid on its merits. We are likely to be more sympathetic to bids for increases due to factors already identified in Quantified Risk Assessments or contingencies associated with those risks, or if it can clearly be demonstrated that the increase could not have been anticipated and was entirely outside the control or influence of the Authority. Affordability will also need to be taken into account by the Department in deciding whether to accept an increase. The Department will not normally consider supporting more than 75% of any cost increase.

- 4.5.4. If DfT does not accept a bid for a cost increase, and it is clear that there is no realistic prospect of the balance being funded from other sources, nor of the scope of the scheme being adjusted to fit the approved cap, approval will be revoked and the scheme will be withdrawn from the Programme. Where the scheme would require a substantial redesign to be affordable within the available funds, the Department may withdraw it from the Programme and require the redesigned scheme to be submitted as a new bid requiring a full re-appraisal.
- 4.5.5. The Department expects all authorities delivering major schemes to learn from best practice, and thereby ensure that schemes are delivered as efficiently as possible, in a way that maximises the value for money offered by those schemes. The Department will in particular encourage Local Authorities promoting road schemes to seek help and advice from the Highways Agency.



## 5. Approval Process

### 5.1. Proposed new approval system

- 5.1.1. We are reviewing the formal approval stages which will apply to major scheme decisions and clarifying the status of each. We are considering what supporting information is required at each stage, under what conditions the approvals are given and what each approval signifies.
- 5.1.2. The biggest proposed change to the current system is that Full Approval will now not be given until procurement has taken place and prices and risk allocation are known. The current system, in which the costs of a scheme could still increase (in some cases almost double) once funding approval has already been granted is unsatisfactory and compromises the Department's and authorities' ability to achieve value for money and to exercise responsible management of public funds.
- 5.1.3. However we recognise that this change would add to the financial outlay required by authorities before there is a commitment to funding. We are therefore proposing a new intermediate approval stage at the point at which Full Approval would previously have taken place. This would be known as Conditional Approval and will effectively be a commitment to funding, subject to the cost estimates and risks remaining unchanged and the scheme being ready to commence within a certain period. See section 5.3.12 for more detail.
- 5.1.4. We intend to change the name of Provisional Approval to Programme Entry, though the definition remains essentially the same; that the Department would expect to fund a scheme subject to certain conditions (see 5.2.8).
- 5.1.5. We intend to decouple the submission of major scheme bids from the submission of Annual Progress Reports. In future years we will accept scheme bids at any time of year and would encourage authorities to submit bids as soon as they are ready for DfT's consideration. The intention will still be to make approval decisions on new bids in batches, although this will not necessarily remain linked to the APR or settlement timetable. The process for future years will be clarified in the final guidance, in the light of the Government's consideration of the responses to the consultation on regional priority setting. Under the proposals for involving regions in the decision-making process, we would expect in future years, to take account of advice from regions on the relative priority of the scheme alongside other transport proposals.
- 5.1.6. In order to be considered for approval in the Local Transport settlement in November/December Major Scheme bids must be received by the end of July 2005. Bids can however be submitted at any time, prior to the end of July, independently of the APR. Earlier submission will give the Department more time to consider the bid before decisions are taken. We will not be asking regional bodies to identify priorities for the 2005 settlement.
- 5.1.7. In the 2004 settlement, a number of schemes were 'remitted to the regions' for advice on their priority. Local authorities would need a

strong case for the Department to consider any of these schemes before the arrangements for consulting the regions are in place.

- 5.1.8. Before Programme Entry is granted we will require a full Major Scheme Business Case as described in Chapter 2. In addition to the scheme appraisal, more information on the project management and delivery arrangements for the scheme will be required. Both delivery and appraisal information will need to be updated and refreshed as necessary prior to each approval stage
- 5.1.9. The level of information required at each stage, and the degree of scrutiny the Department applies, will be proportionate to the overall cost and risk of the scheme.
- 5.1.10. Bids for schemes with a gross cost of over £40m must include a completed Project Assessment Spreadsheet (PAS) (see section 4.3.4.) and evidence that a Gateway Review has been carried out, if the risk score indicates that one is required. The Department reserves the right to challenge the entries made in the PAS if it feels the level of risk may have been scored too low, and to require a Gateway Review to be carried out if appropriate. Additionally the Department may ask for a PAS (and a Gateway Review if necessary) in respect of bids below £40m if there is reason to believe that the scheme carries an unusually high level of risk.
- 5.1.11. For schemes where the Gateway Process is mandatory (see 4.3.5) the Gateway Review required before each approval stage is as follows:-

<b>Gateway Review stage</b>	<b>Approval stage</b>
Stage 1: Business Justification	Programme Entry
Stage 2: Procurement Strategy	Conditional approval
Stage 3: Investment Decision	Full Approval
Stage 4: Readiness for Service	Before final scheme payment

## **5.2. Programme Entry**

When can an authority apply for Programme Entry?

- 5.2.1. An authority can submit a scheme for Programme Entry at any time once a Major Scheme Business Case has been prepared (see chapter 2) and a Gateway Review carried out, if appropriate (see section 4.3).
- 5.2.2. We would, in most circumstances, expect major scheme bids submitted in the second LTP period to have been referenced in the LTP (see section 1.2.3). We would not expect authorities to submit a fully worked up scheme bid without having first had some preliminary discussion with DfT/Government Office on the feasibility of the proposal, including the submission of draft bids for discussion prior to formal submission.
- 5.2.3. In the past some authorities have submitted major scheme bids knowing that the proposal is not fully developed, in order to get their 'foot in the door'. Submitting speculative bids of this kind does not gain any

advantage over other schemes in development, and does not mean they attract any more attention from the Department. Scheme bids which do not include all the required information as set out in the guidance may be rejected. We will discontinue the previous designations of Work In Progress and Super Work In Progress. These are not particularly helpful, and do not confer any special status over schemes that may be in a similar stage of development, but for which bids have not yet been submitted.

What information does an Authority have to submit at this stage?

- 5.2.4. In order to obtain Programme Entry an authority will need to submit a Major Scheme Business Case to the Department which covers all the aspects described in Chapter 2. In particular, it will include:
- A value for money appraisal in line with the latest WebTAG guidance and structured as per section 3.2.1.
  - project management information covering project milestones, risks, stakeholder management, governance arrangements. There is no prescribed format for this information but the Project Initiation Document (as defined in PRINCE2) or equivalent would meet these requirements.

When will Programme Entry be granted?

- 5.2.5. Approval will be granted once the Department is reasonably satisfied that the scheme meets all the following criteria:
- value for money
  - affordable within the available budget, with a likely start within the next three years. (In future years under the proposals for Regional Funding Allocations, this is likely to mean that the scheme is identified as a high priority within the regional funding allocation)
  - deliverable by the authority to time and budget
- 5.2.6. The Department expects to make an annual announcement on which schemes it is accepting into the programme. For 2005 this will be as part of the Local Transport settlement, in November or December. To be considered for Programme Entry bids must be received before the end of July. In some cases, however, where there are appraisal or other issues still to be resolved at the time of the settlement, a decision will be made as soon as possible afterwards. In the case of some higher value schemes the Department may take decisions outside the usual annual cycle.
- 5.2.7. For schemes subject to Gateway Review (see section 4.3), Programme Entry will only be granted once a Gateway 1 Review has been completed. Confirmation that a review has taken place must be provided by means of a statement from the authority's Section 151 Officer, who must also confirm that the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Programme Entry signify?

- 5.2.8. Programme Entry means that the Department would expect to fund the scheme subject to:-
- affordability (including by contributors other than DfT)

- any necessary statutory powers being obtained
  - there being no significant changes to costs, scheme design or expected benefits
  - any other conditions specific to the scheme
- 5.2.9. Programme Entry will, like Provisional Approval, confer no guarantee of funding, or its timing, but it is designed to give authorities the confidence to proceed with the development of the scheme and in particular to apply for the necessary statutory powers.
- 5.2.10. A scheme will not remain in the Programme indefinitely. At the time of Programme Entry the Department will agree with the promoting authority on a case by case basis the steps that need to be taken for the next stage of approval, and what conditions may apply. A deadline will be agreed for the submission of the scheme for the next approval stage. A scheme will exit the Programme should this deadline not be met or after a maximum of four years, except in exceptional cases.
- 5.2.11. The Department reserves the right to remove a scheme from the Programme before a scheme is submitted for Conditional or Full Approval in the event of an increase in estimated costs which the Department is unwilling to fund, for which there is no realistic prospect of alternative funding, and which cannot be resolved by adjusting the scope of the scheme; or where the scope or design of the scheme, or the scheme benefits, change substantially.
- 5.2.12. Authorities are free to resubmit schemes which have lapsed from or been removed from or the Programme, and these will be treated as new bids. However the Department will need to be assured that the problems or delays which led to the scheme's exit from the programme have been addressed and resolved.

### **5.3. Conditional Approval**

- 5.3.1. This is an intermediate stage which would normally occur following the granting of statutory powers but before a procurement exercise has taken place - i.e. the point at which Full Approval would often be sought at present.
- 5.3.2. For some schemes this interim stage may not be required, if its natural point would be very close to Provisional or Full approval. Examples may include schemes which require few or no statutory powers. For schemes requiring powers but no procurement, or where authorities are prepared to initiate the procurement process at their own risk while powers are still being sought, a scheme may proceed directly from Programme Entry to Full Approval. An example may be where there is Early Contractor Involvement. As at present there may even be some schemes that proceed straight to Full Approval if neither powers nor procurement are required.

When can an authority apply for Conditional Approval?

- 5.3.3. An application can be made when any necessary statutory powers have been obtained, and when the scheme appraisal and project

information have been updated as necessary to reflect the latest position.

What does an Authority have to submit at this stage?

- 5.3.4. In order to obtain Conditional Approval authorities will need to provide an update on the five aspects of their original Major Scheme Business Case.
- 5.3.5. This includes a revised appraisal. The extent of the revisions required will depend on the time elapsed since Programme Entry, and the extent to which the scheme's design or cost estimates have changed. The requirement for an updated appraisal will apply only to the preferred option except in cases where there has been a significant cost increase. The detailed requirements for updated appraisal information can be found in Annex B.
- 5.3.6. As part of the delivery aspect, an updated risk register and project plan with milestones should be provided.
- 5.3.7. The Department will at this stage require details of the commercial aspects and the procurement strategy, and may request specific related documents (e.g. draft specifications, OJEU notices, draft contract documents, tender evaluation criteria).
- 5.3.8. For some schemes, usually the largest ones, the Department will require details of the authority's plans for monitoring and evaluation of the scheme.

When will Conditional Approval be granted?

- 5.3.9. Conditional Approval will be given when the Department is satisfied that
  - the necessary powers have been obtained
  - the scheme can be afforded on current cost estimates
  - the updated scheme appraisal remains sound, in line with the requirements set out in annex B
  - the promoter has conducted adequate supplier assessment and market intelligence and has a robust procurement strategy in place
  - the scheme remains deliverable by the authority to time and budget
  - the arrangements for evaluation and monitoring are satisfactory (in cases where this is a requirement at this stage)
- 5.3.10. Conditional Approval may be granted at any time in the year and is not linked to annual cycles.
- 5.3.11. For schemes subject to Gateway Review (see section 4.3), Conditional Approval will only be given upon confirmation by the authority's Section 151 officer that a Gateway 2 Review has been completed and the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Conditional Approval signify?

5.3.12. Conditional Approval is a firm undertaking by the Department that Full Approval will be granted subject to a small and limited number of conditions, typically that:-

- the costs of the scheme (or the required DfT contribution) do not increase following the tender process
- the allocation and scale of financial risks does not change
- the tender prices and other scheme costs are firm and fixed for the life of the project or are as secured as is reasonably possible
- the scheme will be submitted for Full Approval within a certain period agreed between the Department and the authority.

5.3.13. In applying conditions to particular schemes the Department will consider and take into account on a case by case basis the most appropriate balance of financial risks between the parties involved.

5.3.14. If the conditions are not met the Department will reserve the right to revoke Conditional Approval. Depending on the particular circumstances the scheme may either revert to Programme Entry status or be removed from the Programme altogether.

#### **5.4. Full Approval**

5.4.1. In a change from current practice we are proposing that Full Approval is only given once firm prices are available, normally when procurement has been completed.

When can an authority apply for Full Approval?

5.4.2. An authority may apply for Full Approval once:-

- the necessary statutory powers have been obtained and;
- tenders have been received with firm prices. Normally this will mean a preferred bidder has been selected, and any post tender negotiations completed
- the scheme appraisal has been updated to reflect the latest information on expected costs and benefits.

What does an Authority have to submit at this stage?

5.4.3. In order to obtain Full Approval authorities will need to provide a further update on the five aspects of their original bid.

5.4.4. This includes a revised scheme appraisal. The extent of the revisions required will depend on the time elapsed since Conditional Approval and the extent to which the schemes' design or cost estimates have changed. If there have been no such changes and Conditional Approval was relatively recent, then the additional information required at this stage will be minimal. The detailed requirements for updated appraisal information can be found in Annex B.

5.4.5. On the commercial aspects, authorities should provide full details of the selected bidder's offer together with any conditions that apply. This should be the firm and final offer if post tender negotiations have taken

place. In certain cases the Department may additionally request a copy of the selected supplier's bid document, details of other bids received, or the authority's tender evaluation documentation.

5.4.6. As part of the delivery aspect, an updated risk register and project plan with milestones should be provided.

5.4.7. The Department will require details of the evaluation and monitoring proposed by the authority at this stage if not before.

When will Full Approval be given?

5.4.8. Full Approval will be given when the Department is satisfied

- that the costs of the scheme are reasonably secured and that the authority has taken adequate steps to protect itself from the risk of increased costs
- that the balance of risks and liabilities is satisfactory, is clearly understood and offers adequate protection for the public sector against potential increases in costs
- that adequate contract management arrangements are in place to ensure delivery to timetable and budget, including the necessary resource for contract management within the authority.

5.4.9. The Department will make every effort to complete its consideration of bids for full approval before the expiry of tender prices. However the Department will not be responsible for any delays due to the promoting authority's failure to provide the necessary assurances set out at 5.4.8 above.

5.4.10. Full Approval may be granted at any time in the year and is not linked to annual Local Transport settlements.

5.4.11. For schemes subject to Gateway Review (see section 4.3), Full Approval will only be given upon confirmation by the authority's Section 151 officer that a Gateway 3 Review has been completed and that the necessary remedial action has been taken in respect of any 'Red' recommendations.

What does Full Approval signify?

5.4.12. Full Approval is the Departments confirmation that funds are available and that work can commence.

5.4.13. The availability of funds is conditional upon the scheme proceeding without undue delay. If there is more than two years delay to the delivery of a Fully Approved scheme the Department reserves the right to revoke Full Approval.

5.4.14. If following Full Approval it becomes clear that the scheme cannot be completed within the available funding the authority must notify the Department and stop incurring any further liabilities immediately.

## ***5.5. The Department's role in the approval process***

- 5.5.1. This guidance is aimed at helping local authorities promote schemes that are appropriate for DfT funding. It is the responsibility of the scheme promoter to ensure that sufficient resources and expertise are available to produce the appraisal and other information required, and to ensure that the bid documentation is complete.
- 5.5.2. Government offices and the Department will be happy to discuss the development of schemes, especially at the early stages, to help guide authorities towards schemes that have the best chance of acceptance.
- 5.5.3. In addition, the Department aims to provide up-to-date and clear guidance on the requirements and criteria for selection of schemes. The guidance is updated frequently, as new and better evidence come to light, so authorities should check WebTAG to ensure they are applying the most recent advice. During the development of a bid, the Department aims to provide advice on any proposals for non-standard approaches to producing the required evidence and appraisal. The Department will also advise on areas where the guidance may be open to interpretation.
- 5.5.4. Once a scheme bid has been formally submitted to the Department, Ministers require advice on the robustness of the bid and the value for money judgement. Priority is given to bids that are complete in terms of the appraisal and other information required. Officials will seek to clarify any outstanding issues with promoters in advance of deadlines for ministerial decision-making. Nevertheless bids with significant omissions may be rejected.
- 5.5.5. At each approval stage, the Department will review the documents supplied and may ask for clarification or supporting information as required. For higher value projects (e.g. £25-30m and above) the Department may employ consultants to examine a particular aspect of the business case such as traffic modelling, costs and risk, or financing. The Department or its consultants may also visit the authority to interview key project staff. In most cases this visit would normally be confined to a single day and would be conducted by one or two people.
- 5.5.6. The level of scrutiny the Department applies at the Conditional and Full Approval stages will generally be reduced if only a relatively short time has elapsed since previous approval stages.



## 6. Evaluation

- 6.1. Evaluation is about objectively monitoring and assessing the outcomes of a decision or investment. An evaluation, therefore, is an independent quantitative and qualitative assessment of the processes of implementing a scheme and its impacts. Evaluating major schemes will help the Department meet its commitment to assess the impacts of its policies, and provide the Department and authorities with valuable evidence to inform future scheme development and decision-making.
- 6.2. The evaluation of any high value schemes should be agreed with the Department and joint evaluations may be considered, particularly for light rail schemes. It is critical that lessons are learned from such schemes which can inform future applications. Lessons learnt enable future schemes to be better designed, appraised and implemented on a sound bed of evidence from existing schemes.
- 6.3. The Department therefore expects promoting authorities to set out their proposed evaluation arrangements. They should propose evaluations that will:
- Be proportionate and cost-effective. Usually the extent of evaluation effort should reflect the costs and scale of the scheme. However, innovative or controversial schemes may require more significant evaluation;
  - Start before the implementation of the scheme, to ensure that baseline data have been collected;
  - Include some assessment of the processes of implementing and constructing the scheme, and how these have affected its impacts;
  - Go beyond checking the accuracy of appraisal predictions, by assessing whether a scheme achieved its objectives and whether it had any wider and unexpected results (positive and negative);
  - Include an assessment of what the scheme added, against what might otherwise have happened;
  - Identify any problems with the scheme and recommend potential improvements; and
  - Report regularly, with findings effectively disseminated so that other authorities can identify transferable lessons for their schemes.
- 6.4. Promoting authorities should discuss these requirements on a case-by-case basis with the Department.

## 7. Funding and Finance

*Please note that the [consultation](#) on three year grants for Local Government may result in changes to much of this chapter. The consultation specifically proposes that "virtually all the funding for major transport capital schemes would need to be provided through grant". We will be consulting separately on the implications of this for major local transport schemes in the summer. The text below therefore describes the system as it stands currently.*

### **7.1. Basic Principles**

- 7.1.1. Any costs incurred by an authority before Full Approval are done so at the authority's own risk. Until a scheme is Fully Approved by the Department any costs incurred other than those specifically approved and related to the purchase of land or any other asset required for the build of the scheme or actual physical works cannot be claimed as main scheme costs and may only be eligible for preparatory costs (see section 7.6). The Department is currently reviewing the implications of the proposed changes to the approvals process.
- 7.1.2. The Department does not meet any revenue costs incurred in making a bid. Scheme costs should not include VAT, as this is reclaimable on local authority expenditure. Nor should the Authority's fees as agent to the Department, or auditors' fees or administration and other general overhead costs be capitalised.
- 7.1.3. The Department's desire to encourage a rigorous approach to the project management of schemes is already reflected in the processes for allocating grant. The need to manage budgets effectively continues to be important for central government.
- 7.1.4. Government Departments are held accountable by Treasury for poor performance in forecasting and managing expenditure. This is reflected in the introduction of financial penalties for significant errors in cash forecasting. Any penalties incurred by the Department could have an effect on the budgets available for authorities' schemes.
- 7.1.5. For major schemes our information on scheme progress and expenditure comes solely from local authorities. We therefore require accurate forecasting and timely reporting and claiming of expenditure, in order to meet the requirements placed upon the Department.
- 7.1.6. For budgetary reasons the Department cannot guarantee to make payments to local authorities if claims and returns are not provided by deadlines, or if they show a significant variance to the amounts previously agreed.

### **7.2. How the finance works**

- 7.2.1. Once a scheme is Fully Approved, the central Government funding provision usually comprises a split between borrowing approvals and

grant. Until the introduction of the Prudential Capital System (see section 7.2.5) borrowing approval support has been provided in the form of a Supplementary Credit Approval (SCA). Grants have been provided by way of Public Transport Facilities Grant for major public transport schemes and Transport Supplementary Grant (TSG) for major road schemes.

7.2.2. The aim has been to achieve roughly a 50% grant and 50% borrowing approval balance over the life of the scheme, though this has not always been possible.

7.2.3. Public Transport Facilities Grant is allocated under Section 56 of the Transport Act 1968 (hence sometimes known as S56 Grant). It is awarded under specific conditions and requirements detailed in a grant letter issued prior to the start of each financial year, and is claimed in arrears.

7.2.4. Transport Supplementary Grant is issued under Section 87 of the Local Government Finance Act 1988. To date it has been allocated in four quarterly payments in May, August, November and February. Levels of TSG awarded are dictated by the LTP Capital Settlement allocations in the previous December, and the grant has been paid out partly in advance and partly in arrears.

7.2.5. The new Prudential capital finance system was introduced when the Local Government Act 2003 came fully into in April 2004. The Act allows councils to fund local improvements by borrowing money without government consent, provided that they can afford to take on the debt. However, central government support for borrowing for local authority capital investment will continue.

7.2.6. From 2004/05 Government support for capital investment has been described as either Supported Capital Expenditure (Revenue) known as SCE(R) or Supported Capital Expenditure (Capital Grant) known as SCE(C).

### ***7.3. Process for financial monitoring and payment.***

7.3.1. As SCE(R)'s are issued in advance the Department's control over scheme expenditure is limited to determining when to make payments of Transport Supplementary Grant or Public Transport Facilities Grant.

7.3.2. Payments of grant are made against certification, by the Finance Officer, that expenditure has been correctly incurred under the terms and conditions for claiming an award. Claims and payments will now be linked to the completion of project milestones rather than quarterly (see section 4.4.2). All claims must be accompanied by:

- a report on actual work progress against forecasts (this should include the original forecast at the bidding stage, and any subsequent revisions);
- details of progress anticipated, with reference to future milestones;

- a detailed report of year to date, scheme to date, and previous claim period actual costs incurred; committed and anticipated expenditure to be claimed at the completion of each future milestone.

7.3.3. This information must be provided on a quarterly basis whether or not a claim for grant is submitted. Within six months of the end of each financial year which includes the award of s56 grants, the Authority must submit its annual claim to an auditor appointed by the Audit Commission for certification.

7.3.4. In the final year of the awarding of s56 grant for a Scheme, the final payment of an award under s56 grant will only be met on receipt of the final auditor certificate issued by the auditor appointed by the Audit Commission.

7.3.5. More detailed requirements are set out in the grant award letter issued annually.

#### **7.4. Third Party Contributions**

7.4.1. Bids should outline all sources of funding (e.g. private funding or grants from other public sector bodies) and their contribution.

7.4.2. Authorities will be expected to seek to minimise the amount of scheme costs that fall to the public sector. Promoting authorities should explore fully the scope for contributions from other sources such as developers and, where appropriate, transport operators.

7.4.3. In periods where there is excess demand for LTP funds, the proportion of developer funding may influence the decision to provide funding for schemes. The Department may also require an authority to provide a further contribution towards costs met by the public sector.

7.4.4. For light rail and other large public transport schemes, the local contribution will generally be expected to be at least a quarter of scheme costs in present value terms, after netting off the value of any concession being let for the construction and operation of the scheme.

7.4.5. The Department would not expect to underwrite third party contributions. It is for local authorities to ensure that estimates are robust and realistic.

#### **7.5. PFI**

7.5.1. Authorities are required to assess the potential suitability of each scheme for funding in whole or in part through the Private Finance Initiative (PFI). Where a scheme of any kind would require LTP funding of more than £40m, the Department would automatically request an assessment of whether it may be suitable for funding through a Private Finance Initiative. This assessment need not be extensive for road schemes between £40m and £80m.

## **7.6. Preparatory costs**

- 7.6.1. The Department is currently reviewing its policy on preparatory costs to ensure that it is consistent with proposed changes to the approval process. We intend to consult separately on changes to the rules for preparatory costs probably to the same 30 September deadline. Authorities that intend to apply for preparatory costs in the interim should contact the Department for advice on the current position.



## Annex A: Requirements for new Major Scheme Business Case bids

All Schemes	Appraisals to be comprehensive and to provide a clear identification of the elements required for the assessment. (see section 3.2)
All Schemes	Appraisal consistent with DfT Guidance summarised in <a href="#">WebTAG</a> - units 1.4 and 3.9 in particular (see chapter 2)
Exceptional Schemes (under £5m)	As above - with simplified requirements in some aspects
All Schemes	Project Management documentation (see sections 4.2 and 5.2.4)
Schemes with a Gross Cost of over £40m	A Project Assessment Spreadsheet and confirmation that a Gateway Review has taken place (see sections 4.3 and 5.1.11)
Pilot or demonstration projects	Appraisal requirements to be confirmed with Government Office/DfT on a case by case basis. See section 3.5



## **Annex B: Appraisal requirements for LTP major schemes moving from Programme Entry to Conditional or Full Approval**

The information generated within the Department's major scheme appraisal framework allows, among other things, an assessment to be made of the value for money offered by proposed schemes. This information is required for all schemes seeking to move from Programme Entry to Conditional or Full Approval - both those which are not seeking any increase in Departmental funding contribution as well as schemes seeking an increased Departmental contribution due to a cost increase or reduction in anticipated contributions from other sources.

Many of the schemes submitted for Conditional or Full Approval will have been appraised originally under appraisal guidance which had some significant differences to the guidance now in place. We cannot therefore rely on the appraisal carried out when the scheme was granted Provisional Approval or Programme Entry, even if the scheme is unchanged and there has been no increase in costs. A re-appraisal in line with current guidance ensures that all schemes are considered on a consistent basis.

Appraisal work needs to be commensurate with the stage schemes have reached and the extent to which the design, route and costs have changed since Provisional approval or Programme Entry. Major changes in costs or scheme design may require a full re-appraisal. We are happy to discuss with promoting authorities the level of re-appraisal that is appropriate on a case by case basis. However, as a minimum, for any scheme coming in for Conditional or Full Approval we would expect to be provided with the following information, both electronically and on paper:

- A scheme diagram or map to scale.
- An updated appraisal of the scheme economics using the latest guidance on Webtag, in particular incorporating the move from a 30 to 60 year appraisal period where applicable, and revised economic parameters. In order to review the economic benefits we will require the following supporting information:
  - the input assumptions used in the COBA/TUBA analysis including the assumptions about traffic growth used in projecting the transport benefits between years 30 and 60 of the appraisal period where applicable;
  - the assumptions used for projecting costs between years 30 and 60 where applicable;
  - for road schemes traffic flow diagrams in the do minimum and do something scenarios;
  - the COBA/TUBA output;
  - a full set of TEE and AMCB tables;
  - a central case showing the scheme BCR assuming provision for optimism bias on top of the estimated scheme cost (Authorities should seek guidance from the Department on what level of optimism bias to apply for a particular scheme).
- An updated AST which should incorporate the revised economics and any other changes in scheme impacts which have been identified since the scheme was originally submitted. If there are significant beneficial or

adverse impacts, it would be helpful to have further details of these, particularly environmental impacts. Relevant information from Environmental Impact Assessments could be provided. It is also useful to have an environmental constraints map if, in the case of a road scheme, the route passes through sensitive sites or areas. And it would be helpful to have details of any environmental mitigation measures agreed with the Statutory Environmental Bodies.

- A full explanation of the reasons for any cost increase including the extent to which this is due to factors within, and not within, the LA's control. Promoting authorities should also explain what scope there is for saving costs by changing the scheme design and/or securing additional contributions from other sources. In the case of substantial cost increases we may also ask promoting authorities to re-examine possible lower cost alternatives.
- We expect LAs to make some contribution to major scheme cost increases from their own resources. Ministers would want to consider the size of the contribution in the light of the potential impacts on the LA's other programmes. In order to offer ministers a clear choice, promoting authorities should provide a note setting out not only their preferred contribution but also their 'bottom line' - the greatest possible contribution consistent with their continuing commitment to the delivery of the scheme. In both cases, we will also need to know the likely impact on the promoter's wider capital programme, including their transport programme. Government Offices will be in the lead in discussing both sets of numbers with promoting authorities.
- Where an important element of the original justification for a scheme was provided by regeneration we may ask promoting authorities to produce an Economic Impact Report in line with current guidance to substantiate the claimed regeneration benefits. Promoters of schemes with significant regeneration benefits should discuss the need for an EIR with the Department well in advance of their request for Full Approval.
- Promoting authorities should be aware that if a scheme is presented for Full Approval with a significant cost increase or a substantial design change, Full Approval may be denied or delayed - especially where the scheme no longer appears to represent sufficient value for money.

