

DfT Accounting Officer System Statement for Local Government

September 2012

Introduction

1. As Accounting Officer for the Department for Transport (DfT), I am accountable to Parliament for the proper stewardship of the resources allocated to the Department. Details of the requirements to ensure regularity, propriety and value for money are set out in the HM Treasury Guidance *Managing Public Money*.
2. DfT distributes a number of grants to local government from its Departmental Expenditure Limit (DEL). The Department for Communities and Local Government (DCLG) Accounting Officer's System Statement for Local Government¹, says that the DCLG Accounting Officer is the lead Accounting Officer in central government with respect to local government and that:

"The core system for local government is supplemented by additional accountability arrangements for some of the services provided by local government. These systems are owned by government departments and are set out by them in their respective accountability statements. The main additional systems cover...transport (Department for Transport)..."

3. In this System Statement I explain how I will meet my responsibilities in relation to grants to local government. These grants can be classified into five broad groups: formulaic grants, challenge or bid-based grants, the Greater London Authority's transport grant² (TfL's block grant), the Crossrail grant and payments to local government in relation to rail services. Each of these five groups and the individual grants within them is described further below.
4. This Accountability System Statement is a living document and will be updated as and when policy changes mean that revisions are required. For instance, as the Department's policy on decentralising the funding of local major transport schemes³ and reform of bus subsidy⁴ develops.

Formula Funding

5. The Department provides two grant streams to local government (outside of London) via formula - the Highways Maintenance Block and the Integrated Transport Block⁵. Each formula⁶ is based on the relevant transport needs that the

¹ [Accountability System Statement for Local Government](#)

² As set out at [section 101 of the Greater London Authority Act 1999](#)

³ Consultation on the future of local major schemes was launched on 31 January 2012 and the Government's response was published on 18 September. These can be found, along with other relevant documents, at: <http://www.dft.gov.uk/consultations/dft-2012-04/>

⁴ Consultation on bus subsidy reform was launched on 13 September 2012 and can be found at <http://www.dft.gov.uk/news/stories/dft-news-20120913a/>

⁵ The Department has on occasions provided other formula funding but these are not regular annual grants. Similar accountability arrangements apply to these funds.

⁶ Explanatory notes for both formulae can be found at <http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/it-block-formula-explanatory-note.pdf> and <http://assets.dft.gov.uk/publications/local-transport-capital-block-funding/maintenance-block-formula-explanatory-note.pdf>

funding stream aims to provide for, and has been constructed in conjunction with the sector.

6. The total amount of each block is set by the Department and then individual allocations are paid to local authorities based on the formula calculation. In line with the Government's policies for such grants, the funds are not ring-fenced. This provides local authorities with flexibility to spend the funding according to local priorities and be accountable to local communities.
7. DCLG's Accounting Officer, as lead Accounting Officer across central government with respect to local government, provides the assurance that a core framework is in place that requires local authorities to act with regularity, propriety and value for money in the use of all of their resources. He also provides assurance, at paragraph 11 of his statement that this core framework "can be relied upon by all other Departmental Accounting Officers who provide funding to local authorities."
8. Within this core framework, local authorities are responsible and accountable for the legal use of funds and every local authority has a responsibility to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs. A system of legal duties requires councillors to spend money with regularity and propriety.
9. Local authorities are required to have an annual external audit, and the certification of local authorities' annual accounts by the auditor provides general assurance that the totality of their expenditure is within their legal powers. Auditors also assess whether arrangements are in place to ensure that authorities have used their resources effectively and efficiently as part of their annual audit of accounts. Ultimately local authorities are accountable to their local electorate.
10. The DCLG Accounting Officer System Statement also sets out, at paragraph 48, what is being done and proposed to make publicly available information which will allow comparisons of performance between different authorities and types of authorities, as a means of strengthening local accountability. In particular, the Local Government Association's development of an online tool: LG Inform.
11. The DfT is working with the LGA and others to ensure that relevant transport data and performance is included in the LG Inform tool. This will build on existing work by the Department and others, including the benchmarking tool currently available on the DfT website⁷ which provides the facility for the public to compare expenditure on local road maintenance (per mile) against road conditions, by region and by local highway authority.
12. Increased transparency for local decisions is one element of a wider drive to improve highways sector performance through the Highways Maintenance Efficiency Programme⁸ (HMEP). The HMEP is funded by the Department and supports sector-led initiatives to maximise returns from local highways maintenance investment and deliver on efficiencies. This includes improving asset

⁷ <http://www.dft.gov.uk/publications/local-authority-benchmarking-tool/>

⁸ [Highways Maintenance Efficiency Programme](#)

management, smarter procurement and promoting collaborative working between authorities and the private sector.

13. Integrated Transport Block is typically used by local authorities to fund a wide variety of small scale improvements to local transport networks such as improving road safety, reducing congestion, traffic management, walking and cycling schemes, improving accessibility and public transport. Alongside reviewing the formula for this funding stream, the Department is keen to work with the local transport sector to improve transparency of local spending decisions and evidence on outcomes, as a means of further strengthening local accountability.

Challenge / Bid-based Funding

14. The Department provides bid-based grants to local government for a number of more specific transport purposes. In 2011/12 these were:

- A. Local major transport schemes
- B. Local Sustainable Transport Fund
- C. Better Bus Area Fund
- D. The Green Bus Fund

15. Each grant stream is described below in more detail but in each case the process involves the Department appraising and assessing bids on various criteria relevant to that fund, including value for money. Award of grant funding is usually provided in arrears and mechanisms are in place to ensure the propriety of the funding, i.e. that the funding has been spent for the purpose for which it was intended. The specific nature of these grants means that the Department's assurance processes for these funds are in addition to the Government's core accountability system for local government.

A. Local major transport schemes

16. Local major transport schemes are currently projects which cost over £5m. They are promoted and delivered by local government but a proportion (typically the majority) of the cost of a project comes from Departmental funding.

17. Schemes are assessed against published criteria⁹ and payment of grant funding within the programme is made quarterly in arrears. Grant certification checks take place to ensure that claims for costs incurred are genuine.

18. As well as managing a programme of schemes approved at or before Spending Review 2010, the Department ran a competitive process to identify further schemes to be funded from the SR10 budget. Prospective schemes were placed in the 'Development pool'¹⁰ and the Department received 45 bids for assessment in September 2011. 41 successful schemes were announced in November and December 2011¹¹, with the addition of one more scheme in March 2012. The Department has published the assessment of each scheme on its website at <http://www.dft.gov.uk/publications/local-major-transport-schemes/>. Bidders had to

⁹ [The Transport Business Case](#)

¹⁰ [Investment in Local Major Transport Schemes: Update](#)

¹¹ [Investment in Local Major Transport Schemes: 2nd Update](#)

commit to carrying out evaluations of their projects and arrangements for this are currently being finalised.

19. The Department launched a consultation in January 2012 about the future process for prioritising and funding local major transport schemes from 2015. The consultation set out proposals to decentralise the majors process, moving away from a centrally controlled competition to one based on formula allocation. The aim is to make decisions more responsive to local economic conditions and more locally accountable. A key part of this decentralisation process will be the governance arrangements that are put in place to ensure that the Department retains satisfactory levels of assurance over the regularity, propriety and value for money of the resources involved. The accountability arrangements were therefore a major part of the consultation.
20. The consultation closed on 2 April and on 18 September Norman Baker MP set out the Government's response and the way ahead in a statement¹² to Parliament.

B. The Local Sustainable Transport Fund

21. The Local Sustainable Transport Fund was launched in January 2011 and supports transport schemes which both create growth and cut carbon. There are two broad categories of schemes: small and large, where up to £5m and £50m, respectively, of Departmental funding are available. Both large and small project bids are submitted and then assessed by the Department before funding is agreed. Assessment is done by both Departmental officials and an independent panel against the published criteria¹³ of the fund, with Ministers taking final decisions. The assessment of value for money is conducted by Departmental economists and is proportionate to the level of funding being sought.
22. The first tranche of small projects was approved in July 2011 with the second tranche and large projects approved in May and June 2012. Payments for tranche 1 projects are generally being made quarterly in arrears. Tranche 2 and large projects will follow the same processes.
23. Bidders to the fund had to commit to evaluating and monitoring their projects and the Department is supporting this activity. To aid the process it will be publishing an evaluation framework in the Autumn.

C. Better Bus Area Fund

24. The Better Bus Area Fund aims to increase bus patronage in busy urban areas, as well as creating growth and cutting carbon. As with the Local Sustainable Transport Fund, bids are submitted and then assessed by the Department before funding is agreed. Assessment is done by Departmental officials against the published criteria¹⁴ of the fund. The assessment of value for money is conducted by Departmental economists.

¹² <http://www.dft.gov.uk/news/statements/baker-20120918a>

¹³ [Local Sustainable Transport Fund – Guidance on the Application Process](#)

¹⁴ [Better Bus Area Fund: Guidance for Bidders](#)

25. Payment of this grant funding, with associated conditions¹⁵, was made in full in 2011-12 via section 31 of the Local Government Act 2003. One of the conditions of the grant is that the Chief Executive and Chief Internal Auditor of each authority which receives capital grant under the grant are required to sign and return to the Department for Transport a declaration, by 31st March 2014, stating that:

To the best of their knowledge and belief, and having carried out appropriate investigations and checks, in their opinion, in all significant respects, the conditions attached to the Better Bus Areas Grant Determination have been complied with.

If this condition is not met then the Department can reclaim the funding.

D. Green Bus Fund

26. The Green Bus Fund supports bus companies and local authorities in England to help them to buy new low carbon buses. Its main purpose is to support and hasten the introduction of low carbon buses across England. A third round of the Fund was launched in December 2011 following two earlier rounds in 2009 and 2010. Winning bids for the third round were announced in March 2012.
27. Bids had to adhere to strict eligibility criteria¹⁶ and if judged compliant were then assessed by the Department in line with the published assessment criteria. Payment of the grant funding was made in March 2012 and details of the buses ordered through the fund can be found on the Department's website¹⁷.
28. The companies and local authorities which receive grant under the GBF have to provide DfT with evidence that they have purchased the buses, as well as supplying regular information on how the vehicles perform once they are on the road.

Transport for London

29. The Department is obliged under section 101 of the Greater London Authority Act to provide a transport grant to the Greater London Authority which it in turn is obliged to pass to Transport for London. The Department cannot direct the London Mayor as to what purposes this funding can be used for but remains concerned to ensure that regularity, propriety and value for money in the use of these resources is achieved. It does this in a number of ways.
30. The Department retains high level oversight of TfL at official level, including through monitoring of TfL's Business Plan and Budget, as well as progress in delivery of the investment programme.
31. Under the terms of the Spending Review settlement, the Department's grant to TfL is currently split into a general and investment grant. While this is a notional split only (both grants are paid together and come from the Resource budget), it makes a clearer link than we have previously had between Government funding and the investment programme. Linked to this are specific milestones at Annex B of the

¹⁵ [Better Bus Areas: Grant Award](#)

¹⁶ [Green Bus Fund 3: Guidance for bidders](#)

¹⁷ [Details of buses purchased under the Green Bus Fund](#)

Spending Review 2010 letter, with an explicit proviso that the entire settlement could be re-opened if there is significant deviation from these milestones.

32. Detailed scrutiny of TfL's investment programme is provided by the Independent Investment Programme Advisory Group (IIPAG). IIPAG's remit includes all aspects of the investment programme, including the Tube upgrades, both project-specific and systemic issues, benchmarking and asset management, but does not cover day to day operations or Crossrail.
33. In common with local authorities, TfL and the Mayor of London are responsible for the use of funds and the proper administration of their financial affairs. This includes external audit and certification of TfL's accounts as for local authorities. Furthermore, as a democratically elected representative, the Mayor of London is accountable to the electorate, and also to the London Assembly.
34. In a 'Statement of Intent'¹⁸ published on 17 May 2012, the Government has announced that a proportion of the GLA transport grant will be included in the local government business rates retention scheme from 2013/14. Funding for TfL will (i) continue to include a transport grant payable directly to the GLA for the purposes of TfL, as provided for under Section 101 of the GLA Act; and (ii) include a share of the locally retained business rates passed through the GLA.

Crossrail

35. Under the terms of a Project Development Agreement¹⁹ (PDA) signed in 2008, the Secretary of State pays grants to Crossrail Ltd, a wholly-owned subsidiary of TfL, towards the costs of building Crossrail. Additional grant payments are also made by TfL. A schedule to the PDA sets out the time-profile of the total grant payments that each of the project sponsors (the Secretary of State and TfL) will make.
36. Crossrail Ltd is responsible for the management and delivery of the Crossrail project, subject to detailed governance and accountability arrangements set out in the PDA. These include the provision of "construction reports" to the sponsors on progress with the project as well as updated forecasts of costs.
37. The relationship between the two sponsors is governed by a parallel Sponsors Agreement (also signed in 2008). This establishes a Sponsor Board, on which DfT and TfL have equal representation, that acts on behalf of both sponsors, as well as a working-level Joint Sponsor Team. The sponsors are supported by a jointly-appointed Project Representative, which has full audit rights over the performance of Crossrail Ltd under the project agreements.
38. In addition to the specific accountability and reporting requirements set out in the PDA Crossrail Ltd is subject to the normal legal requirements of any local authority-owned company for the administration of its financial affairs, accounting and audit.

¹⁸ <http://www.communities.gov.uk/documents/localgovernment/pdf/2146264.pdf>

¹⁹ Both the Project Development Agreement and the Sponsors Agreement can be found at <http://webarchive.nationalarchives.gov.uk/20110504023859/http://www.dft.gov.uk/pgr/rail/pi/crossrail/fundingandgovernance/>

Local Government and Rail Services

39. The Department makes various grants and payments to local authorities in order for them to pay for the operation of rail services. These are as follows:

Grants to Passenger Transport Executives for franchise payments to Northern Rail

40. The Department makes individual payments to Passenger Transport Executives (Transport for Greater Manchester, Nexus, Merseytravel, Metro and South Yorkshire PTE) for the rail services that they purchase from Northern Rail.
41. The Department and Northern Rail are in a franchise agreement for the provision of rail services in Northern Passenger Transport Executive areas; the Passenger Transport executives are co-signatories to this agreement. The DfT makes individual payments to Passenger Transport Executives in order for them to pay Northern Rail for the local rail services in their area. In line with the franchise agreement, the department has a contractual obligation to make these payments. Any changes in the level of grant paid are in line with changes to the franchise agreement.
42. Northern rail makes its own checks on the level of grant it receives and in addition the Passenger Transport Executives are subject to annual independent audit under the same regime as local authorities.

Transport for London (LOROL) Grant

43. Under the terms of an agreement between the Secretary of State and TfL, the Department makes an annual grant to TfL in respect of services provided by TfL on the London Overground.
44. The annual payment (which is made in 13 4-weekly instalments) is set out in the 2006 transfer agreement for transfer of part of the former Silverlink network to TfL, which is now operated by LOROL under concession to TfL under the London Overground brand.
45. The amount of grant changes each year in line with the indexing calculation set out in the transfer agreement. It also changes in line with any changes in the amount of track access grant that LOROL are required to pay to Network Rail. Track access grant is set by the Office for Rail Regulation at the start of each 5-year control period.

Merseyrail Grant

46. Under Section 157 of the Transport Act 2000 the Department makes grants to the Merseyside Integrated Transport Authority (Merseytravel) for the operation of passenger rail services on the Merseyrail Electrics Network. Rail services are operated under a Concession arrangement; the contract runs for a period of 25 years from 2003.
47. Annual grant payments are paid in 13 instalments, and cover the eligible contract costs plus the administrative costs incurred by Merseytravel connected with the

provision of rail services in the integrated transport area. The amount of grant is variable, subject to indexation, and calculated in accordance with the formula set out in the Funding Agreement between the Department and Merseytravel. Grant funding arrangements are reviewed on a 5 yearly cycle.

48. The Funding Agreement requires Merseytravel to provide an audited certificate of the eligible costs of railway services signed by an independent auditor.

System Failure and Intervention

49. The DCLG Accounting Officer's System Statement for Local Government sets out at paragraph 54 onwards how incidences of system failure at the local authority level can be dealt with including, if ultimately necessary, intervention from central government. The Department works within that overall framework.
50. Regular engagement with the local transport sector and monitoring of transport statistics and other information provides the Department with early warning of failure or significant drops in performance, to enable appropriate action to be considered.

Conclusion

51. DfT's system of accountability for funds it provides to local government is based on the DCLG Accounting Officer's core framework for the accountability of local government as a whole, the additional Departmental mechanisms in place for its bid based funding, and the systems which have been established by TfL, both individually and jointly with the Department. This system allows me, as Accounting Officer, to provide the assurance that DfT will spend its money in line with the principles set out in *Managing Public Money*.