



## Transport and the city regions

### Key points for the Spending Review

HM Treasury

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## 1. Transport matters to the city regions

### 1.1. The city regions need:

- modern public transport networks to enable people to access city centre jobs
- good connectivity with each other and with London
- green and clean transport provision to help tackle climate change and to create urban environments where people want to live and work, and where companies want to invest
- public transport networks which allow those people and communities hit hardest by the recession to access work, education and wider opportunities

1.2. In this paper we do not intend to set out in detail the evidence base for investing in transport in large urban areas. This is because there is a substantial body of evidence already available (including the Treasury's own Eddington report) that shows that investing in transport in congested urban areas is one of the most effective forms of transport investment there is.

1.3. Our recent report, 'Transport Works', provides a more recent summary of the case for city region transport investment. It can be downloaded [here](#).

1.4. Additional research, commissioned in association with Sustrans and Campaign for Better Transport, also demonstrates that investing in more sustainable modes of public transport creates more direct jobs than investing in the motor industry. The report can be downloaded [here](#).

1.5. Because there is such a strong case for urban transport investment we have seen some significant increases in big city transport spending in recent years. However it's London that has been, and continues to be, the main beneficiary.

1.6. There is no doubt that London needs and deserves a good quality public transport system and has made an effective case for investment. This has led to Government agreeing long term funding deals with London which has contributed to a massive investment programme including smartcard ticketing, one of the best bus services in the world, refurbishment of the Underground, new fleets of suburban heavy rail trains, Thameslink, London Overground, the East London Line, CTRL and the new St Pancras.

1.7. The latest (2008/9) Treasury figures on relative transport spend per head figures between London and the regions shows what's happened:

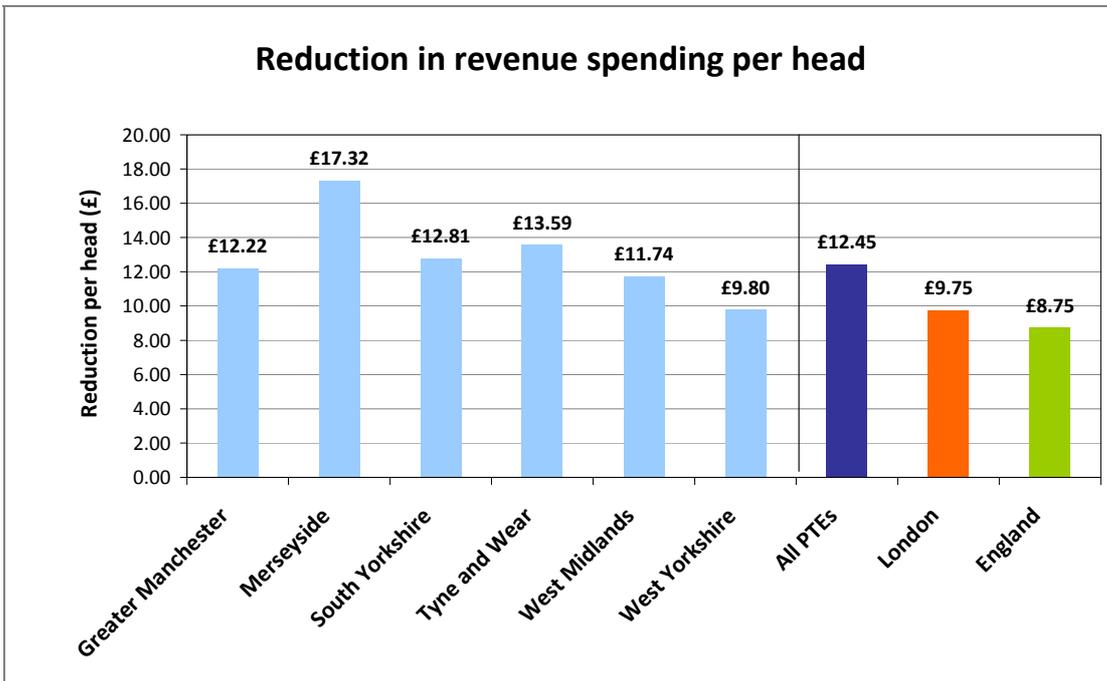
London:	£641
North West:	£287
West Midlands:	£259
Yorks and Humber:	£248
North East:	£234

(all figures are annual public spend per head of population)

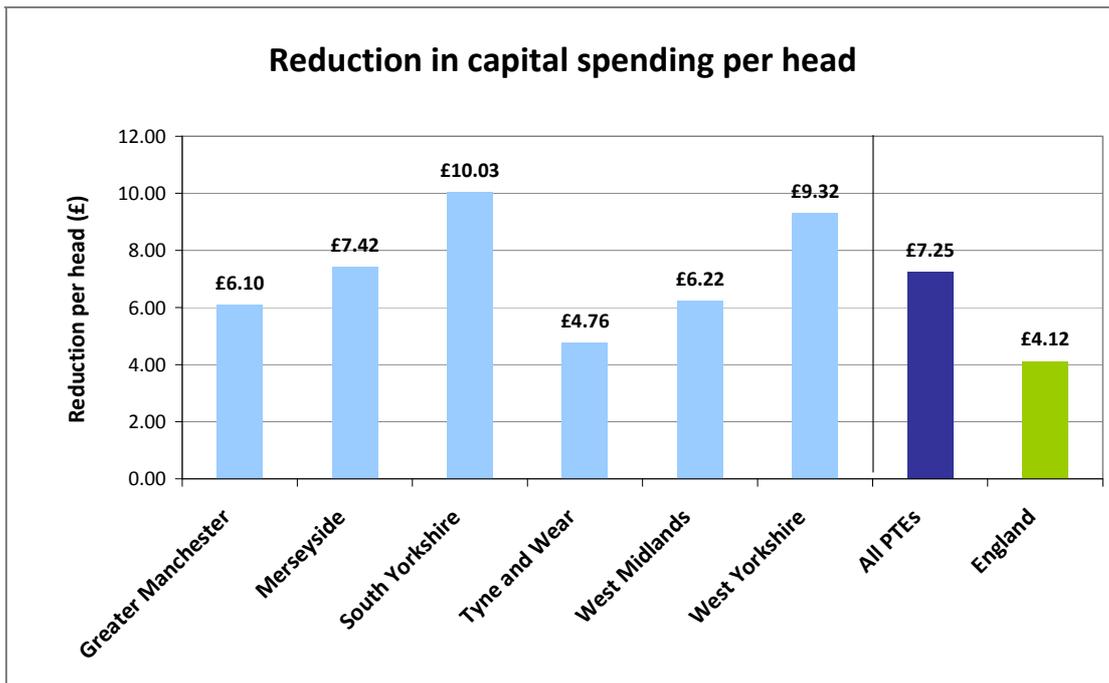
1.8. It's important to note that this gap between London and the regions is not replicated for other key spending areas, and is also a relatively recent development. A fuller analysis of the [funding gap can be found here](#).

## 2. Prospects for capital spending

- 2.1. Because we start from a lower base, and don't have long term funding deals in place, capital spending on non-committed transport projects in the big cities could be decimated in the next few years.
- 2.2. We could be hit disproportionately hard because:
- Some Departmental budgets are protected but Transport isn't – so Transport takes a disproportionate hit
  - Within the transport budget some areas of spend are protected through long term spending deals that we don't have. This is particularly the case for National Rail and London
  - Not only do we lack the long term investment deal that London and National Rail has but we also start from a much lower base
  - So, the end result is that our lower and less protected budgets take the biggest hit
- 2.3. This trend was confirmed in the initial round of spending reductions around the emergency budget which saw wider revenue budgets in PTE areas hit harder than in non-PTE areas. Although these figures include spending other than transport any reductions in wider local authority spend also have a bearing on what funding we can levy from District Councils.



Capital spending was also reduced more sharply in PTE areas.



- 2.4. The decision to halt progress on Major Transport Schemes has also hit our areas hard – out of 62 schemes suspended, 21 are in PTE areas (34% of the total).
- 2.5. We asked Grant Thornton to look at the implications for unprotected areas of DfT spending (which includes local transport outside London) given the likely scale of reductions in the overall DfT budget, and existing fixed commitments and protected areas of spending. Their [report](#) found that unprotected areas of capital spending (which includes local transport) could face cuts of 88% by 2013/14.
- 2.6. We could also be the losers from any cuts to Network Rail’s non-core budget. Network Rail’s core investment plans focus largely on the South East and the trunk routes. We have had to work hard to get schemes which are vital to the North to be added – such as North West rail electrification, Manchester Hub and improvements to some of our worst stations (such as Manchester Victoria and Wakefield Kirkgate).
- 2.7. However, these schemes were last to be added to Network Rail’s investment programmes and therefore could be the first to be cut. The stations improvement budget is already a casualty in the first wave of cuts announced on 24th May.

### 3. Prospects for revenue spend

- 3.1. Our available revenue spend is also likely to fall and here too we face significant challenges.
- 3.2. PTEs fund a highly efficient and comprehensive integrated network of public transport services.
- 3.3. Our non-discretionary (ie we are legally required to do it) revenue spend includes:
  - the national concessionary scheme for older and disabled people
  - pensions
  - fixed payments on capital schemes
  - support payments for local rail franchises

3.4. Our discretionary spend includes:

- concessionary fares schemes for children, young people, students and other excluded groups (such as jobseekers)
- networks of 'lifeline', socially necessary bus routes
- support for services for older and disabled people (such as dial-a-ride)
- comprehensive public transport information services
- staffing and maintenance of bus stations and interchanges
- maintaining bus stops and shelters
- transport schemes that help people get back to work – like ['workwise'](#) and bus services which link the jobless with the jobs
- ensuring public transport is as safe and secure as possible through CCTV, security staff and liaison with operators and the police

3.5. We rely on Council Tax (through a levy on Districts) for 92% of our current net budgets. The remaining funding comes through the ENCTS Special Grant. Scope for additional revenue generation is severely limited at present.

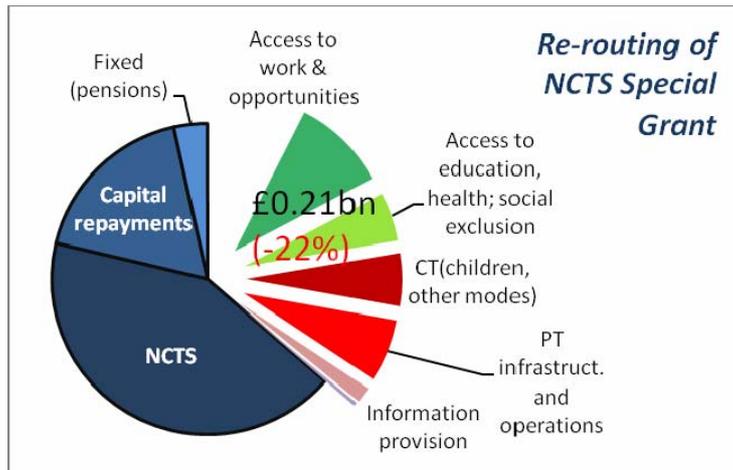
3.6. Northern PTEs also receive Rail Grant as part of the franchise agreement for Northern Rail. However, we passport the payments through from DfT to operators and have no influence over the amount.

3.7. Total revenue budget for the six English PTEs (excluding Rail Grant) amounts to £0.76bn. Around 65% goes towards funding fixed commitments, including £0.3bn to pay for the national concessionary fares scheme. That leaves £0.27bn to pay for other frontline local transport services.

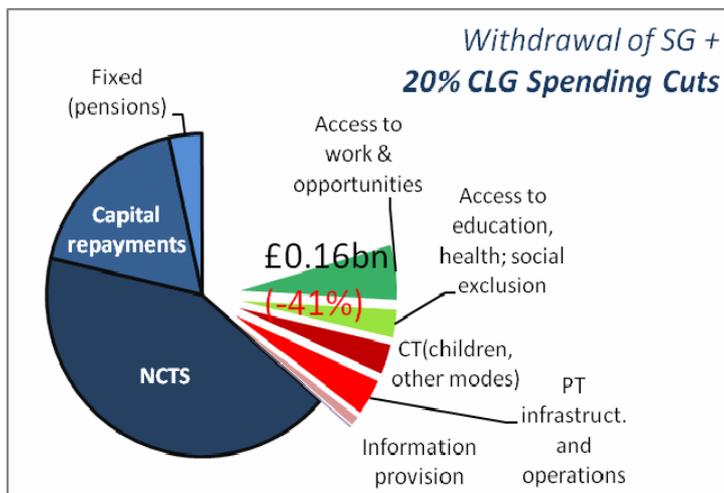
3.8. The diagram shows the revenue split of PTE budgets (excluding rail grant).

As can be seen a growing proportion of our revenue spend is in support of the free bus pass for older and disabled people (NCTS – National Concessionary Travel Scheme) which the Government requires us to provide and fund. However, at the same time as take-up of the free travel offer increases, the Government is cutting the funding they provide to pay for the cost of those free journeys. Worse than that the direct grant we currently receive to cover the cost of the pass, could well be absorbed within the general flow of funding that local authorities receive from national government. [\[A four page briefing on the concessionary travel funding gap can be downloaded here\]](#)

3.9. If direct grant were to be removed then PTEs would have to increase the levy on Districts by around 10% in order to make up the difference. This would be extremely challenging when local authorities are facing their own significant cutbacks. If we were not able to achieve this then this would translate into 22% reductions in the budget we have for other services we provide.



3.10. If the withdrawal of direct funding for NCTS were to be coupled with a 20% reduction in CLG funding to District Councils, which was reflected in the levy, then this would lead to a 41% reduction in the discretionary spend. This would mean that concessionary schemes for other groups, including children and young people, would have to be rescinded; many school, off-peak, rural and council estate bus services would be withdrawn; and bus interchanges and public transport information services would have to be scaled back.



3.11. Meanwhile there are suggestions that the £436 million Bus Services Operator Grant (BSOG) that the DfT currently pays to bus operators could be vulnerable to cuts. If BSOG were to go then the DfT estimate that bus patronage would fall by 6.7%, services would be cut by 7.1% and fares would increase by 6.5%. Separate estimates by operators and **pteg** suggest much higher figures. A modelling exercise in West Yorkshire found that: even allowing for a 10% reduction in service levels, fares could increase by 15% in the longer term leading to a fall in patronage in excess of 10%. This would put further pressure on our revenue budgets to fill gaps in bus services that would result.

3.12. We asked Grant Thornton to look at the implications for unprotected areas of DfT spending (which includes local transport outside London) given the likely scale of reductions in the

overall DfT budget, and existing fixed commitments and protected areas of spending (see annex one). The report found that unprotected areas of revenue spending (which includes local transport) could face cuts of between 56% and 85% based on cuts in overall DfT spending of between 20% and 30%

3.13. The implications of some of the scenarios outlined above would be a divisive situation whereby older people would have a free pass funded by the state for a bus network which was evaporating and where young people and children's concessions were being withdrawn. More widely public transport networks (the bus network in particular) would deteriorate with less extensive, more expensive and less integrated networks. This would damage a raft of Government objectives for transport including:

- carbon reduction
- access to work and opportunity for the jobless
- supporting urban regeneration and private sector investment in cities

#### **4. Scope for savings**

4.1. There is considerable scope for getting more for less without resorting to salami slicing national budgets in a way that leads to the unintended consequences and the disproportionate outcomes outlined above.

##### **Devolving powers and funding flows**

- 4.2. Devolution of powers and funding flows offers considerable opportunities for cost reduction.
- it reduces the delays and costs associated with protracted national appraisal and decision-making processes. For example when it can take a decade or more for a light rail scheme to be approved (or not) by central Government, this is bound to add considerable costs
  - pooling of funding flows reduces the administrative costs associated with those funding flows and opens up further opportunities for using those flows to raise additional capital and revenue funding
  - sub-national bodies can ensure that funding is targeted in a locally appropriate way and in a way that utilises those bodies understanding of local markets and suppliers. For example, a flat national approach to BSOG payments means that operators that already carry smartcard readers and GPS equipment (funded by local transport authorities) now receive BSOG incentive payments to fit this equipment – even though that equipment is already fitted. If this and other funding flows were to be devolved then this kind of waste could be avoided.

##### **Total transport**

4.3. There is considerable potential for more cross-sector working at both national and sub-national level between Transport and the health sector, the education sector, and the DWP.

4.4. For example:

- the protected health budget further benefits from investment by the transport sector in measures like smarter and active choices (which increase the health of the population and thus reduce the costs to the health sector)

- the DWP benefits from transport schemes which help people get into work and off benefits. This includes Workwise which the transport sector funds to put travel advisors into Job Centres as well as covering the cost of travel to interviews and the initial weeks of a new job
- there is considerable potential for the pooling of transport budgets and vehicle fleets across sectors. At present a wide variety of publicly funded transport is provided in a wide variety of different vehicles by the different sectors including: healthcare transport, education transport, social services transport, public transport, community transport and so on.

## **5. Transport in the cities - avoiding a 'perfect storm'**

5.1. In relation to transport the spending review should be based on the following:

- our cities need a fair share of the available transport spend and any reductions in transport spending need to be carefully thought through to ensure that the major city regions of the Midlands and the North are not disproportionately affected
- the subsidy for the national concessionary travel scheme should be routed directly to the strategic transport authorities for the city regions (the Integrated Transport Authorities and their PTEs) to ensure that PTEs are able to cover the costs of this nationally mandated scheme
- BSOG should be retained – and ideally devolved to the ITAs/PTEs so we can ensure that it is more effectively targeted