Comprehensive Spending Review 2020

Campaign for Better Transport representation to HM Treasury

September 2020

About us

Campaign for Better Transport's vision is for all communities to have access to high quality, sustainable transport that meets their needs, improves quality of life and protects the environment. We are a charity and operate in England and Wales.

Summary

We welcome the opportunity to comment on government policy and to contribute to the development of the Comprehensive Spending Review.

Transport provision is essential to economic growth and a key enabler of levelling up. It provides access to employment and training opportunities, essential services and leisure facilities, and keeps families and friends connected. Ensuring communities across the country have access to reliable, convenient, affordable and sustainable transport is vital. Modal shift away from private car journeys to public transport, walking and cycling, as well as moving to cleaner vehicles for unavoidable journeys, is also essential for reaching net zero carbon targets.

The Covid-19 pandemic has severely disrupted the transport system. While the Government is subsidising provision for now, sustained low passenger demand may force operators to reduce or withdraw services altogether, leaving communities disconnected and isolated. The Government has set out ambitious plans for green growth and levelling up, so it should take this opportunity to set out an equally ambitious programme for transport renewal post-Covid.

We suggest the following policies to help deliver against the Government's economic priorities:

1) Reforming bus and rail funding and operating models to improve use levels:
    - Continue the Covid-19 emergency funding arrangements for bus and rail until longer term arrangements are agreed
    - Confirm bus revenue funding of at least £8 billion over the next five years (equivalent to the current settlement), as well as the additional £3 billion announced in February 2020
    - Develop additional tools for capturing the benefits of rail, such as land value capture and recycling Community Infrastructure Levy revenue
    - Direct capital investment towards modal interchanges, local bus infrastructure (such as priority bus lanes) and rail upgrades and reopenings.

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2) Investing in sustainable road infrastructure to encourage modal shift:
   - Allocate a significant proportion of the £27.4 billion RIS2 fund to active travel, bus network infrastructure projects and improving existing roads
   - Safeguard, and expand on, the £2 billion funding allocated for walking and cycling, and ensure that Active Travel England is well resourced to carry out its role.

3) Tax and funding changes that facilitate an economy wide and local shift to sustainable transport:
   - Improve public transport affordability by cancelling the planned January 2021 rail fare rise and linking future increases to CPI rather than RPI; introducing a simplified fare structure and a range of flexible season ticket products; and targeted measures to reduce fares for specific demographics
   - End the fuel duty freeze at the earliest opportunity
   - Conduct a review of vehicle taxation with a trajectory for replacing Vehicle Excise Duty and fuel duty with distance-based, variable road charges for the Strategic Roads Network
   - Empower local authorities to introduce Workplace Parking Levies and distance- or cordon-based road use charging on local roads without seeking government approval
   - Fund more local transport authorities to trial mobility credits as incentives to choose sustainable transport options.

4) Transitioning all vehicles to zero emission:
   - Incentivise the take up of zero emission cars and vans with lower upfront costs for businesses, linking Vehicle Excise Duty rates to emissions and introducing grants for local authorities to invest in charging hubs
   - A manufacturing sector deal for both battery electric and hydrogen buses and trains.

Below we expand on each of these points.

Introduction

The Covid-19 pandemic has caused major upheaval to our transport system and changes in people's travel behaviour. However, many of the challenges we face existed before the pandemic and have only been brought into sharper focus. With many shifting to private cars for journeys previously made by public transport, those who are more reliant on public transport – including many older, younger, disabled people and those on low incomes – face becoming disconnected if services are revised or curtailed. The need to decarbonise transport to achieve net zero is as urgent as ever, and we must not allow the pandemic to drive a car-led recovery.

The Government must take this opportunity to reform the transport system so that sustainable travel is an affordable, attractive, reliable and accessible option for all. This will require:

- A fundamental reform of bus and rail funding and operating models
- Investment in sustainable road infrastructure
- The right incentives and tax regime
- A transformation of the transport fleet to zero emission vehicles.

1. Bus services reform

To improve bus services, the Government should ensure local authorities work collaboratively with commercial operators to replan bus provision, with better integrated, multi-modal networks offering high-quality services, with strengthened core services and franchised supporting elements. Tendered and franchised services are likely to become more important, at least in the short term, as commercial services are threatened by low customer numbers, but a mix of models may be appropriate to harness the benefits from public funding in the longer term. A new funding approach will therefore be required to support bus services.

1.1. Transitional funding

For the immediate term, the Government will need to continue to provide bridging funding for bus, light rail and metro operations through the Covid-19 Bus Services Support Grant (CBSSG) to provide certainty for local transport authorities, combined authorities and bus operators (including municipal operators). Once this funding period expires, HM Treasury should put in place an appropriate interim funding regime that sustains local networks beyond the pandemic response and into a new permanent funding landscape.

The Comprehensive Spending Reivew should confirm capital and resource funding for the next five years, alongside a detailed plan for renewal outlined in the forthcoming National Bus Strategy. Funding for local transport should be ringfenced and channelled through local authorities, which should be required to produce local integrated transport plans as a condition. This approach should aim to facilitate rapid rollout of improvements in fleet and connectivity.

1.2. Revenue funding

The current funding landscape, which is based around the Bus Service Operators Grant (BSOG) and the English National Concessionary Travel Scheme (ENCTS), as well as statutory provision for health, social care and school transport, is fragmented and short term. Revenue support should be reformed and better targeted at delivering specific benefits against desired outcomes such as increasing bus use, ensuring socially necessary services that are critical to communities are in place, and a move towards zero emissions. Funding should be combined within a single, ring-fenced, multi-year funding framework covering revenue and capital support from taxpayer funds to local authorities.

HM Treasury should confirm a funding allocation for the next five years of at least £8 billion covering revenue support and concessionary fares, which is equivalent to the current annual settlement. An additional £3 billion funding should be allocated on top of this for the transformation of bus services from the £5 billion announced earlier this year for buses and cycling.

The Government should explore two elements to a new revenue support mechanism. A primary funding stream will serve to improve provision, including:

- Retaining and instating socially important provision, including support for evening and weekend services
- Facilitating wider use of a Total Transport model combining funding and commissioning of local transport services
- Funding concessionary fares and targeted measures to reduce fares

- Incentives for consumers to switch to public transport
- Wider rollout of innovative models of delivery, such as demand-responsive transport.

A supplemental funding stream should act as general support to all operators to smooth the transition to a new funding landscape. It should taper over time and be withdrawn by 2030 at the latest, influenced by the pace of rebuilding passenger numbers post-Covid through the primary revenue funding. It should include:

- A basic supplemental payment on a per passenger or per mile basis
- An additional incentive payment that only zero emission buses are eligible for
- Support for fossil fuelled vehicles should taper, with the most polluting vehicles (Euro IV and lower) losing support within a year, and all fossil fuelled vehicle support withdrawn by 2025.

1.3. Capital funding

HM Treasury should prioritise a programme of investment in physical and digital infrastructure to support local transport. This should include a new generation of modal interchanges connecting bus networks with rail and other forms of transport for first and last mile journeys and targeted investments to make motorways and other strategic roads more bus friendly. Bus priority measures and infrastructure improvements for bus services are necessary to reduce the impact of congestion on the reliability of services, which is one cause of declining bus use. The Government should provide capital funding for local bus infrastructure to encourage investment by local authorities in bus lanes, urban traffic control, priority at lights, bus waiting facilities, interchanges and bus stations.

2. Rail reform

Many people rely on the rail network for commuting and leisure travel. Yet services on some routes have been plagued by poor reliability and cancellations for some time. The Government should use the opportunity the pandemic has provided to design new contractual arrangements for the railway in place of franchises, adopting a much more flexible outcome-based specification. The reform should be based on six key principles:

- Competition at the right place in the system
- Devolution of responsibility to regional and local government
- Local development and provision of services
- Integration with other forms of transport
- Passenger centred
- Affordable to use.

2.1. Transitional funding

As passenger numbers and revenues will take some time to recover to pre-Covid levels, continued support will be required. We welcome the replacement of the train operators' Emergency Measures Agreements with Emergency Recovery Measures Agreements bringing the rail franchising system to an end. These should incentivise performance, efficiency to remove costs, and implementing innovations to improve services and the passenger experience – and pave the way to a new model for rail.

2.2. Future operation and funding model

The Government should consider which recommendations from the Williams Review are still appropriate and how to introduce them. A new structure is needed that delivers the benefits of a nationally integrated network with more influence and control from local areas, allowing rail to mesh with and respond to local objectives and needs. Alongside a move to devolve more local rail services to the city region and sub regional level, a new arm's length body should be established to manage rail planning, oversee local operations and day-to-day management. A combination of models will be needed to satisfy different communities' needs, including competitive intercity routes, urban transport models, regional transport concessions, and design-build-operate models for the development of new infrastructure.

The railway is financed by a combination of passenger income and government funding. But, while public funding as a share of the total has stayed relatively constant over the last 20 years, major projects have accounted for an increasing proportion of rail spend since 2009, so an increasing proportion of the funding requirement has been shifted to farepayers.[1] This has impacted on ridership levels and growth in annual journeys has slowed in recent years.

Alongside a review of national funding and fare structures, additional tools for capturing the benefits that rail brings should be established. For example, by integrating rail planning and investment with land-use planning at the regional level, land value capture (both direct and indirect) can be used to raise revenue from development that benefits from proximity to rail services. Another option is to recycle the revenue raised through tools such as the Community Infrastructure Levy to invest in the rail network. The new arm's length body should develop such tools and make the case for future public investment.

2.3. Capital funding

Improving rail connectivity and capacity is a priority for many. A 2019 YouGov survey we commissioned found the ability to physically get to a railway station is a significant concern in the East Midlands (23 per cent), South West (22 per cent) and West Midlands (21 per cent).[2] Network Rail has brought forward some planned enhancements to the rail network, and the Department for Transport's new Acceleration Unit should examine how investment in new rail capacity and connections (including reinstating passenger services on closed sections of the railway and developing new stations to serve communities not currently connected to the railway) can be expedited. Our research suggests the Government should set aside £4.74 billion to £6.37 billion for delivering the rail reopenings programme. £1.82 billion of this fund should be invested in the next five years to deliver schemes, with a further £1 billion in the same period for fast tracking development of future schemes. This could deliver at least 33 reopening schemes with 72 new stations and 343 miles of reinstated passenger services miles over 25 years.[3]

3. Road investment

Investing in sustainable transport options brings a myriad of benefits. Active modes like walking

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[1] Campaign for Better Transport & Teneo (2019), Rail Review – Submission of Evidence on behalf of Campaign for Better Transport & Teneo, https://bettertransport.org.uk/sites/default/files/research-files/Rail-Review-Outcomes-and-Challenges-April-2019.pdf

[2] Campaign for Better Transport (2019), What is the railway for?, https://bettertransport.org.uk/sites/default/files/research-files/rail-review-submission-on-outcomes.pdf

[3] Campaign for Better Transport (2019), The Case for Expanding the Rail Network, https://bettertransport.org.uk/sites/default/files/research-files/case-for-expanding-rail-network.pdf

and cycling bring direct physical and mental health benefits. Choosing active travel and public transport over driving also reduces air pollution and the health impacts it creates. Better physical and mental health and cleaner air in turn create associated NHS cost savings. As well as supporting economic growth through access to employment and leisure, public investment in infrastructure leads to direct job creation.

3.1. Road infrastructure

Recent analysis for the TUC found that investing in cycle lanes and pedestrianisation projects brings by far the most economic and social benefits, creating 32.6 direct and supply chain jobs per £ million invested per year for the duration of the stimulus programme.[4] Investment in rail and bus upgrades and network expansion, and in electric vehicle batteries and chargepoints, also produces high returs. However, the analysis found that road building had much lower associated economic or social benefits, compared to the sustainable transport options, and was not recommended.[5]

We therefore believe the Government should prioritise active travel, bus, rail and electric vehicle capital infrastructure investment. We are concerned that a large proportion of the £27.4 billion allocated for the second Road Investment Strategy (RIS2) is dedicated to new roads, as opposed to enhancements of existing ones. Not only does new road building represent poor value for money, but it is proven to induce more traffic,[6] in turn generating more congestion, air pollution and greenhouse gas emissions, which is inconsistent with the Government's transport decarbonisation objectives. It would make sense therefore, both economically and environmentally, for a significant proportion of the £27.4 billion to be allocated towards active travel and bus network infrastructure projects, delivering the decarbonisation agenda the Transport Secretary has rightly championed.

3.2. Walking and cycling

During the Covid-19 pandemic, the Government actively encouraged people to make more local journeys and to walk and cycle where possible. This led to a substantial increase in walking and cycling – cycling alone doubled during the early weeks of lockdown and trebled at weekends.[7] We therefore welcomed the £250 million emergency active travel fund for England as part of the £2 billion investment in active travel. The Government should encourage all local authorities to take full advantage of the funding, to enable more people to safely walk and cycle for short journeys and for connecting to public transport. We also welcome the recent *Gear Change* walking and cycling vision document, including new cycle infrastructure design standards. HM Treasury should ensure that the £2 billion funding is safeguarded – and potentially expanded – for the next investment period, and that the new Active Travel England inspectorate is well resourced to carry out its role of ensuring all local schemes uphold the highest quality standards.

4. Incentivising behaviour change

As well as ensuring that active travel infrastructure and public transport provision are fit for purpose, there are a number of fiscal levers government can use to help people make sustainable

[4] TUC, Transition Economics (June 2020), Can an infrastructure stimulus replace UK jobs wiped out by COVID19 crisis? An analysis of infrastructure investment options to build back better, https://www.tuc.org.uk/sites/default/files/TUC%20Jobs%20Recovery%20Plan_2020-06-17_proofed.pdf
[5] Ibid.
[6] The correlation between increased road space and increased traffic volumes was established as far back as 1992 in the then Department of Transport's report from the Strategic Advisory Committee on Trunk Road Assessment (SACTRA).
[7] DfT (2020), Transport use during the coronavirus (COVID-19) pandemic, https://www.gov.uk/government/statistics/transport-use-during-the-coronavirus-covid-19-pandemic

travel choices. The most important signal when people consider transport options is pricing – and it should favour public transport rather than driving. Outside of London, it can cost more to use public transport than to own a car, so most people opt for a car over public transport, which in turn makes public transport less viable. This is one of the factors behind the recent decline in bus use and increase in private car use.

4.1. Fares reform

UK bus and rail fares are higher than in many European cities. Single bus journeys often cost £5-6 outside London, and the lack of multi-stage and multi-operator tickets (like the Hopper fare in London) mean that journeys where passengers need to change buses become unaffordable. At the same time, rail fares have been increasing annually above inflation.

HM Treasury should support:

- Cancelling the planned January 2021 rail fare rise and holding fares at the 2020 level
- Linking future rail fare increases to the Consumer Price Index, rather than the Retail Price Index, and a longer-term review of how fares are set
- Introducing a range of capped, flexible season ticket products
- A rapid move to simplified fare structures and digital, account-based ticketing, and integrated zonal, multi-operator and multi-modal ticketing to ensure that passengers are automatically offered the best value option
- Targeted measures to reduce bus and rail fares, including a review of concessionary fares to improve access to education and employment for specific demographics.

4.2. Fuel duty

While rail and bus fares have continued rising, the fuel duty freeze has made car journeys progressively cheaper, meaning that government has been subsidising the real cost of car ownership. It is estimated that the freeze has led to five per cent more traffic, 250 million fewer bus journeys, 75 million fewer rail journeys, an extra five million tonnes of CO_2 and an extra 15,000 tonnes of NO_x emissions.[8] The freeze in fuel duty since 2011 has also cost the Treasury more than £50 billion in foregone revenue, which could have been invested in sustainable transport options and other carbon reduction measures. To break this cycle and send the right price signals to promote modal shift, the Government should end the freeze on fuel duty at the earliest opportunity.

4.3. Road use charges

With revenue from vehicle taxation (Vehicle Excise Duty and fuel duty) declining due to fuel efficiency and cleaner vehicles, HM Treasury should be looking to move towards a system of distance-based road charges that vary by time of day, location, and vehicle size and emission levels. Such an approach would be fairer to the consumer and to society, reflecting more closely the impacts of individual journeys (including road danger, congestion, air pollution and carbon emissions), while supporting the transition to cleaner vehicles. A national road user charging scheme should apply to the Strategic Road Network, with revenue retained by Highways England, and be in operation from 2025 at the latest. As a first step, the Government should publish a review of incentives and taxation related to road transport with a trajectory for reforms by Budget 2021.

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[8] Greener Journeys (10th March 2020), Ending fuel duty freeze could treble NHS budget for doctors and nurses, Press release, https://greenerjourneys.com/press/ending-fuel-duty-freeze-could-treble-nhs-budget-for-doctors-and-nurses/

4.4. Local revenue raising

To reduce reliance on central government revenue funding, local transport authorities should have access to alternative revenue raising tools, which also help influence behaviour and choices. They should encourage the use of public transport, active travel and shared mobility and dissuade more polluting and less efficient options. HM Treasury should support local authorities wishing to introduce distance- or cordon-based road use charging (such as paid Clean Air Zones or congestion charges) on local roads and Workplace Parking Levies paid by employers over a certain size in a specified area based on the number of parking places they provide. The income from these mechanisms should be retained locally and ringfenced for maintenance and renewals of the road network, along with investment in public transport and modal shift incentives. Local authorities should have the power to introduce such schemes without seeking government approval and to make decisions on charging levels and other specifications.

4.5. Mobility credits

Mobility credits – money credits that can be used on public transport, purchasing or hiring bikes and other micromobility vehicles, car clubs and other shared mobility options – can be used as incentives for modal shift. These credits, and other subsidised special offers for targeted demographics, can be given as incentives to choose sustainable transport options, for example for scrapping an older, polluting vehicle, or for trying new ways to travel at key life moments, such as moving home or starting a new job.

Coventry City Council and Transport for West Midlands are already trialling mobility credits for people scrapping older polluting vehicles as part of the West Midlands Future Mobility Zone. HM Treasury should provide funding for more local authorities to trial different types of mobility credit schemes, with a view to developing a workable national equivalent in the future.

5. Decarbonising vehicles

As part of its green recovery programme to support job creation, economic activity and pollution reduction, the Government should accelerate the transition of road and rail transport to zero emission. This can be done by first facilitating supply, then stimulating demand through regulation, taxation and incentives.

5.1. Cars and vans

Commercial fleet renewal should be an immediate priority. We welcome the new, more attractive benefit-in-kind (BiK) company car tax rates from April 2020 and the clarity provided for future years should help stimulate demand. If this falls below expectations, the Government should consider mandating that all new company fleet purchases should be zero emission vehicles from April 2023. To further incentivise the adoption of zero emission vehicles by commercial and private users, HM Treasury should:

- Introduce incentives for businesses, such as lower upfront cost of electric vehicles, while the secondhand market develops
- Link annual Vehicle Excise Duty rates to vehicle carbon emissions
- Continue funding for plug-in vehicle and chargepoint grants
- Introduce grants for local authorities to invest in charging hubs and on-street schemes.

5.2. Heavy vehicle fleet

Hydrogen fuel provides a viable zero emission option for fleets that are too heavy or require longer ranges than electric batteries are suitable for (e.g. buses for rural use, trucks, ferries, trains where electrification does not make economic sense). With significant capacity for the production of both green hydrogen and hydrogen fuelled vehicles, the UK has a major competitive advantage compared to other countries. As an early focus, HM Treasury should support the growth of hydrogen fuelled buses, fuelling infrastructure and green hydrogen production through sector-specific manufacturing deals.

5.3. Bus fleet and depots

The Government should introduce a zero-emission bus fleet and depot overhaul programme that requires all new buses be zero emission from 2025 and aim to replace all fossil fuelled buses on the road by 2035 at the latest. HM Treasury should support growth in the capacity of the UK manufacturing sector to deliver the zero-emission bus fleet. A manufacturing sector deal would ensure the future viability and growth of UK bus manufacturing of zero emission fleet at the scale needed, increasing the supply of a modern vehicle fleet, boosting UK supply chains, and reducing reliance on overseas technology and suppliers.

5.4. Rail

To further the rail sector's advantage as a green mode of transport, the Government should expedite a rolling programme of electrification, with the intensively used passenger and freight fleets and network electrified first. HM Treasury should support the introduction of zero emission technology such as hydrogen fuel cell trains to stimulate the market for alternatives to diesel trains and make the UK a leading manufacturer, with the aim of replacing all diesel trains by 2040.

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