

Campaign for
Better Transport 



Smarter cuts

Making the right cuts not the easy cuts in transport

Smarter Cuts

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Executive summary

The current way that transport spending decisions are made does not maximise outcomes and leads to massive costs to society and the environment. In particular:

- The emphasis on capital funding leads to rising demand for transport rather than managing demand
- The planning framework and delocalisation of services drives up demand for longer-distance travel
- The relative prices of different modes of transport pushes people away from public transport
- Local government structures make coordinated efforts to improve transport more difficult
- Option identification is hindered by “legacy” projects which promoters have been pushing for years
- The system for appraising transport schemes is biased towards less sustainable schemes and gives too high a value to marginal time savings
- The selection process for prioritising which schemes are put forward for funding is not sufficiently strategic
- Road schemes do not deliver what was promised and many experience major cost-escalations

There are five main areas of transport spending by government – motorways and trunk roads; railways; bus support; London; and local transport. In addition, small sums are spent on “sundries” like walking and cycling, and there were plans for the Transport Innovation Fund (TIF) to provide an increasing proportion of funding.

Transport spending has risen sharply in recent years. Some of this reflects decades of under-investment in the rail network but the increases in spending have allowed fundamental problems to remain largely unaddressed. With the Department for Transport likely to face at least 20% cuts, these can no longer be ducked.

Most transport spending by the public sector is from the Department for Transport and, unlike many other European countries, local authorities raise little money for transport themselves. The source of much funding for local authority schemes is the Regional Funding Allocation. This is likely to face major cuts and DfT has already put schemes on hold.

With large spending cuts coming, the Government faces a choice between an easy approach or a smarter approach. A simple salami slicing of all budgets by 25% would lead to:

- Speed restrictions, overcrowding and increases of at least a third in many fares on the railway network, and few local train services outside the main cities
- Decimation of bus services with a double whammy if cuts to bus service operators grant takes place alongside cuts to local authority supported services
- Increased overcrowding on London’s tube with worsening Underground and bus services
- A reversal of the progress made on cutting the number of people killed or seriously injured on our roads if local maintenance and road safety spending is cut

Smarter cuts can be made by:

1. Reducing the need to travel
2. Getting the most out of the existing transport system
3. Prioritising spending on lower-cost schemes which have higher rates of return
4. Deferring spending on higher-cost projects which will help in future to meet long-term needs
5. Cancelling spending that does not meet long-term challenges, especially the need to reduce carbon

The report sets out what cuts can be made and suggests two new funding streams to make better use of what funding is available – a Community Connections Fund and a Transport Challenge Fund for local transport.

Localism can help make the most of reduced funding but this must be accompanied by a new approach to local transport and to sources of funding for local transport.

Main recommendations

To address the problems we identify in the way spending is prioritised, the Government should:

- Allow more flexibility for local authorities to spend on revenue or capital
- Introduce a “transport test” for new policies, and include in the new planning framework an objective of reducing the need to travel
- Reduce the relative price of public transport and increase the share of tax revenue from environmental taxes
- Ensure any changes to local government structures support strategic decision making on transport and better ways of working with transport operators
- Require transport scheme promoters to produce an options report and audit trail of how they have identified and tested a range of options
- Reform transport appraisal to give real weight to greenhouse gas emissions rather than exaggerated time-saving benefits
- Reform local transport funding to support strategic cooperation between local authorities
- As part of its review of all uncommitted major schemes, subject each scheme to a carbon pass/fail test

As part of the spending review, the Department for Transport should use the following questions of its own to complement the wider questions set out in the Spending Review Framework document from the Treasury.

These should be:

1. How can we reduce the need to travel longer-distances and therefore reduce the need for new transport infrastructure?
2. How can we get the most out of existing transport infrastructure?
3. What low-cost, high-return spending should be prioritised now?
4. Which higher-cost spending that still meets long-term needs can be deferred?
5. Which spending that does not meet long-term challenges (particularly on reducing carbon from transport) can be cut?

The Highways Agency’s role should focus on managing our strategic road network not on high cost projects like the £1.3bn scheme for 21 miles of new A14.

A Community Connections Fund should be set up to encourage more flexible rail improvements to be taken forward with local authorities, funded by rail efficiencies in the rail sector.

The Department for Transport should consider devolving more bus support funding to local authorities to, for instance, incentivise cooperation between local authorities and bus operators. New transport infrastructure by local authorities should be public transport schemes, which are shown to have higher rates of job creation and carbon reduction than road schemes.

The proposed Urban Challenge Fund should become a wider Transport Challenge Fund to incentivise local authorities to improve their performance on transport and create towns, cities and villages we can be proud of. Funding could be top-sliced from the Regional Funding Allocation.

Localism can work for transport but it must be in the context of ensuring strategic cooperation between local authorities and between local government and transport operators. A “total place” approach to both spending and revenue is needed with the Government’s review of local government finance needing to look at both simplifying local funding sources for transport and bring on-stream new funding.

Finally, we set out our suggestion for what the Department for Transport budget could look like in 2015.

Foreword

The new Government has made reducing the budget deficit its prime target. It has ring-fenced some budgets, but transport is not one of them. This means that transport spending is likely to be cut by 25% or more. In fact, the cuts have already started – as part of the immediate £6bn spending cuts, the Government is reducing transport grants to local councils, Transport for London and Network Rail. It has also effectively frozen all further work on local roads and public transport projects and orders for new trains pending the autumn spending review. These cuts of course mainly apply to England, though rail funding decisions will affect Wales and Scotland – other decisions on transport in those countries and in Northern Ireland will be made by the devolved administrations. But it is notable that the Scottish Government has already halted some transport schemes.

This report looks at the implications of cuts in transport spending. It argues that the Government has choices in what it cuts, and also how it does it. So far the focus of discussion has been on specific transport projects such as Crossrail in London. But the implications of the transport priorities the Government will set go far wider than this, and link to other Government policies and objectives:

- Transport services and infrastructure support the economy, and congested or poorly maintained roads and poor or expensive public transport will impede economic recovery
- Transport is responsible for over 25% of UK greenhouse gas emissions, and the spending decisions made will affect whether the Government meets the targets for reducing these emissions set out in the Climate Change Act and reduces reliance on imported and expensive oil
- New housing and commercial development need good access – transport spending will influence how and where development takes place and how car dependent it is
- Increasing social justice will depend on transport planning and services, and in particular on whether poorer households can access public services or opportunities for employment, education and training
- Transport also has an impact on people's health, through obesity (lack of physical activity), air pollution and road crashes, and on local quality of life in terms of noise and intrusion if there is too much air or road traffic or poor street design – transport spending decisions will therefore affect people's health and the communities they live and work in

Finally, there are the people and businesses who use transport. Transport spending priorities, combined with other Government decisions on transport regulation, planning and taxation, will increase or reduce the choices open to transport users. Depending on these, people may have a wide range of choices in how and where they travel, or be forced to use cars everywhere.

This means that the Government can't duck out of transport – it has a critical role to play if it wants to meet its wider objectives, for example reviving the economy and being "the greenest Government ever". In fact all Governments in recorded history have regulated or funded transport, because the private sector on its own can't deliver transport services or infrastructure in ways that meet these objectives.

Transport strategy and prioritisation process

Traditionally, transport planning and funding has tended to be dominated by building big new infrastructure schemes – roads, railways, airports. These have tended to take political and financial priority over smaller schemes and local travel, and particularly over walking and cycling, and support for buses. There has been a view that the “natural” form of travel is the car and that new transport and development needs to be planned round that. In fact, one transport official once suggested that walking and cycling are not really transport at all – “transport is something you get in”. Siren voices still suggest that people want to drive places and that big motorway widening – to 14 or even more lanes – is the only answer.

This ignores the evidence from many places – here and in other countries – that if people are offered good alternatives to the car, and cities, towns and villages are planned so that people can get places without lots of driving, enough people will choose to use these alternatives so that we can have prosperity and a good environment with low levels of car use, and stronger communities too. In many cases, people are not “choosing” to use their cars – they have no other choice because facilities and services are centralised or built in out-of-the way places, public transport isn’t an option and cycling or walking feels too dangerous. Transport patterns are changing too – even during the boom years, traffic growth fell away, while public transport and rail in particular increased substantially. Now new communications technology provides alternatives to travel – it is notable that some of the arguments for new roads and airports and for providing for increased travel seem to imply a world in which the internet, broadband and remote working haven’t been invented yet.

Transport choices – the easy choice

So our report sets out the choices. In one scenario, the Government could slash spending on rail and buses and on local transport, but keep building new roads. This would result in some small lengths of new roads, but potholes in existing ones. We could also expect increasingly expensive and scarce trains and buses would potentially all but disappear outside the bigger cities. This scenario would, we argue, increase traffic jams, pollution and potentially road casualties, and hurt rather than help the economy and the environment. In fact, our report shows that the available spending would buy very little new road because road construction has become extremely expensive – the A14 scheme in Cambridgeshire, now on hold, would see just 21 miles of new road for £1.3bn. Widening the M6 north of Birmingham, when last costed, came out at over £1000 an inch. And there would be other quirks – pensioners might have free bus passes, but many would have no buses to use them on. Despite Government rhetoric, there will be an increased north-south divide under this scenario, with northern and midland cities losing out to London and the South East.

Transport choices – the right choice

However, there are alternatives. In another scenario, even with much less money, the Government can fund a lot of smaller, local transport projects – it can focus road spending on better maintenance and management of the roads we have, rather than building new ones. It can retain, improve and electrify rail services, while reducing the costs of providing them. It can protect and enhance bus services. It can get freight off the roads and on to the railways. It can fund schemes and training which will get people cycling rather than using cars for short distances. And it can join up transport so that people get a range of door-to-door transport services, with smartcards, connecting services, good interchange and reliable information.

But this benign scenario is not just about transport projects themselves. We argue too that there are a wide range of new approaches that can make transport work better. These include joining transport up to other Government decisions, so that, for example, when decisions are made on health services or the future of rural post offices those making the decisions have to take account of the transport consequences, rather than just assuming people will get there somehow or that they will drive. Joining transport up to planning policy will reduce the need for people to travel and shorten journeys – it will also bring big savings to people, businesses and public spending. Bringing together local transport services – so that health, education and social services are no longer commissioning their own transport independently – also allows savings and efficiencies.

New approaches to funding

We also point out that there are alternative sources of funding for transport. The Government has ruled out general road user charging, but has proposed road charging for lorries and a per plane tax for aviation. Some of the revenue from these could go into transport. There are also examples of new forms of local transport funding, here and in other countries – business rate supplements (already being used to fund Crossrail), developer contributions, parking charges and others.

The priorities for the spending review

Our work has thrown up some other issues. First, the way in which transport projects are assessed and prioritised needs to change, and the coalition government is committed to this. Previous work by us and others has shown that the business case for transport projects changes, in some cases quite radically, if the value of small time savings changes and if other impacts such as climate change and health are given more weight.

Second, there is the proposed high-speed rail line, which the Government is also committed to. There is some acceptance that the cost of building the line should be separate and extra from the transport budget. But if the preparation costs of the line, which with blight payments and a parliamentary bill could easily be £2bn, are to be met from a reduced transport budget, then further major cuts to existing services and projects are unavoidable. In this scenario, the Government could spend this Parliament buying up land in Buckinghamshire, while roads get potholes and buses disappear from much of the country.

Third, we think bus services could suffer particularly from cuts and fare rises. Bus funding could be hit by cuts in central Government spending, such as Bus Service Operators Grant, and also by cuts in local government spending. The combination of these would mean a spiral of decline in which operators withdraw services/raise fares and local councils have no money to subsidise them. All this will be below the national radar – but will be especially critical for deprived communities.

This raises a further issue – localism and devolution, which the Government is committed to. It is unclear what devolution will mean for transport – will duties and funding be devolved, and if so will they go to city-wide authorities as in London or to individual boroughs? Will Government require any conditions or set any framework for transport funding or will it be content to see potholes grow, transport services disappear and carbon from transport increase in some areas? Hard thinking and clear decisions are needed on the implications for transport of greater devolution and localism.

Finally, there is the economy. It is clear from our analysis that decisions on transport spending will affect the quality and quantity of employment and business. For example, our roads-based scenario would have knock-on effects, with job losses and closures of precisely the “green” manufacturing industries (eg train and bus manufacturers, and engineering firms) that the Government wants to encourage, while a more benign scenario would see increases in employment in these industries. This means that transport needs to be part of, rather than isolated from, the Government’s economic strategy to promote green investment and low carbon industries.

Time to debate what kind of transport we want

This is work in progress. We will be seeking people’s views on what we’ve said here and producing a revised version as a submission to the spending review. And we are working on other related projects – on lorry road user charging, transport taxation, and also practical projects such as an area wide quality bus partnership to demonstrate ways services can be planned better and more efficiently.

So the decisions on transport spending that the Government will make are not just about transport – they are about political choices: what kind of society we want to live in and what kind of economy we want. We should be optimistic about what we can do with smaller amounts of money more carefully invested. The Government must show true leadership in creating a transport system that meets our long-term future needs, while providing us with real choices for our everyday transport needs.

Stephen Joseph

June 2010

Chapter One

Why current transport spending doesn't meet the UK's needs

Transport should help the UK Government to meet its ambitions. The new transport secretary Philip Hammond said in his first interview that he wanted transport to support economic growth and tackle climate change.¹ This builds on the approach developed under the last Government under the *Delivering a Sustainable Transport System* banner. It set out five key objectives which transport should help deliver. The objectives were:

- Supporting the economy by delivering reliable and efficient transport networks
- Reducing transport's emissions of greenhouse gases
- Contributing to better safety, security and health
- Promoting greater equality of opportunity for all citizens
- Improving quality of life and promoting a healthy natural environment

Cost of poor transport

However, the reality of transport policies and funding acts against meeting these objectives. In-built biases resulting from flawed strategic choices and processes have resulted in severe costs to our economy, society and environment. The Prime Minister's Strategy Unit estimated that congestion, poor air quality, accidents and physical inactivity each impose costs of around £10bn every year in urban areas.^{2 3}

Summary of wider costs in all urban areas greater than 10,000 population	Costs (£bn per annum, 2009 prices and values)
Excess delays (2009)	10.9
Accidents (2008)	8.7
Poor air quality (2005)	4.5-10.6
Physical inactivity (1998)	9.8
Greenhouse gas emissions (2003)	12-3.7
Noise – amenity (2006)	3.0-5.0

Source: PMSU, 2009

In particular, current transport policy and practice needs to do more to drive down CO₂ emissions, with transport constituting 24% of all domestic CO₂-emissions, 22% of these are from road transport.⁴ Transport is the main sector where emissions have not fallen. Meeting our legally binding targets for emissions reductions (and the five-year carbon budgets which underpin them) must mean prioritising spending to cut emissions.

¹ Local Transport Today, Issue 545, 14 May 2010

² <http://www.cabinetoffice.gov.uk/media/307739/wider-costs-transport.pdf>

³ <http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf>

⁴ 24% figure excludes refining losses. See <http://www.dft.gov.uk/results?view=Filter&h=m&m=4552&pg=1>

At a strategic level, problems include:

- Types of funding are biased towards measures which increase demand for transport rather than managing it
- The planning framework and delocalisation of services drive up demand for longer-distance travel
- Prices for using transport push people away from public transport
- The structures and financing of local government are not fit for the purpose of improving transport

The process to prioritise what gets funded is also flawed in a number of ways:

- Option identification is hindered by legacy projects which no longer fit Government policy
- Assessment and appraisal methodologies are biased towards unsustainable schemes
- Biased selection process produces “pork barrel politics”, not strategic schemes
- Many projects do not deliver what was promised and cost considerably more than expected. There is a lack of feedback mechanisms to learn from this for future choices

These are detailed below.

The types of funding on offer are biased towards increasing demand for transport, not managing it

Many of the interventions that promote sustainable travel require ongoing financial support to be viable, whilst measures that best suit private motorised travel are typically paid for in large “lumps” of capital. This imbalance is visible in the spending plans of the majority of local authorities: they struggle to fund a core network of socially necessary bus services from ever-constrained revenue budgets whilst simultaneously promoting ambitious capital schemes which are very often highway-based and funded independently.⁵

It is possible, at least in principle, to “bundle” a certain amount of what would normally be revenue-funded activity (such as marketing) together with infrastructure works or service improvements as part of a major capital scheme under current guidance. But this would only be suitable for measures such as setting up effective travel plans and delivering initial personal travel planning work and would not help with, for instance, enhancement of the local bus network.

Case study: *A study by Steer Davies Gleave found the actual costs (including interest payments) of a proposed bypass of Wing village in Buckinghamshire were much higher than alternatives packages of sustainable transport improvements that would deliver greater returns in the long-term.⁶*

The classic argument made in favour of capital over revenue is that it avoids an ongoing funding commitment, but this is not true in the cases where capital investment is provided by loan finance which has to be repaid. Even when the capital investment is through grants from central government, Government itself is still more than likely picking up the long-term revenue borrowing commitment through the Treasury (the heart of the reason why cuts are now being sought).

⁵ This was picked up by Sir Rod Eddington in his advice to Government on the relationship between transport and the functioning of the UK economy: The Eddington Transport Study - The case for action: Sir Rod Eddington's advice to Government, pars 1.155 and 1.160

⁶ See Alternatives to the A418 Improvements, 2007, Steer Davies Gleave for Buckinghamshire County Council, <http://www.wingbypass.info/reports/A418AlternativesReport.pdf>

If the sums spent annually servicing the debt of a £150m road scheme could instead be spent on the long-term support of enhanced public transport and ongoing sustainable transport development (personal travel planning, promotion and marketing activities etc) a real step-change could be brought about for local public transport networks and substantial travel behavioural changes could result (as evidence from the pilot the Sustainable Travel Towns has shown). These kinds of revenue based interventions could potentially offer significantly more cost-effective solutions to transport problems.

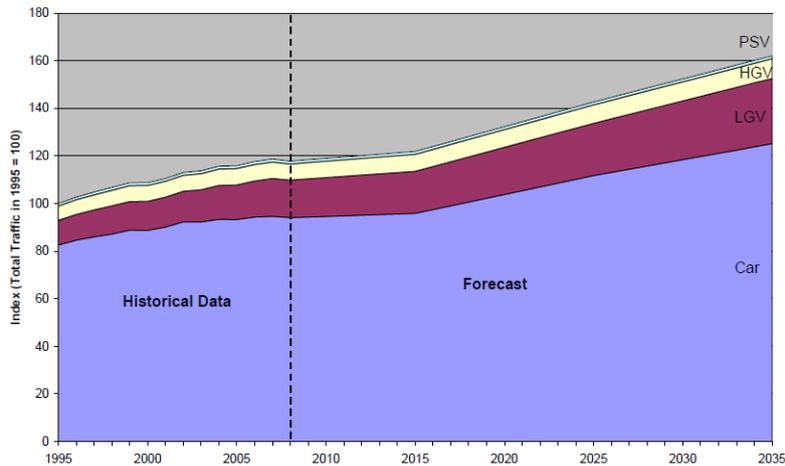
Recommendation: Funding to local authorities from central government needs to allow more flexibility, allowing councils to fund schemes requiring revenue as well as capital funding.

The planning framework and delocalisation of services also drive up demand for longer-distance travel

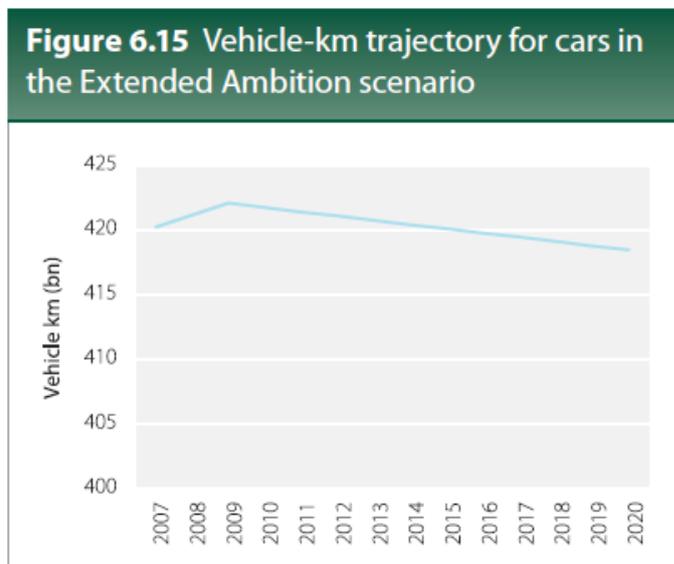
The way that developments are planned can generate travel, particularly by car, and have a huge negative effect on our quality of life and on our ability to tackle climate change. Government and planners must reduce the distances that people need to travel by ensuring that shops and other services can easily be reached on foot, by bicycle and by public transport.

Instead, post-war development has contributed to people needing to travel longer-distances. Based on historical patterns and expectations of rising prosperity, the Department for Transport’s forecast for future traffic growth is one of continued growth. The figure below is taken from Road Transport Forecasts 2009. It is based on the latest traffic forecasts used in the National Traffic Model:

Figure 4: Forecast Growth in Traffic by Vehicle Type, England



But the Committee on Climate Change has set out an alternative scenario that is needed to meet the targets outlined in the 2008 Climate Change Act:⁷



The way that we manage existing areas and develop new ones needs to support this scenario.

Recommendation: A “transport test” for all local and national government policies and measures (possibly as part of a carbon test) should be introduced. In addition, the proposed national planning framework should have the stated objective of reducing the need to travel.⁸

Prices for using transport push people away from public transport

The relative prices of public transport, motoring and flying have an impact on demand, modal shares and carbon emissions. Substantial cuts in carbon emissions could be made by embracing a policy that recognises the different contribution of each transport mode to cutting carbon, and provides financial incentives for people to choose low-carbon modes like public transport.

Public transport is a low-carbon way to travel, but the cost is discouraging people from using it. Fares keep rising in real terms and in the UK are about 20% above the European average. This has suppressed demand for bus and rail travel. Although demand for rail is increasing, if fares were lower, rail would have a higher modal share. Motoring and aviation are high carbon, but falling prices mean people are using these modes more. The cost of motoring has fallen 14% in real terms since 1997 (despite fluctuating petrol prices); the price of one-way flights from UK airports has, on average, halved in the last 10 years.

The costs from a car and road freight based transport system are listed above. These costs (externalities) are not recovered from those modes. For instance, fuel duty has not increased in line with inflation since 2000, with no increase between 2000 and 2006. Even with the small increases since, fuel duty at the start of 2010 still remains 11% lower in real terms than it was in 1999. Tax, as a percentage of fuel, is lower than it has been over the last decade. In December 2009, with unleaded at £1.07 a litre, tax was 65% of the price;

⁷ It should be noted that the Extended Ambition scenario refers to take up of new technologies, electric vehicles and biofuels; should take up of these be less than expected then the cuts in traffic levels would be greater

⁸ See the Masterplanning Checklist for how the objective of reducing the need to travel can be supported through the planning system. (Transport for Quality of Life for Campaign for Better Transport, 2009)

between April 1999 and 2009 the average was 72%.⁹ Green taxes now make up a smaller proportion of government receipts than in 1997, falling from 9.5% of total receipts in 1997 to 7.9% in 2009.¹⁰ The Conservatives said in opposition that they would raise this percentage again.

A more extreme example is the impact of foreign lorries. Lorries from outside the UK contribute nothing in terms of upkeep to roads or to meeting the external costs they create (for instance, any collisions or impacts on noise and air quality), creating an imbalance with UK freight operators. A number of other European countries are addressing this issue through charging or toll schemes for lorries. A package of measures, including lorry road user charging, could:

- Reduce overall user costs
- Reduce overall external costs to society and the environment
- Create a level playing field with foreign operators
- Raise standards in the freight industry

If public transport fares had been reduced by 20% (to around the European average) in 2000, bus and rail travel combined might now be 120 billion passenger-km, an increase of 10 billion or around 9%. Reducing fares today by 20% could increase bus travel by 13% and rail travel by 17% by 2015.¹¹ As discussed above, inflexibility on capital and revenue adds to this problem, as does a true assessment of the non-user benefits of spending on public transport.

Recommendation: The disparity between falling costs of car usage compared to public transport should be reversed, including through increasing the share of tax revenue that comes from environmental taxes.

Local government structures get in the way of coordinated efforts to improve transport

The structures of local government also make it difficult for local authorities to agree strategic decisions, with powers over highways, spatial planning and public transport often at different spatial levels and with decisions on transport taken at a level that does not reflect travel patterns. Changes to regional and local government over the past thirteen years have not fundamentally addressed this. Local authorities also need to be more effectively involved in decisions on public transport delivery for both bus and rail, and should work to bring in funding for transport improvements from other sources.

Recommendation: Changes to local government structures should support strategic decisions on transport at the relevant spatial scale, and should support new funding streams and better ways of working with transport operators.

Option identification is hindered by legacy projects

The Department for Transport has outlined the process of option identification. It expects local authorities to:

- Identify a problem
- Consider various objectives
- Identify a range of options
- Consult on interventions
- Select a final proposal

⁹ Source http://www.bettertransport.org.uk/campaigns/climate_change/roads/facts/taxes#2 See also Transport Statistics Great Britain 2009, page 55, pdf

¹⁰ Summary of Election Briefings, Institute of Fiscal Studies, 2010

¹¹ See http://bettertransport.org.uk/system/files/Transport_costs_and_carbon_emissions.pdf and http://bettertransport.org.uk/system/files/Transport_costs_companion_document.pdf

In practice, however, option identification is carried out in reverse. Local authorities will have harboured ambitions to build particular schemes – be they bypasses, road widening, or public transport – for some time (often several decades). This hinders their ability to follow the Government's guidance on option identification, because officers and councillors are expected to deliver that particular scheme, regardless of how well it might fit with current national, regional or local policies.

Recognising this tendency, DfT revised its guidance in 2009, and proposed to introduce a new stage in which DfT and the local authority collaborate on selecting the scheme objectives and choosing the best option. However, there is little sign that this has had any effect. Even where schemes have been soundly rejected by public inquiries, many local authorities persist with them instead of considering other interventions which might have better policy fit.

Recommendation: Scheme promoters need to produce an options report and an audit trail of how they have identified and tested a range of alternative options.

Assessment and appraisal is biased towards unsustainable schemes

The New Approach to Transport Appraisal (NATA) is an appraisal tool to help decision-makers. The idea is that by assigning a value to intangible concepts, such as tranquillity or heritage value, and more tangible impacts, like greenhouse gas emissions, decision-makers can compare the merits of different transport schemes and decide which is the best solution. Unfortunately, NATA tends to promote schemes that increase carbon emissions and hinder progress towards Government's objectives.

This bias occurs because the values NATA uses afford greater value to time savings than to preventing climate change, improving air quality or preserving ancient woodland. Although individual time savings are generally quite small (often less than a minute), the fact that lots of drivers save them makes the aggregate total quite large. NATA also treats people unequally, placing a higher value on car drivers during their working day than bus passengers. Reliability is never accorded a money benefit, even though DfT research shows that most people and businesses value it higher than marginal time savings.

The costs of appraisal itself can be an obstacle for promoting small but highly efficient schemes. If the level of evidence required for appraising a small scheme (eg a bus lane or cycle route) is the same as for a big road scheme then the costs of producing it will be much the same. But the costs of doing this would potentially be as much as the costs of the actual scheme being proposed. This often leads to the appraisal of schemes being less professional and thorough, giving them lower comparable advantage in any process of prioritisation.

Changes have been made to NATA and further changes are expected under the new Government. The changes made already significantly change the benefit cost ratios of some schemes but still fail to properly account for carbon emissions and time savings (see table).¹²

¹² See The Right Route: Improving Transport Decision Making, Metropolitan Transport Research Unit for Green Alliance, 2009. Table is also taken from the report

Summary of comparative results under different NATA assumptions

	Benefit Cost Ratio (BCR) under original appraisal model	BCR under revised appraisal model	BCR under appraisal model with further reforms
Tram Merseytram	1.97	2.07	2.85 ⁱ
Cycle Grand Union Canal Cycle Path	38.4	75.0	75.0
Road Improving the A14 between Ellington and Fen Ditton	10.83	6.69	1.3 – 3.25 ⁱⁱ
Bus Guided busway Cambridge to St Ives	4.8	6.4	7.9 ⁱⁱ
Rail Freight Expansion of rail freight (Felixstowe – Nuneaton)	5.25	10.4	10.4 ⁱⁱⁱ

- i. Based on moving to a 60 year appraisal. The Merseytram case study provides several examples of how small changes in the treatment of tax revenues has a strong impact on the benefits
- ii. Based on limited data
- iii. The carbon benefit of the rail freight scheme was already factored into the original analysis hence there is no change

The Benefit Cost Ratio (BCR) produced by the appraisal process is extremely sensitive to small changes in the assumptions used. This is of real concern as decisions are heavily weighted on this single figure which may lead to decision-makers placing too much emphasis on BCRs without analysis of how schemes meet wider objectives.

Recommendation: NATA needs further reform, particularly to remove the exaggerated importance of time savings more than 30 years from now and giving real weight to greenhouse gas emissions. Schemes and policies should be assessed to see how far they achieve Government objectives.

Biased selection process produced “pork-barrel politics”, not strategic schemes

The Department for Transport has given each English region a pot of money from which to fund major transport schemes, totalling over £5 billion until 2015/16.¹³ Regional Assemblies and Regional Development Agencies submitted their Regional Funding Advice at the end of February 2009. Regions were expected to put forward schemes which supported their various regional plans. Instead, each local authority tried to get their scheme adopted, regardless of policy fit or deliverability.

The resulting packages overwhelmingly prioritised unsustainable, high-carbon transport, with £4bn of the £5bn directed towards roadbuilding. This was totally at odds with stakeholder consultations. For instance, a meeting of stakeholders in the South West suggested spending 60% on improving sustainable transport, but the region’s final package asked for 64% of money for road building.¹⁴

¹³ See HM Treasury, Guidance on preparing Regional Funding Advice, http://www.hm-treasury.gov.uk/d/regional_funding_advice300708.pdf

¹⁴ Regional Funding Advice: Driving transport down a carbon cul-de-sac, Campaign for Better Transport, March 2009

Recommendation: There is a need for local authorities to work together to agree funding priorities in their region or across their areas and such joint operation should be encouraged in any new system of funding introduced by the new Government, including replacing or changing RFA.

Projects don't deliver what was promised and cost more

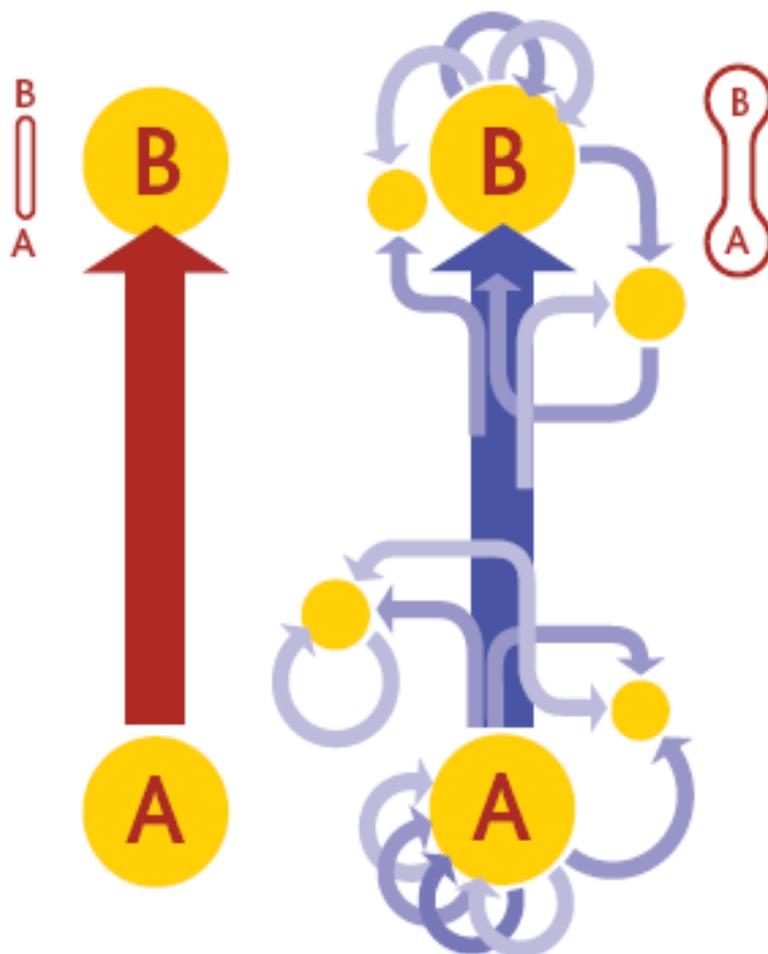
The Highways Agency has an ongoing programme of reviewing past trunk road projects. These take place one year and five years after schemes opened to see how accurate the original traffic, economic and environmental forecasts were. These

forecasts need to be reliable because of the amount of money being spent and the potential for severe impact on congestion, traffic and the environment. There is a demonstrable trend, both one year and five years after a scheme has opened, for schemes to have higher levels of traffic and congestion and a more detrimental impact on the local environment than forecast. Their calculations of the economic impacts of road building are, to quote their own consultants, "generally not accurate".¹⁵

The reports found:

- Overall traffic levels rose significantly as a direct result of each new road as a result of traffic generated by the scheme
- Economic forecasts did not reflect the actual impact on local businesses and any benefits were inaccurate and generally lower than predicted
- CO2 emissions were higher than predicted, as were noise levels. Air quality was worse than forecast
- Walking, cycling and public transport did not improve, even where traffic had decreased on local roads
- Two-thirds of the bypasses studied simply moved congestion elsewhere¹⁶

The costs of road schemes have historically escalated well above their initial estimates as schemes grow in ambition and timetabling estimates prove overly optimistic.¹⁷ The cost estimates which inform Ministers' decisions to approve or deny funding rarely reflect outturn costs. Of the 16 roads which opened to the public in the year to June 2009, 54% were over budget and the overall programme (including those finished in the 12



¹⁵ Atkins meta-study of POPE one-year after reports, <http://www.bettertransport.org.uk/system/files/HA-POPE-executive-summary.pdf>

¹⁶ See <http://bettertransport.org.uk/media/Jan10-roads-are-billion-pound-gamble>

¹⁷ See National Audit Office, *Estimating and monitoring the costs of building roads in England*, http://www.nao.org.uk/publications/0607/dft_estimating_and_monitoring.aspx

months to June 2009, those under construction, and those in the planning stages) could be as much as £3.9 billion over budget.¹⁸

There have also been serious problems with the manner in which potential solutions have been examined. For instance, 80% of congestion is in urban areas, yet the Highways Agency continues to prioritise widening motorways and trunk roads.¹⁹ This is described as improving journey times between major cities, but because the bulk of congestion is not on major roads, in practice it just makes it quicker to get to the next traffic jam. A post-opening evaluation report by the Highways Agency into the Bingley Relief Road showed that while traffic was moved out of Bingley, nearby Saltaire became congested and real-world journey times did not improve.²⁰

If traffic jams are mostly an urban phenomenon, then it follows that the way to cut them is to improve urban transport, which will also impact on inter-urban journey times. But this means not looking at trunk roads in isolation, but taking a more holistic view, also looking at their impact on the towns and communities along the way and at either end. Professor Phil Goodwin suggested that transport planning to reduce end-to-end journey times on major roads means considering not just traffic flowing straight from A to B, but all the other journeys which impact, directly and indirectly, on the major roads network: see figure 1.

The rail industry has also faced escalating costs in delivering big infrastructure projects, but strong efforts have been made to address these and deliver efficiency savings in the new CP4 investment period.²¹ However, where rail reopenings have occurred there is strong evidence that the returns on investment are stronger than expected, with higher rates of usage than forecasts predicted.²²

By contrast with major road schemes, smaller levels of expenditure deliver significant returns. The Eddington study on transport infrastructure found that “small is beautiful” with walking and cycling schemes and small targeted junction improvements offering better returns than more expensive schemes. The study suggested that this was because they may be “targeted on particular problems and pinch points that provide significant benefits”.²³

Also in contrast to road schemes, measures such as individualised travel marketing, workplace and school travel planning, car sharing schemes and improved public transport provision in the Sustainable Travel Towns of Darlington, Peterborough and Worcester led to promising changes within two years. Public transport trips increased by between 13 and 22%, walking by 17 and 29% and cycling trips by between 25 and 79%. Simultaneously the number of car journeys decreased by 11-13%.²⁴

Recommendation: The claimed costs and benefits of road schemes need to be treated as subject to high levels of uncertainty and alternatives (particularly smarter choices) fully recognised by decision-makers and included in their analyses. All schemes not yet committed should be subject to a carbon pass/fail test to ensure they meet the overall DfT commitment for 2020.

¹⁸ <http://www.bettertransport.org.uk/media/jun09-roads-go-billions-over-budget>

¹⁹ Ruth Kelly MP, Department for Transport press release, 16 July 2008.

<http://nds.coi.gov.uk/content/detail.asp?NewsAreaID=2&ReleaseID=374015>

²⁰ See <http://bettertransport.org.uk/media/Jan10-roads-are-billion-pound-gamble>

²¹ See Office of Rail Regulation assessment of Network Rail performance: <http://www.rail-reg.gov.uk/server/show/ConWebDoc.10104>

²² For examples, see How Actual Rail Demand Far Exceeds Theoretical Modelling 'Forecasts': The Need for Fairer and More Representative Assessment Procedures, Railfuture Scotland, 2009. For instance, the Ebbw Vale – Cardiff line (reopened February 2008) was by October 2009 carrying one million passengers against a projected 'estimate' of just 400,000 by 2012.

²³ See Eddington report – p 132 paras 1.29 and 1.30

²⁴ <http://webarchive.nationalarchives.gov.uk/+http://www.dft.gov.uk/pgr/sustainable/demonstrationtowns/lettersustainabletraveltowns.pdf>

Chapter Two

What Government currently spends on transport

Background

The main source of public funding for transport in England is the Department for Transport (DfT).²⁵ The Department funds the majority of capital expenditure, including for the Highways Agency and local highway authorities for roads, and with Network Rail for rail, as well as passenger transport executives and some local authorities in the case of trams and other public transport capital works. It also provides revenue support for buses (mainly through the bus service operators grant) and rail (through payments on some rail franchises).

Local government also receives funding as part of the local government settlement from Communities and Local Government to support transport revenue spending, though this is not ring-fenced and local councils can choose to spend this money on other priorities. Likewise, they can choose to spend more than their grant through other funding sources.

Unlike other countries, most funding for transport comes from central government. Regional bodies and local government lack means to raise significant revenue. This is different from most other countries such as France, where 35% of funding for transport in urban areas comes from local taxes, 43% through the regional “versement transport” tax on employers, 19% from fares and just 2% from state funding.²⁶

Within the Department for Transport’s budget there have been seven main areas of spending:

Motorways and trunk roads: The road building programme with direct funding of new and widened motorways and trunk roads (£3.2bn in 2007/8²⁷)

Rail: Support for Network Rail and some rail franchises (£4.4bn²⁸)

Support for bus services: Concessionary fares and bus service operators grant (£2.6bn, including £0.3bn for buses from the Department for Communities and Local Government as part of local government settlement²⁹)

London: Transport for London’s operations and new transport capacity such as Crossrail (£2.8bn³⁰)

²⁵ This report covers England only (except for rail) as most transport policy is devolved to the administrations in Wales, Scotland and Northern Ireland. Rail figures include UK

²⁶ New Transit, March 2010

²⁷ Source: Transport Statistics Great Britain (TSGB), Department for Transport, 2009

²⁸ *ibid*

²⁹ *ibid*

³⁰ *ibid*

Local transport schemes and support: mainly for capital improvements (£5bn³¹)

“**Sundries**”: Much smaller amounts of money are also spent on initiatives for walking, cycling and electric vehicles (around £0.3bn in 2007/8³²)

Transport Innovation Fund: A growing fund which was to have supported projects to promote competitiveness of the UK and ease congestion (primarily for larger urban areas and linked to demand management schemes like road pricing). The last government proposed to replace this with an Urban Challenge Fund top-sliced by what remains of the DfT budget after the spending review. In opposition, the Lib Dems proposed a Future Transport Fund and the Conservatives a Carbon Reduction Fund (TIF budgeted at £290m in 2008/9, but this was to rise to £2.5bn by 2014/15).

The section following provides more detail on these. All figures are based on 2007/8 figures where available (the latest years with comprehensive figures across all areas) and relate to DfT expenditure, except where otherwise shown. Devolved spending in Wales, Scotland and Northern Ireland is not covered in this report. Some elements in the sections appear more than once as different sources may be used to provide figures under these headings and are instead used to indicate broad levels of relative funding and forecasts.³³

Current spending

1. Motorways and trunk roads: Major roads, such as trunk roads and motorways, are the responsibility of the Highways Agency, which spends around £1 billion on new infrastructure and half again maintaining existing roads. Local transport powers are devolved to each local highway authority, which submit individual Local Transport Plans outlining major schemes. There is also Regional Funding Advice from the eight English regions outlining regional spending priorities. (See tables 1 and 2 in the appendix for more information.)

2. Rail: Investment (from all sectors) in rail infrastructure has traditionally been much less than for road building with, for instance, national rail investment just 15% of road building spending in 1985/6 and 20% in 1995/6³⁴. Rail investment has increased in recent years to catch up with decades of under-investment. The bulk of spending goes on capital investment with direct grants to Network Rail (£3.2bn in 2007/8) with smaller amounts for support for passenger transport executives (£0.3bn) and direct support for passenger rail services (£0.6bn). (See table 3 in appendix for more information.)

3. Bus subsidies: Buses receive support from central government through a number of subsidies, either directly to operators (eg bus service operators grant), via grants administered by local authorities with little flexibility for those authorities (eg concessionary fares), and grants which local authorities bid for which allow more flexibility for local authorities to specify what that funding will pay for (eg Kickstart funding). The different grants are detailed in the following table.

³¹ Annual Report and Resource Accounts (ARRA), 2009. This may include some double counting of grants for bus services included under Support for Bus Services heading.

³² Source: TSGB and ARRA

³³ The main sources used for this report are TSGB, ARRA and Public Expenditure Statistical Analysis (PESA). These account for spending in slightly different ways so the figures may not be directly comparable with each other, and therefore will not necessarily add up to DfT total spending. Most transport spending by central government is aggregated into Departmental Expenditure Limits (DEL - mainly DfT's DEL). DEL are firm plans for three years for a specific part of a department's expenditure. AME is spending in the government's total managed expenditure that is generally less predictable and controllable than expenditure in DEL. We have chosen these headings to indicate the main "types" of things that DfT fund and are not necessarily those used by DfT or HMT in their publications

³⁴ Based on analysis of capital investment drawn from historical data in TSGB. Since 1970, the rail network shrank by 3,175 km whilst the motorway network grew by 2,502 km. (tables 10.3 and 11.76 in TSGB)

Sources of bus service support ³⁵	2007/08
Bus Service Operators' Grant (DfT)	413
Revenue Support Grant (CLG)	330
Rural Bus Subsidy Grant (DfT)	56
Challenge and Kickstart (DfT)	11
Concessionary Fares (DfT)	725
Funding for London's buses	650
Capital spending by local authorities	300
Total:	2.480

4. London: Central government support for transport in London is much higher than for other cities or regions, with central government expecting higher economic returns on investment in London. Planned transport spending per head in 2008/9 was £826 in London compared to £309 per head in the north west or £234 in the north east.³⁶ Unlike other cities or city-regions, London's Mayor and Assembly bring together powers over planning, highways (the Transport for London Road Network) and public transport into one group of bodies with a single accountable leader. (See table 4 for more information on funding in London.)

5. Local transport schemes and support: Central government support for local authority spending on transport comes in two main forms – ring-fenced funding for smaller capital spending through the local transport capital pot from DfT and non-ring-fenced revenue support from the local government finance settlement from the Department for Communities and Local Government. In addition, schemes over £5 million ("major schemes") are funded through the Regional Funding Allocation (RFA) from DfT.

Local authorities also receive some additional grants for detrunking of road, road safety, sustainable travel initiatives and others from DfT (around £186m in 2009/10). The Department for Children, Schools and Families (DCSF, now Department for Education) also provide some grants as well. (See tables 5 – 7 in appendix for more detailed breakdown of local government spending.)

6. Sundries: The five sections above account for the vast majority of DfT's expenditure and detail the support for most transport modes. Expenditure by DfT on walking (which makes up 22% of trips and 3% of distance travelled) and cycling (2% of trips and 1% of distance³⁷) are tiny in comparison. Central government support for cycling included £10m for Cycling England in 2007/8 and around £17m in grants to Sustrans in the same financial year (see table 9 in appendix). Although much spending on walking and cycling would be spent at a local level, information on expenditure on these modes by local authorities is hard to find. (See table 8 in appendix for more information.)

In addition, the DfT is now promoting and funding electric vehicles take up with around £250m set aside in coming years.³⁸

7. Transport Innovation Fund: This would have been a major and growing funding stream for the DfT. It was to have funded projects for:

- "Effective demand management [such as road pricing] with better public transport"
- "Packages that identify and utilise new sources of funding to deliver priority transport schemes"

³⁵ For source for breakdown of spending see <http://www.parliament.uk/commons/lib/research/briefings/snbt-01522.pdf>

³⁶ See The 2010 pteg Funding Gap report, pteg, 2010

³⁷ National Travel Survey, 2008, DfT

³⁸ <http://www.dft.gov.uk/adobepdf/163944/ulcc.pdf>

- “Regional and local schemes that contribute to national productivity”³⁹

The failure of the referendum on the Manchester TIF package and opposition to road pricing led the Department for Transport to replace TIF and propose instead an “urban challenge fund” which would be top sliced from whatever is left of the DfT budget after the spending review.

2010 Spending Review – how much will transport be cut?

Public sector spending on transport has risen significantly in recent years, from £16bn in 2003/04 to £23bn in 2007/08.⁴⁰ Capital spending has risen more sharply with the transport departmental expenditure limits for capital rising by 34% compared to resource (or revenue) departmental expenditure limits rising by 11%.⁴¹ Even as the recession started to impact on public finances, forecast spending continued to be based on increasing levels of funding for regional transport schemes and for projects like Crossrail.

Transport Innovation Fund

The previous Government’s policy after the 2005 election was for much spending to be channelled through the Transport Innovation Fund (TIF). This was planned to become a much bigger proportion of transport spending over time, rising from an expected £290m in 2008/9 to £2,550m in 2014/15. (See table 9 in appendix.)

Rail Investment

Spending plans were revised down in the last Budget for the Department for Transport (and include the end of TIF), but the Government’s desire to provide longer-term indications for transport spending to support long-term transport planning mean that longer-term indications of funding for some programmes remained. In particular, rail investment through the Control Period 4 (CP4) investment period remained around the £3bn figure each year to 2013/14 (alongside passenger revenue for investment which was expected to rise from £6.7bn in 2009/10 to £9bn in 2013/14). (See table 10 in appendix.)

London

Expenditure in London was also expected to rise with DfT’s grant to GLA/TfL at above £3bn a year through to 2017/18. In addition, DfT funding for Crossrail (which is also being paid for with TfL funding and a supplementary business rate) was to peak at £1.3bn in 2013. (See table 11 in appendix.)

High-speed rail

Although meeting the costs of construction of High Speed Two is likely to be additional to DfT budgets, the Department for Transport is expected to absorb the initial preparation costs of High Speed Two. This may well be £2bn, of which £1bn has already been estimated as the costs of buying up the necessary land⁴² (See table 12 in appendix.)

Highways Agency

The Highways Agency’s forecast spending has risen rapidly in recent years with spending on major improvements and programmes rising from £4.9bn in 2007/08 to £6.2bn in 2010/11. Within this, expenditure by the Agency on things like maintenance, traffic management and smaller schemes has barely risen in real terms over the same period. (See table 13).

³⁹ The Transport Innovation Fund, DfT, <http://www.ltpnetwork.gov.uk/Documents/transport%20innovation%20fund%20guidance.pdf>

⁴⁰ See Public Sector Statistical Analysis, HM Treasury, Table 4.2

⁴¹ *ibid* see tables 1.5 and 1.10

⁴² <http://www.dft.gov.uk/pgr/rail/pi/highspeedrail/hs2ltd/hs2report/pdf/chapter4.pdf>

Spending cuts

However, the current financial and economic situation led all the main parties to commit to deep spending cuts, outlined to varying degrees before the general election. Projections made by the Institute of Fiscal Studies (IFS) indicate that the transport sector faces particularly significant cuts in public spending. The IFS expected that Departmental Expenditure Limits will overall face a decrease of 11.9% from today's plans by 2015. The transport sector, however, will feel the effect of more severe cuts as most transport funding will not be protected as some departments like health and overseas development will be. Dependent on whether the government chooses to go for a 'two year protection' of protected services or four years, the unprotected part of public spending will face from 19.5% to 25.4% cuts. In any case, unprotected services are looking at 14.1% cuts by 2013.⁴³

The first stage of these cuts, announced in late May, saw £683m removed from the transport budget this year. This includes cuts to local authority grants, with major cuts to the integrated transport block of the local transport capital funding alongside removing ring-fencing for major transport schemes, Kickstart bus funding and the Green Bus Fund.⁴⁴

The response from transport – efficiency savings

The National Audit Office says that there is a growing body of evidence that rail infrastructure costs more in Great Britain than other countries.⁴⁵ Network Rail says that, in the five years to March 2009, it reduced the cost of the railway by 28%, and in the next five years a further 21% efficiency savings will be delivered.

Transport for London is looking to make efficiency savings of £5bn by 2018, building on the delivery on time and within budget of extensions to the Dockland Light Railway and opening of the new East London Line. TfL have also reduced the scope of their planned investments ahead of the spending review.

The Highways Agency programme contains commitments to a number of expensive schemes, many of which have already seen their costs escalate. The most expensive roads currently in the Highway Agency's roads programme are listed below, along with their cost escalation.⁴⁶

Highways Agency road schemes	Latest cost estimate	Cost increase
A14 Ellington-Fen Ditton	£1.3 billion	147% since programme entry, April 2003
M1 J28 to J31 managed motorways	£417 million	No increase yet, only entered the programme in January 2009
M25 J23 to J27 managed motorways	£411 million	No increase yet, only entered the programme in January 2009
M1 J19/M6	£302 million	202% since programme entry, February 2003
M62 J25 to J30	£262 million	No increase yet, only entered the programme in January 2009
M1 J39 to 42 managed motorways	£226 million	No increase yet, only entered the programme in January 2009
M25 J5 to J7 managed motorways	£217 million	No increase yet, only entered the programme in January 2009

⁴³ Institute of Fiscal Studies 2010: <http://www.ifs.org.uk/budgets/budget2010/emmerson.pdf>

⁴⁴ See <http://www.communities.gov.uk/news/newsroom/1611369>

⁴⁵ National Audit Office, Increasing Passenger Rail Capacity, 2010

⁴⁶ Some of these are regional schemes, which would be funded from the Regional Funding Allocation

Significant spending in the regions is also committed for some schemes, while others have only received programme entry dependent on final funding. Spending cuts at the levels described above will mean a further reprioritisation of schemes.

The table below shows the allocation from central government to each region (Regional Funding Allocation or RFA). Each region has a range of transport schemes which make up the total budget set out below. Given that RFA will be easier to cut than many other budgets which involve agreements and liabilities with a range of public and private bodies (for instance, Crossrail), RFA is likely to be cut at a higher level.

Region	Budget 09/10 - 15/16	Total cost of programme 09/10 - 15/16	Budget for uncommitted schemes w/ 25% cut	£ overspend 25% cut
East of England	752	921	286	332
East Midlands	704	725	277	174
North East	327	505	191	249
North West	894	1479	176	778
South East	1076	1159	452	316
South West	688	906	353	367
West Midlands	704	902	266	350
Yorkshire and Humber	667	765	399	242
Total	5812	7362	2400	2808

It is clear that transport will be expected to make a major contribution to the spending cuts planned by the new Government. The next section sets out how this can best be done to avoid damaging economic recovery and social inclusion, and to keep within our environmental limits.

Chapter Three

How we can use a spending review as an opportunity to reassess transport spending and revenue

We have set out above the flawed process by which spending on transport is allocated. This mattered when Government had the largesse to spend significant amounts on transport, and is now even more vital with the much smaller amounts of funding available going forward. Spending cuts need to be smart, and based on an improved approach to option identification, appraisal and supporting real choice in transport modes. The Government has choices in how and where it cuts, and these choices will have significant impacts in the real world. We set out here two scenarios, firstly one in which budgets are simply “salami sliced” by 25% across the board, and secondly a strategy of “smarter cuts”, which seeks to meet Government objectives and spend money on the right things, in new ways.

Scenario 1: Easy cuts – “salami slicing” budgets

In this scenario, the approach to cutting spending would be to simply salami-slice budgets by a set percentage in an attempt to achieve cuts, without considering either the return against policy objectives or the long-term needs of the country.

A 25% cut by 2015 across the budgets outlined above could, if done without thought, have dire consequences for the UK economy and the environment and lead to false economies with higher costs in years to come. For example:

Rail

Cuts in rail budgets could, if carried out without thought and planning, have a big impact on rail users. There are a number of options for cuts that would harm the interests of passengers and freight users, and also the wider economy and society:

- “Holidays” in rail maintenance, as imposed in previous recessions: this will result in **speed restrictions** and a rise in signalling and points failures, with impacts on punctuality and reliability
- Cancelling the investment allowed for in the current five-year regulatory settlement: this will leave significant **overcrowding** at key bottlenecks on the network like Reading and Manchester and inefficiencies in the use of the network (for example, where signalling or track has been cut back in the past). Railfreight will become less competitive with road, especially for the growth areas of ports and intermodal (e.g. supermarket) traffic
- Even bigger fare rises than currently planned: the last Government was already planning to raise an extra £950m from passengers to allow for reductions in its spending, with above-inflation increases. We note

below the reasons why even higher fares rises would be bad for economy and the environment as well as for passengers. This could lead to fares rising by over a third in the next five years⁴⁷

- Cuts in subsidies to specific franchises, especially in the North of England, the Midlands and the South West (Scottish and Welsh branches will be subject to devolved administrations). The Northern Trains and Greater Anglia franchises, which are coming up for renewal, include a lot of branch lines and local services, and these could be cut. If the current subsidies of £330m per year were removed from Northern Trains, it is likely that there would be **few local rail services** outside the main cities (and there would be significant cuts there as well)

The Government has already said that it will review the commitment to delivering 1,300 new carriages promised by the last government. Freezing orders for the new rolling stock will leave passengers facing significant overcrowding and also old-fashioned and uncomfortable trains, especially around the big cities outside London. It would also make it impossible in practice to proceed with the electrification of the London-Swansea line that the coalition government has said it supports.

Buses

Local buses are the most frequently used mode of public transport, with two-thirds of public transport journeys made by bus. They are a vital link for the one in four households without a car. Even in car-owning households, many people do not have access to a car or are too young or too old to drive one. These people need to be able to access shops, services and leisure, particularly in rural areas where many facilities have been closed. They are also particularly important as the economy recovers from recession to enable jobseekers to access employment and training and with many small businesses relying on good public transport for employees.

With the Government committed to keeping a national free concessionary fares scheme (which given an ageing population would be expected to increase in cost), a 25% cut in bus funding could well mean the end of national Bus Service Operator Grant (BSOG). That in itself would, according to DfT figures, lead to a **fall in services by 7%, fare increases of 6.5%, and a fall in bus patronage of 6.7%**. If local councils also cut their support for bus services by 25% we could see a fall in non-commercial services of top of this which could be as much as **94 million miles less**.⁴⁸ The combined effect of this would be to literally **decimate services** and lead to a vicious circle of reduced commercial and subsidised services, fare rises that drive away users, leading to further service cuts. Pensioners would continue to receive a free concessionary pass but for many there would be no services in their area for them to use it on. Local authority cutbacks would also hit community transport services and buses run by social services, education and health services, vital for the most vulnerable and poorest in society.

⁴⁷ Based on HMT forecasts for inflation with formula for regulated fare rises moving from RPI+1% to RPI+3%. Keeping fare rises at current formula would still lead to increase of 16% based on RPI forecasts

⁴⁸ See OFT report on bus competition for details of spending (based on analysis of TSGB), para 4.69. http://www.of.gov.uk/shared_of/consultations/oft1112con.pdf Amount spent per subsidised kilometre was £1 per kilometre in 2006/7. Kilometres travelled by subsidised buses in 2007/8 was 376 million miles. A cut of a quarter would be 94 million miles less. This may be an understatement if longer rural routes with higher costs and less revenue are cut

Case study: *Bus services are already being cut back across the country as local authority budgets and operator profits are squeezed. Examples include:*

- *Leicester council has cut funding for all weekday evening and Sunday services they currently fund*
- *Blackpool Transport has cut jobs and scaled back early morning and evening services*
- *Northamptonshire proposed cutting 14 bus routes*
- *The successful Wiltshire Taxibuzz evening service, cut by Wiltshire Council despite it being a good example of demand responsive services that the Conservative party called for at a national level*
- *Increasing evidence that councils looking to cut budgets are cutting community transport as an easy option for in-year cuts*

London

The consequences of significant cuts in support for transport in London would need to be considered by the Mayor and the decisions on priorities are ultimately up to him. But, across the board, cuts could lead to:

- **Shelving of key projects** to replace outworn underground equipment (life-expired signalling, track and trains)
- **Reductions in bus services**, especially in outer London and at evenings and weekends
- **Fare rises**, especially for bus users, who tend to be the poorest
- **Cuts in maintenance** for roads and traffic lights and in local safety schemes

Local transport

With cuts to local authority budgets, maintenance budgets could be slashed, leading to **more and deeper potholes** and **cracked and broken pavements** and an increasing backlog of repairs. Funding for winter maintenance – gritting and salt, and the machines and people to spread it – will also be under threat. This will, of course, end up with damage to vehicles, but, in fact, reduced road maintenance could result in deaths and injuries, especially for cyclists and also for older and disabled people who will slip and trip on cracked pavements. There will also be increasing problems with traffic lights and street lamps.

Cuts might also mean an end to speed cameras and local safety schemes (particularly with the Treasury holding back income from fines). And, depending on police budgets, there may also be cuts in traffic law enforcement. While this might be applauded by some newspaper columnists, this would result in **worsening road safety**, again could result in real deaths and injuries. If these cuts take place and previous budgetary silos are maintained, however, cuts in maintenance of existing roads and pavements and in traffic law enforcement could happen alongside continued construction of expensive new roads with all the problems previously mentioned of poor value for money and increased car dependency and carbon emissions. Such an outcome would hurt the UK economy by leading to increased delays and even road closures.

An end to ring-fenced grants, as promised by the Government, could mean the **end of support for rural buses**, innovative bus services such as Kickstart and school travel advisors who work with schools to promote walking and cycling. National support for cycling could end (despite concerns over obesity and reduced physical activity). **Investment in new public transport schemes**, such as tram extensions in Manchester and Nottingham and trolleybuses in Leeds, could be scrapped and even renovation of existing systems in Newcastle and Blackpool could be under threat.

Blanket cuts would mean no flexibility for additional challenge funding stream to incentivise local transport authorities to work together to tackle overriding problems like reducing carbon from transport, tackling

congestion or encouraging healthier forms of travel like walking and cycling along the lines of the Carbon Reduction Fund proposed by the Conservatives while in opposition or the Urban Challenge Fund developed by Department for Transport officials.

And this doesn't include the preparation costs of high-speed rail. If these are to be funded from the transport budget, there would have to be further cuts on top of these.

Such an approach of blanket cuts, or "dumb" cuts, could have huge consequences for the economy in terms of delays, lost jobs and competitiveness. It would also hurt the most vulnerable in society in various ways, including trapping in poverty those who are without jobs and live in deprived communities. This approach would make a mockery of the Prime Minister's desire to be running "the greenest government ever", as low carbon alternatives to cars and lorries would be scrapped, downgraded or made more expensive while scarce public spending funded a few, large, expensive new roads.

Scenario 2: Smarter cuts

There is an alternative to blanket cuts. Transport can contribute to deficit reduction, without these impacts. Instead, Government should have an approach based around the following five-point plan.

1. **Reducing the need to travel** to minimise the need for more transport infrastructure based around rising demand for transport
2. **Getting the most out of existing transport provision and infrastructure** – both maximising use of existing capacity and spending to maintain existing infrastructure
3. **Prioritising spending in the short term on low-cost solutions which have the strongest benefits** and help us to achieve the most pressing goals and to keep us within our carbon budgets⁴⁹
4. **Deferring higher-cost spending which meets long-term need** to develop our future transport system to meet the long-term challenge of switching to lower carbon modes and decarbonising transport
5. **Cancelling spending that does not meet long-term challenges**, particularly climate change

In addition, the Government should consider developing new approaches to spending to recognise the wider benefits of transport investment, such as a single budget across government to tackle obesity or climate change or "total place" approaches at a local level.

This would help avoid falling into the trap of implementing the easiest cuts rather than cuts which would still help us to achieve our long-term aims, particularly on employment and climate change. The Spending Review framework sets out questions which will be used to review all government spending. To be meaningful for transport, these must be accompanied by consideration of long-term aims and how transport can meet those aims, and move on from transport policy and practices which are purely responsive to current conditions.

⁴⁹ The DT has said that our biggest challenge is how we reduce transport's greenhouse gas emissions whilst supporting the economy, particularly to support job creation and to help people access jobs to support coming out of recession. Adapted from *Summary of Responses to the Consultation on Delivering a Sustainable Transport System: Planning for 2014 and beyond*, DfT, 2009

Using these headings, we recommend the following to deliver a 20-25% cut in the Department for Transport's overall budget:

Motorways and Trunk Roads

Highway maintenance budgets should remain at current levels – at 2007-8 figures, this totalled £880m for motorways and trunk roads. Construction of new roads should be removed. The Highways Agency should focus on the effective management of the motorway and trunk road network.

Rail

Railways represent high-capacity, low-carbon transport that can be a good alternative for cars and lorries. We therefore want to see the current network and services retained and improved. Rail investment has wider benefits:

- Reducing congestion and traffic, in market towns as well as big cities
- Reducing carbon emissions and air pollution from transport, especially with electric trains
- Social inclusion: providing transport for those without access to a car
- Economic development: rail lines and stations can act as centres for development, and railfreight gives businesses choice in how to transport goods
- Employment: investment in rail creates and maintains skilled jobs in UK manufacturing and construction

Rail use has been growing, even during the recession, and many lines have significant overcrowding, yet the Government has frozen new train orders. There are also opportunities for small scale improvements, especially in local services, which will make better use of the existing network.

So the rail priorities we propose are:

- Keeping the existing system going, including ensuring proper maintenance, with upgrades where appropriate
- Continued support for rail partnerships and small schemes to increase usage and link rail to economic development and wider local transport planning
- Tackling current overcrowding, with new and longer trains and initiatives to tackle bottlenecks such as the Reading Station upgrade and (in the longer term) the Northern Hub. The Government has frozen orders for new trains, but we believe new trains are required to cut existing overcrowding
- Continued electrification, including the Midland Main Line as well as the schemes previously announced. New trains should be electric to take advantage of this. There is good evidence that electric trains are cheaper to operate and more reliable, so electrification is justified on cost and efficiency grounds
- Improving stations: the last Government's report on rail stations highlighted some places that really need improving (such as Manchester Victoria), but the programme to tackle these has been scrapped
- Supporting railfreight growth to get more lorries off the roads, through improving and expanding the Strategic Freight Network and continuing grants to businesses to use railfreight

We believe that it is possible to retain current rail outputs with an increased number of trains, while reducing costs. There are a large number of options for reducing public sector costs in running the railways, including:

- Cut transaction costs in the industry and align incentives – for example by revising or possibly removing the compensation payments regime, whereby Network Rail compensates train companies for closing tracks for enhancement work
- Change the franchise regime to incentivise investment and upgrades by the private sector

- Seek greater efficiencies from Network Rail beyond those already envisaged, especially through benchmarking similar railways elsewhere and learning from this. In particular, the use of more appropriate standards could reduce costs for running local rail lines while retaining safety
- Refurbish and extend the life of existing diesel trains and convert some to run on electricity as well, rather than order new diesel trains
- Keep a rail franchise in the public sector as a comparator
- Devolve control of local rail networks such as Merseyrail to local authorities and benchmark costs against the rest of the rail network
- Make it easier for third parties (developers, local authorities, businesses and leisure operators) to fund and develop rail schemes
- Increase revenue through national marketing of rail services, especially for off-peak travel

We think the Government's current value for money programme should examine these and other options in detail. In particular, we believe the spending review should set out a long-term rail investment programme. This will bring down costs by allowing the rail industry to invest in skills and plant for the long term, and builds on existing UK rail expertise.

We have assumed current levels of spending in our scenario with higher levels of efficiency savings outlined above. The review of value for money by Office of Rail Regulation and DfT should provide the evidence base for the level of these efficiencies.

In addition, we propose a **Community Connections Fund** for the railways which can be bid for by local authorities, funded from efficiencies in the rail sector.

This scheme, which follows the very successful Rail Passenger Partnership Fund run briefly by the former Strategic Rail Authority, would have several advantages:

- It will allow for local enhancements of railways which are outside the current High Level Output Specification (HLOS). There are many enhancements which will have regional or local benefits but which will not figure in franchises or HLOS because they will not have national benefits
- It will allow the integration of rail upgrades into local transport plans – current planning largely excludes rail schemes because so much planning and funding for rail is national, and the benefits of many upgrades (new/improved services or new stations) do not fall to the rail industry but to the wider community in terms of economic development or reduced congestion and pollution
- It will ensure that local ambitions for improvements can be planned and integrated with national objectives
- It will enable upgrades that make better use of existing lines and services. The St Albans Abbey-Watford Junction tram conversion and the Tees Valley Metro scheme are examples of projects that will make local rail lines better used and more relevant to local travel needs
- This fund would, if large enough, contribute to the reopening proposals contained in "Connecting Communities" published in 2009 by ATOC. It should be applicable to freight as well as passenger schemes where the benefits are mainly local or regional

On fares, the previous Government planned that regulated rail fares would rise by 1% above inflation until at least 2014. In the 2007 Rail White Paper, it was anticipated that almost all franchises would be breaking even or paying premia to the Government by 2014 and that 75% of rail costs would be met by fares revenue (against 50% in 2007). Higher increases have been allowed on some routes – South East Trains fares are rising by 3% per year above inflation to pay for the new commuter services on the High Speed 1 rail link. Many rail fares are unregulated and have seen higher increases than this.

The danger is that as part of transport budget cuts even higher fares will be imposed, or come as a consequence of spending cuts. On the face of it, this might seem reasonable if you believe that users should pay the full costs of the services they get. But there are a number of key reasons why real fares increases should not be part of any deficit reduction programme.

First, competitiveness. Our fares are already well above European averages: a Passenger Focus study showed that rail fares in Britain are higher than those in the rest of Europe. Steer Davies Gleave say they are around 20% higher. A UBS study finds that 'in London, passengers have to be willing to pay double the fares charged in other Western European cities' and that UK train fares are the highest in the world.⁵⁰ Constant above-inflation increases would worsen competitiveness of UK cities, including London, against other countries where fares are much lower.

Second, living standards and fairness. With rail fares and some bus fares already expensive, further real increases would price the poor off public transport (especially at peak times) and make it harder for those on moderate incomes to afford commuter fares. Rail commuters are being charged several hundred pounds more every year on their season tickets because of the Government policy change in 2004 from regulating fares at RPI-1% to regulating them at RPI+1%. For example, Reading to London commuters are paying £399 more a year than they would have done without the switch to RPI+1%.⁵¹

Third, carbon emissions: our analysis shows that if past trends in transport costs continue and the policy on above-inflation rail fare increases remains, this will increase carbon emissions. By contrast, a policy of reducing public transport fares in real terms with increases in high carbon road and air transport would cut carbon by 13%.⁵²

Fourth, non-user benefits: the reason why other countries have lower fares than the UK is at least partly because the wider economic, social and environmental benefits of having a high-quality, efficient and affordable public transport system are recognised through higher levels of public funding and also through dedicated taxes such as an employers' payroll tax which supports public transport in French cities. Large fares rises will ignore these wider benefits.

It is also naïve to assume that in the current economic climate it is possible to raise fares and revenue sufficiently for franchises to become self-supporting by 2014.

Buses

For most travellers outside London, the bus is public transport. Two-thirds of all public transport trips are on buses. The relatively low cost and flexibility of bus services makes the bus a key weapon in the battle against traffic congestion. Better bus services are also central to tackling social exclusion, as those on the lowest incomes are the most dependent on the bus.

To avoid a double whammy to bus services if BSOG support for operators is cut and then local transport authorities are unable to pick up those services themselves given budget cuts, there is a need for central government to continue to play a strong role. Current levels of funding should therefore be retained, but more flexibility should be given to local transport authorities to use funding to shape bus services to meet passenger needs, and to ensure efficiencies through use of powers under the Local Transport Act, particularly around local bus partnerships with rationalisation of services through cooperation between operators and improved ticketing to grow the market. As a first step, devolution of BSOG funding should be trialled with Integrated Transport Authorities in the main cities.

⁵⁰ UBS, Prices and Earnings Study, 2009

⁵¹ http://www.bettertransport.org.uk/campaigns/public_transport/rail/season-tickets

⁵² Steer Davies Gleave, Transport costs and carbon emissions, December 2008

Buses are also a key part of cutting carbon through people switching to buses from higher carbon modes. But more could be done to green the bus fleet. The Government should continue investment in greening the bus fleet through the green bus fund. This can support UK bus constructors to innovate and lead the world in developing low- and zero-emission buses and other public-service vehicles.

Local transport

As set out in our five point approach, priority must be to get the most out of the current transport network. That means encouraging more efficient and sustainable use of existing roadspace through encouraging a switch to buses, walking and cycling. It also means recognising that the traditional bias towards capital funding needs to end and, as part of wider moves to localism, local authorities should have more flexibility for revenue spending.

For remaining capital spending, additional transport capacity would need to be justified through an improved option identification and appraisal process, including setting out how the project plays its part in helping meet cuts in national carbon budgets. We also believe that localism should not mean that local authorities are absolved of their responsibility for tackling climate change. The Local Carbon Frameworks developed by the last government should be built on and made more ambitious so that local authorities are able to operate within local carbon budgets as they operate within local financial budgets.

As such, priority should be given to:

- Maintaining current road maintenance funding
- Central government funding for transport that is general rather than restricted to capital funding
- Managing roads and road space better with smaller scale junction and highway projects and lower speeds in residential and shopping areas to encourage more walking and cycling

The large programme of local roads schemes must be cut back. The Government has already announced a halt to road (and other transport) schemes that do not have final approval and that new schemes will be assessed under a revised appraisal regime which takes greater account of the need to reduce carbon. This is to be welcomed but a new approach to option identification and appraisal must demonstrate that it will genuinely lead to a move away from the in-built biases identified in chapter two of this report.

Transport choices in rural areas should also be a priority for support. The Government should continue funding innovative pilot schemes including the proposed taxi-bus rural transport pilot (as suggested by the Conservatives when in opposition). As part of review of National Park structures, the Government should consider giving authorities transport powers (i.e. joint powers with transport authority) and allow authorities to bid to the proposed challenge fund for measures to support sustainable leisure travel in parks.

The Government should also recognise the value of greater job creation from public transport schemes. For instance, an evaluation of the American fiscal stimulus suggests that the public transport investments have generated twice the amount of job-months for the same level of funding compared to road building.⁵³

London

Decisions in London are up to the Mayor but priority should go on buses and local schemes, fixing the existing tube and a leaner Crossrail to relieve capacity on the overcrowded tube.

Sundries

⁵³ Source: What we learned from the stimulus, Centre for Neighbourhood Technology, Smart Growth America and US PRIG, 2010

The relatively small amounts of funding given to Cycling England have delivered strong results and are helping to change the way that local authorities deliver improvements for cycling. Cycling England should continue to be funded at increased levels from DfT and with ongoing support from the Department for Health.

The spending review should examine the scope to do more to deliver a step-change in levels of walking. The DfT should assess the experience of both Cycling England and the Commission for Architecture and the Built Environment and consider how they could support such a step-change.

Transport Challenge Fund

Even with moves to reduce ring-fencing and increasing cuts in grants to local government, the Department for Transport would be right to use a fund to challenge local authorities to up their game on transport given the scale of improvement needed (as set out in the Cabinet Office report on urban transport quoted in chapter one of this report). A Transport Challenge Fund, along the lines of the proposed Urban Challenge Fund or the Conservatives' Carbon Reduction Fund, could help support the step-change needed. It could provide real incentives to improve delivery by local authorities, similar to incentives being discussed to support housing growth and renewable energy.

With any fund, the Department for Transport should have the confidence to say what success looks like but leave local transport authorities to set out how exactly they would achieve that in their area. The areas that have delivered real improvements in recent years are those which have set out to reduce traffic levels and to lock in the benefits of this. For instance, through roadspace reallocation to other modes (such as bus and cycle lanes) and functions (eg for people to enjoy places by giving pedestrians priority).

The benefits of the Fund in tackling costs from road collisions, poor air quality, physical inactivity and noise justify additional funding for the Challenge Fund from other government departments whose agendas would be helped by it (ie those departments with lead responsibility for agencies who would see reductions in their costs from, for instance, healthier individuals or fewer collisions). The rest could be paid for by top-slicing the Regional Funding Allocation by 10% and still leave room for additional cuts to RFA.

Additionally, the Challenge Fund enables those authorities who had been progressing a transport scheme prior to the spending review to bring forward low-cost interventions to mitigate demand and provide targeted improvements, as well as cutting congestion through, for example, programmes to increase walking and cycling.

Examples of low-cost alternatives to road schemes that a challenge fund could support include:

Road scheme	Problem	Low cost solution	Saving
Kingskerswell Bypass: £130 million	Congestion through Kingskerswell from traffic driving between Torbay and Exeter	Re-open Kingskerswell station, introduce tidal lane and modify junctions to improve traffic flow Estimated cost: £30 million	£100m
A14 Ellington Fen Ditton: £1.3 billion	Problem: congestion caused by poor junction layouts and high HGV traffic from Haven ports	Improve rail freight between Felixstowe and Nuneaton, re-open East-West rail link between Cambridge and Bedford, modify junctions and roll-out active traffic management Estimated cost: £500 million	£800m
Bexhill Hastings Link Road: £100 million	Poor transport links to Hastings and Bexhill	Open railway station at Glynne Gap, improve rail access to London and Ashford Cost: station opening £10 million	£90m
Norwich Northern Distributor Road: £90 million	Planned housing developments in north-east Norwich would cause too much congestion on existing roads	Single-carriageway road links and bring forward bus rapid transit and demand management Estimated cost: unknown	Unknown
A453 widening: £194 million	Congestion on A453 into Nottingham from M1 through Clifton	Dual-track parallel rail line to provide alternative for local traffic and introduce traffic management for Clifton Estimated cost: unknown	Unknown

Summary of our proposed cuts and priorities

Priorities for deferral and cuts should be:

Funding stream	Saving	
Costs of HSR development – deferred or not from DfT budget	Potentially £2bn over five years	
National roads programme	A14 Ellington -Fen Ditton	£1.3 billion
	M1 J28 to J31 managed motorways	£417 million
	M25 J23 to J27 managed motorways	£411 million
	M1 J19/M6	£302 million
	M62 J25 to J30	£262 million
	M1 J39 to 42 managed motorways	£226 million
	M25 J5 to J7 managed motorways	£217 million
RFA schemes descoped	A5-M1 link road	£218 million
	A556 Knutsford to Bowden	£207 million
	A453 Widening	£194 million
	A45/46 Tollbar End	£150 million
	A11 Fiveways to Thetford	£147 million
	A21 Tonbridge to Penbury	£145 million
	A21 Kippings Cross to Lamberhurt	£144 million
	Heysham M6	£156 million
	Kingskerswell Bypass	£130 million
	A19 Coast Road	£119 million
	FARRS road and associated highway works	£117 million
	A160/A180 Immingham	£109 million
	Bexhill-Hastings Link Road	£100 million
	Norwich Northern Distributor Road	£90 million
	A555 Manchester Airport Eastern Link Road	£300 million
Mottram Bypass and Glossup Spur	£100 million	

Priorities for spending should be:

Funding stream	Cost
Bus support	Maintain at current levels – around £2.6bn
Electrification	£1.1bn over six years for lines announced in 2009, expected to pay for itself through lower maintenance and running costs
Rail fare reductions	£460 million a year – could be paid for through fuel duty on domestic aviation
Challenge fund for transport	£540m over five years from top slicing RFA, plus additional funding from other government departments
RFA priority schemes	£1.19bn over five years
Community Connections fund	£40m per year (based on funding levels planned for previous)
National parks fund	£5m over five years

Chapter Four

New approaches for local transport

In chapter one we set out our recommendations for changes in the way that choices are made about spending. To support that, we set out below **new approaches** at a local level to support greater efficiencies from transport spending to maximise impact. These approaches would deliver a true localist agenda where local councils are capable of delivering the step-change in transport that is needed, not a simplistic localism in which central government absolves itself of its responsibilities and simply says “it’s up to them” to improve transport.

Strategic cooperation between authorities

- Proposed City Mayors should cover whole conurbations not just city councils (Greater Manchester not just the City of Manchester, Tyne and Wear not just Newcastle) and have London-style powers including strategic planning and transport/highways, also the option for bus regulation and hence fares income that they can use to borrow against, as in London
- Any replacement for the regional funding advice / allocation (RFA) process should build on good practice in strategic option identification and support joint working by local authorities, including sharing back office functions such as strategic planning

Cooperation between local authorities and transport operators

- PTEs/ITAs should become co-signatories to rail franchises again, with the potential for extending this to Local Economic Partnerships as well
- The regulation of Network Rail and structure of franchises should be changed to ensure that they have positive incentives to accept third-party funding for stations and other improvements. This could bring in significant new public and private funding to upgrade (and potentially build) new stations
- Confirm Local Transport Act powers so that authorities can intervene actively to improve bus services in whatever ways they wish, whether through different kinds of partnerships or through contracts. DfT should actively monitor a range of these so as to gather an evidence base on different kinds of interventions

A “total place” approach to spending and revenue

- Localism approaches need to recognise and act within both financial and carbon/environmental limits
- The total place concept can be applicable for transport spending, such as pooling of transport budgets between education, social services and health so that a single body commissions local transport services (some county councils and PTEs already do this)
- Parking budgets should be linked into this so that revenue from parking charges can pay for improved public transport where appropriate

New sources of income for transport

Beyond this, the Government should, as part of the review of local government finance, look to help local authorities meet the costs of improving transport by **simplifying local funding sources** for transport from:

- Developers (including levies, S106, tariffs)
- Employers (workplace parking levies, relocalise business rates to enable development of tax increment finance potential for new transport infrastructure)
- Transport users (for instance, congestion charges or working with operators to grow the market for buses rather than squeezing more money out of declining passenger numbers)
- Residents (for instance, a move from effectively subsidising parking and with residents' parking charges reflecting emissions)

One example would be to extend business rate supplement powers from Crossrail to ITAs/PTEs to contribute to other transport schemes and to allow for pooled planning gain to pay for new public transport/cycling networks, as with Tavistock rail reopening /housing scheme.

It has been suggested that local government could bring in additional funding for transport through:⁵⁴

Potential annual revenue from transport and related taxes		
Mechanism	Rate	Annual revenue
Business rates uplift	4p local supplement	45
Congestion charge	£5 per day	50
Fuel duty top up	1p per litre	16.5
	5p per litre	82.5
Payroll tax	1%	161
	1.75%	281.7
Sales tax	1%	100

⁵⁴ pteg: *Transport Works*, March 2010

Chapter Five

What this means for transport in 2015

Unless local authorities are supported to bring in new funding sources (and private sector investment in public transport improvements is facilitated), it will be a challenge to meet spending cuts of 25% without damaging our ability to reduce carbon, support the economy and create jobs or improve the quality of our towns, cities and villages

The analysis carried out as part of the Government's spending review will provide a firmer evidence base for estimates of spending by 2015. But it must be accompanied by a real public debate about how to cut spending without damaging the ambitions we have for our country. This report is intended to help that debate and we therefore put forward a picture of what we think the main budgets could look like in 2015.

Motorways and trunk roads – around £1bn per annum by 2015

- The Highways Agency's role and budget is slimmed down to its role to manage and maintain the motorway and trunk road network

Rail – around £3-4bn per annum by 2015

- Secure efficiencies from the rail network (as identified above) and invest savings from efficiencies in reducing fares and the new Community Connections Fund which can incentivise joint working with local transport authorities
- Develop opportunities for private sector contributions

Bus support – around £2.5bn per annum by 2015

- Maintain support for buses at the current level but maximise impact of this by incentivising cooperation between local authorities and operators through powers under the Local Transport Act

London – around £3-3.5bn per annum by 2015

- Work with TfL to ensure efficiencies from investment in tube capacity and the bus network and seek a leaner Crossrail

Local transport schemes and support – around £2-3bn per annum by 2015

- Our estimate is that 25% cuts can be made in the RFA with an additional £540m top sliced from the RFA to a transport challenge fund without fundamentally damaging local transport
- Local Transport Plans to cover the next five years and beyond are currently being developed. In addition, the government is reviewing local government finance. If local authorities are not able to raise additional revenue, then the level of cuts to LTP funding will need to be revised downwards

“Sundries”– up to £0.5bn per annum by 2015

- Cycling England’s budget should be maintained
- Consideration should be given to funding to improve the capability of local authorities to encourage and enable walking
- Given public health benefits of increased walking and cycling, Department for Transport and Department for Health should submit a joint approach to the Treasury to fund this area

Transport Challenge Fund – from £0.1bn per annum by 2015

- Around £108m on average each year, top sliced from major scheme and other budgets
- Given wider benefits of the Fund, DfT should explore contributions from other government departments to the fund

We look forward to working with transport operators, NGOs, local and national government and, most importantly, transport users to develop these proposals further.

Appendix

Table 1 – Central government direct expenditure on roads

Central government	Capital	Current/resource	Total
Strategic roads (2007/08)	1,213	1,649	2,862
Other roads and traffic	39	198	237

Table 2 – Regional expenditure on roads

Regional expenditure on roads England	2007/08
Motorways and trunk roads	2,304
Local roads:	
Construction/improvement of highways	3,254
Revenue expenditure on bridge maintenance	52
Winter maintenance	1,121
Revenue expenditure on road safety	499
Revenue expenditure on lighting	433
All road expenditure	7,664

Source: DfT TSGB 2009⁵⁵

Table 3 – Expenditure on railways in 2007/8

Railways expenditure	2007/08
Net Direct Support for Passenger Rail Services	684
Grants to PTEs	310
Direct grants to Network Rail	3,154
Channel Tunnel Rail Link grants	154
Freight grants	0
Other	72
Total	4,374

Source: DfT ARRA 2009⁵⁶

⁵⁵ <http://www.dft.gov.uk/adobepdf/162469/221412/217792/4212241/transportstatisticgreatbrit.pdf>

⁵⁶ <http://www.dft.gov.uk/about/publications/apr/ar2009/arra.pdf>

Table 4 – Central government support for Transport for London

	2007/08	2008/09
TfL funding		
GLA(DfT)	2,544	2,467
Overground grant	14	41
Capital grant (PFI)	-	100
Borrowing (Metronet)	157.5	315
Capital grant (Metronet)	150	116
Total	2,865.7	3,039

DfT also contributes to the Olympic Delivery Authority: 1,000

Source: DfT ARRA 2009, DfT Annual Report 2008⁵⁷

Table 5 – Revenue and capital support for transport for local government

2007/08:

General Fund Revenue Account England: Highways and transport	5,636
Local Transport Capital Settlement England	1,254

Source: DCLG Financial Statistics 2009⁵⁸, DfT funding for Local Transport⁵⁹

Table 6 – Detailed breakdown of local government spending on transport

LG Revenue expenditure(excl sp.grants)2007/08	England			Wales		Scotland	
	gross	net	capital charges	gross	net	gross	net
Highways and roads maintenance and planning	2,762	2,186	703	229	191	580	147
Congestion charging	173	-154	0	-	-	-	-
Traffic management	734	554	43	23	19	51	39
Parking	819	-515	149	17	-9	33	-24
Concessionary fares	1,000	872	3	57	56	8	7
Public transport management	607	511	58	35	30	72	2
Support to operators, bus services	1,139	1,027	30			-8	-19
Support to operators, rail services	1,008	1,008	9				
Support to operators, other	187	160	2				
Total	8,429	5,649	997	361	287	736	152

Source: DCLG Financial Statistics 2009, Welsh LA Financial Statistics 2009⁶⁰, Scottish LA Financial Statistics 2007-2008⁶¹

Table 7 – Additional grants to local authorities for transport

ABG	DfT			DCSF	
	Detrunking	Road Safety	Bus subsidy	Sust. travel	Ex. Rights to free transport
2009/10	50	78	58	4	19
2010/11	51	77	60	4	29

Source: DCLG ABG 2009⁶²

⁵⁷ <http://www.dft.gov.uk/about/publications/apr/ar2008/apr2008report.pdf>

⁵⁸ <http://www.communities.gov.uk/documents/statistics/pdf/1240022.pdf>

⁵⁹ <http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/>

⁶⁰ <http://wales.gov.uk/docs/statistics/2009/090924localgovfinanceen.pdf>

⁶¹ <http://www.scotland.gov.uk/Resource/Doc/265167/0079445.pdf>

Table 8 – Cycling expenditure

DfT Cycling England – funding from DSCF, DEFRA, DCLG, DCMS

Cycling England	2007/08	2008/09	2009/10	2010/11	Total
	10	20	60	60	140

Source: Cycling England Annual Report 2007/08⁶³**Table 9 - Transport Innovation Fund forecast expenditure**

TIF	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
	290	600	930	1,300	1,680	2,100	2,550

Source: DfT 2009⁶⁴**Table 10 - Forecast expenditure on rail in Control Period 4 (CP4) 2009-2014**

CP4 Forecasted funding ⁶⁵	2009/10	2010/11	2011/12	2012/13	2013/14	Total
Passenger revenue	6,700	7,300	7,800	8,400	9,000	39,200
SOFA (funding from DfT)	3,200	3,000	3,100	3,000	3,000	15,300
Other	700	800	800	800	800	3,100
Total cash in	10,600	11,000	11,700	12,200	12,800	57,600
Cost of passenger services	5,000	5,200	5,300	5,600	5,700	26,800
Network Rail baseline cost	4,300	4,100	4,100	3,900	3,800	20,200
Network Rail financing payments	1,600	1,600	1,700	1,700	1,800	8,400
Total cash out	10,800	10,900	11,100	11,200	11,400	55,400
Additional borrowing	1,600	1,700	1,500	700	500	6,100
Total cash of HLOS	1,500	1,900	2,100	1,700	1,900	9,000

⁶² <http://www.communities.gov.uk/localgovernment/localgovernmentfinance/areabasedgrant/>⁶³ http://www.dft.gov.uk/cyclingengland/site/wp-content/uploads/2008/11/cycling_england_annual_reportfinal.pdf⁶⁴ <http://www.dft.gov.uk/pgr/regional/tif/transportinnovationfund?page=2#a1002>⁶⁵ White Paper (Delivering a Sustainable Railway)http://webarchive.nationalarchives.gov.uk/+/http://www.dft.gov.uk/about/strategy/whitepapers/whitepapercm7176/hitepaper_sustainable railway1.pdf

Table 11 – Funding for transport in London

London funding	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
GLA grant	2,467	2,555	2,872	3,004	3,150	3,304	3,465	3,562	3,662	3,763
Overground grant	41	42	42	43	44	45	46	47	49	50
Capital grant PFI	100	100								
Borrowing Metronet	315	157	157							
Capital grant Metro.	116	49	235							
Total	3,039	2,094	3,307	3,047	3,194	3,349	3,511	3,609	3,711	3,813

Source: DfT ARRA

Table 12 – High-speed rail total costs

Capital cost of HS2	17,800
Buying land	1,000
Total start-up cost	2,000
Annual expenditure during construction	2,000
Annual operating costs	140
Operating costs total	7,600
Total cost	25,500
Revenues	15,000
Net Government support	11,900

Source: DfT HSR Summary⁶⁶, Ernst & Young Report for HS2⁶⁷, HS2 Report 2009

Table 13 – Highways Agency spending 2007-2011

Highways agency forecast spending ⁶⁸	2007/08	2008/09	2009/10	2010/11
Maintenance	878	914	1,113	884
Smaller schemes, R&D	189	191	202	198
Technology	197	259	345	211
Major improvements	876	786	1,111	1,421
Traffic manager	126	153	152	144
Other programmes (incl. annually managed expenditure outside the DfT's departmental expenditure limit)	4,063	4,117	4,580	4,730
Administration	94	88	88	85
Total	6,423	6,508	7,591	7,673

Source: DfT ARRA 2009

⁶⁶ <http://www.dft.gov.uk/pgr/rail/pi/highspeedrail/summary/pdf/hsrsummary.pdf>

⁶⁷ <http://www.dft.gov.uk/pgr/rail/pi/highspeedrail/hs2ltd/deliveryandfunding/pdf/finance.pdf>

⁶⁸ DfT ARRA 2009

Table 14 - Contracted subsidy for rail franchises (including expected premium payments from TOCs to Government in blue)

Name	Start	07/ 08	08/ 09	09/ 10	10/ 11	11/ 12	12/ 13	13/ 14	14/ 15	15/ 16	16/ 17	17/ 18	18/ 19	19/ 20	20/ 21	21/ 22
Arriva Wales	08/12/2 003	3	3	3	3	3	3	3	3	3	3	3	3			
c2c	26/05/1 996	13	12	12	11											
Chiltern Railways	03/03/2 002	9	3	0	-2	-4	-6	-8	-11	-15	-18	-21	-24	-27	-31	-29
First Capital Connect	01/04/2 006	-45	-66	811	103	127	150	179	205	127						
First Great Western	01/04/2 006	46	14	-20	111	168	233	302	363	427						
Gatwick Express	28/04/1 996	-17	-19	-21	-22											
Northern Rail	12/12/2 004	324	333	332	330	328	327	326								
ONE	01/04/2 004	-60	-75	-82	-90	-97	105	115								
South Eastern	01/04/2 006	114	100	126	107	65	24	-9								
South West Trains	04/02/2 007	74	28	-36	-80	132	191	241	286	334	323					
Southern Trains	26/05/1 996	91	80	57												
TransPen nine Express	01/02/2 004	96	93	91	90	74										
Arriva Cross Country	11/11/2 007	93	245	222	190	156	113	77	48	44	5	-57				
Virgin West Coast	09/03/1 997	274	294	243	205	172										
East Midland Trains	11/11/2 007	35	63	36	2	-36	-64	-79								
London Midlands	11/11/2 007	78	198	192	174	161	154	147								
NXEC	09/12/2 007	6	-84	133	178	228	300	346	394							

Source: DfT Guidance to DaSTS⁶⁹

⁶⁹ <http://www.dft.gov.uk/pgr/regional/strategy/dasts/guidance/>