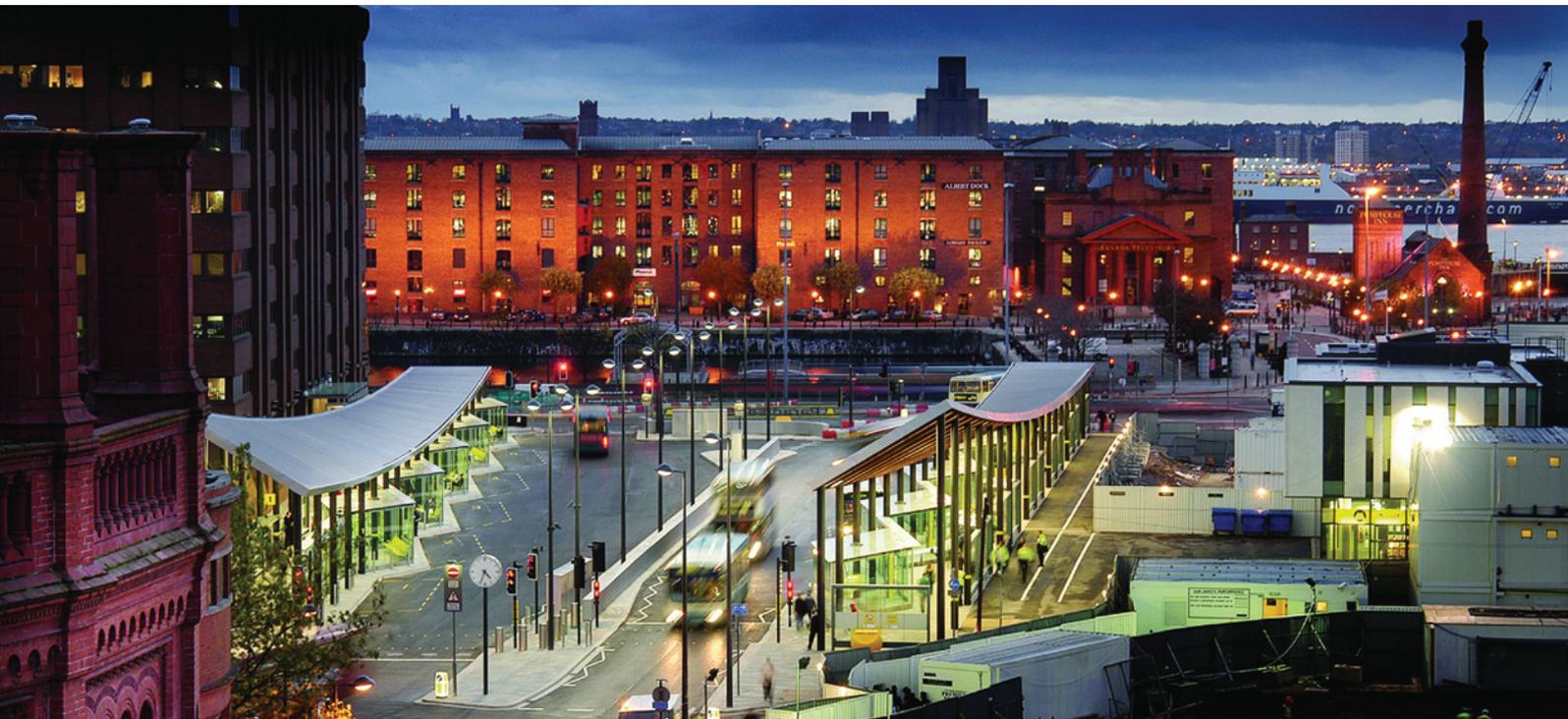


Transport *works*

the case for investing in the city regions

A report by **pteg**



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For more information visit www.pteg.net/PolicyCentre/FundingGap or contact the **pteg** Support Unit on 0113 251 7204 or email info@pteg.net.

pteg represents the six Passenger Transport Executives (PTEs) which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.

Executive Summary

This document outlines the case for continued investment in urban local transport through the recession and beyond. Investing in better transport has been an important part of the stimulus package implemented by government in order to support key sectors of the economy through the recession. Continuing and sustaining this investment for the long term will be an equally important part of the recovery phase, since improving local transport is one of the most effective means of supporting jobs and businesses.

Pressure on the public finances means that every area of expenditure is under intense scrutiny. In the past, transport has faced a disproportionate impact whenever cutbacks have been necessary. The result of this has been a stop-start approach to investment in better transport infrastructure and the services that depend on it, which has led to the UK falling behind its key European competitors. To make the same mistakes this time round will make it harder to create and sustain new jobs at the very moment the economy needs to harness new employment opportunities so that people can stay in work and contribute to national tax revenues rather than rely on state support.

The role of transport in urban and national competitiveness is well documented, particularly by the Eddington Study in 2006 and subsequent government strategies. Most recently the Cabinet Office has quantified the costs of congestion and

other disbenefits arising from the relatively poor quality of transport in urban areas as at least £40bn, with congestion accounting for around one third.¹ At the same time, it has been recognised that investing in transport can pay economic dividends – one estimate is £3 of benefits to every £1 spent² – but can equally contribute to the demanding challenge of reducing carbon emissions.

The concentration of labour, capital, knowledge and other significant assets within the major city regions in the UK makes them key to economic recovery and future sustainable growth. It is increasingly recognised that urban public transport is therefore especially important in the current context since it makes it possible for large numbers of people – often without a car – to access work, education and other important activities. Nowhere is this more apparent than in the city regions of the North and Midlands, where the

impacts of the recession are being felt most strongly; and where there has been a historic imbalance in the funding levels received for transport.

Therefore sustaining investment in local, urban transport and devolving more powers and responsibilities to city regions will support communities, reduce congestion and protect the environment, as well as making a central contribution to economy recovery.



1 Cabinet Office (2009) An analysis of urban transport <http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf>
2 <http://www.citiesmanifesto.org/transport>

Introduction

Good transport is essential to the life of the city, both as a cluster of economic activity, and as a place where people want to be. Faced with increasing global competition for jobs and investment over the last few years, many British cities and city regions have devoted significant resources to improving their transport systems so that they become more attractive places for people to live, work and invest. Investing in local public transport brings a number of important economic and social benefits - most notably a reduction in the congestion that limits economic competitiveness. Many trips in urban areas are also short in length, so there is significant potential to shift trips to public transport, improving its financial viability and supporting travel opportunities and services on which people without a car – who tend to be less well off than those who do – depend. Crucially such investments can also be targeted to help reduce carbon emissions and tackle climate change, and also to improve local air quality.

This paper sets out the case that, despite the recession and its impacts on government finances, investment in urban public transport must be maintained to make more long lasting and sustainable changes to the performance of urban areas, which will pay dividends as the economy returns to growth. A return to the stop-start investment cycle of the past will harm the recovery and diminish the quality of life for millions of people.



Investment in urban public transport must be maintained to make more long lasting and sustainable changes to the performance of urban areas



The recession and its impacts

In times of recession, public spending quickly comes under severe pressure. As the economy shrinks, the overall tax take declines and the level of public support needed to cover increased costs, primarily unemployment and other benefits, rises. At the same time for transport, fare revenue declines, with public transport operators facing a financial gap long after the economy has begun to grow again since rising unemployment (and hence reduced travel, especially commuting) tends to lag recession by several months. In such circumstances, decision makers need to think very carefully about where scarce public resources are directed - not just so that short term pressures are met, but also so that the long term, strategic development of the economy is not jeopardised.

In previous recessions, transport – especially capital investment in new or upgraded transport infrastructure – has suffered as governments have sought to make fast, deep cuts in public spending. Early signs from this recession are mixed – although the package of economic stimulus measures contained in the 2008 Pre-Budget Report included some £700m of accelerated transport spending, £400m was for the Highways Agency to accelerate schemes on the strategic roads network (with the environmental and other costs this entails) rather than local public transport, which supports local labour markets and helps people stay in work. The 2009 Budget charged the Department for Transport (DfT) with making almost £2bn of efficiency savings. Even this figure might be modest, however, if

specific areas of domestic public spending – say health and/or education – are ring fenced against more general cuts designed to reduce public sector debt quickly. The Institute for Fiscal Studies (IFS) has suggested that cuts to ‘non-protected’ government department budgets, including the Department for Transport, will be in the order of 6.7% per year for the next four years – around 24% in total over four years³. In addition, if capital expenditure is cut, as happened before, the IFS estimate that reductions of 20% per annum are likely. This is compounded by capital investment being concentrated in a few government departments, such as Transport.

Transport investment – be it capital investment in new or upgraded infrastructure, or revenue support for socially-necessary services – is often first in line to be cut when the public finances come under pressure.

Although it might be less immediately visible than health or education, transport services make a number of important direct economic contributions, perhaps most importantly facilitating the journey to work, and reduction of these has immediate implications for economic recovery.⁴

Maintaining a consistent level of transport investment is particularly important because the UK has under-resourced urban transport over the long term. Although investment levels have grown over the last decade, Britain’s city regions are still playing catch up with their major European competitors, as the Commission for Integrated Transport’s figures on historic investment levels demonstrate (see Table One).

Table 1 Indicative historic investment levels in urban transport

City	Public transport infrastructure investment per capita (Euros)
Vienna	464
Munich	221
Stockholm	83
Copenhagen	63
Milan	63
Manchester	32
Glasgow	23

Source: CIfT (2001).

3 IFS 2010 The Green Budget, see <http://www.ifs.org.uk/budgets/gb2010/10chap8.pdf>

4 For example, see <http://www.publications.parliament.uk/pa/cm200910/cmselect/cmtran/38/38we41.htm> on the importance of support for the railways

Cities, growth and economic recovery

“
Ensuring that businesses have access to as wide a labour market as possible... will be essential to maximise the level of investment, and hence employment, in the economy over the years ahead
”

For over a decade, government policy has emphasised the need to create prosperous, sustainable and liveable cities. Focus on cities and their regions first emerged from the Urban Task Force's (1999) work on how to promote an 'urban renaissance', and has been a critical part of many other initiatives from central government and the Regional Development Agencies since then, recognising that the performance of urban areas is a major contributor to national economic growth. The importance of government support for the economies of the city regions was confirmed by a series of research studies that identified a gap in performance between urban areas in the UK and key competitor countries.⁵ Following the 2006 Budget, HM Treasury published the results of its own research on the contribution of city regions to national economic performance, highlighting a number of critical success factors, including access to international markets, the availability of highly skilled labour pools, energy efficiency and resilience, and the clustering or agglomeration of high value activities as a stimulus to innovation.⁶

Good transport is therefore widely seen as essential to economic success since the costs of congestion – estimated at £11bn per annum in large urban areas alone⁷ – and other negative impacts of poor accessibility can constrain the functioning of key markets, especially the labour market, and therefore reduce the attractiveness of the city to business and investors, with knock on impacts for competitiveness, jobs, public services and community wellbeing.

Public transport plays a vital role in the city regions by connecting local people to jobs and other opportunities including education, leisure and health care. Ensuring that businesses have access to as wide a labour market as possible – the depth of the labour being a critical competitive advantage of the city regions – will be essential to maximise the level of investment, and hence employment, in the economy over the years ahead.

⁵ For the most up-to-date comparative work, see Turok, I. and Mykhnenko, V. (2008) "Resurgent European cities?" *Urban Research & Practice*, 1(1)54-77.

⁶ See, for example, http://www.hm-treasury.gov.uk/d/pbr08_ukeconomy_594.pdf

⁷ Cabinet Office (2009) An analysis of urban transport <http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf>

In order that the flexibility of the labour market is maintained – to the benefit of both employers and those people looking for work – public transport must play a lead role. Not only is public transport the most efficient mode for moving large numbers of people to and from the city centre locations where large employers tend to locate, with all the environmental advantages over the car this brings, but for many communities, public transport is the only realistic option for anything other than the most local trips given the low level of car ownership in many urban areas. One quarter of all households do not have access to a car⁸, rising to over half of households in the lowest real income quintile who are over-represented in the city regions.

In other countries also facing severe recession, stimulus plans have focused on investment in key infrastructure, including transport, to support employment and safeguard the engineering and construction sectors in the short term, but also to capture the greatest possible economic benefits from accelerated capital investment. In the US, the Economic Stimulus Programme has targeted both urban public transport and strategic investment in the rail network as key priorities for both climate change and economic reasons. The American Recovery and Reinvestment Act⁹ sets aside \$8.4bn for the Federal Transit Administration for transport projects¹⁰ with the money available on a ‘use it or lose it’ basis, focused on high impact, job creating, ‘shovel-ready’ projects. President Obama has also announced

\$8bn for High Speed Rail of which he said: ‘We must start developing clean, energy-efficient transportation that will define our regions for centuries to come...High Speed Rail is long overdue,’ \$1.3bn has also been allocated to Amtrak for capital improvements¹¹.

One of the reasons investment in transport infrastructure has historically been so weak in the UK – in broad terms, the UK has spent approximately 40% less in terms of GDP on transport for 40 years, compared to its key competitor countries in Europe – is that it can take time for the all the benefits from the investment to manifest themselves. However, given the scale of the economic and environmental challenges we face, this long term payback – in meeting climate change and carbon reductions (as set out above), but also in terms of promoting the city regions as key centres of sustainable economic growth in the future, rebalancing the national economy, and maximising the prosperity and contribution of the city regions outside the South East – is well worth pursuing.

Short term schemes such as promoting simpler, cheaper travel can help address the problems of recession immediately. And although investment in transport infrastructure takes time to implement and deliver, starting now on schemes that will be completed in a few years time not only creates much needed employment during the construction phase (especially given the differential impact of the recession

on the engineering and construction sectors) but also means that the new and improved travel opportunities are available as the economy improves, thus ‘locking in’ the benefits since new economic activity can be planned and developed to take account of them. Not only does this approach ensure that city regions are not playing ‘catch-up’ when the economy improves, but it also sends an important signal to potential investors about confidence in the future.

8 DfT National Travel Survey 2008

9 http://www.recovery.gov/About/Pages/The_Act.aspx

10 http://www.fta.dot.gov/index_9440_9917.html

11 Robert Ravelli (2009) ‘Obama administration makes transport a priority’ in Transport Times May 2009, p. 20.

Transport policies for competitive and sustainable city regions

A good transport network is important in sustaining economic success... the transport system links people to jobs; delivers products to markets; underpins supply chains and logistics networks; and is the lifeblood of domestic and international trade

(Eddington, 2006:11)

Improving the quality of local public transport is a central part of competitiveness strategies in nearly every city region in the world. Although precisely quantifying the economic impact of better transport is difficult, there is substantial evidence in favour of the simple yet important assertion that locations with poor quality transport are at a competitive disadvantage when compared with those with high quality transport infrastructure and services.

SACTRA (1999)¹² identified six specific positive outcomes have been identified from urban transport investment:

- Reorganisation or rationalisation of production, distribution and land use;
- Extension of labour market catchments;
- Increases in output resulting from lower costs of production;
- Stimulation of inward investment;
- Unlocking previously inaccessible sites for development;
- A 'catalytic' effect whereby triggering growth through the elimination of a significant transport constraint unlocks further growth.

A decade later, the Cabinet Office¹³ produced a similar list based on work from Sir Rod Eddington's 2006 Independent Review of Transport for HM Treasury and the Department for Transport.¹⁴

- deeper labour markets;
- agglomeration and clusters;
- smaller stocks held by firms;
- logistics innovations;
- more choice for consumers;
- increased trade.

¹² SACTRA (1999) Transport and the Economy, HMSO, London

¹³ Cabinet Office (2009) An analysis of urban transport <http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf>

¹⁴ <http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy>

The Eddington Report itself reiterated the link between transport investment and improved economic performance more generally, noting:

“A good transport network is important in sustaining economic success in modern economies: the transport system links people to jobs; delivers products to markets; underpins supply chains and logistics networks; and is the lifeblood of domestic and international trade.” (Eddington, 2006:11)

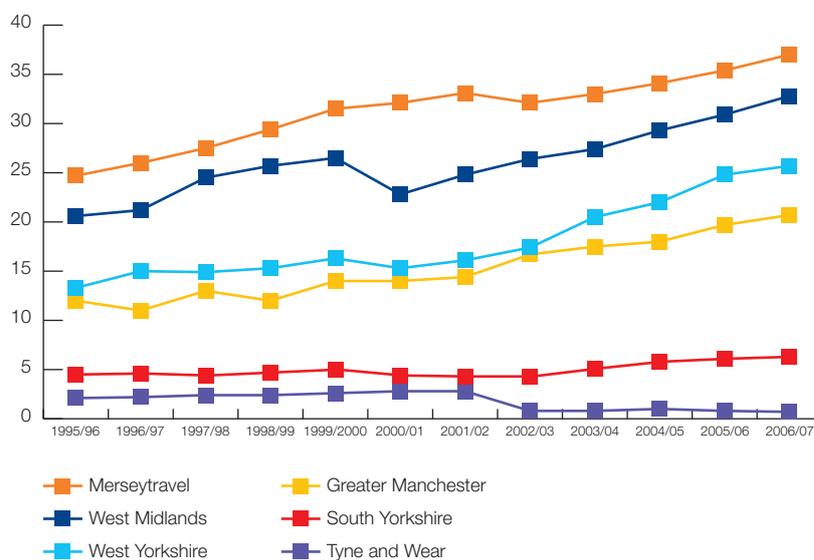
Of particular interest to Eddington was the issue of agglomeration effects – that is the additional economic efficiencies gained when particular sectors and activities locate close to one another. In general terms, economic benefits are realised through the conversion of reduced journey times into improved productivity and enhanced consumption opportunities. Eddington argued that urban transport is particularly important in supporting key growth sectors of economic activity such as finance, business services, ICT and other research activities dependent on large labour markets and which are commonly found in cities with their more comprehensive local transport networks.¹⁵ Noting that some research¹⁶ has suggested that these agglomeration effects represent an additional 40% benefit from transport investment over and above conventional estimates of time savings, reduced congestion and accidents etc, Eddington went on to advocate that government priorities for transport

spending should be re-ordered to fully capture these benefits; the following year, the Treasury’s Public Service Agreement delivery document on transport (PSA5) adopted this view.¹⁷

Finally, the Eddington report made two further important points: first, that the cumulative impact of several relatively small improvements to the transport system, such as can be achieved with local public transport, can often be at least as big as that of the large ‘megaprojects’ such as Crossrail, that often steal the limelight. Second was the recognition that failure to address

key constraints and bottlenecks in the transport network, such as the capacity constraints now affecting heavy rail commuter routes in many city regions given several years of steady growth (see Figure One below), can seriously constrain the ability of cities to compete against places with less congestion, and better quality public transport.

Figure 1: Rail passenger journeys in PTE areas (millions)



Source: PTA/PTE Annual Best Value Performance Plans, Business and Performance Plans, Annual Reports and Accounts for corresponding year

¹⁵ Centre for Economics and Business Research (CEBR) (2004) The Importance of Rail for the North West, Centre for Economics and Business Research, London.

¹⁶ Graham, D. (2007) ‘Agglomeration, Productivity and Transport Investment’, Journal of Transport Economics and Policy, Volume 41(3) 317-334.

¹⁷ http://www.hm-treasury.gov.uk/d/pbr_csr07_psa5.pdf

So whilst excellent transport infrastructure is not in itself enough to guarantee economic prosperity, even relatively small improvements in local transport systems can bring worthwhile gains to the urban economy. In particular, relieving bottlenecks can release constraints and start a virtuous cycle of growth by stimulating investment in new commercial property, for example. Larger, well planned and well executed major interventions, such as the development of LRT lines and networks, can deliver a step change in the level of transport provision such that new economic opportunities arise. But concerted delivery of a number of complementary smaller schemes, such as improvements to the bus fleet, bus stops and travel information, can bring similar benefits.¹⁸

Just as the Eddington Report and other similar research clearly demonstrated that effective urban transport makes an essential contribution to the economy, so there has been similar work on the impacts of transport policy and investment on the environment. Another independent report for the Treasury, the Stern Report on the impacts of climate change, identified critical changes to a range of policy areas required if the UK is to move towards a low carbon economy. Arguing that action needs to be taken now, given the long lead-in times before benefits materialize, Stern estimated that tackling climate change now would cost 1% of global GDP per year, compared to losing 5% of global GDP per year by 2050 if no action were taken.

Although Stern argued that early emissions reductions were unlikely to come from transport given the inevitable lag in the turnover of the national vehicle fleet to low emission, hybrid and electric power amongst other issues, he nevertheless demonstrated that "deep cuts" in the carbon emissions from transport would be required between 2025 and 2050 if the overall target of a 60% reduction in total carbon emissions by 2050 is to be met.¹⁹ Most importantly, Stern warned that a range of actions – modal shift, road pricing and technological improvements in vehicle engines – would need to be delivered quickly; otherwise transport would find it very hard indeed to meet its required share of emissions reductions. He also noted that "strong, deliberate" public policy measures would be required to create the conditions for carbon reduction – reducing public transport investment in the short term therefore risks the kind of delay in dealing with climate change that Stern warns against, and making it less likely that individual travellers will make the kinds of 'low carbon choices' the DfT's own Carbon Reduction Strategy for transport focuses upon.²⁰

Despite its undoubted environmental advantages over the car – especially for specific trip types such as commuting – public transport itself accounts for a significant proportion of urban carbon emissions and will need to progressively decarbonise as part of the national climate change strategy: at present, buses account for 3.6% of the greenhouse gas emissions from surface transport modes, and rail 1.8%.²¹

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Reducing public transport investment in the short term therefore risks the kind of delay in dealing with climate change that Stern warns against

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¹⁸ See <http://www.tfl.gov.uk/assets/downloads/corporate/Item05-Independent-Bus-Review-July09.pdf> for a thorough assessment of the cost-benefit performance of the London Buses network, including the impacts of investment and development

¹⁹ The precise level of cuts needed from the transport sector is likely to depend on how successful decarbonisation of power generation becomes: see http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/media/4/3/Executive_Summary.pdf

²⁰ DfT (2009) Low Carbon Transport: A Greener Future, <http://www.dft.gov.uk/pgr/sustainable/carbonreduction/low-carbon.pdf>

²¹ <http://cfit.independent.gov.uk/pubs/2009/psbi/05.htm>

Government's approach to transport in the city regions

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The challenge of delivering strong economic growth while at the same time reducing greenhouse gas emissions
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In direct response to Eddington and Stern, the Department for Transport published an updated strategy for transport – Towards a Sustainable Transport System in 2007. This was followed by November 2008's implementation plan Delivering a Sustainable Transport System (DaSTS), which outlines the Department's five goals for transport and lays out how it intends to address “the challenge of delivering strong economic growth while at the same time reducing greenhouse gas emissions”.²²

The five national transport goals²³:

- 1** to **support** national **economic** competitiveness and **growth**, by delivering reliable and efficient transport networks;
- 2** to reduce transport's emissions of carbon dioxide and other greenhouse gases, with the desired outcome of **tackling climate change**;
- 3** to **contribute to better safety, security and health** and longer life expectancy by reducing the risk of death, injury or illness arising from transport, and by promoting travel modes that are beneficial to health;
- 4** to **promote** greater **equality of opportunity** for all citizens, with the desired outcome of achieving a fairer society; and
- 5** to **improve quality of life** for transport users and non-transport users, and to promote a **healthy natural environment**.

Whilst it is clear that the five national transport goals (as set out in DaSTS) reflect the need to consider transport's contribution to economic, environmental and social progress in the round, it is our contention that some of the biggest improvements can be made by investing in the city regions outside of London. This is partly to redress the funding gap between our major provincial urban areas and London that has developed since the establishment of the devolved Assembly and Mayoralty, but also to make sure investment is targeted where it will have most impact

in economic and social terms in current circumstances. In the introduction to its recent Analysis of Urban Transport, the Cabinet Office itself notices that the challenges, but also the opportunities, for transport are greatest in the city regions. The December 2009 Pre-Budget Report is explicit in terms of focusing on the role of transport in promoting economic growth both regionally and nationally, pledging that: “*the Government will focus capital spending in the next Spending Review in the areas where it generates high economic returns in order to achieve maximum long-term benefit for the taxpayer*” (p.105).

22 DfT (2008) Delivering a Sustainable Transport System: Executive Summary, London: DfT, <http://www.dft.gov.uk/about/strategy/transportstrategy/dasts/exec>

23 DfT (2008) Delivering a Sustainable Transport System: Main Report, London: DfT, <http://www.dft.gov.uk/about/strategy/transportstrategy/dasts/dastsreport.pdf>

The Centre for Cities goes further, claiming in its Cities Manifesto that “public transport is a poor relation in the major city regions outside London”, but that investment in these networks could bring £3 of benefits for every £1 spent.²⁴

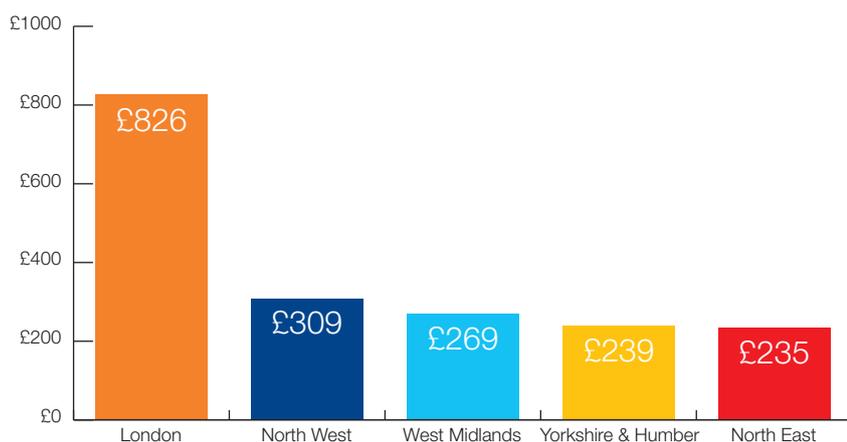
The importance of government intervention and investment in the city regions has been underlined by two further independent Treasury reviews, those of Lyons on local government (2003) and Gershon on the efficiency of public spending (2004). Both noted the potential to stimulate economic growth in major city regions through a number of policy interventions, including decentralisation of government functions and public sector employment.

Other research²⁵ argues that much more needs to be done if the resilient north-south productivity gap is to be closed, and that the support for provincial city regions can both underpin their growth, whilst at the same time not damaging the performance of London. Improving the transport network is a key component of this, with the potential of transport investment to unlock economic development and “support jobs and businesses” at the heart of recent proposals to transform rail connectivity across the North by investment in the Northern Hub.²⁶

The government has committed to piloting city region working in Leeds and Manchester. These two city regions form the economic core of the north of

England and contribute around 10% of the nation’s GVA output between them. Plans developed by the city regions aim to significantly devolve powers down from national government. This involves negotiation between central and local government over responsibilities to city region level, with associated changes to local governance and accountability. The pilot city regions are seeking greater control over a range of areas that make sense to be managed at a sub-regional level - skills, transport, housing and economic development. These pilots will be testing how devolution can work and paving the way for other city regions to follow suit.

Figure 2: Planned levels of transport spending per head in 2008/09



Source: HM Treasury Public Expenditure Statistical Analyses 2009

24 <http://www.citiesmanifesto.org/transport/>

25 See, for example, Amin, A, Massey, D. and Thrift, N. (2003) Decentering the nation: a radical approach to regional inequality, Catalyst, London <http://oro.open.ac.uk/7333/>

26 <http://www.thenorthernway.co.uk/displaypagedoc.asp?id=859>

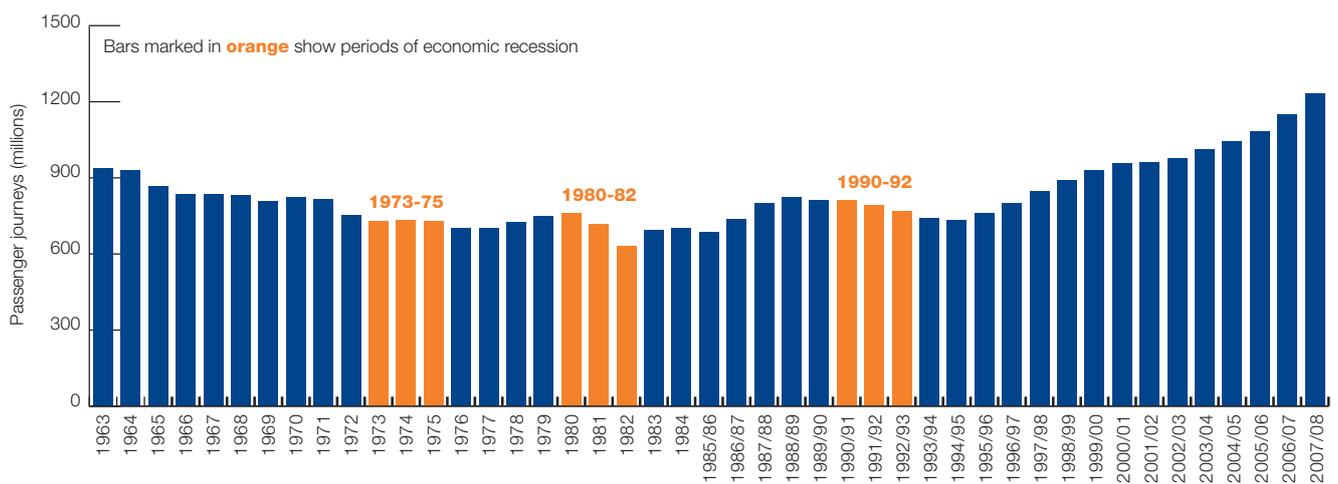
In its recognition of the importance of transport investment in realising the wider economic benefits that accrue through agglomeration – that is where businesses gain from high density markets and proximity to other businesses – the DfT itself is underpinning the argument for investment in the city regions. Figure One above has already illustrated how rail patronage – which is strongly linked to commuting and therefore economic growth – has grown strongly in many of the largest city regions since 2000. Although there may be some short term reductions in rail use as the full effects of the recession on employment levels becomes clear, the lesson of past recessions has been that patronage has quickly recovered as the economy returns to growth (Figure Three).

Over the longer term, the arrival of domestic High Speed Rail will provide new challenges for the transport networks in our major cities. Network Rail's New Lines study²⁷, which outlined the positive business case for a new North-South spinal route from London to Scotland via the West Midlands and the North West, suggests that upwards of 2500 people might arrive every hour at the major provincial cities on the new route, a figure confirmed in the Government's High Speed Two outline strategy,²⁸ which assumes the use of rolling stock twice as long as the Pendolino trains currently in use on the West Coast Main Line. This level of additional demand would require significant improvement and upgrading of existing public transport services to accommodate this demand, and to

maximise the benefits of the new high speed rail services.

Although the strength of demand for rail travel has been clearly understood for some time, there also remains a very high potential latent demand for bus travel in the city regions. Buses remain an important transport mode and have a number of advantages: they are highly flexible in deployment, they can deliver a much higher density route network than fixed modes such as the train, and modern buses are readily accessible to people with reduced physical mobility. Buses are also especially important for people without access to a car and for those who are less well off: 44% of people in the lowest income quintile use buses at least weekly, compared to 18% in the highest income quintile.²⁹

Figure 3: Effect of past recessions on rail patronage



Source: DfT Transport Statistics Bulletin: Public Transport Statistics Bulletin GB 2008

27 <http://www.networkrail.co.uk/asp/5892.aspx>

28 <http://www.dft.gov.uk/pgr/rail/pi/highspeedrail>

29 DfT National Travel Survey 2007, <http://www.dft.gov.uk/pgr/statistics/datatablespublications/personal/mainresults/nts2007/>

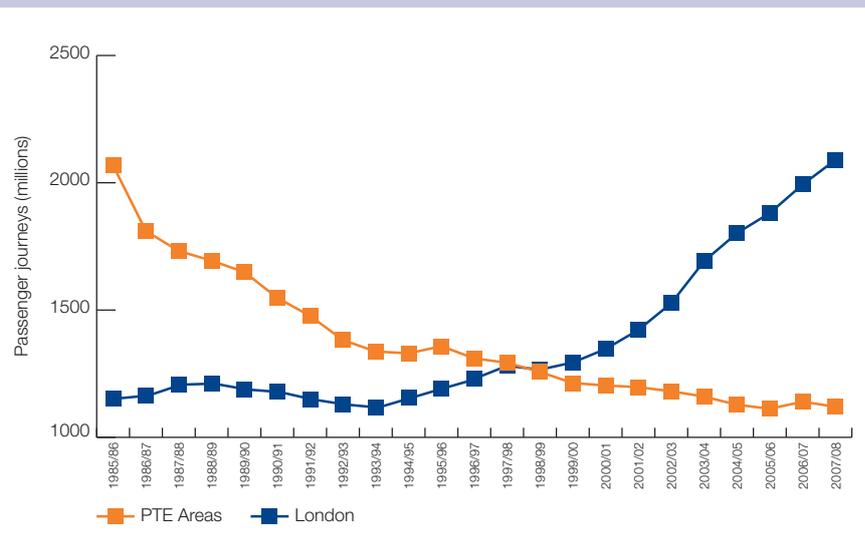
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Whereas bus patronage in the PTE areas used to significantly outstrip that in London, the situation is now reversed

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Once again, the concerted investment in London buses since devolution has brought substantial dividends. Strong bus passenger growth reduces the level of car traffic on key routes and supports a wider network of services, which means that people dependent on bus travel have greater choice of travel opportunities. Whereas bus patronage in the PTE areas used to significantly outstrip that in London, the situation is now reversed, suggesting that targeted investment in the quality of the bus networks in the city regions could release significant latent demand and achieve substantial economic and social benefits.

Figure 4: Bus passenger journeys (millions) in London and the PTE areas



Source: DfT Transport Statistics Bulletin: Public Transport Statistics Bulletin GB 2008

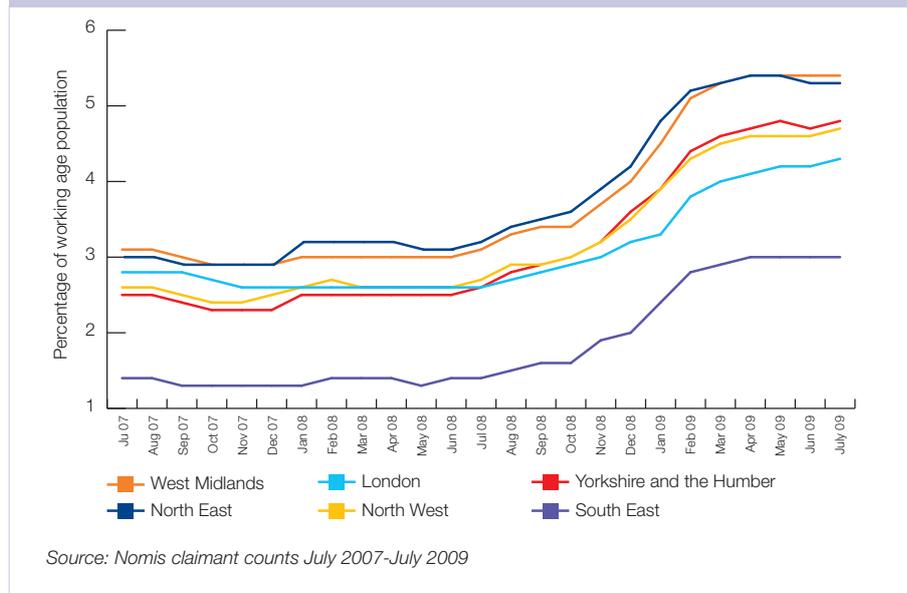
The impact of recession on the city regions

A range of evidence about the detailed sectoral and geographical impact on the recession is now beginning to emerge. Although many of the early headlines about the impact of the recession were focused on financial services and the City of London in particular, the real impact of economic contraction in terms of job loss and unemployment, and the hardship they cause, is being felt outside the south east. The greatest impacts have not been on professionals, but rather on skilled trades occupations connected with engineering and manufacturing. The Local Government Association has noted how this differential impact of the recession by economic sector has affected parts of the North West, North East and West Midlands particularly severely³⁰. Other early work by the

Centre for Cities has identified parts of the West Midlands and South Yorkshire and Tyne and Wear as especially badly hit compared to other areas of England in terms of overall job losses³¹. Figures 5 and 6 below illustrate this differential impact of the recession, demonstrating how the North and Midlands are being hit disproportionately with unemployment jumping higher and at a faster rate than London and the South East. It should also be remembered that this is against the background of a resilient North – South gap in terms of overall economic productivity – before the recession, the gap between the actual combined economic output of the North West, North East and Yorkshire and the Humber and the UK average was some £30 billion per annum.³²

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The North and Midlands are being hit disproportionately with unemployment jumping higher and at a faster rate than London and the South East
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Figure 5 Job Seekers Allowance claimants as a percentage of the working age population



30 <http://www.lga.gov.uk/lga/aio/1974810>

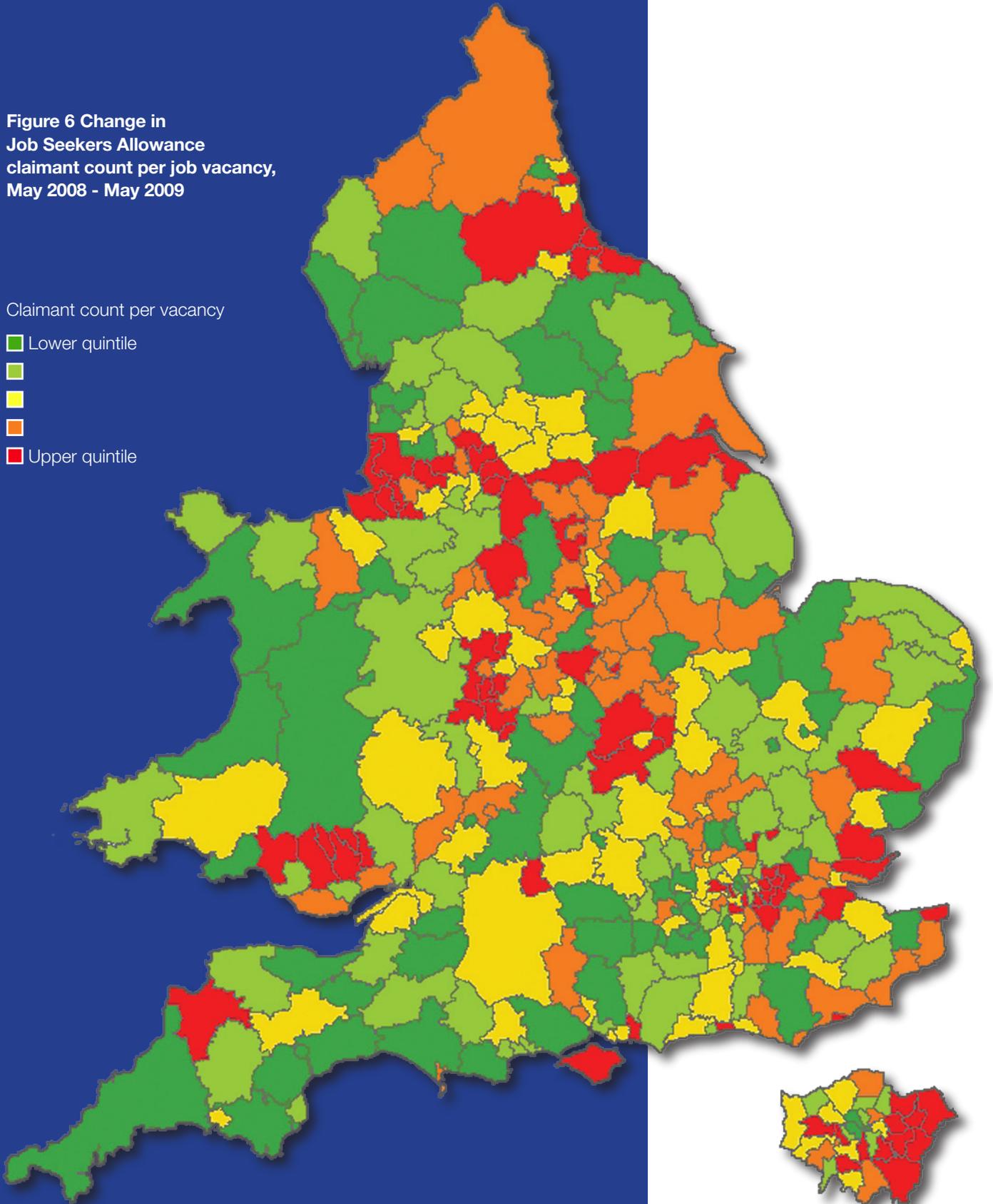
31 [http://www.centreforcities.org/assets/files/Highest and lowest JSA Nov 09.pdf](http://www.centreforcities.org/assets/files/Highest%20and%20lowest%20JSA%20Nov%2009.pdf)

32 Johnson, M, Mirksa, O. and Reid, H. (2007) The North in Numbers: A strategic audit of the northern English economies, IPPR North, Newcastle. http://www.ippr.org.uk/members/download.asp?f=%2Fecomm%2Ffiles%2Fnorth_in_numbers_final.pdf; The Northern Way (2007) Shaping the North's Cities for Growth: An agenda for the next decade, The Northern Way, Newcastle. <http://www.thenorthernway.co.uk/downloaddoc.asp?id=311&page=247&skin=0>

**Figure 6 Change in
Job Seekers Allowance
claimant count per job vacancy,
May 2008 - May 2009**

Claimant count per vacancy

- Lower quintile
-
-
-
- Upper quintile



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Bus operators have moved to protect their profitability by raising fares and cutting routes
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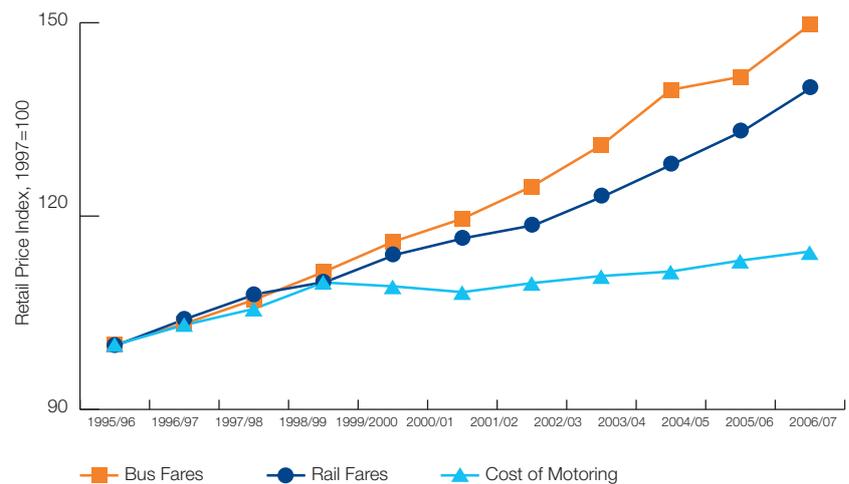
As well as shrinking revenue as employment declines, there are other direct and immediate impacts of the recession for transport. Private sector investment has very quickly come under severe pressure: for example, the financial viability of several passenger rail franchises is being re-evaluated, and bus operators have moved to protect their profitability by raising fares and cutting routes.³³

The situation is compounded by the fact that as privately-delivered transport services retrench, the public purse will inevitably come under pressure to pick up the costs of service reduction and withdrawal, either in terms of replacement services or through the wider costs to society that will be

imposed through the resulting reduction in accessibility, especially for vulnerable groups. Other knock-on effects include a reduction in the rate at which the public transport vehicle fleet – both buses and trains – is renewed, which means that the opportunity to create a greener fleet with fewer carbon emissions and lower impact on local air quality is missed.

At the same time, rising public transport fares risk encouraging more people back into their cars. The relative increase in bus and rail fares compared to the cost of motoring has been high ever since the decision to abandon the fuel tax escalator in 2000; these price signals do nothing to promote the wider pursuit of a sustainable transport policy.

Figure 7 Cost of motoring compared to the cost of bus and rail fares based on Retail Prices Index (transport components) 1997-2007



Source: Transport Statistics GB – 2008 Edition

33 See, for example, http://www.bettertransport.org.uk/campaigns/public_transport/buses/examples_cuts

Promoting recovery and growth in the city regions through better transport

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Improving the quality, scope and performance of local transport systems will be critical to supporting recovery and growth
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Given the depth of the recent recession, the priority for government over the next few years will be to stimulate the creation of new jobs in order to reduce unemployment, increase the tax take and sustain economic growth more generally. This report has already outlined why the city regions outside London will play an especially important role in this, both to address the economic and social impacts of the recession, which have been felt especially strongly in these places, but also to grasp the opportunities apparent in the city regions so that they can lead the recovery and contribute as fully as possible to national economic growth.

Improving the quality, scope and performance of local transport systems will be critical to supporting recovery and growth since competitiveness, and especially the labour market, depends upon them. However, the social and environmental gains to be had from transport investment must not be underestimated.

Particularly important in the recovery phase will be support for those bus services that have been withdrawn by private operators in response to the recession, since many of these services, although no longer profitable in the short term, are nevertheless critical in linking people with jobs: PTEs already play a vital role in supporting some of these services, but budgets will inevitably come under further pressure if the reduction in the routes provided by the market continues.

The advantages of simpler, cheaper travel have yet to reach the majority of the population given the marketisation of the bus and rail industries and the myriad fares available, which leads to confusion and makes it difficult to integrate journeys across different modes and operators. The benefits of simple, integrated ticketing and travel systems are clear in terms of clarity of information and flexibility of choice in journey decision, leading to greater use of public transport, yet these advantages are not yet available to travellers outside London.

In London, where integrated ticketing is possible thanks to the regulated nature of local bus services, Oyster has consistently enjoyed approval ratings of around 98% amongst passengers, an extremely high figure, and one that has undoubtedly been a key contributing factor to the remarkable increase in bus use in the capital³⁴. But at the same time, complex networks, with multiple operators and differing ticket prices and validities make travel in our city regions by public transport less convenient than it should be, which is a very real disincentive to bus travel (see Figure Four above). There are also penalties in terms of the reduced efficiency of bus operations: only 3% of bus users in London use cash compared to 29% in the PTE areas, and cash payments on buses also increase the dwell time at stops which makes journey times longer, increases congestion and reduces the productivity of the bus fleet, diminishing the returns on investment.

34 DfT (2009) Developing a strategy for smart and integrated ticketing – Consultation Paper, <http://www.dft.gov.uk/consultations/closed/smartticketing/consultation.pdf>

Learning the lessons of Oyster could significantly improve bus services in the city regions with important transport, economic and social benefits captured as a result. Research commissioned by DfT suggests that, if there was full take up of smart ticketing technology, bus dwell times could be reduced by around 50% with knock-on benefits in terms of greater efficiency, more attractive journeys and higher patronage³⁵. Achieving this would require support from Government to promote city region smartcards, and the recasting of existing funding mechanisms, such as the Bus Service Operators Grant (BSOG), to help meet the costs. But again, the potential benefits from this kind of intervention easily meet Eddington's tests for value for money and could transform bus travel for millions of people.

Some parts of our city regions were only beginning to feel the benefits of the economic growth experienced more strongly elsewhere throughout the 2000s when the recession struck – these places, which are often former industrial towns on the fringes of their city regions – are still very fragile and considerably more vulnerable to the impacts of recession than major cities, despite often being relatively close.³⁶ To ensure that the city regions retain their cohesiveness and especially so that as wide a range of people as possible are able to access the employment opportunities that underpin their own personal prosperity and national economic recovery, there is a strong case for boosting the connectivity between secondary centres and their economic hubs so that isolation and exclusion are minimised.

Over the longer term, attention needs to be paid to more effective 'transit orientated development', that is where spatial, economic and transport strategies are more integrated in order to capitalise on agglomeration and minimise carbon emissions amongst other factors. Research has shown that better coordination and integration of our transport networks can have a sustained impact on their usage and, in turn, on the economic performance of our city regions.³⁷ To do this, investment will be essential: the UK has for too long relied on the assumption that the bare minimum of transport investment will be enough to get by at the same time as its competitors elsewhere are in no doubt about the necessity of good transport to underpin economic success, and that better connectivity and integration across city regions also brings important social and environmental benefits.³⁸

Given the climate change agenda, it is vital that investment in urban transport is targeted in ways that can reduce the carbon impact of urban areas overall. Improving the environmental performance of the transport system itself through measures such as greener buses, more rail electrification and trains with regenerative braking, cycle lanes and other infrastructure to encourage active travel is only one dimension; targeted revenue expenditure to safeguard and promote public transport services and promoting 'smarter choices' for transport to educate people about the travel choices open to them and the impacts of those choices, is just as

important. The Cabinet Office have highlighted the potentially far reaching impacts of smarter choices in transport, which promotes modal switch and more sustainable means of transport (including public transport) and which can have far reaching impacts on congestion, climate change and health, and for relatively modest investment.³⁹ Taken together, these measures can help reduce the direct carbon impact of the transport system, but also help it accommodate a greater share of the demands for travel so that the first steps towards 'transit oriented development' can be made.

35 DfT (2009) Developing a strategy for smart and integrated ticketing – Consultation Paper, *ibid*

36 For the latest comprehensive breakdown of a number of economic and social trends, see the Centre for Cities Annual City Outlook, <http://www.centreforcities.org/assets/files/10-01-15%20Cities%20Outlook%202010.pdf>

37 John Preston, Adam Marshall & Lena Tochtermann, Centre for Cities, (2008) 'On the Move: delivering integrated transport in Britain's cities' <http://www.centreforcities.org/assets/files/On%20the%20Move.pdf>

38 Docherty, I., Shaw, J., Knowles, R. and Mackinnon, D. (2009) "Connecting for Competitiveness: The future of transport in UK city regions", *Public Money and Management* 29(5) 321-328

39 Cabinet Office (2009) An analysis of urban transport <http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf>

Making it happen – the importance of good governance



Cities with governing institutions that can mobilise this strategic capacity to plan, implement and manage important policy interventions – such as the provision of transport – are more likely to succeed in the international marketplace



Characterised by government as providing the opportunity for ‘local solutions to local problems’, devolution has led to some widely supported transport policy innovations, such as the renaissance of the railways in Scotland and the globally-significant introduction of congestion charging in London. The London experience is particularly important – the first Mayor’s decision to introduce congestion charging demonstrates the potential for institutions close to the issues at the local and regional levels to implement difficult policy choices that seem beyond current complex institutional geometry of the other English city regions.⁴⁰

London was able to deliver a policy such as congestion charging because it had very substantial strategic capacity – that is the leadership, the finance, the powers, the technical know-how – to move effectively from policy formulation to implementation, and it has used this track record to take on further responsibilities such as the transfer of some National Rail services to the London Overground. It has been more difficult to achieve more radical policy intervention elsewhere in England because the provincial city regions do not have the statutory powers and fiscal responsibilities for transport that would be commonplace in continental Europe. Although the

2008 Local Transport Act provided for the creation of Integrated Transport Authorities (ITAs) with reasonably strong coordinating powers in several of the provincial city regions, this falls a long way short both of what is commonplace in Europe or even the US, where innovations such as the expansion of light rail and substantial effort into improving the public realm for pedestrians and cyclists are increasingly the norm.⁴¹

The importance of the system of governance and its ability to coordinate and organise efforts to improve local transport systems should not be underestimated. Research has now made it quite clear that cities with governing institutions that can mobilise this strategic capacity to plan, implement and manage important policy interventions – such as the provision of transport – are more likely to succeed in the international marketplace, since they are better placed to make the most of their opportunities rather than responding reactively to short term pressures.⁴² One of the potentially most important changes that could be brought about by devolution of financial powers to the city regions would be the opening up of new income streams for transport investment.

40 Morgan, K. (2007) “The Polycentric State: New Spaces of Empowerment and Engagement?”, *Regional Studies*, 41(9) 1237 – 1251.

41 Marsden, G. and May, A.D. (2006) “Do institutional arrangements make a difference to transport policy and implementation? Lessons for Great Britain.” *Environment and Planning C: Government and Policy*, 24(5), 771-790

42 Begg, I. (2001) *Urban Competitiveness: Policies for dynamic cities*, Policy Press, Bristol.

Greater devolution, increased certainty and confidence in ITAs will make the private sector more interested in involvement in key schemes and may allow different models of financing to be developed alongside newer initiatives, such as Accelerated Development Zones (ADZs). At the same time, devolution of some aspects of revenue finance, such as BSOG, would stimulate policy innovation and synergies at the city region level, and realise more efficiencies in the way funding is used. Greater devolution also means less management from the centre: for example, lifting the LTP cap of £5m would allow local capital schemes to be brought forward more quickly (rather than relying on often lengthy national government approval processes), and more local discretion to be applied bringing the benefits of investment to fruition more quickly.

Docherty et al (2008)⁴³ review a number of these – including congestion charging, fuel tax surcharges, a transport-dedicated payroll tax along

the lines of the well-established French Versement Transport, and other non-transport streams such as the sales taxes common in the US – as they might apply to an “average” UK conurbation with 2 million people, 700,000 FTE jobs, a median annual salary of £23,000 per FTE employee, and total annual retail sales of £10 billion and total fuel sales of 1.65 billion litres. The findings from this research were clear; despite the attention focused on them in the UK transport debate, in terms of the potential revenue yield, business rates uplift and congestion charging produce modest returns. Sales and payroll taxes provide significantly greater revenue, and although not used in the UK until now, both are well established means of funding local and regional transport schemes in Europe and North America. Levying either of these taxes at a starting rate of 1% would deliver enough revenue to finance many of the major capital projects identified by transport plans in the UK’s city regions.



One of the potentially most important changes that could be bought about by devolution of financial powers to the city regions would be the opening up of new income streams for transport investment



Table 2 Potential annual revenue from transport and related taxes

Mechanism	Rate	Annual Revenue
Business Rates Uplift	4p local supplement [1]	£45m
Congestion Charge	£5 per day [2]	£50m
Fuel duty top up	1p per litre 5p per litre	£16.5m £82.5m
Payroll Tax	1% 1.75% [3]	£161m £281.75m
Sales Tax (all transactions)	1%	£100m

[1] Estimate from Lyons Inquiry into Local Government⁴⁴ data using North West region as base case.

[2] Estimate from Greater Manchester TIF analysis

[3] Highest rate charged in France outside Paris.

Source: Docherty et al (2009)

Conclusions



It is also critically important to sustain transport investment to support the recovery – not doing so means the economic pain is likely to last longer and that fragile communities will suffer more



There is little doubt that investment in transport infrastructure and services, especially local public transport, helps maximise economic competitiveness. A substantial body of research, including the Eddington Review and the recent Cabinet Office analysis of urban transport, suggests that a stronger investment focus on city regions is the most appropriate strategy to capture the greatest benefits in terms of access to employment, economic regeneration and increased tax revenues. This was the case before the current recession, and it will remain so after economic recovery is well-established.

Nonetheless, in difficult financial times it is inevitable that new investment will be limited and existing commitments scrutinised, so our expectations of what can be delivered must be realistic. But given the density of economic activity in city regions, investment in even small public transport schemes there can quickly deliver very high returns both locally and for the national economy. Coupled with a focus on making transport networks smarter and more efficient – by using the range of options for smarter travel choices; and by delivering integrated ticketing, for example – investment can be driven harder and even greater returns achieved.

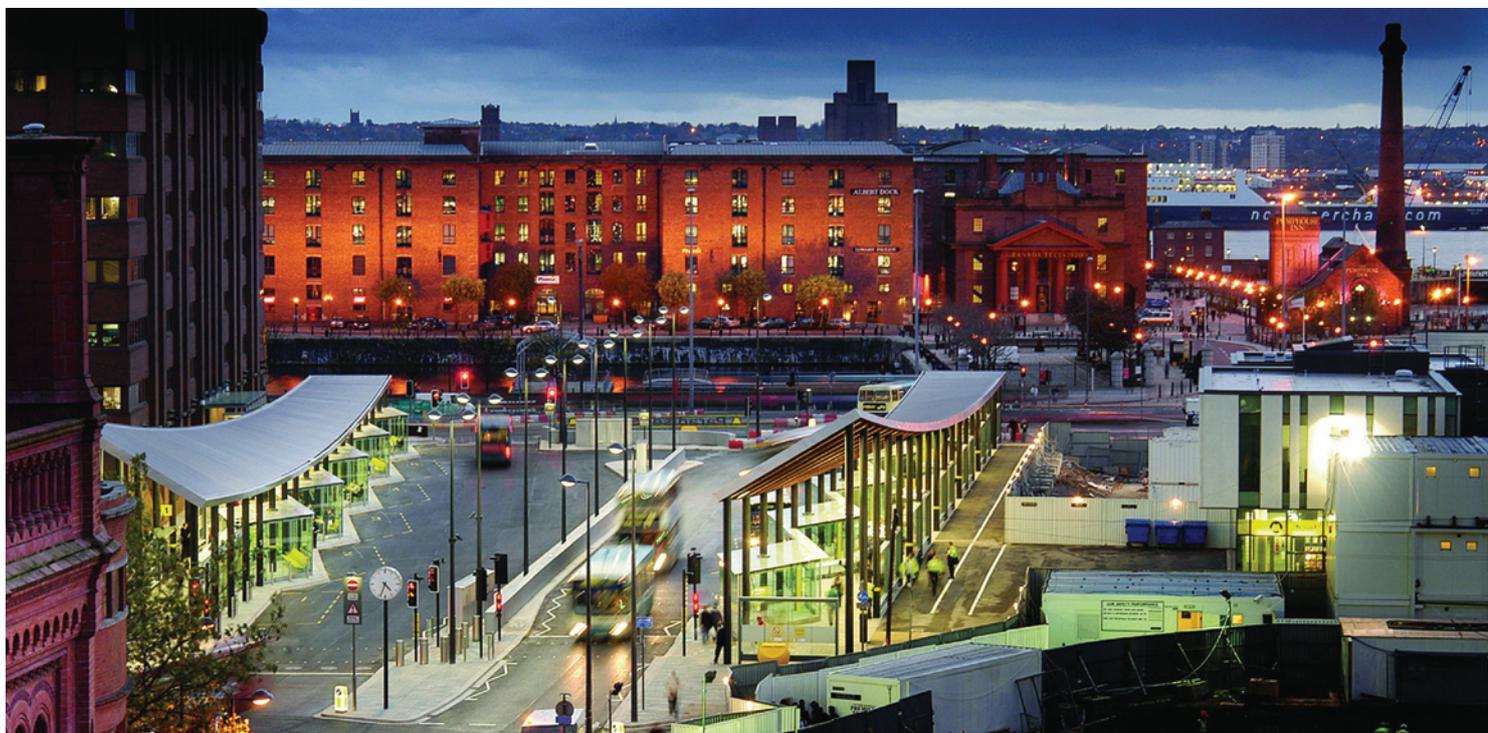
Many of the tools necessary to deliver better transport have been put in place by the 2008 Local Transport Act. But government must recognise that there is a real and enduring funding gap between London and the Midlands and North, and that this is hampering national competitiveness.

The recession has hit hardest outside London. It is here that investment can make the biggest difference in terms of helping people back into work, delivering economic growth and supporting local communities. Turning the transport investment tap off risks a return to the old stop-go pattern of development, which reduced economic confidence, disrupted the construction supply chain and made projects more expensive. The temptation to do so again will be strong given the desire to ring-fence other areas of public spending. However, good transport underpins investment in the economy, in the provision of health and education services, so it is also critically important to sustain transport investment to support the recovery – not doing so means the economic pain is likely to last longer and that fragile communities will suffer more.



More efficient and effective investment will require the further transfer of powers to local and regional bodies best placed to deliver, such as the Integrated Transport Authorities (ITAs), which understand the local context and can manage risk according to local circumstances. Devolution has demonstrated that there are real gains to be had in terms of more effective planning and implementation of transport projects – these powers need to be extended to the English city regions to harness the benefits of transport

investment. No one single innovation will transform the delivery landscape but devolution of more funding powers and revenue streams, such as the Bus Service Operators Grant (BSOG), will make it easier to assemble financial partnerships – including the private sector – to deliver. Alternative financial models, based on new transport charges or other revenue streams, have the long term potential to transform the quality of local public transport in the city regions and match the best that Europe has to offer.



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