Grant Thornton

Report to *pteg*

Government Spending Cuts: Scenarios for Future Transport Funding

FINAL

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pteg

Contents

1 Executive Summary

1.1 Introduction

This report has been developed by Grant Thornton to analyse the potential impact of reductions in central government expenditure on transport and the impacts on the budgets of Passenger Transport Executives (PTEs).

1.2 Scope of Work

As set out by pteg, the scope of the analysis is:

- to analyse the current situation and planned expenditure profile for transport spending nationally to determine levels of committed and uncommitted capital and revenue spending;
- to assess where the areas for change might be in the transport budgets, and identify the possible implications for PTEs; and
- to produce an analysis that highlights the potential scale / impacts for PTE areas and transport spending nationally.

1.3 Approach

Our approach to the analysis has been to interpret publicly available information in two stages.

The first stage has been to investigate budget forecasts from the Department for Transport (DfT) and look in detail at which areas could be classified as protected and what areas could be reduced in the forthcoming budget from the new coalition administration.

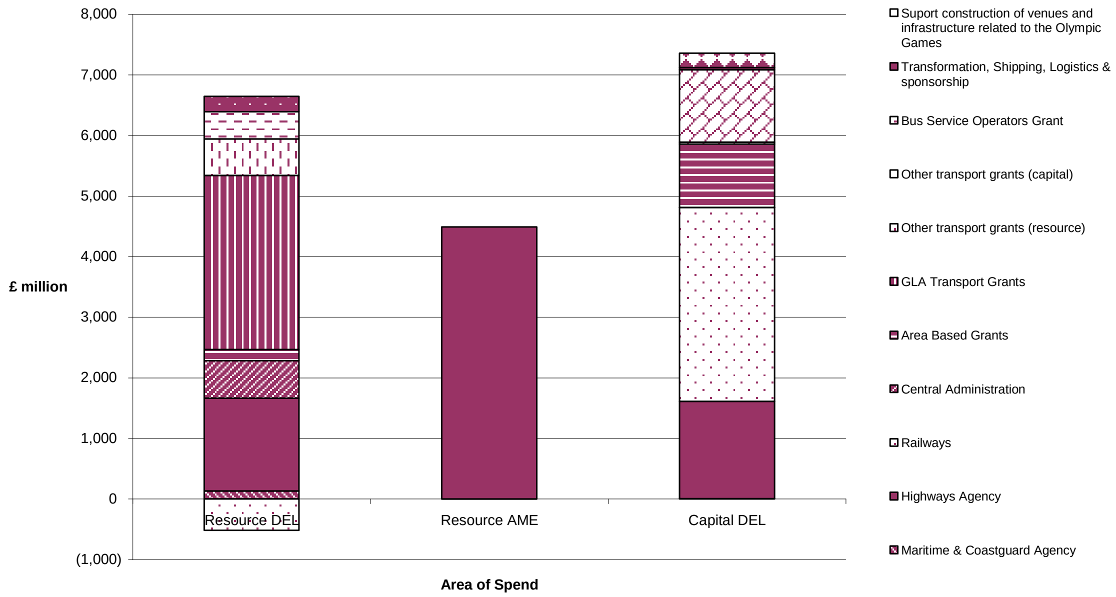
The second stage of the approach has been to review the accounts and budgets of the PTEs to ascertain the level of central government and local government funding and then adjust the amount of spending based on the results of the first stage of the analysis.

1.4 Analysis

The top down analysis of the government spending shows that expenditure on transport is relatively complex and incorporates a series of payments to a variety of organisations. The basis for the analysis was the 2010-11 budget incorporated into the DfT Annual Report and Resource Accounts 2008-09.

The spending is incorporated under three main areas, Resource Departmental Expenditure Limits (DEL), Capital DEL and Resource Annual Managed Expenditure (AME). All Resource AME is within the remit of the Highways Agency with the bulk relating to the cost of capital of the road network. The analysis has therefore focused on Resource and Capital DEL. For simplicity of presentation, the analysis has excluded those areas where total DEL and AME is less than £100m. Filtering these areas of DfT spend excludes 1.6% of the overall DfT spending total.[1] None of the areas of expenditure removed by the filter would have an impact on spending at the PTE level. The areas of expenditure by category are included in Figure One.[2]

Figure One: Breakdown of Total Managed Expenditure (2010-11 Budget)



Based on the above planned expenditure, we considered which spending areas might be considered to be "protected". Our assumption was that on the resource side, all AME expenditure is effectively the cost of capital of the road network and depreciation and so it was assumed that although this is not "protected", it cannot be varied. The only other resource spending areas that we considered to be protected was the "GLA Transport grant" which although only agreed within the 2007 Comprehensive Spending Review Period 2008-2011, would require a significant change in commitment and the resource "income" within "Railways".[3]

In relation to capital, the largest area of planned expenditure is for "Railways", reflecting the agreement within Control Period 4 for payments to Network Rail for the maintenance of the rail network. This was assumed to be protected as it would require significant renegotiation or an extraordinary review to be initiated by the Office of Rail Regulation.

In summary, 47% of Resource DEL and 43% of Capital DEL were assumed to be protected and 100% of Resource AME was assumed to remain static reflecting the cost of capital for the trunk roads network and depreciation.

Three forecasts have then been run based on various assumptions in relation to potential cuts to revenue (resource) and capital. The main body of the report provides further detail on the basis of the forecasts, but in summary they are an amalgamation of statements in the Pre-Budget Report, political manifestos and the Institute for Fiscal Studies Green Budget. The scenarios in relation to revenue funding are consistent with announcements made by the coalition government in the period since the election and the reduction in capital spending is in line with previous plans laid out in the Pre-Budget Report and March Budget.

Table One overleaf outlines the assumptions for the three forecasts.

Table One - Forecast Assumptions for DfT Expenditure

	Scenario 1	Scenario 2	Scenario 3
Overall Revenue Impacts (Protected and Unprotected[4])	20% cut in current levels by 2014/15	25% cut in current levels by 2014/15	30% cut in current levels by 2014/15
Impacts on Unprotected Revenue Expenditure	56% cut in unprotected spending areas by 2014/5	70% cut in unprotected spending areas by 2014/5	85% cut in unprotected spending areas by 2014/5
	12% year-on-year cuts over 4 years (2011/12 to 2014/15)	14% year-on-year cuts over 4 years (2011/12 to 2014/15)	16% year-on-year cuts over 4 years (2011/12 to 2014/15)
Overall Capital Impacts (Protected and Unprotected)	50% cut in current levels by 2013/14	50% cut in current levels by 2013/14	50% cut in current levels by 2013/14
Impacts on Unprotected Capital Expenditure	88% cut in unprotected spending areas by 2013/4	88% cut in unprotected spending areas by 2013/4	88% cut in unprotected spending areas by 2013/4
	23% year-on-year cuts over 3 years (2011/12 to 2013/14)	23% year-on-year cuts over 3 years (2011/12 to 2013/14)	23% year-on-year cuts over 3 years (2011/12 to 2013/14)

Following the election and the statements from the coalition government set out in paragraph 1.7 below, scenario 2 appears to be the closest to the size of potential cuts. More recent announcements in relation to departments having to submit 40% cuts would mean that over 4 years the reductions in resource expenditure would need to total 112% (20.74% year on year) assuming AME stays the same and the GLA Transport Grant is protected. An 112% reduction would actually require a fall in the GLA Transport Grant and assume no resource DEL for other areas.

If the GLA Transport Grant and Network Rail payments were unprotected then it might be assumed that these areas would be cut at the same rate as the overall reduction (eg 20%, 25% or 30%). This assumption holds for Network Rail as it is the only protected capital stream. However, because the resource budget incorporates the cost of capital of the roads network under AME and we have assumed this is fixed, then the cuts applied to revenue are not necessarily uniform. If AME is 40% of resource spending and DEL is 60%, then to achieve an overall 25% cut in resource expenditure would require a 42% cut to resource DEL assuming AME remains constant.

We have conducted further analysis on the revenue budget. If AME is fixed and the GLA Transport Grant reduced by 20% by 2014/5, then this would require an 11.6% year on year cut to remaining resource DEL, which would total 55% by 2014/5 to achieve an overall level resource budget reduction of 25% as per Scenario 2.

Returning to the three main Scenarios, Figure Two shows how the forecasts impact on Total Managed Expenditure (TME) which incorporates Resource DEL, Resource AME and Capital DEL and Figure Three shows how each area varies under the Scenario 1 forecast.

Figure Two: Results of Expenditure Forecast for Total Managed Expenditure (TME)

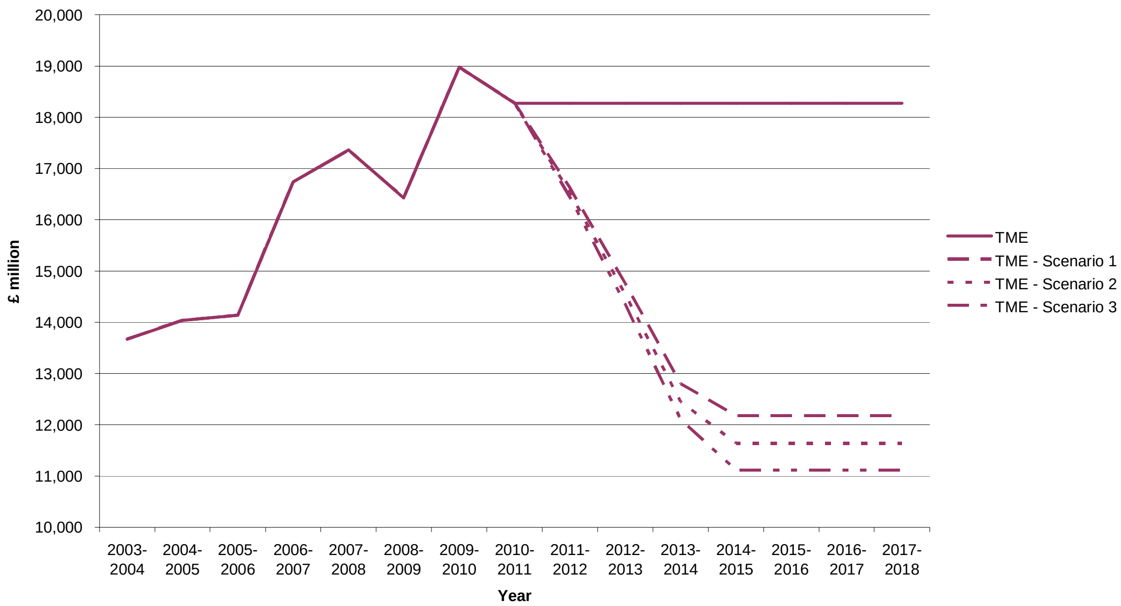
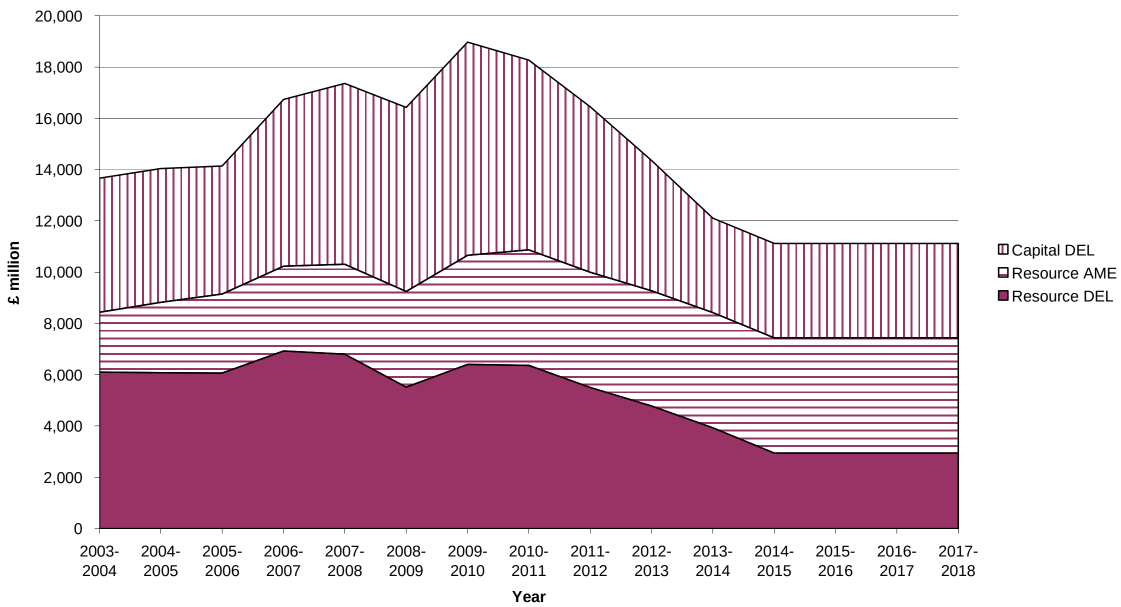


Figure Three: Breakdown of Total Managed Expenditure under Scenario 1 Forecast



1.5 Implications for the PTEs

In addition to funding from DfT, PTEs rely on the income they receive via the Levy on their Local Authority constituent members. Local Authorities are also going to be facing the same expenditure pressures as the DfT through the funding Local Authorities receive from the Department for Communities and Local Government (DCLG) and this is likely to feed through as further pressure on the PTE Levy.

Depending on the assumption for the overall reduction in spending required, it would appear that revenue reductions of DfT funding will be in the range one of 12 to 16% year on year. It is conceivable that alongside changes to concessionary fare expenditure (moving from a specific grant paid to PTEs to formula grant paid to local authorities) the DfT could target reductions in some of the other grants paid to PTEs including special rail grant and rural bus grant. Changes in these grants would affect some PTEs more than others. Indirectly, any changes to the Bus Service Operators Grant could mean that bus operators ask PTEs to fund any shortfall in revenue.

The analysis shows that applying reductions implied in our DfT Scenario 1 forecast to the Concessionary Fares Grant and Rural Bus Subsidy Grant would have differing impacts across the PTEs. In addition, any changes to the Bus Service Operators Grant that are passed on to PTEs generally double the magnitude of the shortfall in income from concessionary fare and rural bus grant.

In relation to capital, the implications for PTEs are that funding through "Area Based Grant" and "Other transport grant (capital)" would be significantly curtailed. This would have implications for expenditure through the Regional Funding Allocation (RFA) and the Integrated Transport Block (ITB). In relation to Major Schemes, the year on year reductions in the total budget would mean very few new projects would be achievable, particularly if schemes such as Crossrail continue which has been indicated by the incoming government. As set out in paragraph 1.7 below, some of the above capital funding streams have already seen reductions in 2010-11 and all major capital schemes being put on hold.

Overall, it would appear that reductions in DfT expenditure are likely to have a greater impact on capital expenditure at PTE level. However, revenue expenditure could also be subject to reduction, which will place even greater pressure on the levy income received from Local Authorities - who will be equally under pressure to reduce expenditure. Given the pressure on revenue, there will be limited local resource to make up any shortfall in capital expenditure through prudential borrowing. In order to raise fund for capital improvements, new forms of finance will have to be developed which are less reliant on central government and more based on local resources.

1.6 Limitations

As a result of the general election in May, very little information was provided in the March 2010 Budget in relation to transport spending for the financial years 2010-11 onwards. The data on which this report is based comes from a variety of sources, which are outlined in Appendix A. Furthermore, it has not been possible to accurately reconcile the figures in DfT accounts by spending area with other published data, particularly on capital spend. As such many of the assumptions made by the analysis are at a high level and the results should be viewed with this context. Similarly, in the run up to the election, all parties talked about the cuts required to public spending to reduce both the deficit and the national debt over the term of the next (now current) parliament, but did not, and the coalition government has yet to spell out where the axe would fall. As a result, the forecasts contained within this report are based on the November 2009 Pre-Budget Report, political manifestos and the Institute for Fiscal Studies Green Budget. Inevitably, actual spending decisions made by the coalition government will differ from the forecasts in this report.

1.7 Recent Government Announcements

The initial drafts of this report were produced before any spending announcements by the new coalition government. Since the first drafts of the report the following announcements made by the coalition government:

- Emergency Budget (22 June 2010) and "Copy of Economic and Fiscal Strategy Report and Financial Statement and Budget Report – June 2010 as laid before the House of Commons by the Chancellor of the Exchequer when opening the Budget.", HC 61, London: The Stationary Office

- Announcement on 17 June 2010 by Danny Alexander in relation to projects approved by the Labour administration in 2010.

- Announcement on 10 June 2010 by Communities Secretary Eric Pickles of further local government savings

- Announcement on 24 May 2010 by David Laws in relation to the 6.2billion cuts for the year 2010-11.

The above announcements cut the 2010-11 budgets by £6.2bn, an assumption which was excluded from our analysis, with the total reduction allocated to transport being £683m. Both revenue and capital were impacted, with a number of major projects cancelled or suspended including the Kent Thameside Programme, the A14 and joint procurement with the Ministry of Defence for new search and rescue helicopters.

At the local level, through announcements made by the Department for Communities and Local Government (CLG), in year savings on capital and revenue were to be made through reductions in the following budgets:

- Integrated Transport Block

- Capital de-trunking

- PRN networking funding

- Urban congestion fund

- Road Safety capital grant

- Kickstart 2009

- Area Based Grant - Road Safety revenue grant

Additionally, in terms of capital, over £60m was cut from Major Projects in 2010-11 and over £20m from the Yorkshire and Humber ITB transfer.

In the budget on 22 June, the Chancellor made limited announcements in relation to transport spending, although it was commented that no further cuts to the capital programme would be made in the current year. Also, it was confirmed that recent spending announcements to the upgrade of the Tyne & Wear Metro, the extension of the Manchester Metrolink, the redevelopment of Birmingham New Street station and improvements to the rail lines to Sheffield and between Liverpool and Leeds would not be impacted by spending cuts.

The cuts to the Integrated Transport Block of £150m in the current year, equate to around a 25% reduction, the £6.8m cuts to capital de-trunking equate to 20% and the £17.2m reduction to capital road safety grant equate to a cancellation of that stream of funding.

Overall, the forecasts in this report still hold based on the "headline" reductions that need to be achieved over the course of the current parliament. What is not reflected in the scenarios is the fact that some reductions have been made to in 2010-11.

Summary

Recent announcements have changed the baseline of the analysis in this report in that has cuts to DEL have been made in the current year. Further detail on future spending has yet to be given and ahead of the Comprehensive Spending Review on 20 October, but the coalition government has been referring to 25% cuts in those departments not afforded "protection". This level of spending reduction is commensurate to Scenario 2 in paragraph 1.4 above, although recent announcements that departments will be asked to outline 40% cuts are in excess of our Scenario 3 and would require renegotiation of the GLA transport grant and the Control Period 4 grants to Network Rail in order for there to be any funding outside these two areas.

In the current year at the PTE level, cuts to the Integrated Transport Block and Road Safety Grant mean in year budget savings will need to be found, but the wider issue for PTE funding is the pressure on local authorities who have seen further funding cuts in year (but have marginally more flexibility as other grants have been "de-ringfenced"). The overall reduction at local government level and the commitment to freeze Council Tax will place pressure on the size of the Levy from constituent PTE local authorities in future years. Furthermore, the potential change in the concessionary fares grant, from a special grant to being incorporated into area based grant, will have mean that PTEs will still be responsible for supporting the cost of the scheme, but will require substantial increases in funding from the levy - something that will be difficult to argue for against the overall financial backdrop.

2 Introduction: Approach to Analysis

2.1 Introduction

Government spending on transport is complicated and funded in a variety of ways. Alongside spending funded directly by the taxpayer, public transport is funded through the fare-paying passenger. The analysis has not focussed on any potential variations in funding generated by farebox income. The analysis on planned government expenditure has been based on publicly available central government and PTE data plus, where available, budgets, medium term financial plans and capital programmes from the PTEs.

Our approach has been to look first at DfT spending to ascertain, where possible, which areas are protected and which areas are unprotected. We have also analysed the local government funding to ascertain where funding pressures may be realised in relation to the levy received by ITAs / PTEs from constituent authorities. Section 3 explores DfT spending in more detail.

In relation to PTE spending, we have analysed the budgets and capital programmes (where available) for the PTEs and looked at how central and local government spending would impact on the PTEs. Section 4 provides more detail and sets out an analysis where central government funding to local government could impact on local authority budgets.

Taking the analysis of spending at DfT level, we have then applied assumptions on wider budget cuts across the whole of the public sector (including which areas may be protected) may impact on departments and then forecast within the DfT what reductions would be needed to achieve these cuts, again taking into account areas considered protected. Section 5 sets out the approach and results of this analysis.

The final section analyses the impact that changes in DfT expenditure would have on the PTEs.

3 Department for Transport Spending

3.1 Introduction

This section contains a brief analysis of planned DfT spending based on the budget assumptions for 2010/11 contained with the Department's 2009 Annual Report and Resource Accounts. Where possible, data has been corroborated with additional evidence from other sources.

Public Expenditure Planning and Control

For the planning and control of public expenditure, HM Treasury has different classifications of spending for budgeting purposes. Expenditure is split into Departmental Expenditure Limits (DEL) and Annually Managed Expenditure (AME). DEL spending is planned and controlled on a three year basis in spending reviews and incorporates separate resource (current / revenue) and capital elements. AME is expenditure which cannot reasonably be subject to limits in the same way as DEL and includes variable payment such as social security. The DfT's accounts show both resource and capital AME, with "zero" values for capital AME.

Department for Transport Accounts

Table Two below sets out the planned expenditure for 2010-11 from the 2009 DfT Annual Report. The report commentary states that the budget figures are agreed with HM Treasury as part of the Comprehensive Spending Review (2007).

Table Two: Budgeted Total Managed Expenditure (TME) for 2010-11[5]

Spend Type	£m	Percentage of Total
Resource DEL	6,371	34.86%
Resource AME	4,493	24.58%
Capital DEL	7,412	40.56%
Capital AME	0	0.00%
Total	**18,276**	

The DfT accounts break down spending into 25 areas. In order to keep the analysis relatively concise, for the purpose of this analysis any areas which had a combined Resource DEL, Resource AME and Capital DEL allocation of less than £100m were excluded.[6] This filter results in reducing the total managed expenditure by 1.6% from the £18.276bn to £17.986bn.

3.2 Resource DEL

Table Three sets out the main areas of planned resource expenditure in 2010-11.

Table Three: Budgeted Resource DEL by spending area 2010-11

Spending Area	Resource DEL (£m)
Maritime & Coastguard Agency	136
Highways Agency	1,531
Railways	(516)
Central Administration	614
Area Based Grants	188
GLA Transport Grants	2,872
Other transport grants (resource)	603
Bus Service Operators Grant	451
Transformation, Shipping, Logistics & sponsorship	252
Total	**6,131**

Around 47% of Resource DEL is allocated to the Greater London Authority in the form of grant for Transport for London (TfL) and London Overground. This grant is part of TfL settlement as part of the 2007 Spending review. A series of letters set out the Secretary of State's intention in relation to funding TfL up to 2017/18.[7]

The "Highways Agency" receives about 25% of total Resource DEL. "Railways" shows over £500m "income" rather than expenditure - this is classed as Net Direct Support for Passenger Rail Services and so is assuming that more income will be received from franchise payments from Train Operating Companies(TOCs) than will be paid to support them. For the purpose of the analysis we have assumed that this "income" is fixed. Any changes in the ability of TOCs to meet premium forecasts will have an impact on the overall DfT budget with it being far more likely that they will under-perform rather than over-perform in the current economic climate.

Separately, the DfT pays Special Rail Grant to PTEs to cover payments to the TOCs. It is not possible to reconcile this within the budget line for Railways and that this grant could be incorporated into the £603m for Other transport grants (resource)

The remaining Resource DEL of relevance to PTEs is under the headings Area Based Grants, Other transport grants (resource) and the Bus Service Operators Grant which account for around £1bn of planned expenditure.

Area Based Grants

We estimate that this includes the following grants which have been separately corroborated from other published data.[8]

- Road Safety Grant (revenue) of £77m
- Rural Bus Grant Subsidy of £60m
- De-trunking (revenue) of £52m
- Total of £189m due to rounding

Other transport grants (resource)

It is difficult to extract further detail on what is covered under this line item. We estimate that the funding could include Special Rail Grant of c.£300m to PTEs. We also assumes that the Special Grant to pay for Concessionary Travel of £223m for 2010/11 is included in this area.[9] If the above assumptions are correct, this would leave a small amount, around £75m which is not detailed.

Bus Service Operators Grant

Bus Service Operators Grant (BSOG), formerly known as the Fuel Duty Rebate (FDR), entitles bus operators who operate local registered bus services to reimbursement of the major part of the excise duty paid on the fuel used in operating these services. The budgeted expenditure for 2010-11 is £451m.[10]

3.3 Resource AME

Nearly all Resource AME in the DfT accounts and budgets is allocated to the Highways Agency. The 2008-09 Highways Agency Annual Report notes that the cost of capital charge for the network accounts for a large proportion of Resource AME.[11]

As with the DfT accounts, depreciation is spread across DEL and AME. For the purposes of the analysis we have assumed that depreciation (£1.5bn) and the Highways Agency cost of capital (£2.9bn),[12] equate to the same amount as the amount for Resource AME and that Resource AME is fixed or unadjustable over the period of the analysis.

3.4 Capital DEL

In relation to Capital DEL there are 11 areas of spend, in the DfT accounts as set out in the Table Four below. There is no capital spend for the GLA and so all capital spend will be assumed as revenue through either PPP payments or prudentially borrowing.

Table Four: Budgeted Capital DEL by spending area 2010-11

Spending Area	Capital DEL £m
Maritime & Coastguard Agency	9
Highways Agency	1,602
Railways	3,200
Central Administration	3
Area Based Grants	1,043
GLA Transport Grants	0
Other transport grants (resource)	36
Other transport grants (capital)	1,194
Transformation, Shipping, Logistics & sponsorship	35
Support construction of venues and infrastructure related to the Olympic Games	240
Total	**7,362**

The largest areas of capital expenditure are the "Highways Agency" (22% of the total) and "Railways" (with 43% of the total). In relation to the Highways Agency, their accounts match the DfT accounts for spend in 2008/09 and provide a more detailed breakdown of the relevant expenditure. The majority of the capital expenditure will be for improvements and capital maintenance of the network with small amounts for capital charges not covered under AME.

The amount allocated to Railways is assumed to encompass the grant paid to Network Rail as per ORR's Final Determinations for Control Period 4 which set the grant for the period 2009 to 2014. The Network Rail accounts do not detail the amount of grant received from DfT, however, there are notes to the DfT accounts which support our assumption that that the £3.2bn is a payment to Network Rail. Further evidence can be found in Network Rail's Control Period 4 Delivery Plan update 2010 which sets out grant projections which are replicated in Table Five below.[13]

Table Five: Network Rail Grant

£m (2010/11 prices)	2009/10	2010/11	2011/12	2012/13	2013/14
Network grant	3,451	3,396	3,421	3,357	3,080

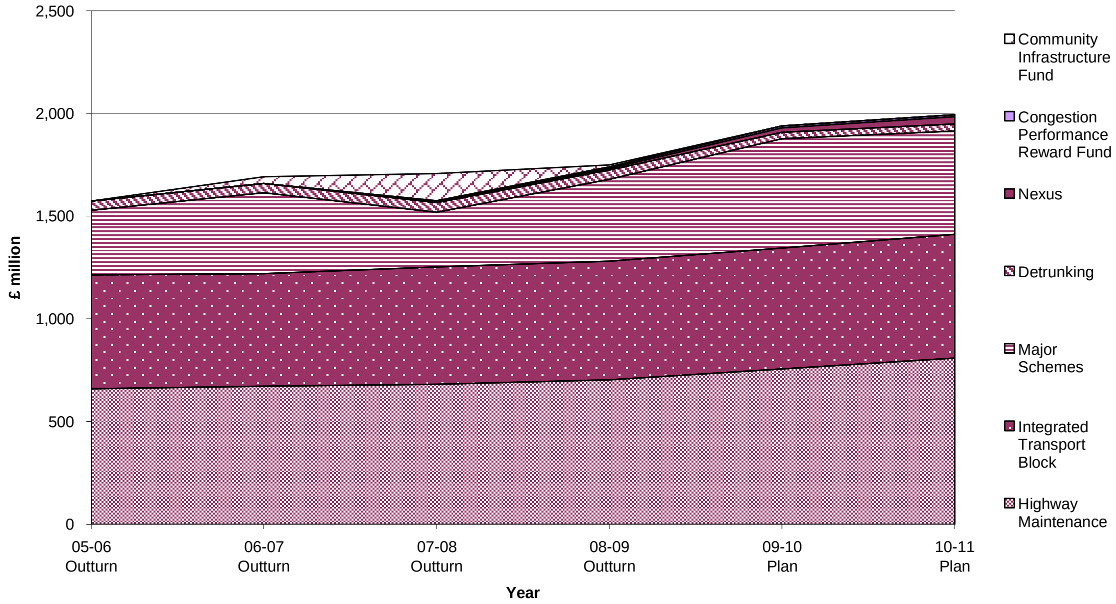
The average for this period is over £3.3bn and we believe that the assumption made in the analysis is reasonable. For the purpose of this analysis we have assumed that this amount is fixed at this level for Control Period 4 and beyond.

The remaining two key capital expenditure areas are Area Based Grants and Other transport grants (capital). From the total of £2.2bn for these two areas, we have been separately able to corroborate the following:[14]

- Local Transport Plan Integrated Transport - £602m
- Local Transport Plan Formulaic Maintenance - £763m
- Other LTP Maintenance - £46m
- Capital De-trunking - £34m

The above spending totals around £1.45bn which leaves around £750m we cannot specifically account for. Some of the balance could be to cover projects approved under Major Scheme Business Cases and other large capital projects. The DfT Annual Report and Resource Accounts 2008-09 shows, outside the accounts and notes to the accounts capital spending on local transport. The spend on Major Schemes is separated out but the total for local transport does not reconcile to any areas set out in Table Four above. Figure Four shows Integrated Transport and Formulaic Maintenance being relatively stable over the period with greater fluctuations in funding for Major Schemes. In 2010-11, £503m of expenditure was planned for Major Schemes, slightly down on the £531m planned for 2009-10.

Figure Four: Local Tranport Capital Spend



In relation to the final item in Table Four, Olympic expenditure, we have assumed that £240m is payable in 2010/11 and 2011/12 and then no further expenditure is assumed after this point.

3.5 Summary

As a relatively capital intensive department, the DfT is different to many other government departments. On the one hand, it could be assumed that it may receive some protection (particularly given announcements by the new coalition government on the completion of Crossrail). On the other hand, it has clearly not been earmarked by the new administration as a key frontline service to be protected in the manner of health or education. In the current absence of any formal spending plan for transport, the assumptions we make in section 5 are relatively high level.

In addition to the necessary assumptions outlined above, there are further important uncertainties that could also impact on future spending allocations. Within the transport sector itself, first is the new government's approach to Network Rail, where assumed efficiencies in future years are not guaranteed, and the government may wish to drive these efficiencies harder given that support for Network Rail will comprise a very large element of the overall transport budget by 2013/14. Second, forecast income *to* the Treasury from premium-paying TOCs such as East Coast is under severe pressure as a result of the recession. Reduced TOC income will further increase the overall net cost of rail revenue support just as the DfT seeks significant savings, which may include reprofiling expenditure on Crossrail to later years. As for many of the core assumptions informing our analyses, the general uncertainty over the medium-term economic outlook, and more specifically the measure to be announced in the emergency Budget on 22 June, may generate further important impacts on both capital and revenue budgets for the DfT and local authorities.

4 Local Government / PTE spending

4.1 Introduction

From the data we have received from directly from PTEs or via data published and accessible from the internet, we have been able to review the grants and income streams PTEs receive from central government and local government.

The balance of funding between central and local government varies across the PTE group, although given the different ways that the PTEs budget and account it has not been possible to disaggregate the funding streams to the same level of detail.

Central Government

The major identifiable revenue funding streams from central government are:

- Special Rail Grant
- Concessionary Fares Grant
- Rural Bus Subsidy Grant

As set out in section 3, other DfT grants are payable, but we have not been able to disaggregate funding for de-trunking and road safety. In some cases we have had to take from second party sources the amount of grant paid to the PTEs and add this back into the budget, making a second adjustment to the net cost of certain items to avoid double counting. For example, where the Rural Bus Subsidy Grant has not been separately shown in the income line for PTEs we had added this in and also added this to the cost of, for example, "Payments for Concessions". This may result in some of the numbers set out in the analysis below being slightly different from that published in accounts and budgets.

On the capital side, funding through the LTP from Integrated Transport and Formulaic Maintenance are the key sources of income, alongside Major Scheme Funding agreed through the RFA mechanism. The latter being more variable across PTEs as a result of approved capital programmes. In the main, we have not had access to detailed information for all PTEs on their capital programmes, but have acquired details of the LTP capital funding from the DfT website.[15]

Local Government

In relation to local government funding the main source of income is via the Levy charged to constituent authorities. Through DCLG publications we can ascertain that on a national level in 2009-10 local government spending was funded from the following sources:[16]

- 25% from Council Tax;
- 4.5% from Revenue Support Grant (RSG);
- 19% from Redistributed Non-Domestic Rates;
- 4.5% from Police Grant ; and
- 46% from Special Grants (inside Aggregate External Finance) and Area Based Grant (ABG).

The incoming administration has stated a clear desire for zero increases in Council Tax. At the same time, there is the potential for other grants from DCLG to be cut in line with some of the wider forecast for public spending as DCLG has to meet budget reduction targets. As a result, it is inevitable that Local Authority Income from RSG, ABG and Special Grant will reduce, meaning that Council Tax will form a greater proportion of local authority income. These two pressures will inevitably mean that efficiency savings are sought from PTEs.

4.2 Analysis of PTE Revenue Income

Based on the revenue budgets and accounts of the PTEs, we have been able to ascertain the composition of PTE income from central and local government.[17]

	Centro	GMPTE	Mersey	Nexus	SYPTE	Metro
Total Income (£000)	153,524	264,880	214,083	99,487	129,898	178,366
Levy (%)	91.66%	65.64%	55.62%	68.91%	72.94%	53.82%
Special Rail Grant (%)	0.00%	30.05%	41.11%	25.24%	22.43%	40.42%
Concess-ionary Fares (%)	8.23%	4.18%	3.20%	5.70%	4.16%	5.11%
Rural Bus Subsidy Grant (%)	0.11%	0.13%	0.07%	0.15%	0.47%	0.65%

The levy is clearly the key source of income for most PTEs. The level of Special Rail Grant, and PTEs' exposure to any reductions does differ significantly across the six organisations. However, following clarification from pteg, we were instructed to assume this revenue would be fixed.

4.3 Analysis of PTE Capital Income

We have received very little information on PTE's capital programmes, but the DfT have published the amount of LTP funding for 2010/11.[18]

£000	Integrated Transport	Formulaic Maintenance	Other LTP Maintenance	Total LTP Funding
Centro	53,370	22,857	1,460	**77,687**
GMPTE	50,338	28,988	5,316	**84,642**
Merseytravel	32,721	13,237	1,735	**47,693**
Nexus	20,509	13,190	464	**34,163**
SYPTE	23,235	15,981	1,690	**40,906**
WYPTE	32,657	29,300	8,119	**70,076**

The CLG announcements in early June 2010 cut the Integrated transport budget for 2010-11 by £150m nationally which equates to a 25% cut for this year.

As the spending cuts are applied it is clear that those schemes earlier in the development process (before programme entry) are going to the most exposed to the cuts. Those schemes which are close to construction, or in construction, are most likely to survive any financial tightening. Schemes which are sufficiently advanced to fall into this category include the East Manchester, South Manchester and MediaCityUK extensions to Metrolink, and the initial components of the Nexus' Metro: All Change renewal programme. However, even those Major Schemes currently underway will not necessarily be immune to scope changes or delay, especially given that the new coalition has committed itself to reviewing every significant government spending decision made since the beginning of 2010. Again, the Emergency budget stated that the Manchester Metrolink and Nexus funding was not affected by cuts and spending commitments would be honoured.

Given this background, and the likely lack of capital available for local transport investment over the next few years, the issue of identifying alternative sources of revenue to support network investment reappears. A range of alternative funding sources as set out in Grant Thornton's *Connecting for Competitiveness* report include Tax Increment Financing / business rate revenue, a levy on employers or a tax capturing a percentage of land value increases resulting from transport infrastructure development. However, the general economic uncertainty means that extra care will have to be taken in designing new funding mechanisms that will create market interest.

4.4 Commentary

The key issues for the PTEs will be by how much their grant from central government is squeezed at the same time that they are being pressured to limit increases in the Levy. We note that many PTEs are assuming 0% or 1% increases in the Levy, excluding the issue of whether grant for Concessionary Fares is continued to be paid as a special grant or is incorporated into Area Based Grant. However, even a 0% (flat) levy may turn out to be optimistic – if local authorities are asked to make cuts similar in overall scale to central government departments (as seems likely) then there may be pressure from some councils to actually reduce the levy to acknowledge the severity of the overall financial situation.

Our analysis in section 6 makes the assumption that Concessionary Fares continues to be paid as special grant but is subject to the wider assumptions on government funding cuts. As has been outlined above, the precise scale and duration of these cuts depends on the final position taken by the new government to the pace of deficit reduction, and those (few) major capital projects that are retained for delivery in the next cycle.

Against this background, it will be more important than ever to highlight the potential economic benefits of transport investment in the city regions. pteg's own *Transport Works* report recently both set out the critical economic contribution of local transport, and the historic imbalance between investment in London compared to the English regions. Without sustained effort, it is highly likely that these geographical disparities will remain, made worse by the overall budgetary squeeze.

5 Forecasts for National Transport Funding

5.1 Introduction and Background

In the absence of the previous government undertaking a Spending Review, and neither of the parties in the new government having set out their spending plans in detail, the basis on which we forecast public spending is the figures set out in the Pre-Budget Report 2009 and Budget 2010, modulated by parties' announced plans in response to these. From these we can ascertain that the overall objective of the new government will be to at least halve Public Sector Net Debt over the course of this Parliament (i.e. to Budget 2014) and to do so by means of tax rises and spending cuts in a ratio of 20% tax rises and 80% spending cuts on Conservative assumptions and 25% to 75% on Liberal Democrat assumptions.

In so doing it will not be possible to simply reduce public spending pro rata across the board. This is because an element of public spending, AME is effectively outside the control of government, being either pre-determined (such as the finance costs of borrowing), dependent on the state of the economy (such as out-of-work benefits) or a function of demographic factors (such as pensions). Therefore the focus of spending reductions will have to be on those areas which the government does control (Departmental Expenditure Limits). As set out in section 3, we have therefore assumed that AME will be fixed over the period of the analysis.

Moreover, the government has further limited the scope of those areas which can be subject to spending cuts by announcing that certain areas of expenditure (principally the NHS and schools) are to be protected from spending cuts for two years, meaning that the whole burden of spending cuts must be borne by areas of expenditure which are both within Departmental Expenditure Limits and not afforded protection. Within these areas those presumed to be most at risk are plans for continuing capital investment, a cut of 50% in which had already been announced by the previous government following a decade of historically high investment the continuing need for which has arguably been lessened.

5.2 Scenario 1 Projection

On the basis of the above assumptions our Scenario 1 spending projection is that:

- recurrent spending (roughly equivalent to Revenue expenditure in local government and Resource DEL in the DfT) in non-schools and the NHS areas will need to fall by 20% to 2012/13 and 20% by 2014/15;
- and that spending on investment (roughly equivalent to capital expenditure in local government and Capital DEL in the Department for Transport) will need to fall by 50% by 2014/15.

Assuming that there are no protected areas within DfT Resource and AME DEL, the year-on-year reductions in revenue and capital are set out in Tables Six and Seven below.

Table Six: Scenario 1 Reduction Resource Expenditure (DEL and AME)

	Annual Cut	Cumulative Cut
2010/11	0.00%	0.00%
2011/12	4.66%	4.66%
2012/13	4.66%	9.55%
2013/14	4.66%	14.65%
2014/15	4.66%	20.00%
2015/16	0.00%	20.00%
2016/17	0.00%	20.00%
2017/18	0.00%	20.00%

Table Seven: Scenario 1 Reduction Capital DEL

	Annual Cut	Cumulative Cut
2010/11	0.00%	0.00%
2011/12	14.47%	14.47%
2012/13	14.47%	31.04%
2013/14	14.47%	50.00%
2014/15	0.00%	50.00%
2015/16	0.00%	50.00%
2016/17	0.00%	50.00%
2017/18	0.00%	50.00%

However, in reaching this Scenario 1 projection a number of qualifications must be borne in mind. These are that the projection is dependent on:

- the Treasury forecast for economic growth of 2.75% per annum over the medium term being achieved, a forecast that has been challenged by independent forecasters (such as Oxford Economics);
- the level of spending represented by Annual Managed Expenditure does not further increase as a proportion of the total, for instance as might happen were the economy to go into a 'double dip' recession; and
- the new government not deciding that it would be politically expedient to protect further areas of expenditure from the effect of spending cuts, thereby intensifying pressure on the remainder.

Clearly were any of the above to prove not to be the case then the extent and scope of spending cuts would be greater or lesser as the case may be.

5.3 Additional Scenarios

We have developed two further scenarios for revenue based on the following assumptions:

- Scenario 2 - current spending (roughly equivalent to Revenue expenditure in local government and Resource DEL in the DfT) in schools and the NHS is protected for four years and as a result spending outside these areas would need to fall by 25% by 2014/15; and
- Scenario 3 - current spending in government departments not afforded protection falls by 30% by 2014/15, which would allow protection of additional areas such as Adult Social Care.

Under Scenario 2, a year on year reduction of 5.74% per annum would be required in each of the four years from 2011/12 to 2014/15 to a achieve a cumulative reduction of 25%. Under Scenario 3 the annual reduction would need to be 6.78% to achieve a 30% reduction.

We have not undertaken a further scenario on capital.

5.4 Impact at DfT level

In applying the overall reduction required by each of the three scenarios, assumptions have been made in relation to spending areas which are either not adjustable or could be protected by the DfT (either as a result of existing agreements or other priorities). For the purpose of the analysis, Table Eight sets out the areas we presume will be fixed or protected.

Table Eight: Spending Areas Assumed to the Fixed or Protected

Area	Spend Type	Amount (£m)
Highways Agency	Resource AME	4,492
Railways	Capital DEL	3,200
Railways	Resource DEL	(516)
GLA Transport Grant	Resource DEL	2,872

Highways Agency - it is assumed that the Highways Agency AME relates to the cost of capital and depreciation charges which will not necessarily vary.

Railways - as set out in Section 3, the Railways Capital DEL is assumed to be Network Rail Grant and subject to a wider renegotiation

Railways - the negative figure for Resource DEL reflects the net income over subsidy in relation to TOC franchises. It is not clear whether the "re-nationalisation" of the East Coast Mainline franchise would have any impact. In the absence of any corroborative data, our working assumption is the level of income stays the same reflecting the pressure central government would apply to any franchise competitions over the period.

GLA Transport Grant - as with the fixed or protected areas account for 58.7% of the total budget expenditure for the DfT.

The two areas that we have considered as being protected, the Network Rail Grant and the GLA Transport Grant form part of more detailed agreements, however, it is not inconceivable that a new government may seek to renegotiate them.

5.5 Result of Scenario 1

Using the assumption on the total revenue and capital cuts required at the macro level and the assumptions on which areas are protected or fixed within the DfT budget areas, the analysis, in real terms (assuming no adjustment for inflation) produces the results shown in Table Nine below.

Table Nine: Scenario 1 Forecast - Impact on Resource DEL

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
RESOURCE DEL (£m)					
Maritme & Coastguard Agency	136	120	102	82	59
Highways Agency	1,531	1,350	1,148	922	669
Railways	(516)	(516)	(516)	(516)	(516)
Central Administration	614	541	460	370	268
Area Based Grants	188	166	141	113	82
GLA Transport Grants	2,872	2,872	2,872	2,872	2,872
Other transport grants (resource)	603	532	452	363	263
Other transport grants (capital)	0	0	0	0	0
Bus Service Operators Grant	451	398	338	272	197
Transformation, Shipping, Logistics & sponsorship	252	222	189	152	110
Support construction of venues and infrastructure related to the Olympic Games	0	0	0	0	0
TOTAL RESOURCE DEL	**6,131**	**5,685**	**5,186**	**4,629**	**4,005**

The table shows that in order to cut total resource spend (Resource DEL and Resource AME) and assuming resource AME is fixed would require a 35% cut in Resource DEL. However, when the GLA Transport Grant is protected, unprotected areas would require a cumulative reduction of 56.32% by 2014/15 which equates to year on year reductions of 11.82%. This reduction has been applied equally across all unprotected spend areas.

In relation to capital, Table Ten shows the impact of required cuts by spending area and Figure Five sets out the impact on the unprotected areas of spend.

Table Ten: Scenario 1 Forecast - Impact on Resource DEL

	2010-2011	2011-2012	2012-2013	2013-2014
CAPITAL DEL (£m)				
Maritime & Coastguard Agency	9	7	4	1
Highways Agency	1,602	1,228	767	197
Railways	3,200	3,200	3,200	3,200
Central Administration	3	2	1	0
Area Based Grants	1,043	799	499	129
GLA Transport Grants	0	0	0	0
Other transport grants (resource)	36	28	17	4
Other transport grants (capital)	1,194	915	571	147
Bus Service Operators Grant	0	0	0	0
Transformation, Shipping, Logistics & sponsorship	35	27	17	4
Suport construction of venues and infrastructure related to the Olympic Games	240	240	0	0
TOTAL CAPITAL DEL	**7,362**	**6,446**	**5,077**	**3,683**

Figure Five: All Scenarios - Forecast for Unprotected Capital DEL

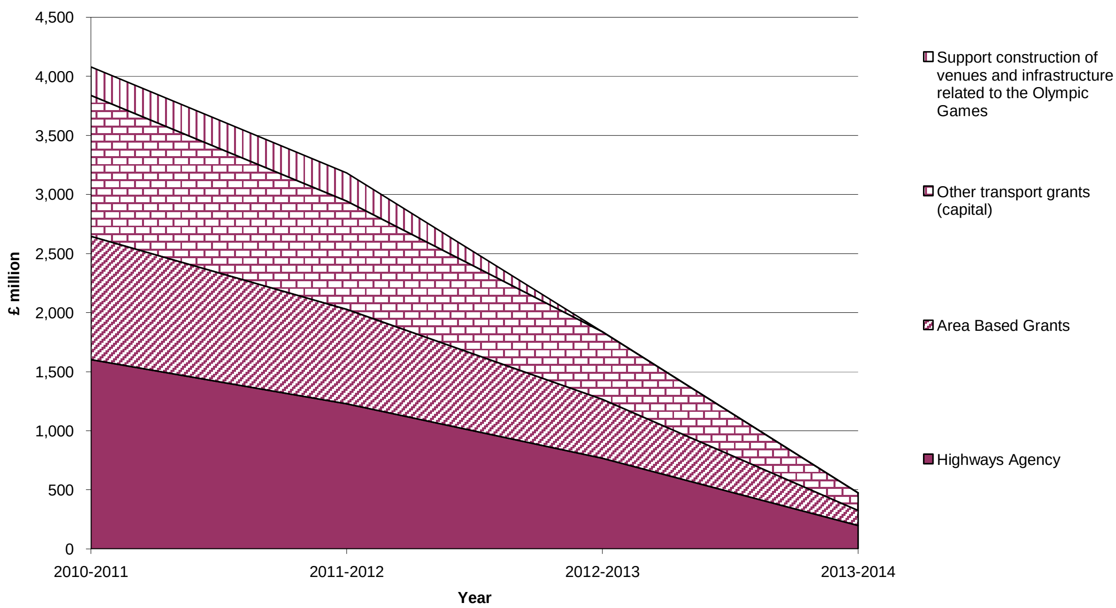


Table Ten and Figure Five show that in order to cut total capital spend by 50% by 2013/14, assuming that the grant to Network Rail is protected would require a cumulative reduction of 87.67% in all other spending areas by 2013/14. This equates to year-on-year reductions of

23.35% for the 3 years from 2011/12 to 2013/14. This reduction has been applied equally across all unprotected spend areas.

A sensitivity was run assuming that the Network Rail Grant was reduced by 20% by 2013/14. This reduced the year on year reduction in capital to 19.71% with the cumulative impact being a 71.56% decrease as compared with 87.67% in Scenario 1.

5.6 Result of Additional Scenarios

The same analysis has been run for Scenario 2 and Scenario 3 with the detail provided in Appendix B.

Scenario 2

The analysis shows that in order to cut total resource spend (Resource DEL and Resource AME) by 25% would require a cumulative reduction in unprotected Resource DEL of 70.44% by 2014/15 which equates to year on year reductions of 14.26%.

Scenario 3

The analysis shows that in order to cut total resource spend (Resource DEL and Resource AME) by 39% would require a cumulative reduction in unprotected Resource DEL of 84.55% by 2014/15 which equates to year on year reductions of 16.56%. At this level, there is very little resource DEL above the amount for the GLA grant.

5.7 Commentary

Whichever scenario is most closely replicated in practice, it is clear that the sheer scale of the cuts to both resource and capital in the forthcoming period are immensely challenging. Clearly, the precise scale of the cuts proposed as part of the government's deficit reduction package, and the definition of those areas deemed protected will determine the actual level of cuts to unprotected areas such as those in transport.

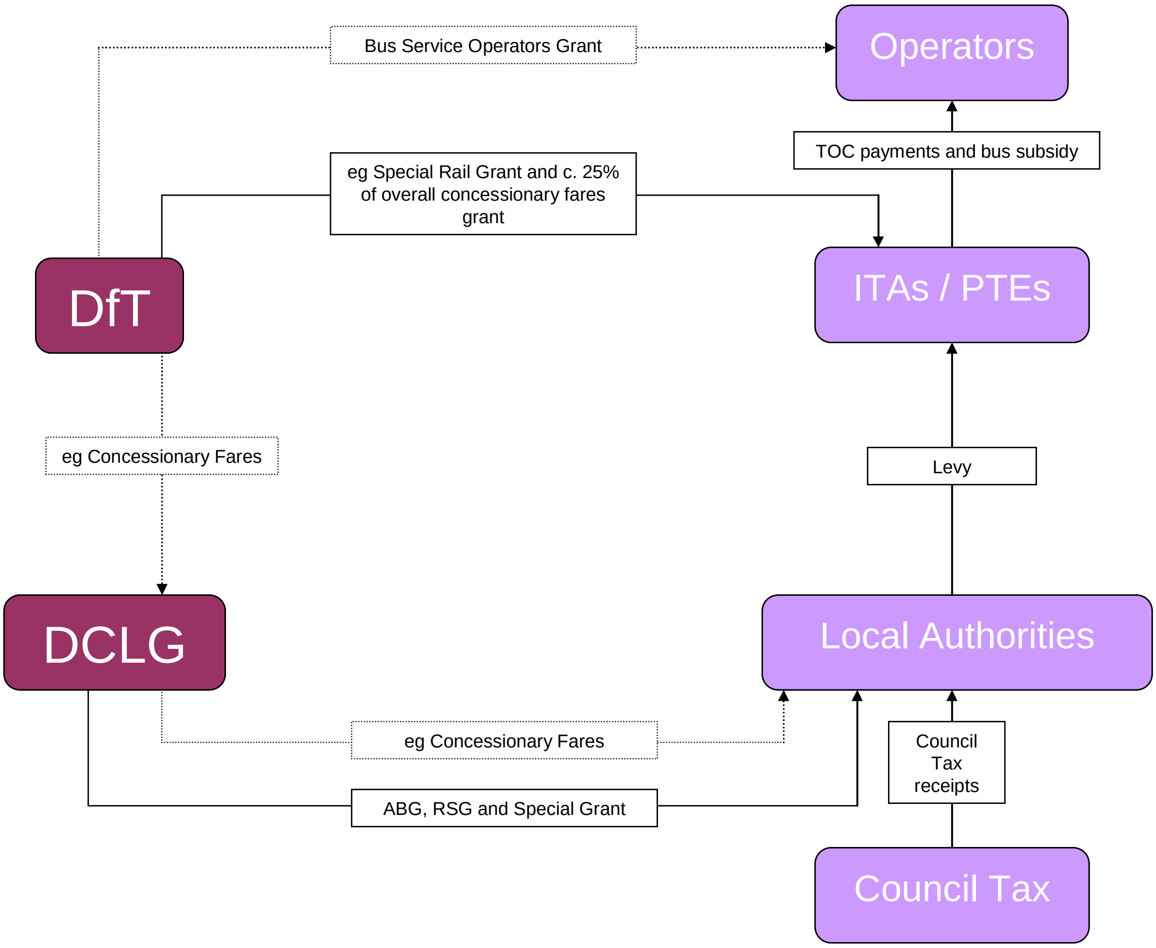
There are further issues that add additional complexity to the picture. First is the government's attitude to the overall cost of the rail industry. As Table Ten above shows, grant to Network Rail will comprise over 86% of the DfT's capital DEL budget in 2013/14. Whether this skew of expenditure towards rail – especially given the new government's early rhetoric about a new approach to motorists – is realistic must be open to some doubt. Although substantially reducing this figure would require the ORR to complete an extraordinary review of the current CP4 funding settlement for rail, there must be a small but real chance of this taking place. Such an outcome would both reduce the rate of renewal and enhancement of the railway – including the urban regional network on which commuter services run – and open up the issue more generally of whether 'too much' is being spent on railways at a time of severe financial restraint.

6 Impact on PTEs

6.1 Introduction

The funding for local transport is relatively complicated and in many cases involves a series of grant payments through central government as well as local government. Figure Six below provides a high level summary of the flows that need to considered when evaluating the impact of spending cuts at PTE level.

Figure Six: Summary Flow Diagram of the sources of income for PTEs



Should the DCLG be subject to the same level of spending cuts as the DfT Figure Six sets out how the composition of local authority funding will change. The forecast assumes that:

- there are no protected areas to influence the level of reduction across DCLG;
- Council Tax income is flat over the forecast period;
- Redistributed Non-Domestic Rates are flat over the forecast period; and
- ABG, Special Grant, RSG and Police Grant all reduce by 4.66% year-on-year from 2011/12 to generate a cumulative cut of 20% by 2014/15.

Figure Seven: Movement in income of a Local Authority with £100m receipts in 2010-11

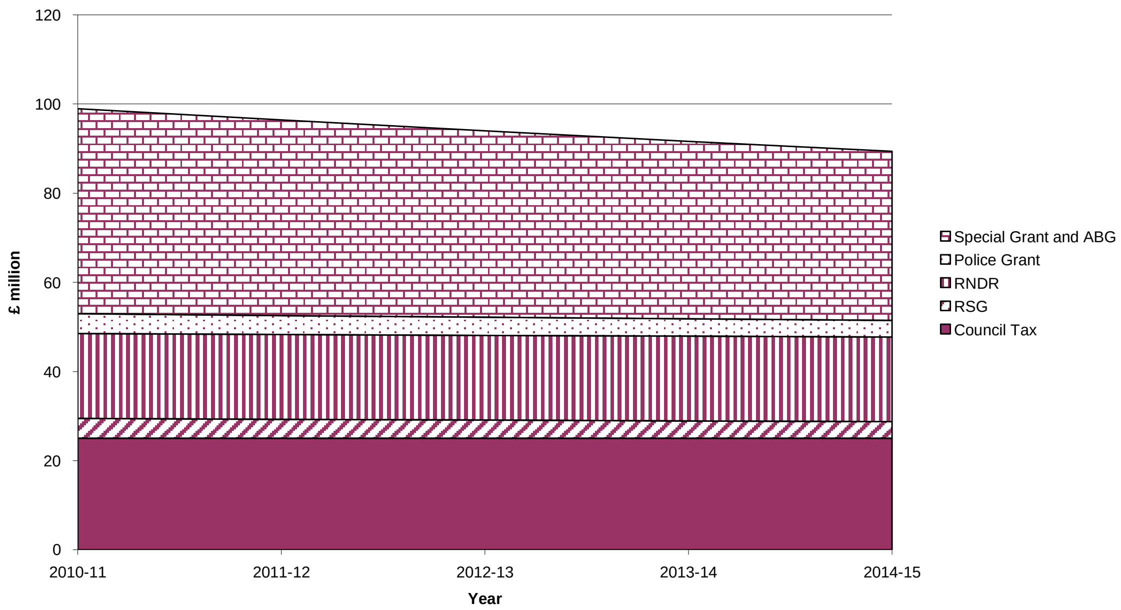


Figure Seven shows that Council tax moves from being the source of 25% of the Council's revenue funding to being 33%. The net impact of reducing grant payment by 20% would be to reduce local authority's income by 10%, assuming that council tax income and Redistributed Non-Domestic Rates do not increase or decrease. In reality, there will be some protected areas, but the fact that council tax income and potentially Redistributed Non-Domestic Rates income are fixed, may afford local authorities some protection from central government cuts.

6.2 Revenue Impact of DfT cuts and DCLG cuts on PTEs

Using some of the assumptions for our Scenario 1 in section 5 plus the analysis of local authority income above, we have built a scenario for the potential impact of central government cuts on PTEs. The assumptions in the scenario are based on a theoretical PTE (based) on the income profile of all PTEs with income forecast in the current year as set out in Table Eleven below.

Table Eleven: Income for Theoretical PTE

£000s	2010-11
Levy	68,099
SRG	26,540
Concessionary Fares	5,098
Rural Bus Subsidy Grant	263
Total	**100,000**

We have then assumed the following:

- Levy income reduces by 9.6% by 2014/15 in line with the analysis in paragraphs 6.1 and 6.2 (Scenario 1 assumption for a 20% fall in grant to local government); and
- Concessionary Fares and Rural Bus Subsidy Grant reduce by 56% in line with unprotected DfT revenue spend by 2014/15.

Table Twelve below sets out the results.

Table Twelve: Impact on Theoretical PTE of DCLG and DfT spending cuts

£000s	2010-11	2011-12	2012-13	2013-14	2014-15
Levy	68,099	66,352	64,687	63,099	61,585
SRG	26,540	26,540	26,540	26,540	26,540
Concessionary Fares	5,098	4,496	3,964	3,496	3,083
Rural Bus Subsidy Grant	263	232	205	180	159
Total	**100,000**	**97,620**	**95,396**	**93,315**	**91,367**

The net impact of the above scenario would be to reduce PTE revenue income by over 8% by 2014/15. If Special Rail Grant is excluded from the above analysis then total income would fall from £73,460 to £64,827 which reflects a 12% fall in income.

6.3 Bus Service Operators Grant

Excluded from the analysis is the £451m that is reimbursed by DfT to locally registered bus services for the major part of the excise duty paid on the fuel used in operating these services.

If the £451m was cut in line with the assumptions in section 5, then the impact would be that bus operators could seek reimbursement from the PTEs. If the £451m is simply apportioned on the basis of population, the grant paid in each PTE area would be as Table Thirteen.

Table Thirteen: Bus Service Operators Grant allocated on the basis of population

PTE	BSOG (£000)
Centro	22,980
GMPTE	22,609
Merseytravel	11,832
Nexus	9,605
SYPTE	11,455
WYPTE	19,341

If the Scenario 1 assumptions on the cuts required at DfT level in section 5 were followed, then the impact would be to reduce BSOG by the amounts shown in Table Fourteen.

Table Fourteen: Reduction in BSOG between 2010/11 and 2014/15 using Scenario 1 Forecast

	BSOG (£m)	
PTE	**2011-12**	**2014-15**
Centro	20.265	10.038
GMPTE	19.938	9.876
Merseytravel	10.434	5.169
Nexus	8.471	4.196
SYPTE	10.102	5.004
WYPTE	17.055	8.449

6.4 Capital impact of DfT cuts on PTEs

The sources of PTE income for capital spend are more complicated when areas such as section 106 agreements are added to the web of DfT and local authority funding. At PTE level, capital spend was an area where we were less able to "drill down" into the detail at the DfT accounts level and so have had access to other DfT published data.[19]

In order to provide some high level analysis we have adjusted these estimates in line with assumption on unprotected DfT Capital DEL set out in section 5.

£000	2010-11	2011-12	2012-13	2013-14	2014-15
Centro	77,687	59,548	37,175	9,577	9,577
GMPTE	84,642	64,880	40,503	10,434	10,434
Merseytravel	47,693	36,557	22,822	5,879	5,879
Nexus	34,163	26,186	16,348	4,211	4,211
SYPTE	40,906	31,355	19,574	5,043	5,043
WYPTE	70,076	53,714	33,533	8,639	8,639
Total	**355,167**	**272,240**	**169,955**	**43,783**	**43,783**

It is clear that in order to keep local capital funding at reasonable levels, protected areas will need to be reduced or other sources of funding will need to be found. At the local level, given the aforementioned revenue pressures, it is unlikely that any funding will be available to support projects via prudential borrowing or through Revenue Contribution to Capital Outlay (RCCO).

7 Summary and Conclusion

7.1 Summary and Conclusion

The detail of the forthcoming public expenditure reductions in October's Comprehensive Spending Review is unclear, however, the overall scale of the cuts will be unprecedented. The decision by the coalition government to protect health, education and international development puts transport and local government in the frontline.

The impact of cuts to PTEs and local transport funding will be felt both on the revenue side - where significant efficiency and cost savings will have to be found - and on capital programmes - where the number of major schemes will undoubtedly decrease and plans for other schemes may have to be scaled back in terms of their scope. For projects which are significantly developed, the coalition government's commitment to review all of the spending decisions made by the Labour government in 2010 means that only those schemes that are actually under construction or where the contract cancellation costs are significant can genuinely be regarded as safe, albeit the larger ones could still be subject to review and potential value engineering.

At the local level, early indications from the new government are that London is to retain privileged position as outlined in pteg's *Transport Works* report, with the new Secretary of State for Transport confirming support for the Crossrail project.

At the same time, the economic logic for investment in local transport and improved inter-regional connectivity remains. The key for the PTEs is to find new funding mechanisms to maintain investment at recent levels in the forthcoming era of austerity.

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Statistical Release, 22 December 2009, Local Authority Revenue Expenditure and Financing England 2009-10 Budget (Revised),
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DfT Annual Report

Department for Transport (2009) Annual Report and Resource Accounts 2008-09, HC454. London, The Stationery Office.

DfT letters to TfL

SR07 settlement letter to Transport for London - February,
http://www.dft.gov.uk/pgr/regional/policy/lt/trlsettlementletterfebruary.pdf

SR07 settlement letter to Transport for London - October,
http://www.dft.gov.uk/pgr/regional/policy/lt/tflsettlementletteroctober.pdf

Bus Service Operators Grant

Details on Bus Service Operators Grant can be accessed at,
http://www.dft.gov.uk/pgr/regional/buses/busgrants/bsog/

De-trunking

Details on the revenue aspects of the De-trunking grant can be accessed at,
http://www.dft.gov.uk/excel/173001/revenue.xls

Details on the capital aspects of the De-trunking grant can be accessed at,
http://www.dft.gov.uk/excel/173001/capital.xls

Road Safety Grant

Details on the revenue aspects of the Road Safety grant can be accessed at,
http://www.dft.gov.uk/excel/173001/roadsafetyrevenue.xls

Details on the capital aspects of the Road Safety grant can be accessed at,
http://www.dft.gov.uk/excel/173001/roadsafetycapital.xls

Rural Bus Subsidy Grant

Details on the Rural Bus Subsidy Grant can be found at,
http://www.dft.gov.uk/adobepdf/165237/rbsg.pdf

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pteg

pteg (2010) The Case for Investing in the City Region.

Scenario 2

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
RESOURCE DEL					
Maritime & Coastguard Agency	136	117	94	69	40
Highways Agency	1,531	1,313	1,063	778	453
Railways	(516)	(516)	(516)	(516)	(516)
Central Administration	614	526	426	312	181
Area Based Grants	188	161	131	96	56
GLA Transport Grants	2,872	2,872	2,872	2,872	2,872
Other transport grants (resource)	603	517	419	307	178
Other transport grants (capital)	0	0	0	0	0
Bus Service Operators Grant	451	387	313	229	133
Transformation, Shipping, Logistics & sponsorship	252	216	175	128	74
Support construction of venues and infrastructure related to the Olympic Games	0	0	0	0	0
TOTAL RESOURCE DEL	**6,131**	**5,593**	**4,978**	**4,275**	**3,472**

Scenario 3

	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015
RESOURCE DEL					
Maritime & Coastguard Agency	136	113	87	57	21
Highways Agency	1,531	1,278	982	638	236
Railways	(516)	(516)	(516)	(516)	(516)
Central Administration	614	512	394	256	95
Area Based Grants	188	157	121	78	29
GLA Transport Grants	2,872	2,872	2,872	2,872	2,872
Other transport grants (resource)	603	503	387	251	93
Other transport grants (capital)	0	0	0	0	0
Bus Service Operators Grant	451	376	289	188	70
Transformation, Shipping, Logistics & sponsorship	252	210	162	105	39
Support construction of venues and infrastructure related to the Olympic Games	0	0	0	0	0
TOTAL RESOURCE DEL	**6,131**	**5,506**	**4,778**	**3,929**	**2,939**

[1] The areas of expenditure excluded from the analysis were:

- Ports & Shipping Services
- Aviation services, transport security and royal travel
- Tolled River Crossing
- Commission for Integrated Transport & Direct Transport
- Freight Grants
- Research Statistics, publicity and consultancies & other services for roads and local transport
- Cleaner Fuels and Vehicles
- Accident Investigation Branches
- Accessibility and Equalities
- Government Car & Despatch Agency
- Vehicle & Operator Services Agency Trading Fund
- Driving Standards Agency trading fund
- Vehicle Certification Agency

[2] Figure 1 is based on the following data:

Area of Spend	£m			
	Resource DEL	Resource AME	Capital DEL	**Total**
Maritime & Coastguard Agency	136	1	9	**146**
Highways Agency	1,531	4,492	1,602	**7,625**
Railways	(516)	0	3,200	**2,684**
Central Administration	614	0	3	**617**
Area Based Grants	188	0	1,043	**1,231**
GLA Transport Grants	2,872	0	0	**2,872**
Other transport grants (resource)	603	0	36	**639**
Other transport grants (capital)	0	0	1,194	**1,194**
Bus Service Operators Grant	451	0	0	**451**
Transformation, Shipping, Logistics & sponsorship	252	0	35	**287**
Suport construction of venues and infrastructure related to the Olympic Games	0	0	240	**240**
TOTAL	**6,131**	**4,493**	**7,362**	**17,986**

[3] Income in relation to "Railways" is assumed to be attributable to franchise premiums paid by Train Operating Companies exceeding the franchise subsidy paid by the DfT.

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[4] Table Six and Seven in paragraph 5.2 set out how the annual and cumulative reductions have been calculated.

[5] The Resource Budget includes £1,505m of depreciation. There is some inconsistency in the accounts in relation to the amount allocated to DEL and AME for 2010-11 with one area suggesting that 42% has been allocated to Resource DEL and 58% to Resource AME. As a result depreciation has not been incorporated into Resource DEL and has assumed to be incorporated into Resource AME.

[6] See note 1 above.

[7] The letters are dated 4 October 2007 and 4 February 2008 and can be found in the London Transport section of the DfT website - http://www.dft.gov.uk/pgr/regional/policy/lt/

See also Figure 3a on page 23 of the DfT Annual Report and Resource Accounts 2008-09.

[8] Details on the Rural Bus Subsidy Grant can be found on the Bus Funding section of the DfT website, http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/revenue/buses/

Details on De-trunking and Road Safety grant can be found under the Capital and Revenue Funding section of the DfT website, http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/capitalandrevenue/

[9] Details on Concessionary Fares can be found at, http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/revenue/concessionaryfares/

[10] The figure is £451m in the DfT Annual Report and Resource Accounts 2008-09, with details provided on the Bus Funding section of the DfT website, http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/revenue/buses/

[11] See page 49 of the Highways Agency Annual Report 2008-09.

[12] See Table A1, A2 and A3, pages 216 to 225, of the Dft Annual Report and Resource Accounts 2008-09 for details of depreciation and page 49 of the Highways Agency Annual Report 2008-09 for details of the Highways agency cost of capital.

[13] See Appendix 23 of Control Period 4 Delivery Plan update 2010. Moving ahead: Delivering a better railway, accessed at, http://www.networkrail.co.uk/aspx/6648.aspx#

[14] Details on LTP Integrated Transport, formulaic maintenance and other LTP maintenance can be found at,

http://www.dft.gov.uk/pgr/regional/localauthorities/funding/fundingstreams/capital/highwaysmaintenance/

Details on the capital aspects of the De-trunking grant can be accessed at, http://www.dft.gov.uk/excel/173001/capital.xls

See also Figure 3f on page 29 of the DfT Annual Report and Resource Accounts 2008-09 which forms the basis of the Figure Four of this report. There some small discrepancies between the amounts in the report and the figures separately published on the DfT website.

[15] See note 13 above.

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[16] See DCLG Statistical Release, 22 December 2009, Local Authority Revenue Expenditure and Financing.

[17] It has not been possible to disaggregate Special Rail Grant with the budget and accounts provided by Centro. From Centro accounts, the accounts for the year ending 31 March 2009 show zero for Special Rail Grant and £3.686m for the period to 31 March 2008.

[18] See note 13 above.

[19] See note 13 above.

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