Transport Select Committee Inquiry into Local Transport Planning & Funding, April 2005
Evidence of *pteg*, representing the six English Passenger Transport Executives

Have the local transport capital settlements met what was expected and allowed delivery of the planned projects? What have been the impacts on major transport schemes, and smaller schemes? Have the full allocations been spent as planned? How have cost increases been settled?

The recent LTP settlements are a major step forward on what existed before. PTEs can now plan with a five-year horizon with a reasonable degree of certainty of resources likely to be available for minor capital projects.

LTP programmes, however, are extremely difficult to manage in light of conflicting signals from the Government about project approval, the slow and costly nature of rail development, delays to bus priority, and the low cost threshold for major schemes. Some examples of the problems are shown in case studies that form part of this evidence.

Indecision about major schemes

Several key major schemes promoted by PTEs have been the subject of a major degree of indecision. The implementation of LTP1 tram schemes in Leeds, Greater Manchester and Merseyside have all been adversely affected by the varying views taken by Government. This has led to delay, major spending ahead of commitment, and poor value for money as a result of changing views from central government over time. It is impossible to spend limited capital resources effectively when the Government changes its mind at a very late stage in the development of large projects. Long periods of indecision and, finally, withdrawal of approval skew spending on minor schemes and undermined an LTP programme's value for money. We would also argue that the current level of centralisation of decision-making is at odds with the spirit of Local Transport Plans. The DfT is using a country-wide strategic approach yet urging PTEs to set priorities based on consultation with local communities.

Case study – Leeds Supertram

Leeds Supertram formed a key element of the 1991 Leeds Transport Strategy. The scheme gained parliamentary approval in 1993, with full network approval given in March 2001. At around the same time, the Government set out its' 10 Year Plan for transport which included provision for 25 new light rail lines. Funding approval was conditional although it allowed for utility diversions, demolition work, advanced highways modification work and a strategic land acquisition programme. The Promoters (Metro and Leeds CC) were directed towards a PFI procurement route for the scheme, which ultimately drove the cost of the project up. A long period of prevarication followed, during which detailed work was undertaken to reallocate project risks, thereby reducing overall costs. Ultimately the costs were brought back to close to the originally approved figure.

Throughout its project life, the economic appraisal demonstrated a strong Cost:Benefit ratio – the scheme was considered 'high value for money' by the DfT in a May 2005 report. Six months later, the scheme (at the same capital cost) was considered poor value for money and the Government urged the promoters to look at bus-based measures instead. Prior to this decision, an offer was made by the Promoters to implement the scheme within the originally approved funding envelope. By the time the project was finally abandoned in November 2005, more than £39m had been invested. The project is currently the subject of an investigation by the National Audit Office.

Case study – Merseytram

The development of Merseytram was based on a rigorous analysis of the problems and opportunities that exist in Merseyside and fully in line with DfT policy. 'In principle' funding approval for £170m was obtained in December 2002 and following a Public Inquiry, Transport and Works Act Order approval was received in December 2004. The DfT then refused this funding in November 2005 leaving Merseytravel in the situation where a solution was identified as part of the LTP, approved and then dismissed at the latest possible stage - literally on the brink of the commencement of development.

Delays to bus priority schemes

In delivering bus priority, several PTEs have taken steps to ensure that conurbation-wide projects are properly resourced with skilled project staff with the blend of skills necessary to promote sound projects. However, good schemes are often held up or diluted by very local issues such as perceived loss of passing trade, or minor inconveniences in parking provision for residents. Despite strong policies to re-allocate road space in favour of buses, it is has proved difficult to achieve the political consensus necessary to deal with these local issues. This has led to major corridor proposals to promote bus reliability, and increase relative speeds, being watered down or deferred. The suspension of the Tyburn Road bus lane in Birmingham has become something of a cause célebre in this respect, but there are examples in each PTE where bus priority projects have suffered as a result of these problems.

Slow implementation on rail projects

PTEs have been at the forefront of developing local rail systems over the past 20 years. Between 1980 and 2006, 69 new stations were opened by PTEs. However the pace of implementation slowed significantly during the LTP1 period. For instance, in West Yorkshire, 14 new railway stations opened in the 1980s; seven in the 1990s; but only one opened during the LTP1 period. The LTP1 programme reflected the significant proportions of local travel that takes place on the local rail network. However, the pace of investment on rail has slowed significantly from that planned within the LTP as a result of the inability of Railtrack then Network Rail, and the train operating companies, to respond to the initiatives PTEs have proposed. Programmes have also slowed significantly as a result of large increases in the cost of rail schemes.

Threshold for Major Schemes

The £5m threshold identifying whether a scheme is a major one is too low, having been set at this level for over a decade. Too many local projects are therefore brought into the DfT's remit for assessment. The introduction of the Regional Prioritisation process has strengthened the need for this to be reviewed. The opportunities afforded by Transport Innovation Fund to facilitate additional major projects, capable of meeting national productivity criteria, are significant but our view is that to achieve economic transformation a programme, as opposed to a project-based, approach is needed.

Case study examples - Rail projects

In the West Midlands, there various types of delay which can be assigned to the bureaucracy of obtaining Network Rail permissions (landlord's consent, station change procedures etc), and its generally risk averse nature. Whilst it is understandable that Network Rail wishes to avoid risk on the operational railway, the lack of buy-in as a partner to schemes (in fact, it is made clear they are not a partner as this carries some responsibility) frequently makes developing and implementing projects on the railway a long-winded and expensive task. The development of a typical bus/rail interchange on Network Rail land can take years – a bus/ rail interchange in Leeds took eight years to develop, but only eight months to build.

In April 2006 Network Rail decided against transferring responsibility for track and signalling in the Merseyrail area to Merseytravel, despite Merseyrail becoming the best performing rail system in the country since Merseytravel assumed control of the franchise five years ago.

Rail projects have been subject to extremely large cost increases. When Metro built the new Brighouse rail station in 2000, it cost £1m. By 2005 the cost of building a similar station at Glasshoughton station was £2.5m. The Olive Mount Chord project in Merseyside requires only some 300 metres of track and signalling, yet Network Rail cost estimates now stand at £10m.

Is the formulaic funding approach the most suitable method for allocating transport investment? What has been the impact of the performance-related component?

We consider the move to formula funding has increased the transparency of the process on allocating funding while changing little. Overall PTEs have neither gained nor lost as a result of the switch to formula funding. Indeed, it was an explicit objective of the DfT that the introduction of a formula-based approach would not lead to general changes in the broad pattern of expenditure. We would therefore question why the formulae have not changed to meet the varying needs of different areas.

The government has published data that shows it expects total transport capital expenditure over the five year period up to 2009/10 to be £455 per head. This varies significantly between the regions ranging between £153 per head in the South West and £1,469 per head in London. The regions containing the six PTEs vary between £222 and £241. Outside London the highest regional spend is £241 in the North East. Thus the needs of London are reflected in much higher spending, this being partly due to greater allocation of central government funding, and partly due to actions taken by the GLA/TfL to raise additional investment through prudential borrowing.

The high levels of funding are necessary for London to tackle the major problems associated with transport, but many of the same arguments apply to PTE areas. The current process of formula funding, linked with the regional prioritisation of major scheme funding, tends to spread the available funding thinly across the rest of the country denying the major cities the resources they need to emulate London's success story in improving local transport.

The use of patronage figures in the formula approach penalises PTEs rather than supporting them to work towards boosting public transport use. In addition, the criteria are flawed. For example, local public transport trips include light rail and bus but not heavy rail, in general. Thus tram trips are included, as are the Tyne & Wear Metro and the Merseyrail Electric services. Where a significant proportion of local travel takes place on the local rail network, notably in West Midlands and West Yorkshire, these journeys are not taken into account and this skews the distribution of funding.

Several PTEs, particularly Merseytravel and Metro, take issue with the way in which public transport use is estimated based on operator data return. West Yorkshire estimates the data used for local patronage is understated by 25% as a result of the omission of rail patronage and the use of operators' estimates of bus use.

The performance-related component can send the wrong signals. The December 2005 settlement was particularly disappointing for many PTEs. For example, South Yorkshire, despite an LTP performance of 75%, was still classed only as 'fair' and attracted a 5% reduction in their indicative allocation for 2006/07. Penalties for non-delivery of certain projects which were delayed awaiting DfT decisions before they can move forward such as Barnsley Interchange and A638 Quality Bus Corridor were seen as unfair. In our view, the balance between allocating resources according to need against recognising improving performance is not achieved. The reward system appears not to favour LTPs being delivered in challenging social and economic environments and where co-ordinated delivery must be achieved in as part of a metropolitan area partnership.

Do local authorities have adequate powers to raise resources to fund local transport infrastructure? What other powers could be useful?

Currently local authorities and PTEs have limited powers to fund transport infrastructure unlike London, which is able to use buoyant revenue streams to support relatively ambitious use of its prudential borrowing powers. PTEs do not have access to revenue streams for commercial bus or franchised rail and tram services. PTEs are beginning to use new powers to determine rail fare levels to increase funding for local networks, but the prime need is generally to enhance capacity to cope with growing peak demand rather to invest in infrastructure.

There are other means of raising revenue streams, such as land, development or employment taxation, which should be considered as a means of funding better transport infrastructure and services. We believe that there may be specific cases for transport investment that could be successful in attracting business support, even if higher taxation was required to help fund the change. These would need to be carefully considered on a case-by-case basis, but there is merit in considering the granting of local powers to raise such levies.

Has the balance between revenue funding and capital funding for transport proposals been appropriate? How well have the different funding streams from the Department for Transport and the Office of the Deputy Prime Minister supported local transport projects? Are transport services successful in securing sufficient revenue funding?

Capital funding has increased significantly over the LTP1 period, but revenue funding has failed to keep pace. Further, not all revenue funding is not distributed directly and transparently. Any non-specific revenue funding, allocated for transport by DfT or ODPM, is distributed to Districts, who retain the power to keep the funding rather than pass it on to the relevant PTA.

Public transport investment requires revenue funding, not only to support the borrowing incurred (which is covered though the RSG process) but also to operate the new asset created. For example, a new, staffed interchange to develop public transport use and promote integration and security, is entirely consistent with local and national policy, but fails to attract revenue funding to contribute to ongoing costs through the RSG process. This is in direct contrast to new lengths of highway, which attract extra revenue funding determined by the size of the asset base.

Often good public transport schemes require a combination of infrastructure and service improvements. New or improved services, especially for areas of economic development, require significant revenue funding - particularly during the initial years as a market for the service is developed. This can be difficult for PTEs to fund through the District Council Levy when those authorities have their revenue expenditure capped. The Stephenson Link and Joblink projects (see case study box on page 5), promoted by Nexus and Merseytravel respectively, are examples of such schemes. The projects have been very successful, but have also been a significant drain on revenue resources.

How efficient is the bidding and scheme preparation stage? What could be done to avoid local authorities wasting significant resources on preparing and designing transport schemes which do not get approval?

There are currently significant resources committed to developing schemes that may never be implemented, or are implemented in a much amended form many years ahead. There is inevitably a degree of speculative expenditure in developing projects before they can be fully assessed, but the frequently long period in taking projects from conception to implementation within the UK leads to projects being re-designed and re-assessed many times over. This contrasts with the approach elsewhere in the EU. With large projects, the constant re-costing and re-assessment of the business case means that they do not proceed in a logical process through the approval procedure. At a comparatively late point in the approval stage quite fundamental issues, which promoters considered were adequately dealt with some years earlier, may be raised. We need a much clearer process by which elements of the project approval can be ‘signed off’ at the appropriate stage. The DfT itself has recognised this problem, particularly in regard to project cost increases.

The new process of considering priorities at a regional level could be helpful in giving an early steer to the likely priority and timing of major projects, but this needs to be matched by improvements in the DfT processes to appraise and approve projects through the ‘Gateway’ system. The opportunity to create stronger local powers for providing a funding base for large projects raised in an earlier question creates an opportunity to improve value for money in the preparation of these schemes.

The DfT has passed risks associated with scheme preparation on to local authorities, as scheme promoters, as a matter of policy. This may reduce the number of purely speculative major scheme submissions, but it has also reduced the willingness of local authorities to commit resources to costly projects that could deliver significant benefits in terms of LTP targets. The current DfT consultation, on its draft guidance for major scheme funding, seems to increase the share of risk carried by local authorities by seeking a 10% local contribution to all major scheme costs. We are concerned that the consequences of this approach will see resources shifting to better off authorities, whilst other authorities will utilise the Integrated Transport block to fund schemes at the expense of overall LTP2 delivery.

Were the administrative process and timetable for delivering Local Transport Plans appropriate? How helpful was the guidance from the Department for Transport? How did the second round of Local Transport Plans learn from the first, and how could the process be further improved?

The LTP process has improved significantly in the transition from LTP1 to LTP2, particularly with the publication of indicative spending levels marks a significant advance in the process. The guidance for the preparation of LTPs has, however, became too prescriptive and detailed leading to an unhealthy concentration on the so-called 'shared priorities' which relate strongly to DfT delivery targets, though they notably omit reference to wider Government targets such as those relating to climate change and better relative economic performance of the northern regions. During the period covered by LTP1, targets changed from being aspirational to becoming yardsticks by which authorities were measured and punished or rewarded accordingly.

This focus on targets rather than strategy leads to significant problems in engaging with local partners to develop a common vision for the way in our cities develop. The presumption against major schemes is a key frustration in this regard. We consider a more strategic approach is required for the third round of LTPs, which assists in the development of vibrant and attractive cities, and recognises the requirement to meet Government targets as an output rather than an input.

We believe that the timing of the release of DfT's guidance should be addressed through co-operative working with PTEs. PTEs would value the opportunity to advise the DfT on which areas required guidance, and for guidance to be finalised at least one year before the final draft of LTP3 is required.

The greater emphasis on 'engagement' in the LTP process by DfT is welcome, but there is increasingly a tension between DfT's role centrally and through regional Government Offices. A greater clarity of roles is required. We would also suggest a much tighter framework at the level of DfT is required – with a clear focus on tackling the effects of climate change, minimising car growth, improving air quality, actively growing the bus market and delivering essential capacity improvements to the rail. For example, there is now a clear view on how aviation will be guided over the next 30 years. Similar strategies should be developed for other forms of transport.

How well have the Local Transport Plans delivered better access to jobs and services, improved public transport, and reduced problems of congestion, pollution and safety? To what extent has the Government's Transport Strategy fed into the second round Local Transport Plans?

All LTPs seek to deliver these outcomes (some case study examples are shown in the adjacent box). Improved public transport is not only a desirable outcome in own right, it is a fundamental part of the strategy to reduce car traffic. However, PTEs do not have control over about 80% of the bus network, the main mode of local public transport in all areas, and have little influence on its affordability. Thus PTEs are hampered from

<u>Case studies – Promoting access to jobs</u>

In Tyne & Wear, the Stephenson Link project has increased access to jobs for people living in the high-unemployment South Shields area. Connecting employment sites in North Tyneside with the PTE's main public transport system, the R19 bus services was funded by LTP1 and development contributions. The project included the rebuilding of one Metro station, another entirely new Metro station, new ferry landings and a quality bus service with extensive bus priority. In its first 14 months of operation, patronage on the corridor has grown by 75%.

Securing access to new job opportunities has been a key theme of Merseyside's first LTP - with initiatives such as Liverpool South Parkway in Allerton, In June this year, access to John Lennon Airport by public transport will be possible.

Joblink is another example of transport barriers to new employment being addressed. A demand responsive bus services that carries employees to new job opportunities at unconventional hours at low cost, Joblink is a revenue drain and Merseytravel is unable to use LTP funds to support such initiatives.

delivering outcomes in all areas by the requirement to address shortcomings in the commercial decisions made by bus operators, rather than being able to design and enhance networks, reward high quality delivery and subsidise general fares where appropriate. This was recognised in the National Audit Offices 2005 “Delivery Chain Analysis for Bus Services in England” which pointed out that while bus operators are accountable to the Traffic Commission (for commercial services) only, the PTEs are accountable to the DfT for passenger growth and the delivery of local transport schemes.

How effective is the Local Transport Plan performance management regime? Do the Annual Progress Reports give the necessary transparency and rigour in assessing performance?

The focus on achieving delivery by focusing on outcomes is a sound one. The strong focus on performance management is necessary and helpful. However, the way in which it is applied could be significantly improved. The current approach tends to ‘micro management’ by the DfT. It also creates incentives for local authorities to adopt a short-term approach encouraging authorities to set easily reached targets, which are then “stretched” to what should have been their base level. This means targets are met and stretched with little real progress being made and authorities are rewarded for little real progress. We question whether the current approach adequately reflects the much more complex relationships between investment and delivery of targets. The complicated links between varies factors in the urban planning system covering a wide range of public and private sector decisions means that causal relationships affecting transport are often far from clear. Thus it is possible for an authority to perform well but continue to see key performance indicators deteriorate and vice versa.

A smaller range of more significant indicators examined less frequently would allow local authorities to devote more effort to delivery and less to measuring it. The move away from annual reporting of performance is welcomed, but there remain inconsistencies in the performance management approach.

We welcome the move away from annual monitoring, and suggest that, with the move towards three year financial planning cycles including the settlement between central and local government, it would be better to harmonise planning and monitoring processes with financial decision-making. The possibility of extending the life of LTPs to six years with formal monitoring submissions every three years – midway through, and at the end of, the LTP process – might better dovetail with financial planning.

How successful is the balance between infrastructure projects and travel planning initiatives?

The role that can be played by travel planning initiatives is an important one within the LTP process. However, without good quality public transport, walking and cycling alternatives the opportunity for travel planning to play its part is limited. We believe that there is scope for greater emphasis on travel planning, but only in parallel improved public transport provision. The opportunity to adopt travel planning solutions alongside improvements in services presents the greatest opportunity.

We believe infrastructure projects, improved service delivery and travel planning combined produce the best solution. Increasingly it is appropriate to consider how ‘hard’ infrastructure and service initiatives are best complemented by ‘softer’ travel planning initiatives. The LTP funding process and the appraisal process for major investment currently do little to promote this integrated approach, because of the separation of capital and revenue funding streams. The option of including some element of revenue funding within the LTP system that rewards an integrated approach would, we believe, lead to better value for money.

25 April 2006