Funding shift

How the city regions lose out on transport

Briefing

There are three current and emerging trends on transport funding which have, or will, take funding out of the major urban areas of the Midlands and the North and reallocate it to either more rural areas or to the South East mega region:

- The trend over the last decade to concentrate ever greater proportions of available funding in London;
- A more recent shift in wider local government funding from urban to rural areas;
- A distinct, but related, trend to move funding from poorer to wealthier areas, which risks concentrating an even greater proportion of public money in the South East.

This 'funding shift' away from regional cities is counter-productive as the Eddington report (and the vast majority of academic research) strongly suggests that transport investment in congested urban areas is one of the most cost effective forms of transport investment there is. In addition by investing in transport in regional cities there is the opportunity to 'rebalance' the wider national economy by reducing dependence on London. The case for transport investment in the cities is set out in more detail on www.transportworks.org

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1. Funding shift: 'the funding gap' with London

Since the creation of the London Mayor, the capital has made a successful case for greater investment in transport to Government (as well as raising some of its own funding through road user charging). This has resulted in a growing 'funding gap' between London and the regions – which means that spend per head on transport is now 2.8 times greater in London than it is in the regions of the West Midlands and the North. It's important to note that the scale of the funding gap is not replicated for public spending as a whole, and is a relatively recent development rather than the historic norm[1]. A full analysis of the funding gap can be found here.

2. Funding shift: the shift in wider local government funding from urban to rural areas

Overall Local Government funding

In the 2011-12 Local Government Funding Settlement (which followed on from the CSR) funding for Metropolitan Districts fell by around 10% in real terms, compared to a 5% cut in Shire areas, relative to the previous year[2]. This is due to two main factors: firstly, metropolitan districts are more reliant on central government funding given their comparatively smaller council tax base; and secondly, the withdrawal of a number of ring-fenced grants aimed at areas of high deprivation has hit urban areas the hardest. This impacts on transport spending in the cities as the PTEs derive nearly the entirety of their revenue budgets income from a levy on District Councils.

[1] Our full analyses of the funding gap and budgetary announcements can be found here

[2] This paper from SIGOMA (http://www.sigoma.gov.uk/sigoma/Docs/consultationpaper/Final%20Settlement%20response%2011-12.doc), shows how reductions in funding have been much more favourable to shire areas in the South East at the expense of metropolitan districts.

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Road Maintenance funding

Most forms of transport spending have been subject to radical reappraisal since 2010. The largest exception is road maintenance funding – a very substantial source of transport funding (over £800million in 2011/12) with an in-built bias towards rural areas. This is because it is allocated largely on the basis of miles of local road network rather than traffic intensity or any measure of the effectiveness of this investment. This funding block was examined by a review group essentially composed of shire counties, which met twice and decided that no fundamental review was necessary at this point[3].

Integrated Transport Block (ITB)

The ITB is the biggest single source of transport capital funding in PTE areas. But the allocation formula used to distribute money between Local Transport Authorities is currently under consultation and the proposed options could reduce PTE funding by 10%, largely in favour of wealthy shire and unitary authorities with high car usage but little congestion, mostly in the South East. The Local Sustainable Transport Fund (LSTF) has provided a funding stream which plugs some of the gap left by the halving of the Integrated Transport Block in 2010. PTEs have accessed LSTF for active travel and public transport schemes. The Mets have been allocated approximately a quarter of LSTF although this is less than the proportion of funding they used to receive from the Integrated Transport Block funding stream.

The 'funding shift' away from regional cities is counter-productive

Major capital schemes

It is welcome that the go-ahead has been given for a series of major capital schemes such as Manchester Metrolink, the Midland Metro, Tyne and Wear Metro renewal and the Northern Hub.

However, major scheme funding has actually gone down in absolute terms relative to the previous government, in large part due to the decision by the Coalition to suspend some major scheme funding for some projects in 2010. The deferment of funding decisions, in some cases until 2012, also meant that projects such as the Leeds New Generation Transport won't start for many years yet.

The government has also recently announced its intention to distribute major scheme funding from 2015 entirely in proportion to population, which could see the PTE share of major scheme funding decline by more than 25% relative to current allocations.

[3] The minutes of the review group meetings can be found here: https://www.gov.uk/government/publications/local-transport-capital-block-funding.

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3. The Funding Shift concentrating transport funding on areas with the highest economic performance

This is an emerging trend which seeks to give greater weight in allocating funding to areas with high GVA, which largely mirrors higher average wages. For example, the Growing Places Fund was allocated on this basis with 40% of the initial £500 million going to London and South East as a result. The Integrated Transport Block could be heading the same way.

This approach concentrates further funding not just on London, but also on large swathes of the South East whose high GVA is influenced by the proximity to London. Despite this, these tend to be areas with comparatively low levels of congestion which are already well connected to London through one of the most comprehensive suburban rail networks in the world. In fact there is little to suggest that higher earnings will lead to greater reliance on local transport networks. If anything, it's in urban areas, typically with lower average wages, where people rely the most on public transport networks.

If economic growth is the aim there is clearly a case for directing transport investment to congested, high performing areas, not simply those with higher wages. However, such a crude methodology for doing this will have at least two unintended consequences. Firstly of concentrating ever greater public funding on reinforcing the economic imbalance between London and the other cities. Secondly of shifting transport funding away from congested regional cities to uncongested rural and semi-rural commuter hinterlands. A more sophisticated approach would be to allocate transport funding where it can have the most impact on stimulating economic activity and potential, for example, by looking at spatial jobs mismatch and the role public transport can have in addressing this.

The funding shift is taking place in different ways across different funding streams. Whether by accident or design the cumulative effects of these decisions are resulting in a significant shift in funding from congested economic powerhouses like Manchester, Leeds and Birmingham to areas where transport investment is already high (London and the South East) or to uncongested rural areas. If getting growth through a rebalanced economy is the aim, then the trend should be going in the opposite direction. A more sophisticated approach to dividing up the national cake on transport funding (which reflects how transport investment can best be targeted to release economic potential) is urgently needed.

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