Submission to 2020 Comprehensive Spending Review

HM Treasury

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1. Introduction

1.1. The Urban Transport Group represents the seven strategic transport bodies which between them serve more than twenty million people in Greater Manchester (Transport for Greater Manchester), Liverpool City Region (Merseytravel), London (Transport for London), South Yorkshire (South Yorkshire Passenger Transport Executive), West Yorkshire (West Yorkshire Combined Authority), Tyne and Wear (Nexus) and the West Midlands (Transport for West Midlands). The Urban Transport Group is also a wider professional network with associate members in Strathclyde, West of England, Nottingham, Tees Valley, Wales and Northern Ireland.

1.2. This submission to the 2020 Spending Review sets out our overarching views on the key funding issues facing our full members.

1.3. The key theme of this submission is the need for greater certainty of long-term capital and revenue funding for urban transport provision allied with continuing devolution of decision making. This in order that the city regions have transport systems capable of supporting a green and just recovery from the COVID-19 pandemic.

2. Context: The COVID-19 pandemic and the climate imperative

The COVID-19 pandemic

2.1. The necessity of a lockdown in response to the COVID-19 pandemic has plunged the UK into a recession whilst potentially triggering or accelerating longer term structural changes in the economy and in how and where people work. It has also led to a dramatic reduction in public transport use during the lockdown, and a much slower return to buses, trams and trains than to the car in the period since. How the pandemic will unfold is also unclear, with the potential for more lockdowns of differing scales and further uncertainty for local economies and the transport networks that underpin them.

2.2. Government messaging on avoiding public transport during the lockdown proved effective and has been a factor in creating what has been a car-led recovery in travel. With revenue from fares decimated, public transport has needed life support in the form of emergency funding packages from Government to keep the wheels turning. However, the short-term nature of these funding packages makes long-term planning extremely challenging. If additional funding support is withdrawn whilst patronage is still depressed then cutbacks will be inevitable, further hindering economic recovery in key employment centres. Patronage is likely to be significantly below pre-COVID levels for some time given the impacts of a recession, social distancing, more home working, and the shift to the car. The shock of the pandemic is also set against the backdrop of the steady decline in bus use which was happening prior to this crisis.

2.3. A green and just recovery from the pandemic will not be possible without public transport. The pandemic has brought home how reliant we are on key workers, many of whom do not have access to a car and need public transport to get to work. Cutting public transport would place their jobs in jeopardy at a time of rising unemployment. It also risks severing areas of high unemployment from areas where jobs are available. A car-led recovery would also lead to urban centres being throttled by traffic congestion.

The climate imperative

2.4. Climate change is happening now and the more extreme weather conditions it brings are already impacting on our urban areas. Transport is the largest source of UK greenhouse gas emissions and a sector of the economy where progress on reducing emissions has been poor. As the Government's own document, 'Decarbonising Transport: Setting the Challenge' says: *'The scale of the challenge demands a step change in both the breadth and scale of ambition and we have a duty to act quickly and decisively to reduce emissions.'*[1] The Government has also said that as part of its plan for achieving this: *'Public transport and active travel will be the natural first choice for our daily activities. We will use our cars less and be able to rely on a convenient, cost-effective and coherent public transport network.'* [2]

2.5. These ambitions are welcome. However, we start from a challenging position:

- Public transport's share of trips made is low (outside of commuting into some of the larger urban centres). Bus use and bus networks have also been in general year-on-year decline.
- Cycling levels remain low in general, at about 2% of trips in 2019[3].
- The car continues to dominate trip share (61% of trips in 2019) with many urban geographies and local economies (outside of the largest city centres) having been redesigned in a car dependent way in recent decades[4].
- Significant investment in all vehicle fleets (and the infrastructure for the supply of decarbonised electricity and other fuel sources) will be required if the urban vehicle fleet is to be decarbonised.
- The fiscal and taxation framework for transport does not always favour or promote low carbon choices.

2.6. Given this starting point, and the scale of modal shift and investment in zero emission vehicles that will be required if the Government's decarbonisation plans are to be achieved, it is clear that incremental policy change will not be sufficient. Instead there will need to be significant long-term capital investment and revenue support for public transport as well as for measures which support greater take up of active travel.

2.7. In addition, much of our transport infrastructure was not designed for the more extreme weather conditions we are now experiencing and will experience more often in coming years. Without further investment in enhancing the resilience of our transport networks, we face higher levels of disruption and higher levels of risk to those who use it and work on it.

3. Urban transport's role in the recovery

3.1. The ongoing COVID-19 pandemic presents the opportunity to build back better from the crisis, moving at a pace and scale commensurate with the necessity of a green economic recovery and with the experience of how quickly radical policies were put in place during the pandemic.

[1] DfT (2020) Decarbonising Transport: Setting the Challenge
[2] Ibid.
[3] DfT statistics TSGB0103 Average number of trips, stages, miles and time spent travelling by main mode 2019
[4] Ibid.

3.2. If the right policy choices are made now, we can transition to a decarbonised urban transport network which will support the Government's wider aspirations for a levelling up of the UK economy and for a green recovery from the crisis.

3.3. The right transport policies can do this by:

- Creating good jobs directly in the provision of enhanced public transport networks; through investment in cleaner and greener vehicle technologies; and through transport's wider role in underpinning urban economies.
- Supporting the 'levelling up' agenda by ensuring good connectivity within and between metro areas.
- Accelerating the decarbonisation of urban transport (and thus urban areas as a whole) through encouraging modal shift to lower or zero carbon modes and through the decarbonisation of urban vehicle fleets.
- Improving the resilience of our urban areas by making urban transport systems better able to cope with the more extreme weather conditions that are already occurring as a result of climate change
- Making better places (where people want to live, visit and invest in) through supporting the transformation of the urban realm.

3.4. What this would look like in practice is:

- Rail, light rail and prioritised bus networks that provide rapid, reliable and high capacity access into and between urban centres.
- A big increase in the number of journeys (particularly those under five miles) made by bike or on foot through measures like more high quality cycling routes and low traffic neighbourhoods.
- Public transport fares that are simple, affordable and integrated.
- A public transport network that provides access to opportunity (including employment and education) through providing good network coverage across city regions using clean, modern and accessible vehicles.
- Green and smart logistics with more freight transported by rail and water for long haul, and by cargo bike and low impact vans for the last miles.
- Decarbonised vehicle fleets, from taxis to trains and from buses to bin lorries.
- Transport systems that are keeping pace with the application of new technologies and the introduction of new business models - from micromobility to vehicles that are better connected and more autonomous.

3.5. We discuss how this can best be achieved in section 5 of the submission.

4. Closing the immediate COVID19 funding gap for public transport

4.1. We commissioned Steer to look at likely scenarios for public transport patronage and revenue and the ramifications of withdrawing additional COVID19 funding support prematurely. The report is appended as **annex two.**

4.2. The key findings of the report are set out below.

4.3. As a minimum, consideration must be given to how such [additional COVID19 funding] support will be provided between now and the end of financial year 2021/22, that is to the end of March 2022. Local transport authorities' ability to act is constrained. The question is not to whether Treasury support is needed, but what shape and form that support should be. Funding to the end of March 2022 would align the time horizon for support for local public transport with the Emergency Recovery Management Agreements (ERMAs) for the national railway, which were announced on 21st September.

4.4. Local public transport brings huge positive economic, social and environmental benefits. This is why supporting growth in bus and tram/light rail patronage is a focus of central and local government transport policy and capital programmes.

4.5. As long as social distancing in in place, the peak capacity of local public transport networks will be less than pre-Covid peak demand. There will be no way that operators can operate pre-Covid networks and get pre-Covid farebox revenue. To avoid service cuts, on-going public support will be needed.

4.6. Informed by the economic outlook and thinking about how local public transport patronage may respond to different drivers of demand, we have put forward two demand scenarios, both of which assume on-going Government support.

4.7. In a plausible Best Case Scenario, we postulate that:

- There will be a relatively rapid resolution of the Covid crisis with the restrictions largely relaxed by mid 2021 (inherent to this assumption is that the UK will be an early adopter of a vaccine allowing social distancing requirements to be relaxed).
- Local public transport demand will return to no more than 85% of its pre-Covid levels.
- This level of demand would be reached 12 months after the end of the national lockdown, so mid 2021.
- There would be a steady and gradual increase in demand over this period.
- After that and with no further policy intervention, there would be a return to trend, which is on-going decline for bus perhaps tempered in the short to medium term by an increase in employment as the economy recovers, and modest aggregate growth for tram/light rail.

4.8. In a plausible Worst Case Scenario, we postulate that:

- There would be on-going Covid related restrictions throughout 2021.
- Local public transport demand will return to 65% of its pre-Covid levels.
- This level of demand would be reached 18 months after the end of the national lockdown, that is late 2021.
- After that and with no further policy intervention, there would be a return to trend, which is on-going decline for bus and modest aggregate growth for tram/light rail.
- Aggregate demand will fluctuate with large swings in local areas as different scales of lockdown restrictions are imposed and then relaxed.

4.9. We have also considered what would happen if Government support is curtailed. In either scenario:

- Bus miles would reduce, that is travellers would face a reduction in service, which would further reduce patronage.
- There will be pressure to increase fares. Fare increases would also have a negative impact on patronage.

- While there will be increasing pressure on local transport authorities to step in and procure socially necessary services, available budgets place a tangible limit on their ability to act.
- Light rail/tram revenues would reduce. There is, however, limited opportunity to scale back such services and reduce costs. Either a step change reduction in service is required, or there will be material shortfalls in revenue meaning that the pre-Covid positive operating surpluses generated by most systems will be reversed. For fixed track systems such as light rail or tram, it is very challenging to escape on-going costs.

4.10. In either scenario, should Government support cease different communities and different locations will experience differential impacts:

- The sectors of the economy most immediately affected by the downturn include food and beverage, hospitality and accommodation and the retail sectors.
- These sectors make up large proportions of town and city centre employment.
- They also have a workforce with a high preponderance of younger people and women of all ages, with low wages and many part-time positions, as well as more staff on zero-hours/'gig economy' contracts.
- It is those most deprived areas that are likely to bear the brunt of loss of income and/or job losses.
- Workers in the sectors most immediately affected have a high propensity to use local public transport for their journeys to work and given low car availability, for other journeys too. This is also true for the customers of these sectors – it is town and city centres that have the highest public transport mode share.

4.11. In summary, local public transport faces a situation where its core demand has been disproportionately affected by the pandemic-induced recession, while at the same time provision of local public transport is particularly important if these people are to be able to return to employment. Maintaining local public transport supply is therefore integral to the post-pandemic recovery.

4.12. Furthermore, before the pandemic at a national and local level supporting growth in local public transport was seen as integral to:

- Supporting local economic growth and the further growth of employment and economic activity in town and city centres, all as part of the levelling up agenda;
- Securing compliance with legal obligations to improve air quality by providing less polluting alternatives to car travel;
- The path to carbon 'net zero'.

4.13. There are two further points to note that are applicable to both scenarios:

- Experience is that once public transport demand is lost, it can be very challenging to recover the position. The (re)introduction of a new public transport service always leads to an upward step change in costs in advance of revenue – costs increase quickly, while revenue increases gradually. On top of this, when public transport services are removed, people change their behaviour – they go to different shopping destinations, their leisure habits change and in extremis, they change job or simply drop out of the labour market altogether. Such changes in habit are hard to reverse.
- There is a path dependency. Regardless of the desired end state policy makers would like local public transport to provide and what markets they would like it to serve, the eventual outcome will be strongly influenced by decisions taken now.

4.14. Minimum bus mileage reductions of between 30% and 40% would be likely should CBSSG and other support be withdrawn in full. Potentially it could be greater than this.

4.15. This would come about through:

- withdrawal of evening services;
- withdrawal of marginal services;
- withdrawal of infrequent services; and
- frequency reductions on many services (e.g. reducing a 30 minute service to hourly, reducing a 5 minute service to 10 minutes).

4.16. Such a scenario would be very likely to leave large areas of the country with no bus services.

4.17. For light rail and tram systems the effect of withdrawal of financial support is starker still. Temporary mothballing does not save significant sums and the savings made by service level reductions are even more marginal. Cessation of operations, or complete closure would still see local authorities with significant legacy costs and debts.

4.18. Long term public support will be needed if local public transport services are to be maintained. This will be needed for at least as long as social distancing requirements are in place and potentially until the economy has recovered to its pre-Covid state or longer. Local transport authorities' ability to act is constrained. The question is not whether Treasury support is needed, but what shape and form that support should be and how long it should last.

4.19. The support provided to date has allowed local public transport to continue to run through the height of the pandemic lockdown, enabling key workers to travel to and from work; for public transport to operate with the reduced vehicle capacity that is a consequence social distancing requirements; and, to allow services to return towards pre-Covid levels in advance of the return of patronage.

5. Moving from 'patch and mend' short term funding to new funding arrangements which support the Government's longer term aspirations

Background

5.1. With the sudden and unprecedented scale of the COVID-19 crisis, it is not surprising that measures were taken to close the funding gap in the early stages of the lockdown that sought to patch and mend existing structures. Given the sums involved, it is also right that HMT has sought to ensure that there is proper scrutiny and testing of the funding propositions that have been put forward by DfT.

5.2. However, six months on, now is the time to move towards more robust formats for closing the funding gap which also provide the right basis for realising the Government's stated ambitions for urban transport which include:

- Investing £5 billion in additional support for active travel and buses to improve bus services across the country and to support a major increase in the proportion of journeys made by bike.
- Decarbonising urban transport.

- Plugging more communities back into the rail network through a programme of line and station re-openings.
- Investing in the renewal and expansion of urban light rail and heavy rail networks.

5.3. The current approach to additional COVID-19 funding does not provide the right basis for this transition nor is it efficient or financially and legally robust. It also adds a further layer of complexity and inefficiency to the way in which local transport is funded. The case for reform is therefore strong.

Weaknesses in the way additional COVID-19 funding is currently provided

5.4. The main weaknesses in the way additional COVID-19 funding has been provided in England outside London are:

- That, by and large, it is short-term.
- It is mode by mode (with different criteria, end dates and arrangements for each)

5.5. The current deadlines and arrangements are as follows:

- Buses in England outside London are on a rolling funding deal with eight weeks' notice of any termination.
- 17th October - current TfL funding arrangements end.
- 26th October - day on which funding arrangements end for tram and light rail (outside London and not including Blackpool). Extra committed funding for additional capacity to support the return to schools covers the period up to half-term only.

5.6. For transport authorities this means:

- Medium / long-term integrated operational and financial planning across modes is not possible,
- Considerable time and resource is spent on managing funding uncertainty rather than being more fruitfully spent on preparing for challenges ahead.

5.7. There are particular problems with the current format for bus funding which has become very complex. In essence it relies on local and national Government continuing to provide subsidy for BSOG and concessionary fares reimbursement at pre-COVID rates (i.e. paying for journeys which are not being made), supplementing this with a specific grant in support of services which are currently being provided.

5.8. This system:

- Provides **inadequate protection to passengers** from disadvantageous changes in fares structures, services and quality standards that any operator may seek to introduce. This is because leverage over operators (that is, the funding flows to the industry) is split between national and local government and the conditions that can be set for operators by transport authorities and national Government are necessarily broad brush.
- Leaves transport authorities for urban areas (with populations the size of small countries) **unable to coordinate and plan public transport networks** as a whole because buses, light rail and heavy rail are all being funded in different ways (and with varying degrees of transport authority influence) at a time when socially

distanced capacity across those networks is becoming stretched by the return to schools and work.

- Is **not legally robust** in that national government is asking local government to reimburse bus companies for concessionary journeys that are not being made and for supported services that are not running.
- Is **not sustainable** in terms of the likelihood of all local authorities continuing to make payments for concessionary journeys that are not being made. Especially given that: they are also under-funded for wider COVID-19 impacts on their finances; the legal basis for doing so is not robust; and the payments are being made to commercial companies over whom their influence is limited. For example, by the end of July the six Metropolitan areas alone had spent £71.8 million reimbursing operators for concessionary journeys that had not been made.
- Is **predicated on a complex and untested system of overpayments, audits and clawbacks from commercial operators**. This system is likely to find itself further stretched given that the current instability due to COVID-19 can mean that service levels and patronage demand vary in different areas and at different times. This in turn means that correctly allocating payments to operators on a month by month basis will be very challenging, risking leakage of public funding due to the difficulty of determining valid costs.

5.9. As bus networks return to closer to their normal extent, the Government's current approach to bus funding also brings with it the risks of:

- Either incumbents or new entrants registering new services on the busiest corridors which could lead to new **'bus wars'** between operators.
- Operators withdrawing to a **much smaller core commercial network** which would mean either marginal services not being provided or local authorities having to find funding to maintain these services.
- **Continuing fragmentation** of the public transport offer as a whole.

An alternative format for provision of additional COVID-19 funding for bus services

5.10. Mayors and Leaders for the six UTG members outside London submitted an alternative proposal for funding on 6th May 2020 and an updated version on 2nd July. The latter is attached as **annex three**. We have had no substantive response from DfT to these proposals.

5.11. These new funding arrangements would route all the public subsidy for bus via city region transport authorities who would then use that funding to buy the networks of services from private operators that best meet the needs of the places they serve and which deliver simple and affordable fares.

5.12. In many ways this would replicate on a local basis the Emergency Measures Agreements (EMAs) that the Government is using to maintain rail services. This system for rail services was introduced on the same day as the lockdown began.

5.13. UTG's proposition is therefore that city region (and potentially all) local transport authorities in England are provided with access to a long-term grant that allows them to specify and flex a bus network during the recovery phase, and deliver that network through secured bus service contracts with operators.

5.14. Local transport authorities would work with bus operators to define a suitable network that meets demand in a highly constrained social distancing environment. The provision of short journeys would be built into this work. Networks will be reviewed regularly based on information about passenger numbers and peak loadings and adjusted as necessary.

5.15. Local transport authorities would use the powers available to them to enter into contractual arrangements with operators to deliver agreed bus services. An open book approach to operating costs and revenues would be required to ensure good value for public money is achieved.

5.16. This approach would incur legitimate additional costs associated with managing these contracts, processing data and auditing operators' returns. Local transport authorities would require reimbursement for these additional costs.

5.17. Where operators currently compete in the busiest transport corridors, the local transport authority may need to decide which operator(s) would deliver a suitable service and which services are extraneous. In these circumstances, an initial emergency tendering exercise would establish the operation from day one, to be replaced quickly by a formal tendered competition amongst operators, based on the lowest minimum cost price of operation.

5.18. Under this model, local transport authorities should consider whether the diversion of some bus services to integrate with local rail, Metro and light rail services might give better value for public money and provide better outcomes for passengers. This will be an issue for particular consideration where bus services directly compete with fixed rail systems.

5.19. Local transport authorities would work with operators to agree the fares to be charged for all bus journeys. In many cases the commercial fares previously charged on a route would be adopted. In some cases it may provide better and more integrated outcomes for passengers if amended bus fares are considered, including the option of much simpler fares or the introduction of good value day fares that apply to all public transport journeys irrespective of operator and mode.

5.20. This funding model could be used to achieve other policy outcomes – for instance, enhanced service levels in the vicinity of key journey generators (such as NHS facilities and other key worker destinations). Using funds in this way could be a key driver to ensure that bus services emerge stronger and offer a better service to passengers following the pandemic and subsequent recovery phase.

5.21. There would be a gap between the cost of letting and managing the contracts, and the amount of funding that local transport authorities can provide from existing budgets. This gap would need to be bridged by a Government grant to LTAs, payable at a set rate initially then reconciled subsequently to actual shortfalls using an open book approach.

5.22. This grant should be available to all local transport authorities until the bus network has arrived at a "new normal" and transition back to normal operations (or a new permanent operating model) can happen. We recognise that this is an open-ended commitment, but this simply reflects the fact that the duration of the recovery phase for COVID-19 is similarly open-ended at this stage.

5.23. For this proposition to operate effectively and flexibly, Government will need to relax the current limitations on de minimis contract awards (currently limited to 25% of net LTA spend). UTG has already provided DfT with a legal analysis of how this could best be done.

5.24. At the same time measures need to be put in place to ensure LTAs can prevent or suspend the normal competitive market activity if operators decide to move in to cherrypick the most profitable corridors, thereby undermining wider Government and LTA objectives. This can be done by secondary legislation which would in effect give transport authorities a power of veto over any new services which would undermine the value for money and integration of the network as a whole.

5.25. This new format for bus funding would:

- Mean that transport authorities could ensure affordable and integrated bus ticketing offers and protect key services through contract specification on a route by route basis.
- Ensure transport authorities can better coordinate public transport networks for city regions as an integrated whole by allowing them to plan bus and light rail networks together (combined with whatever influence they already have over heavy rail networks).
- Be legally robust as all available funding would be contractually and explicitly tied to clear outcomes.
- Offer good value for money as all the funding would be directed to specific contracted outcomes by transport authorities on the ground rather than overseen remotely from Whitehall where understanding of different local contexts and circumstances is necessarily limited.
- Simplify the audit processing.

5.26. It is important to note that although we believe this funding format would make the best use of available public funding for bus services it will still require an adequate quantum of funding from national government.

Wider weaknesses in the way that transport in the city regions is funded

5.27. Before the COVID-19 funding crisis there were significant problems with the way in which local transport in the city regions has been funded. Some of which have now been exacerbated by the pandemic.

Revenue funding

5.28. Transport revenue funding has been one of the main victims of the deficit cutting measures of recent years. Yet, this can be a highly effective form of public spending, which is also vital for the efficient and effective development, delivery and operation of capital schemes large and small.

5.29. Revenue funding also supports the services which make use of new capital transport infrastructure as well as sustaining key public transport - in particular, bus services.

5.30. Revenue funding also pays for the planners and staff that develop and implement capital projects. Our 2015 report 'Revenue-Capital mismatch' analysed the impact of revenue funding cuts on the capacity of Local Transport Authorities to deliver capital schemes.

5.31. A further critical factor in relation to revenue funding is the rising cost of the national concessionary travel scheme. This is a statutory scheme mandated by national government,

where the costs are driven by factors outside of local government's control (ridership and fares levels) but which local government has to fund. With overall revenue funding for local transport cut back, spending on this mandatory scheme squeezes out discretionary spending elsewhere, such as on retaining the skilled staff necessary to develop and implement capital schemes or on supporting socially necessary bus provision.

5.32. City region transport authorities are also reliant on a levy from local District Councils. District Councils own budgets have been cut in recent years, and this in turn has led to them reducing levy payments. For example, over the past decade, the Tyne and Wear transport levy has been cut by over 20%. At £59m, it is now £15m less than it was in 2010. Had the levy increased in line with inflation since then, it would now be in excess of £100m.

5.33. The additional cost of meeting the challenges of the COVID-19 crisis is substantially increasing local authority costs which additional Government funding is not keeping pace with. This could well feed through into further levy reductions with significant consequences for public transport support and investment.

Competition funding and oversight

5.34. The proliferation of competition funding creates additional pressures on declining resource funding because of uncertainty around when such funding competitions will emerge, what they will cover, and whether or not a local authority's bid will be successful. Bidding for grant funding has a non-negligible cost and creates unpredictable peaks and troughs in workloads which are difficult to resource and plan for efficiently. We explore this in our 2020 report on 'The Local Transport Lottery – the costs and inefficiencies of excessive reliance on competition funding.'

5.35. The main findings of the report are that:

- The costs of competition funding are high in absolute terms (the costs of bidding for the Transforming Cities Fund, for examples, was in the region of £1 million for some authorities).
- The costs of preparing a bid for a small scheme is disproportionately high when compared with the costs of preparing a bid for a large scheme (the cost of bidding for a £5 million project is typically three to five times less than bidding for a £100 million project, despite the reward of the latter being twenty times greater).
- Bidding for short-term projects is a major drain on limited available staffing which could be far better deployed as part of a longer-term strategic approach to urban transport planning and delivery.

5.36. The report also found that:

- The unpredictability and short-term nature of excessive reliance on competition funding can distort priorities, with sub-optimal projects being brought forward on the basis that they meet competition criteria rather than that they would be the best scheme overall.
- The constant and unpredictable churn of competition funding disrupts and distracts from the task of developing and implementing longer-term integrated planning and delivery and from building up a pipeline of schemes.

- The number of small competitive pots has increased dramatically over recent years, increasing the burden on local authorities for relatively small gains.
- The need to respond quickly to ad-hoc competitions leads to higher consultancy spend and takes funding away from supporting, developing and maintaining in-house staff and expertise.

5.37. The way in which national government satisfies itself that local government transport spending is being carried out efficiently and effectively is inconsistent and can be overly prescriptive as well as subject to 'clawback' (i.e. asking for further reviews, options or approval centrally - even after approval for funding the project has already been given). This is wasteful in terms of duplicated resources as well as the costs associated with project delays.

5.38. A review of good practice on oversight might be helpful in moving towards new guidelines for Whitehall departments on appropriate, consistent and proportionate oversight which strikes the right balance between devolutionary principles and the need to ensure that public money is properly accounted for.

Responding to transformative change

5.39. Local transport authorities are also having to respond to new, complex and far-reaching challenges which include:

- The short, medium and long-term implications of the COVID-19 crisis.
- Delivering on the Government's highly ambitious objectives for increasing active travel trip share and turning round the decline in bus travel.
- Reducing carbon emissions from urban transport systems as well as improving their resilience to more extreme weather events.
- Responding to the opportunities that arise from technological change which includes making the best use of the exponential growth in data; preparing the road network for connected and autonomous vehicles; facilitating greater electrification of road vehicles; and moving forward on Mobility as a Service. There are also challenges in responding to waves of new business models which capitalise on wider social and technological change such as new formats for PHV provision, dockless bike schemes and e-scooters and personal mobility devices.

5.40. All of these challenges have implications for staffing, hiring in expertise and resources.

The need for radical reform based on fully empowered and funded transport authorities

Fully funded

5.41. As set out above, if the Government's wider aspirations for public transport, active travel, decarbonisation and levelling up are to be met then there will need to be a significant uplift in capital and revenue funding for transport authorities.

5.42. To achieve this in the most efficient way possible we also need to move away from short-term competition funding and towards the long-term funding deals that national road and rail currently enjoys.

5.43. Long-term funding certainty allows a considered approach to ranking and delivering priorities; it means that business and investors in city regions can plan ahead with more confidence; it allows expertise and capability in the planning and delivery of schemes to be built up and retained; and it reduces the inefficiencies inherent in oscillating between 'feast and famine' for contractors and suppliers.

5.44. The need for longer term and more stable funding settlements for local transport in cities is a key recommendation of the National Infrastructure Commission's National Infrastructure Assessment[5].

Fully empowered

5.45. Transport authorities outside London need to have the flexibilities and powers necessary to move rapidly, at scale and in a coordinated way to underpin a wider green and just recovery from COVID-19 in the city regions.

5.46. Fully empowered transport authorities can:

- Target investment where it will have the biggest local economic impact.
- Organise road space in a way which facilitates and encourages active travel and public transport, and discourages more carbon intensive modes.
- Support, promote and invest in public transport so that it provides an effective alternative to car use.
- Work with District Councils and the power sector to ensure that electricity, hydrogen and biogas is available to power low or zero emission vehicle fleets.
- Coordinate with wider economic and housing plans to ensure that existing and new developments are easily accessible on foot, by bike and by public transport.
- Collaborate with the wider local public sector - including education, local government, health and social care - on the transport implications of their policies and decisions.
- Make wider connections between the decarbonisation of transport, energy and the built environment at the local level. For example, through a coordinated approach to investment in vehicle fleets, local renewable power generation, public buildings, housing and local grid infrastructure.
- Support place-based solutions by taking a view across conurbations of the different types of policies which will be most effective across the very different local economies and geographies that city regions contain (from the central business districts of core cities through to post-industrial towns, suburbs and edgelands)
- Coordinate decarbonisation policies with those designed to improve air quality
- Take a view on the trade-offs between measures which reduce carbon and those which will improve the resilience of transport infrastructure to the more extreme weather conditions that are already occurring (such as through blue-green infrastructure to deal with higher temperatures and more intense rainfall).
- Adopt a coordinated approach to national and local emergencies.

[5] National Infrastructure Commission (2018) National Infrastructure Assessment https://www.nic.org.uk/assessment/national-infrastructure-assessment/

- Ensure better coordination of the planning of transport with the provision of faster and more reliable broadband connections, and respond to the travel patterns associated with more home working.

5.47. In practice, for bus, fully empowered transport authorities would mean existing bus subsidy funding flows being routed via transport authorities as set out above. This, alongside some limited modifications to existing buses legislation would provide a solid basis for a later transition to either a consolidated partnership arrangement with existing operators, franchising of networks of bus services (broadly akin to the London model) or direct provision.

5.48. On rail it means extending the benefits that devolution of responsibilities for the contracting of rail services has already brought to London, Merseyside and Scotland where, by and large, investment has increased, passenger satisfaction has risen and performance has improved[6]. In particular, this translates to full further devolution in the North and the West Midlands, and the extension of the Overground in London.

5.49. In London, Transport for London has responsibility for key roads, the provision of a fully integrated public transport network as well as taxi and Private Hire Vehicle licencing. This is not the case for England's other city regions but is an option which should be available to every city region to draw on as may be locally determined[7].

5.50. Transport Authorities have some powers in areas like road user charging and parking, however there are other potential new funding streams that could be better realised depending on local circumstances and aspirations - including in relation to land value capture and work place parking levies. We further explore some of the issues around this in our 2019 report on 'The Place to Be: How Transit Orientated Development can support good growth in the city regions' which looks at the key role that local transport investment can play in opening up sites which will help meet the UK's significant housing need.

5.51. If these reforms are made, then other city regions would be able to enjoy the same essential ingredients of success that London has. A single, integrated public transport network complete with simple and smart ticketing planned and overseen by a single accountable body.

6. Conclusion

6.1. The COVID-19 pandemic has hit city region economies hard. It has also dealt a major blow to public transport, from which a complete recovery looks unlikely anytime soon. Short-term funding deals for public transport, if withdrawn prematurely, risk accelerating the spiralling decline of bus networks. In the process, this will worsen social inequalities, slow the economic recovery, as well as generate more carbon emissions. At the same time, the Government's aspirations for a big shift to active travel and public transport - as part of its wider transport decarbonisation plans – remain intact. As does its 'levelling up' agenda.

[6] UTG (2017) 'Rail Devolution Works' https://www.urbantransportgroup.org/resources/types/reports/rail-devolution-works

[7] For more, see UTG (2017) 'Taxi! Issues and Options for City Region Taxi and Private Hire Vehicle Policy' available here: https://www.urbantransportgroup.org/resources/types/reports/taxi-issues-and-options-city-region-taxi-and-private-hire-vehicle-policy

6.2. Transport authorities have again proved their worth in their response to the COVID-19 crisis – keeping the wheels of public transport turning, getting essential workers where they needed to be during the lockdown and helping city regions gradually get back on their feet during the initial recovery phase.

6.3. To build back better from this crisis there is a need to give city region transport authorities the longer-term funding certainty and powers they need to be able to respond adroitly and at scale to the challenges ahead. This will allow them to play their part in shaping the legacy of COVID-19 for the city regions in a positive way, rather than be constrained bystanders.

6.4. The COVID-19 pandemic has shown how quickly radical policy change can be achieved when the need is urgent. A similarly radical approach should now be taken in unlocking the powers and funding that city regions need to tackle the transport challenges ahead, enabling them to play their part in building a green and just recovery from this crisis.

ANNEX ONE: SUPPORTING UTG EVIDENCE BASE FOR INVESTMENT IN URBAN PUBLIC TRANSPORT AND ACTIVE TRAVEL

6.5. There is a strong consensus that city regions are key to improving the UK's wider economic competitiveness. Transport is a key enabler of city region growth and a way of ensuring that the benefits of that growth are shared by increasing access to opportunity - be it jobs, education, leisure or healthcare. Innovations in the transport sector can also help showcase UK tech talent and know-how, attract inward investment and help create new export markets.

6.6. To deliver on their potential, city regions need efficient and effective local transport networks, as well as good connectivity with each other and the wider world. Efficient and effective local transport networks support city centres with their clusters of high value jobs, retail and cultural offerings. They also support secondary centres, high streets and suburbs by providing them with the access they need. Connectivity with other cities, and beyond, attracts investment and skills and enables access to domestic and international markets.

6.7. The overarching economic case for investment in urban transport networks is summarised in our 'Transport works for growth and jobs' report

6.8. The 'Transport works' report highlights that: *'…there is a strong empirical relationship between transport spending and national economic growth, greater than for most other sectors of government activity.'* Our analysis suggests that *'lower levels of transport spending between 1990 and 2004 can explain a 2% difference in GDP between the UK and Germany over the period. Schemes in congested urban areas are a particularly effective form of transport spending, offering an average economic and social return of £4 for every £1 spent'.*

6.9. More recently we have produced other reports on the overarching case for investment in urban transport. In 2018 these included:

- Our 'Banks, bytes and bikes' report on the transport priorities of the 'new economy' (finance, legal, technology, media and creative sectors) which sets out how these sectors increasingly favour urban locations with good quality of place, as well as good access on foot, by bike and by public transport.
- 'About towns - how transport can help towns thrive' where we demonstrated how transport improvements can make a key contribution to reviving the economies of post-industrial towns.

6.10. We have also demonstrated the benefits of investing in the different aspects and forms of urban transport in the following reports set out below.

Regional and urban rail

6.11. Our 2015 'Destination Growth' report sets out the success of regional rail over the past decade and then goes on to develop two hypothetical scenarios to demonstrate how investment in regional rail could deliver even greater benefits, significantly reducing subsidy and growing the benefits delivered to our city region economies. –One scenario involved investment in a modern fleet of diesel trains and the other investment in a modern fleet of electric trains. It found economic benefits of between 3.9 and 4.4 pounds for every pound invested when compared with a business as usual scenario. Lower operating costs and high passenger numbers would lead to subsidy requirements being slashed, with the possibility of the network being self-supporting.

6.12. In 2017 we published: 'The Transformational Benefits of Investing in Regional Rail: four case studies' which homes in on the benefits that derive from investing in four different types of regional rail services. The benefits that the report identifies through the case studies include the potential to generate over 2,000 jobs and up to £70m of additional GVA per annum (the rail reopening case study), the delivery of land for housing to support over 3,000 new residents (the total route modernisation case study) and a total value to the economy of around £35m of additional GVA each year (the developing inter urban links case study).

6.13. In 2018 we published 'Rail Cities - our vision for their future' which makes the case that if cities are to densify and grow economically (whilst at the same time ensure housing need is met, air quality is improved, carbon is cut and road congestion is reduced) then only significant investment in expanded urban rail networks can facilitate this. The report sets out a five-point vision for 21st Century rail cities based on:

- Higher density and more reliable rail services, with a greater market share of city centre commuting and more cross city routes.
- The use of new technologies, such as tram-trains, which are able to switch from rail lines onto streets when they reach city centres.
- Rail networks which are integrated with wider public transport, and which support housing needs and local economic development.
- Stations which act as hubs for business, housing and community purposes.
- Interconnected rail networks which emulate those of comparative city regions in countries such as Germany.

Active travel

6.14. In our November 2016 report, 'The Case for Active Travel', we set out the fivefold economic benefits of investing in active travel highlighting cost savings to the health sector, the economic value of active travel trips, the economic benefits of an improved urban realm, the benefits to inclusive growth and direct employment benefits in related industries.

Buses

6.15. There is a particularly strong case for increasing revenue support for bus services given the very wide cross-sector benefits that accrue from public support for bus, meeting the stated priorities of many Government departments.

6.16. The bus is the main form of public transport. It gives people access to employment and opportunity and is a relatively low cost and rapid way to enhance transport provision, for example, to serve new development areas.

6.17. Our 2019 report 'The cross-sector benefits of backing the bus' reveals that investing in bus services contributes to the policy goals of 12 out of 25 Ministerial Departments, covering 29 policy priorities in total.

6.18. Whilst showing the exceptional value for public money that supporting bus services provides the report also shows how complex and inefficient current funding arrangements are with three Government departments involved but with no effective overall coordination, or cumulative understanding, of the impacts on bus services of their respective decisions on relevant funding flows. The report also shows that all these funding flows have been in decline, contributing to continuing overall reductions in service levels and patronage and in turn undermining the ability of Departments across Whitehall to achieve their wider policy goals.

6.19. The report goes on to make the case for reform of bus funding through a new enhanced, simplified, ring-fenced and devolved 'connectivity fund' which could be more effectively and efficiently targeted to meet the very different needs of very different local markets.