



Consultation Response

Consultation on Integrated Transport Block Funding

FINAL

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1. *pteg* Response

Question 1 - Do you have any objections to the principle of updating the formula to reflect current transport priorities?

- 1.1. While it is the Department for Transport's prerogative to decide how available funding should be allocated, we believe that the current formula already effectively reflects current government priorities¹ and there is no need for it to be revised.
- 1.2. Equally, we find it difficult to understand how proposed changes to the funding formula, which move money away from the largest urban areas outside London, are consistent with stated government priorities, in particular the recognition of the importance of cities in driving future economic growth and the need to re-balance the UK economy.
- 1.3. We are also concerned that decisions on individual funding flows like the Integrated Transport Block are being taken in isolation from each other, and without regard to their cumulative impact. This is a particular concern when the overall impact of recent decisions by DfT (and other Government departments) has been to route funding away from the largest and most congested areas outside London to either rural areas or to the London mega-region. These concerns are summarised in our recent briefing on this 'funding shift'².
- 1.4. On a related point, we would note that it is inconsistent for the DfT to review the ITB allocation formula, while having decided not to fundamentally review the Highways Maintenance grant³ distribution formula. We maintain that the ITB formula already closely reflects government priorities, whereas the HM formula is based entirely on infrastructure stock rather than cost effectiveness, economic contribution, potential for carbon reduction or need. Given the importance of the road network to the manufacturing, construction, logistics and passenger road transport sectors, and the disproportionate impact of heavy vehicle traffic on road maintenance costs, we would have expected the DfT to want to review the distribution formula as a matter of priority.
- 1.5. At a more basic level, we should highlight that certainty over long term funding profiles is becoming increasingly important as we move towards a more devolved decision making regime. As part of the City Deals, a number of PTEs alongside local partners, are in the process of establishing long term capital funds by pooling together central government money and match funding from local public and private sources. Amending the ITB formula now creates a lack of certainty over an important central government funding stream which risks undermining what is already a challenging process. Long term funding certainty is a strong theme running through City Deal discussions. We therefore believe that it is important for the DfT to consider the message that a change in the ITB formula would send out to public and private stakeholders currently being asked to contribute to local funds.
- 1.6. As ever, we are keen to work with the DfT to find ways in which to ensure that transport funding is targeted in the most effective way to achieve economic and social objectives.

¹ Please see response to question 2.

² <http://www.pteg.net/MediaCentre/PressReleases/fundingshift2013.htm>

Question 2 - Do you think IT Block funding should continue to be based solely on need?

- 1.7. We share and support current government priorities to deliver economic growth and reduce carbon emissions. We also believe in the principles that public spending should deliver value for money, that it should be targeted where it is most needed and that sensible behaviour should be rewarded.
- 1.8. While it is often difficult to balance these competing principles and objectives, we believe that the current ITB formula is one area where this is done effectively. Rather than being based solely on need, as is claimed in the consultation document, much of the current formula reflects the relative cost-effectiveness of transport expenditure in achieving government objectives while including sensible reward mechanisms.
- 1.9. For example, more congested areas currently receive a greater proportion of national funding. If this funding is used successfully to shift trips from car to public transport then the level of funding is automatically adjusted to reflect the lower levels of congestion and, conversely, the increased use of the public transport system and so associated need to invest to support this. Similarly, the accessibility indicator recognises that transport expenditure is likely to be most cost effective in linking workers to jobs where accessibility is worst. However, if transport spending improves accessibility and gets more people travelling to work by public transport (thereby also reducing emissions) this is rewarded by the public transport indicator.
- 1.10. Overall, we believe that the current formula strikes an effective balance between need, reward and the cost effectiveness of transport spending in delivering government priorities. We therefore see little need for change (subject to the modest amendments we propose later in the response).

Question 3 - Do you have any comments on the proposed new formula to eliminate perverse incentives?

- 1.11. While we understand what the DfT is hoping to achieve by introducing additional elements of reward to reflect improvements in key indicators, we fear that the proposed mechanistic approach has some significant weaknesses and could have unintended consequences.
- 1.12. At a fundamental level, we cannot see how the proposed system will be able to establish the counterfactual for each indicator and for every local authority area. The proposed approach fails to recognise the role of other transport investment in driving changes in key indicators. For example, all the proposed reward elements could be positively influenced by other transport interventions such as major schemes, improved maintenance, and especially, investment in the strategic rail and road networks. It therefore seems unrealistic that ITB alone drives the performance of the local transport network. At the same time, the existing formula already includes a robust mechanism for rewarding authorities which commit a greater proportion of their own funding to cost effective local transport improvements – the public transport indicator.
- 1.13. This approach also seems to punish any authorities which, in the process of pursuing the government's economic growth agenda, are able to attract additional economic activity (either through transport investment or otherwise) and, as result, see worsening congestion, road safety or air quality.

- 1.14. The problem with the proposed approach is that it is far too simplistic to assume ITB spending alone drives changes in key macro indicators and that external factors play no role at all. The proposed approach has the potential to introduce significant perverse mechanisms of its own. And as we argue above, we feel that the current formula already includes much more effective automatic adjustment mechanisms which both reward improvement and reflect need.

Question 4 - Do you have any suggestions for trend data for any of the elements of the current formula?

- 1.15. As argued in the answer to the preceding question, we believe that the public transport indicator in its current form already includes a significant element of reward which closely reflects those policy areas which are within the gift of local transport authorities. Moreover, we do not agree that simple trends are enough to establish an appropriate counterfactual and, as such, would not be introducing a true element of reward.

Question 5 - Do you have any views on the proposed balance (75%:25%) between 'need' and 'improvement'?

- 1.16. As we argue in our response to question 3, we believe that the current formula already includes a significant measure of reward for improvement. We also remain to be convinced that the proposed changes won't introduce new perverse incentives.

Question 6 - Do you have any further comments on Option 1?

- 1.17. No.

Question 7 - Should carbon be part of the IT Block formula?

- 1.18. As stated earlier we share and support the government's objective to reduce carbon emissions. However, we believe that the proposed carbon indicator would work in the complete opposite direction by targeting a greater proportion of funding at areas with long average journey lengths and high car usage, where small local transport schemes which ITB tends to fund are least effective at cutting emissions. In fact, our analysis of past local authority expenditure shows many rural councils spend a negligible proportion of their ITB allocation on measures such as public transport, walking and cycling, capable of reducing carbon emissions.
- 1.19. We believe that the current formula already works to reduce carbon emissions through the congestion and public transport indicators, which effectively ensure transport funding is targeted at those areas with the greatest emissions reduction potential.
- 1.20. In contrast, adding total carbon emissions to the formula, would merely act against the congestion and public transport indicators, as emissions per head are inversely correlated with both these variables. In summary, we feel that, as proposed, the introduction of carbon into the formula would actually be counterproductive relative to current government priorities.
- 1.21. Finally, we are not entirely confident in the way in which carbon emissions from local transport are estimated. For example, according to DfT/DECC statistics, the Tyne and Wear ITA area has one of the highest level of carbon emissions from transport per head amongst the six PTEs. This is despite having the lowest level of car ownership and highest level of public transport usage per head.

Question 8 - Do you have any comments on the suggested data set for adding a carbon element to the formula? Are there further alternatives you would like to suggest?

- 1.22. If it is the DfT's intention to reflect government priorities better then we believe a measure of environmental efficiency should be introduced, for example, the number of trips per gram of CO₂ emitted. However, this would merely act to reinforce existing indicators and so, see little point, in making changes to the formula.

Question 9 - Should economic growth be part of the IT Block formula?

- 1.23. We believe that, in order to support the government's priorities, the formula should aim to target funding at those areas where transport investment is likely to be most cost-effective in promoting economic growth. In our view, this could, for example, be those areas that suffer from the highest levels of congestion or where the lack of suitable transport is keeping people from accessing jobs (for example, the number of job seekers without access to a car).
- 1.24. At a fundamental level, we cannot see how ITB spend can be directly associated with economic growth without establishing a counterfactual. There are obvious challenges in forecasting economic growth at national level, let alone at district level.
- 1.25. So while we understand the DfT's intention to include economic growth in the ITB formula, we believe this is already achieved effectively by the current formula, in particular through the use of more effective proxies such as congestion, accessibility and public transport indicators.

Question 10 - Do you have any comments on the use of employee earnings for measuring economic growth? Are there further alternatives you would like to suggest?

- 1.26. As argued in the response to the previous question, we believe the current formula already targets funding at those areas where transport spending can make the most significant contribution to economic growth.
- 1.27. In contrast, it needs to be understood that employee earnings merely reflect differences in average wages between areas, without any account taken of how that affects the cost effectiveness of transport investment or how it can specifically promote further economic growth. In fact, it can be argued that higher wages lead to greater usage of rail and road networks, rather than local transport, for which investment is already partly funded through alternative mechanisms⁴.
- 1.28. The ITB therefore needs to be seen in the context of wider funding flows, in particular, the fact that London and the SouthEast have received a disproportionate amount of rail investment in recent years, which is directly targeted at getting SE residents to high income jobs in London. It would be disingenuous to treat the ITB in isolation from other funding streams, which are already favourable to high income areas.
- 1.29. In our view, local transport investment is likely to be most effective in supporting economic growth by shifting trips onto other forms of public transport, walking and cycling, and this is not necessarily correlated with wage levels.

⁴ Highways Maintenance grant, Highways Agency grant, Network Rail grant, Operating subsidy to TOCs

- 1.30. In summary, we believe that there are far better indicators of the potential contribution of transport investment to economic growth than average earnings, in particular those that are already included in the current ITB formula.

Question 11 - Do you have any further comments on Option 2?

- 1.31. No.

Question 12 - Do you have any comments on Option 3?

- 1.32. If carbon emissions were to be included in the formula then we feel this should be entirely trend based.

Question 13 - Do you have any suggestions for how walking and cycling data might be included in the funding formula?

- 1.33. We agree that the inclusion of walking and cycling in the formula would provide a strong incentive for local authorities to shift funding towards these modes. However, we recognise the statistical limitations of the Active People Survey and would encourage the DfT to support the expansion of its sample size.
- 1.34. An alternative approach, which would reflect need and the opportunity for growth, would be to use the number of short distance trips being made, for example, based on NTS data.

Question 14 - Do you think the Department should base weightings on current transport priorities, rather than historic spend patterns?

- 1.35. Given that ITB funding is not ring-fenced in proportion to the indicators in the formula, the weightings merely reflect how the government chooses to prioritise different objectives, needs and incentives. As we have argued in our response to question 2, we do not actually believe that the current formula is purely needs based and this seems to be recognised in this part of the consultation document.

As we have previously argued, we believe that the existing indicators already closely reflect current government priorities. We also feel that the balance between need/value for money (congestion, accessibility, road safety, air quality ~ 70%) and reward (public transport ~ 30%) seems broadly sensible. Question 15 - Which elements in the formula should be given the heaviest weighting?

- 1.36. We feel that the current weightings are relatively well aligned with government priorities and provide a sound balance between need/value for money and reward. However, if the government were minded to put more emphasis on a reward-based mechanism, then we feel greater weight should be placed on the public transport indicator.

Question 16 - The Department is not considering changes to the data sets used for four elements of the existing formula: Objective One Areas, public transport, accessibility and air quality. Do you agree with this approach?

- 1.37. The PTEs have concerns over the definition of the public transport indicator. Our remit is to provide integrated public transport networks available to all. In metropolitan areas, journeys can be more complex than in smaller areas and in many cases people rely on more than one mode of transport to get to a single destination.

- 1.38. In order to achieve the most cost effective solution and to deliver integrated transport networks, PTEs often invest directly in the local rail network, for example by building new stations, improving existing stations, creating new transport interchange facilities, providing real time information or funding additional rail capacity. In some cases, these interventions are best funded as small capital schemes.
- 1.39. We would therefore argue that local rail journeys should be included in the public transport indicator. At present the ITB formula incentivises local transport authorities to shift rail passengers onto other transport modes, which we believe can act as a perverse incentive.

Question 17 - Do you have any comments on the two alternatives for the road safety element of the formula? Are there further alternatives you would like to suggest?

- 1.40. We would support a move towards the use of the rate of KSI/slight casualties per billion vehicle miles (assuming this would be weighted by population) as it would go some way towards recognising the relative cost effectiveness of this type of spending.
- 1.41. We do not believe that a reward based mechanism would represent best value for money as it would merely target funding at those areas where the most progress had been made and where diminishing returns may have therefore set in.

Question 18 - Do you see any problems with the current measure for congestion? Do you have any comments on the suggested alternative? Are there further alternatives you would like to suggest?

- 1.42. It is not clear to us by what mechanism “local authorities with lower speeds would receive a larger allocation” so we cannot comment further on that point without seeing the precise formula that is being proposed.
- 1.43. While we feel that the current indicator is a broadly appropriate measure of congestion we have some concerns over how it treats the most congested town and city centres, which despite forming a relatively small proportion of the overall road network concentrate a large proportion of passenger-kms and are likely to be the main foci of congestion. We would therefore be interested in exploring data sets that may better reflect these congestion hotspots.

Question 19 - The Government is keen for local authorities to provide more transparency around spending on small transport projects. Do you have any views on how this might be achieved?

- 1.44. The PTEs strongly support this objective and **pteg** has undertaken a number of initiatives in recent years to try to improve the evidence base on the impact of local transport schemes. In 2011, **pteg** published a report on the value for money of small public transport schemes which collected evidence from our members on over 100 schemes and found a median benefit-cost ratio of 3.5:1. In 2012, we commissioned a guidance document to support PTEs and other local transport authorities in undertaking robust and cost-effective monitoring and evaluation, focussing particularly on sustainable transport schemes – the document is due to be published shortly.
- 1.45. At a local level, all PTEs have contributed to the Local Transport Board assurance frameworks recently submitted to the DfT as part of the devolution of major scheme funding. These documents set out proposed governance, appraisal and decision making

arrangements relating to future transport capital expenditure. In all cases, these frameworks build on existing arrangements developed over the past decade as part of the Local Transport Plan process, which provides accountability for local spending decisions covering grants such as the ITB.

- 1.46. Despite the robust decision making frameworks already in place, we feel that the DfT needs to be realistic about what more (for example, in terms of ex-post evaluation) can be achieved in a context of declining funding levels and increasing resource constraints. Greater transparency requires that greater resources be allocated to project management and reporting, which will inevitably reduce the amount of funding available for work on the ground.
- 1.47. We feel it would be helpful if DfT were to recognise that there can be significant economies of scale in undertaking monitoring and evaluation that would allow more robust conclusions to be drawn about the cost effectiveness of investment. This would suggest that the DfT should allocate funding to some of the largest grant recipients to undertake this type of activity as is currently the case with LSTF schemes.

Question 20 - Do you have any other issues that you would like to raise about the calculation or distribution of the IT Block Funding?

- 1.48. No.