# THE ROAD TO GROWTH

# The case for greater local influence over transport

Daniel Crowe and Steven Howell, Localis

with foreword by Councillor Peter Box CBE
Chairman, LGA Economy and Transport Board

Local Government Association

LOCALIS

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We believe that power should be exercised as close as possible to the people it serves. We are therefore dedicated to promoting a localist agenda and challenging the existing centralisation of power and responsibility. We seek to develop new ways of delivering local services that deliver better results at lower cost, and involve local communities to a greater degree.

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The LGA covers every part of England and Wales, supporting local government as the most efficient and accountable part of the public sector.

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# Foreword

Throughout the LGA's programme of work on growth, transport has been raised by businesses and local authorities as one of the key factors influencing the capacity of local areas to grow. This is not new and local authorities have long sought to develop integrated local transport systems that serve communities' economic, social and environmental priorities.

The picture of transport financing and decision-making is a complex one in which there is a franchised rail system, deregulated bus market and a mix of responsibility for the roads network.

Over the last 18 months the LGA has worked with councils and the Department for Transport as the department has sought to devolve responsibilities for funding and decision making for certain aspects of the transport system, notably Local Major Transport Schemes Bus Services Operating Grant and the regional rail network to the local level. We have also seen transport feature in a number of the first and second waves of city deals. New governance arrangements have been established in the form of Local Transport Boards, to support some of the devolution.

This independent report from Localis looks at the current position in England and draws comparisons with international examples, highlighting the benefits of local decision-making in transport enjoyed by local authorities in Spain and Germany.

Significantly the report looks beyond the current devolution to ask what next? There are other important policy developments taking place. The government is currently considering how to get more money flowing into the strategic roads network and what organisational and governance arrangements can best support that aim.

The report makes the case for deeper and more fundamental localism of transport decision-making including greater local influence over investment decisions on the strategic road network.

Councillor Peter Box CBE
Chairman, LGA Economy and Transport Board and Leader of Wakefield Council

## Introduction

It's often said that all politicians are localists in opposition. The 2010 Coalition Agreement clearly set out the current Government's localist intentions:

> "The Government believes that it is time for a fundamental shift of power from Westminster to people. We will promote decentralisation and democratic engagement, and we will end the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals."[1]

Within the context of a Government that seeks to break down barriers and chip away at silo service mentalities, alongside a clearly stated policy to decentralise and devolve powers and responsibilities away from Whitehall, local authorities have demonstrated that they are ready and desperately willing to respond to the new agenda.

While substantial reforms have been made across health, education, and planning policy areas, the UK remains one of the most centralised countries in Europe. As this report seeks to demonstrate, local decision making is vital to the future improvement and efficiency of the UK's transport network. This applies equally to cities just as much as it does to smaller urban areas and rural localities, though the case for integration in the former has long since been made.

While growth is  desperately needed, now is the time to plan for a sustainable, local, transport future. To avoid the potential risk of wasted investment, local decision makers will need to have a significant influence over future interventions.

This report makes a number of key recommendations, highlighted throughout the text of the report, that we believe would improve transport funding and decision-making with the fundamental objective of stimulating growth.

## The state of the nation – a new approach to growth

As the Prime Minister said in his address to the 2012 Conservative Party Conference, the emerging economic giants of the future are

> "lean, fit, obsessed with enterprise, spending money on the future – on education, incredible infrastructure and technology.[2]"

In Britain this means that there will be no return to the past luxury of public spending taps that are constantly turned on, and that the limitations imposed on the public finances by an age of austerity mean that decisions about the how, where and why of public spending will need to be carefully prioritised by politicians at both the national and local levels.

However, with an ongoing global financial crisis, stimulating economic growth has become a key driver of the Coalition Government's reform agenda. A series of reforms have been undertaken, including the creation of 39 Local Enterprise Partnerships (LEPs) to engage local businesses and coordinate local economic development efforts, the approval of 24 Enterprise Zones, and allocating £2.4billion to local growth projects through the three rounds of the Regional Growth Fund.

The Government also asked Lord Heseltine to suggest how we might effectively create wealth in the UK. His report, published in October

1 http://www.cabinetoffice.gov.uk/sites/default/files/resources/coalition_programme_for_government.pdf

2 http://www.telegraph.co.uk/news/politics/conservative/9598534/David-Camerons-Conservative-Party-Conference-speech-in-full.html

2012[3], rightly points to the latent dynamism, strengths and ambitions of many of our local economies, arguing that the design of policy, political decision making and the approach to economic development should be applied at the appropriate spatial levels.

Adopting such a localist perspective could have a profound effect not only on how local areas work to support their economies, but on the allocation and distribution of funding from central Government. Indeed, the Chancellor has signalled that he was planning to introduce a 'single pot' funding mechanism for business support, potentially including skills and training, housing, broadband and EU regional aid monies. In his report, Lord Heseltine identified £49 billion in funding that could be more appropriately spent at the local level, but how much will eventually be devolved is likely to remain unclear until much nearer the introduction of such a pot in 2015-16.[4]

In a similar vein, the Government has supported four Community Budgets pilots with Cheshire West and Chester Council, Essex County Council, Greater Manchester and the Tri-borough. Civil servants from a variety of central government departments have worked together with local authorities to agree more efficient public sector interventions, based around avoiding duplication and joining up strategic objectives. Community budgets approaches are expected to lead to significant efficiencies – external financial analysis suggests £4 billion could be saved nationally – and, more importantly, better services, with residents having to deal with a smaller number of public servants more tightly focused on local need.

3 http://www.bis.gov.uk/assets/biscore/corporate/docs/n/12-1213-no-stone-unturned-in-pursuit-of-growth

4 Speaking at the Business & Skills Select Committee on 12/02/13, Lord Heseltine suggested that this could be even larger, with a further £12bn available beyond that identified in the report due to an earlier error in the calculations

Such announcements are encouraging signs that the Government is continuing to develop along the localist path set out in the Coalition Agreement. However, the response to this will ultimately be determined by how much is allocated to the 'pot'.

Aside from local government's influence on local growth via LEPs, Government also recognises the lynchpin role that local authorities have in directly promoting growth. Central Government has sought to incentivise this through initiatives such as the retention of business rates and the New Homes Bonus. These may go some way to encourage local growth, as well as promoting new financing models and governance arrangements through City Deals. Negotiated devolution via other means, such as workstreams related to the Community Budgets process, will also encourage local growth.

## Transport and growth – clearly a major role to play in building post-recession

The development of a sophisticated transport infrastructure is a key measure of a country's economic development. Speculative private sector investment first in canals, then in railways, provided easy routes for the transportation of goods and labour. This facilitated Britain's leadership during the Industrial Revolution, and the great Victorian appetite for engineering and enterprise created essential infrastructure such as the London Underground. Indeed the historian Tristram Hunt, maintained that Victorian cities, led by local figures such as Joseph Chamberlain, were transformed by locally-led infrastructure transformation such as cleaner streets, clearing slums, and providing houses and sanitation.[5] However, such figures had access to far more

5 T. Hunt, Building Jerusalem: The Rise and Fall of the Victorian City, (London, 2004)

significant resources than their modern day contemporaries – in 1870, over 90 per cent of local authority income (both capital and revenue) was raised locally. The governance landscape of today is very different.

Recently the state has played an instrumental role in planning and enhancing road and rail networks, and regulating aviation routes that has been instrumental to the functioning of a modern economy in an increasingly globalized world. Today, across the political spectrum and at all spatial levels of Government there is recognition that transport is a key public good essential to the nation's economic wellbeing. As the landmark 2006 Eddington Transport Study, commissioned by the then Labour Government, made clear,

> "A good transport network is important in sustaining economic success in modern times: the transport system links people to jobs; delivers products to markets; underpins supply chains and logistics networks; and is the lifeblood of domestic and international trade."[6]

Indeed, numerous studies show that transport remains the most highly cited of all locational factors.

Investment in infrastructure is also a key part of getting Britain growing again, with transport being a core element of this. As Lord Heseltine argues:

> "decisions on housing or transport…will have far greater long term economic prospects than any form of direct support provided to business".[7]

With public spending likely to be restrained for the forseeable future, getting the biggest returns from investment on behalf of the taxpayer in promoting growth is the order of the day.

While this paper is more about how transport decisions should be taken, not the level of investment in them,  there are a variety of benefits that arise from investment in transport schemes. Direct benefits that flow from the scheme itself, at the level of micro-economic analysis, focus on the improved productivity of businesses and consumers, with wider impacts analysed at a macro level in terms of growth in GDP, e.g.:

- higher employment levels
- increased productivity levels
- a reduction in costs (such as increased efficiency through shorter, reliable journeys for goods and labour).

Other benefits may accrue through the construction of the scheme itself, including project-related employment further effects that are created throughout the local economy, as improved transport attracts greater investment and perpetuity effects caused by structural changes to the local economy.

These impacts create a number of benefits, such as deepening labour markets through enhanced access; and the agglomeration effects achieved by bringing businesses closer together, thus creating spillover and specialisation effects, with initial public spending helping crowd-in private sector investment.

6 http://webarchive.nationalarchives.gov.uk/+/http:/www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy/

7 Heseltine, p.8

## The Government's approach to transport investment

Britain has a long and proud engineering history, with recent successes such as High Speed One and the on-going Crossrail project (the largest construction project in Europe) demonstrating that there is no shortage of ambition, capacity and knowhow to design, build and project manage large and small scale transport infrastructure projects. However this report is concerned for the most part with transport at a sub-national level.

Funding and responsibility for transport is split, primarily, between the Department for Transport (DfT), central agencies and bodies such as the Highways Agency and Network Rail, and local authorities. London has separate arrangements, managed by Transport for London on behalf of the Mayoralty, while in some areas Integrated Transport Authorities carry out the duties elsewhere retained by upper tier local authorities.

Centrally-administered and controlled funds open to transport investment include the Regional Growth Fund, the £600 million Local Sustainable Transport Fund – benefitting 96 projects across England between 2011-2015 – and £460 million for the Growing Places Fund for LEPs. Further funding includes a number of grants to improve the use of buses and sustainable transport.

Following the abolition of Regional Funding Allocations after the 2010 General Election (then managed by Local Authority Leaders' Boards, and formerly by Regional Assemblies), councils can also benefit from funding as a result of competitive bids for (potentially) £1.4 billion of investment for major transport schemes (those over £5 million), but these must secure local funding and comply with Government requests and conditional offers in order to achieve approval.

In a more localist policy shift, funding for these major transport schemes will be devolved to newly established Local Transport Boards (LTBs) from 2015. As "voluntary partnerships of local transport authorities, local enterprise partnerships and possibly others" that are non-overlapping and broadly based on LEP geography, LTBs will be awarded indicative funding pots by the DfT on a per capita basis and tasked with planning local projects.

The introduction of LTBs could be a significant improvement on the current major transport funding pot arrangements, abolishing the need for a centralised bidding process and the £5 million threshold, and granting important local decision making powers. However, there will be a need for LTBs to collaborate with their neighbours to secure the provision of larger projects (the majority of schemes are between £5 million and £30 million, with only around 10 per cent costing over £75 million).

Whilst the measures are voluntary, local authorities could struggle to bring together enough funding for major schemes if they do not comply with the Government's nudge towards greater sub-regional collaboration. Once on this road, local authorities may find themselves journeying to a destination where not only do they have, in partnership with neighbouring areas, greater decision making powers over what sort of transport infrastructure to invest and where, but also access to a wider pool of funding. Building on the announcement of twenty further potential City Deals, this could come in the shape of further devolution of capital and other funding streams into one pan-local authority pot, as well as in the application of new and innovative financing models and the creation of investor-friendly investment cocktails.

When it comes to decision making, elected members are expected to be in the majority. In areas where there are existing arrangements, such as Greater Manchester, the combined authority is expected to act as the LTB, and the new proposals may provide some impetus for more groups of councils to put local collaboration on a statutory footing through the use of combined authority structures.

Of equal significance, whilst projects considered for funding by the LTB must use the DfT's Business Case guidance and WebTag assessment framework, Government is happy for this to be augmented by other forms of analysis to underpin the assessment and prioritization of schemes. These include metrics relating to impact on Gross Value Added or local employment, ensuring that local economic circumstances and needs form part of the project prioritisation process.

The move to LTBs represents a core part of the Government's devolution efforts with regard to transport. We discuss the potential of these proposals later in the paper.

With HS2, the requirement to examine airport capacity around London, and the urgent need to review and focus on rail franchising arrangements, the relatively recently appointed Ministers at the Department for Transport may be forgiven for focusing their immediate energies on more on national policies. However, sub-national transport policy can and will have a key role in stimulating both local and national growth. While the move towards LTBs reflects part of this whole, there is the potential to be much bolder in going for growth. Hence now is the moment for Government to consider putting transport on a more sustainable, and an inherently localist, footing.

## The central problem

HM Treasury figures show that the total amount of public expenditure on transport for England in 2010-11 was £12 billion. However, much of this is held centrally, with the Highways Agency alone receiving £2.5 billion. Local authorities currently spend well over twice their £1.2bn transport grant allocation on transport provision as a necessary part of maintaining the network.[8]

Such an imbalance between the levels of funding held centrally and locally is confounded by the plethora of funding streams for specific purposes which local areas must navigate if they wish to access additional funding. This of course, has been added to by additional funding streams managed by LEPs and any potential 'single pot' funding made available following Lord Heseltine's review. The centralized, top-down approach to funding causes confusion as to how much is being spent on transport, where and by whom. It also creates uncertainty as to the success of proposed projects. While local authorities would undoubtedly welcome additional funding for local services, for example through the Local Sustainable Transport Fund, the time and cost to local authorities in bidding for centrally-held cash is significant.

8 http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/747/121128.htm

Locally-developed schemes have also demonstrated the ability to provide a substantial return on investment. Typical business cases for successful transport investment provide a return ratio of at least 2:1, which is considered to be High Value for Money. However, a May 2011 National Audit Office analysis of locally-developed schemes found that more than a quarter of the sample schemes investigated had a benefit:cost ratio of 5:1 or more – meaning a return of more than £5 for every £1 invested.

As Tony Travers set out in a recent LGA report, national investment varies 'sharply' over time, while local government consistently 'balances its books'.[9] There is, undeniably, little shortage of potential locally-determined schemes out there that could provide a strong return on investment. Local government has a strong track record of delivery. In essence, Government should not ignore investment in local schemes as these often deliver the best value for money.

## Localist potential

Maintaining the status quo in economic terms is no longer an option. For the national economy to recover and prosper, local areas must push for growth and achieve their potential. This fact, when combined with local authority spending reductions, this means that councils can no longer take a 'slow and steady' approach – risk has become an everyday element of what they do. A key element of this is how local areas finance urgent, necessary investment. Understandably, the Government is not terribly keen on increasing public debt, however the constraints on local borrowing against relatively secure assets is restricting the ability of local areas to respond to the growth challenge.

9 http://www.local.gov.uk/c/document_library/get_file?uuid=5722bba1-04cf-44a6-bb61-623142db7a43&groupId=10171

## STAFFORDSHIRE AND WOLVERHAMPTON CITY COUNCIL

The county and district councils have been successful in attracting substantial inward investment into the local area – for example, Jaguar Land Rover's investment in the i54 South Staffordshire site, where construction of its new advanced engine plant is well underway. Staffordshire County Council and Wolverhampton are investing nearly £40 million in transport infrastructure improvements to secure this £355 million investment, which will be repaid back over a number of years thanks to business rate collections received from South Staffordshire Council.

Partners would like to build on these successes by developing a more locally focussed strategic approach to multi-modal transport in support of further local economic development. This includes the development of new rail links to strategic economic sites, the opportunity for existing (and potentially new) railway stations to play a greater role in maximising economic opportunities for our town centres, and improving access to jobs via local bus franchising.

The Staffordshire and Stoke-on-Trent Local Enterprise (SSLEP) area has potential for over 50 development sites, all of which could be enhanced through investment in the strategic road and rail network. The prize could be an increase in GVA of up to 50 per cent and the creation of up to 50,000 jobs.

In addition Staffordshire County Council is working with the SSLEP and over 40 public and private partners to secure a City Deal from Government. It is now entering detailed negotiations with Whitehall departments to reach a final agreement. Its central premise is to make Stoke-on-Trent and Staffordshire the key European centre for research and manufacturing of advanced materials, building on and accelerating existing work to support job creation and growth across the city and county. If successful the City Deal could deliver up to 30,000 jobs in 10 years.

Greater involvement in decision-making, closer working with the Highways Agency, and building the relationship with private sector investors is a model which places Staffordshire at the centre of investment priorities and decisions that will have the maximum economic benefit for Staffordshire.

The Government argues that granting local authorities more autonomy and encouraging them to take greater risks is the right way forward. To support these words it must tackle the constraints and barriers to local government, as a sector, going for growth. Our view is that, ultimately, direct central intervention will not, in the case of sub-national transport projects, provide the right infrastructure in the right places at the right time.

## Localist solutions

What can be inferred from much of the research into transport, its relationship with economic growth and its economic impacts, is that sub-regional approaches to decision making over transport funding and provision are more appropriate than centralised mechanisms. In economies similar to the UK, transport is seen as playing a supporting role in growth and as a preventative measure against factors that can derail growth. The biggest benefits arise in areas where the neglect of infrastructure and networks is causing congestion and unreliability; or where new investment tackles bottlenecks or completes missing links in provision, creating 'network effects' that enable existing infrastructure and systems to be used to fuller capacity.

However in many areas the barriers to growth are multi-faceted, often interdependent in nature, and require a deep understanding of local economies in order to identify relevant and locally-responsive solutions to overcome them. Joined up, better coordinated transport across all modes, designed to meet local priorities (which can range from regeneration to better health outcomes), is vital to growth. Only local government, as locally accountable and representative, can deliver this.

As Government acknowledged in the 2010 Local Growth White Paper, "where it makes sense to do so" it will invest in the "high quality transport links that are essential to underpinning a successful economy,[10]" although the extent to which local areas have control over investment decisions is a principle point of contention. Some new financial tools are potentially available that could enable local authorities to have a potentially bigger role in local transport provision, but they will need regulatory support from Government, matched both by other devolutionary measures over governance and funding. This could, in some regards, be complemented by enhanced intra-council collaboration.

10 http://www.bis.gov.uk/assets/BISCore/economic-development/docs/L/cm7961-local-growth-white-paper.pdf

## The International Perspective

Before looking to UK based solutions, we investigated two case study areas from the continent as examples of how alternative, localist, governance arrangements are delivering quality, integrated transport services.

### Barcelona / Spain

Barcelona's Autoritat del Transport Metropolità (ATM) administers a transport system serving over five million inhabitants and 164 municipal areas. It is commonly held up as an example to cities across the world for its organisation and innovation. Spanish regions have much greater autonomy than their counterparts in the UK, and hence they have more control over local transport systems.

Created in 1997, the ATM is a consortium consisting of the Government of Catalonia and the local administrations of the area,[11] with a budget of over 1.1bn Euros. In all respects, this is truly a partnership between local government and state government – governance takes the form of a joint management board and joint executive committee with equal membership between the Catalonian Government and local authorities. More importantly, the ATM is funded not only by local authorities, but also the Catalonian Government and the state, 2011-12 budgets were broken down as follows:

State: 238m Euro
Government of Catalonia: 625m Euro
Local administrations: 348m Euro

11 In part represented through groupings such as the Metropolitan Transport Area (AMB) and the Association of Municipalities with Urban transport services of the Barcelona Metropolitan Area (AMTU)

This pooling of funding from three different tiers of government allowed strategic and coordinated approach to transport in the region, including masterplanning; integration of rail, bus and tram networks; and an integrated fare network which covers not only the ATM area but an additional 89 municipalities beyond it.

Passenger numbers have increased dramatically in response to more effective service provision. Within four years the number of journeys on the network per year increased from 680 million to 800 million. Similarly, 40.1 per cent of public transport users rated the new fare system as much better than before, whilst two-thirds of citizens thought that the new fares were cheap or correct. The ATM arrangements have also enabled the delivery of a tram network via a PPP, meaning an influx of investment construction, industrial and financial partners. A 2004 survey found that inhabitants were increasingly using the new tram network instead of driving: 22.2 per cent of people catching the trams used them to replace car journeys. As a result congestion has been significantly reduced, making business easier. Barcelona's traffic used to be a major problem, but ATM has had a great impact.

Barcelona has also gained a reputation for transport innovation. It is completing Europe's longest automated line, running for 42.8 kilometres and serving 52 stations. Places of note served by the line include the airport, the port, two universities and FC Barcelona's stadium. In the long-term the ATM hopes to move towards full automation, significantly improving efficiency. A bike sharing scheme was launched in 2007, with twice as many users as London's scheme. The city has lofty aims: it attempts to reduce transport emissions by 20.5 per cent and increase public transport's share of total travel by 5%. Barcelona has also been carrying out a major programme aimed at helping all its citizens, regardless of impairment, to travel without difficulty. So far, 74 per cent of metro stations have full wheelchair access and all TMB buses have been adapted for disabled access, with more improvements on the way.

Barcelona teaches us that local government led or influenced bodies and partnerships can join up place-shaping and growth-led investments far more effectively then central government or siloed quangos can do on their own.

We would argue that such arrangements entail sufficient scale and stability of governance to unlock innovative finance mechanisms and commissioning based on local priorities. Finally, the clear improvements in customer satisfaction and passenger growth highlight just what local-led solutions can achieve.

### Munich / Germany

Rated as the third best city for infrastructure in the world by Time Magazine, Munich is a prime example of an efficient, successful devolved transport network. We would argue that a major factor in this is that funding of transport is devolved to a local level: the metropolitan area of Munich has a budget of 650 million euros and is responsible for funding much of its transport, including all operating costs, without help from central government. In addition, rail services are the responsibility of the Länder (Federal States).

In terms of how these are delivered, it is local government who commissions services from transport companies. Both then proceeded to establish a separate institution, Münchner Verkehrs- und Tarifverbund (MVV), to co-ordinate the transport system. It mediates between local government and transport companies, as well as managing fares, planning for the future, and supporting local government purchasing. The Munich transport company, Munich Verkehrsgesellschaft, is a world leader in environmental service and increased efficiency.

The end result is that Munich transport is now responsible for only 8 per cent of Munich's CO2 emissions, compared to 20 per cent for transport nationwide.

A Scottish Government report found that 'the public transport system in Munich is highly effective and efficient, to such an extent that MVV is finding it increasingly difficult to devise new initiatives and improvements, though significant investment is still being made into the network'.[12]

The city has set out its own Transport Development Plan, a flexible strategy for an urban, compact and sustainable transport system which accommodates a growing population and attracts new businesses and investors.

The ability to control its own strategy and support it with key infrastructure funding represents a vital part of Munich's internationally competitive status – and is indicative of the striking differences between the German and UK models.

## Are Local Transport Boards an answer?

As highlighted earlier in this essay, the future introduction of LTBs represents a major part of the Government's devolutionary offer in regard to transport. However, there is the significant potential for further confusion and a lack of joined-up thinking if LTBs become major players in determining local infrastructure but fail to join up with other policy areas such as planning, housing, and health. As per both Government and local government's Community Budget aspirations, the objective should be tackling silo mentalities across public sector interventions. It remains to be seen how successfully LTBs will link with other local institutions and whether they are the right platform for greater transport powers.

12 http://www.scotland.gov.uk/Publications/2003/08/17895/23889

In summary, it is fact that we are still two years away from their introduction and thus is clearly far too early to tell whether LTBs could act as the catalyst for greater local decision making as the Government hopes. LTBs could potentially make local situations more complex, and local authorities will continue to have an important role in holding the ring on transport issues.

### Simplifying an already complex landscape

With a dozen capital grant funding streams from the DfT alone, in addition to more general schemes to support and promote infrastructure such as the Growing Places Fund and Regional Growth Fund, and with responsibility split between local authorities and LEPs, local areas face an increasingly difficult task in order to navigate the various requirements, prepare strong bids and join up funding and timescales. LTBs could be a step in the right direction; on the other hand in practice they could lead to an increasingly diffuse local governance landscape.

The Government should continue along the path of creating a single funding pot along the lines proposed by Lord Heseltine. He suggested it could be worth up to circa £49 billion, potentially more. At the very least, a single pot for transport would help to bring together the myriad of transport and infrastructure funding schemes already on offer.

We would argue that developing such pots along competitive lines alone is unhelpful, particularly in regard to transport proposals, where a significant amount of time and resource is required to complete the necessary technical work – all of which is wasted should the bid fail. Rather, we would suggest that a significant element of the funding should be devolved directly on a non-ring-fenced basis, enabling local authorities to exercise the degree of integration, responsiveness and sensitivity to local economies and circumstances that is essential to obtain maximum benefits from transport investment and wider public spending.

As a recent example of the Government taking this approach, the 70 million Fire Capital Grant, which was originally subject to a competeive bidding process was in fact primarily allocated by formula, with only one third being allocated competitively.

**RECOMMENDATION**

JOINED-UP INVESTMENT VIA A 'SINGLE POT' AND AN END TO ENDLESS AND DIVERSE RANGE OF GRANTS

We call on the Government to take a 'single pot' approach to infrastructure more broadly, but most specifically to join up the various local transport funding schemes at a local level.

## What next for the Highways Agency?

In March 2012, the Government announced a review of the Highways Agency. The review could recommend abolishing the Highways Agency and replacing it with regional frameworks, possibly managed by the private sector. The feasibility study undertaken by DfT is due to report to the Prime Minister in spring 2013.

However, simply privatising the highways network will not radically alter the current lack of strategic links between local and strategic road networks. The historic lack of influence by local authorities over the strategic network has led to a fragmented approach to road, and indeed overall, transport planning. Further, any attempt to draw in private investment to a national or regional highways network would most likely require a steady income stream reliant on either road charging or linking tax revenue to road usage. Neither could be achieved quickly or easily.

Given that the Government has committed to route-based strategies that will "support a much greater local and regional stakeholder involvement in planning for the network",[13] alongside encouraging greater oversight of transport policy via LEPs and the future Local Transport Boards, we suggest that local bodies have the capacity and value for money skills to commission strategic routes works at the local level with the support of the DfT. Indeed, the ability of local authorities to work with Government to improve the commissioning and efficiency of such works has been demonstrated in Cornwall. Any move towards a 'single pot' local funding mechanism and appropriate governance would of course strengthen the argument in favour of this approach.

Arguably, an unaccountable middle-man in the form of the Highways Agency is no longer required.

13 http://pressreleases.dft.gov.uk/content/detail.aspx?ReleaseID=424566&NewsAreaId=2

## CORNWALL

In Cornwall, the A30 Temple to Higher Carblake is recognised as the most significant pinch-point in the road network. The Council has sought the cooperation of the Highways Agency and funding from the Department for Transport to deliver an improvement scheme.

Cornwall Council's approach has been to re-assess the Highway Agency's original scheme, reducing the cost by £20 million to £59 million, and to offer to deliver it on behalf of the Highways Agency. In doing so it has agreed to:

- meet the preparatory costs
- fix DfT's funding contribution to £30 million (provisional funding confirmed in Autumn Budget Statement, 5 December 2012)
- underwrite any cost increases
- provide the balance of funding from local sources.

Following DfT provisional approval the formal consultation commenced with a public exhibition on 10/11 January 2013. The Council will submit its planning application to the Planning Inspectorate in August 2013. Subject to successful completion of the statutory processes, construction is programmed to commence in January 2015.

## RECOMMENDATION
## A LOCALIST FUTURE FOR THE STRATEGIC ROAD NETWORK

The Government should take this opportunity to fully review and reconsider the future of the strategic road network, and hence the Highways Agency, along more localist lines with greater influence by local authorities, potentially via Local Transport Boards.

## Alternative financial mechanisms

Given the challenging financial climate, funding infrastructure fundamental to Britain's economic prosperity remains an essential policy area, with a number of potential policy solutions potentially available.

### Creation and capitalisation of a National Infrastructure Bank

As Localis has argued in the past,[14] a National Infrastructure Bank (NIB) could be a significant catalyst in pump priming the infrastructure investment market. The crossbench peer and economist Lord Skidelsky has argued that such an institution could:

- act as 'a strong corrective' to the market by avoiding 'short-term speculation'
- directly lend and guarantee private sector loans to SMEs
- invest in infrastructure and green projects.

Such a bank could be capitalised initially through a further round of Quantitative Easing, as well as Local Government Pension Schemes and subsequent private pension fund investment. This could result in a capitalisation of around £30 billion within four years, with part of its remit to invest in transport infrastructure.

### Bonds

Bonds represent a mechanism of significant potential, their value underlined in the UK via the GLA's £600m Crossrail bond. Perhaps more significantly, pan-local government bond schemes exist in the low countries, Scandinavia, and France. With English local authorities, already achieving their own good ratings, municipal bonds have significant potential.

However, not all authorities may be able to achieve strong ratings and the costs of achieving a credit rating could be prohibitive to smaller authorities. The LGA is developing proposals for a collective finance agency, which should help offset costs via the savings realised.

The Government should be clear in its support of local government taking the initiative and looking to develop new mechanisms for investing in growth, ensuring that the tax and regulatory framework does not dis-incentivise such mechanisms via frequent changes to the Public Works Loans Board rates (one of the main alternatives); and lifting restrictions on the use of derivatives as a mechanism by which local authorities can offset the risk of entering the bond market.

### Tax Increment Financing (TIF)

Though it is still early days for TIF, London is fortunate in being able to benefit early from this mechanism. Agglomeration benefits are seen as key to London's success, supported by high value transport projects and strategic approaches to planning, led by the Mayor. The Government is keen to see other cities and urban areas benefit from similar ways of working. London is set to benefit from TIF arrangements, via borrowing by TfL against future returns, through a Community Infrastructure Levy for the extension of the Northern Line to Battersea, underpinning the development there. This is a strong example of utilising creative financing, as well as taking a joined up approach to land-use planning, regeneration, housing policy, transport and economic development.

While funding for TIF Type 2 schemes that let local authorities borrow against future growth in business rates for 25 years was announced in the budget, the level of £150m could be significantly expanded in order to be utilised across the country.

14 http://www.localis.org.uk/images/LOC1358_Infrastructure_report_WEB.pdf

## Mixing local investment cocktails to create Local Investment Funds

LAs must be free to work together to utilise the range of rates, taxes, levies and tariffs on offer, as well as using the bonds, European funding streams and financial engineering mechanisms[15] available to them, to put together investment cocktails that are able to attract third party investment.

### RECOMMENDATION
### ALTERNATIVE FINANCIAL MECHANISMS

We press the Government to:

- create a National Infrastructure Bank, to aid in financing transport infrastructure
- ensure that tax policy and regulations encourage, rather than discourage, councils to explore the use of bonds
- expand the (currently limited) TIF scheme.

## Doing a deal

The first wave of bespoke City Deals agreed between the Government and the 8 core cities group of local authorities[16] aim to unlock growth, investment and employment opportunities. These local authority areas collectively contribute 27 per cent of the UK's GDP. Whilst Government anticipates that they can help provide the conditions to create 175,000 jobs and 37,000 new apprenticeships over the next 20 years, as well as deliver new investment in transport and infrastructure, others have speculated that the core city conurbations could create £44 billion of economic output and one million jobs by 2020[17]. To meet increased demand, transport expansion across these LEP areas will need to undergo a qualitative upgrade. Rather than come to Government with a begging bowl, the city regions will need to be able to devise their own local solutions, making the best use of public money, sensibly borrowing and creating investment-ready proposals attractive to private sector capital.

Reflecting the centrality of good connectivity across FEMAs, around which many of the City Deals are constructed, all of the first wave of local authorities have included transport as a key ask from Government.[18] For example, the Greater Manchester City Deal includes a range of devolved policies, including franchising control over the northern rail franchise to meet locally-specified criteria.

The first wave of city deals was welcomed by the sector and with a second wave underway, further devolution seems probable. The 'core offer' is currently under consideration by the Government, but given that all eight wave one city deals included transport powers, it seems rational that these be included in the second wave.

However these devolution deals should not be restricted to the cities alone, nor should the Government be cautious in its approach to devolve funding and accountability. Such deals could be an alternative mechanism by which to devolve Highways Agency responsibilities, should the Government wish to do this over an extended period of time.

However, it remains reasonable that local authorities should take on additional risk in return for greater freedoms. Such deals have

15 Such as the use of European Regional Development Funding to invest in revolving funds and financial engineering mechanisms such as JESSICA

16 Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Nottingham, Sheffield

17 http://www.corecities.com/sites/default/files/images/publications/Our%20Cities%20Our%20Future.pdf

18 The Greater Birmingham & Solihull City Deal includes provision for a £1.5bn Investment Fund on LEP infrastructure priorities, including transport

in part been based on an 'earn back' model. However, as has been seen with the sector's response to the business rates retention mechanism reforms, the majority of local authorities are keen to take on the challenge of greater risk and reward.

**RECOMMENDATION**
**DEVOLUTION DEALS FOR ECONOMIC GROWTH ACROSS THE COUNTRY**

Where local authorities across a functional economic market area wish to collaborate further, (e.g. City Deal-type arrangements or CAs/alternatives) Government should consider a core devolutionary offer of greater freedom and flexibility over funding for transport, housing and regeneration, in addition to an a la carte menu of locally-tailored options.

**RECOMMENDATION**
**REMOVING REGIONAL RAIL FROM CENTRAL CONTROL**

Following proposals in the Greater Manchester City Deal for devolution of the northern rail franchise and station management, other statutory bodies should be in a position to assume local and sub-regional control of rail franchising arrangements and control of stations, enabling them to integrate services with other transport modes.

## A brief note on geographies

It's clear that the introduction of LTBs will be established, generally speaking, along existing LEP boundaries. In the DfT consultation, a majority of respondents supported this suggestion and any attempt to reduce unnecessary conflicts of geography – different bodies working on similar themes should be welcomed.

However, this decision highlights the increasing significance of LEP geography. Established over the course of late 2010/11, many LEPs faced extensive and hurried negotiations, both locally and nationally, in order to come into being. While there are, undoubtedly, many disputes about the boundaries of individual Functional Economic Market Areas, some LEPs reflect these better than others. Further, the impact of overlapping LEPs remains to be seen.

As suggested by Lord Sandy Bruce-Lockhart,

> "the evidence is crystal clear that sub-national economies are sub-regional."[19]

Beyond this, the best geography for organisations leading on growth is to be decided locally. However, collaborating, commissioning and delivering at the right spatial area has never been more important.

19 Prosperous communities II - vive la dévolution! (LGA, 2007)

# Conclusion

This report strongly echoes the Government's core messages of growth and localism – both are essential to the future prosperity of both the nation and local areas. We believe that local areas are best able to meet local priorities and work with businesses, public sector and voluntary sector partners to support the development of sustainable communities and growth. It's clear that at the strategic level, Government agrees. However, the key issue remains: what are the best governance and funding structures to help deliver growth? In this regard, much can be improved.

The core themes explored in this report are the increasingly complex nature of our transport governance structures. While European colleagues have broadly decentralised and integrated models, English authorities are reliant on a diverse range of public sector funds with limited ability to leverage in private sector funding. Greater simplification, and localisation, would help ensure a more strategic, effective approach that can convince the wider markets to invest. Further Government reforms around alternative financial tools would assist here.

Beyond this, there remain two key institutions over which local areas have limited influence – the strategic rail and strategic road network. With the Northern Rail franchise changes and a greater role for northern local authorities, the former is showing signs of responding to local influence. However, the future of local authority engagement in the latter is incredibly unclear. Local authorities will continue to be the core of English transport governance and, if the Government wishes to move towards successful, more integrated transport arrangements, it will need to strongly consider what influence local government has over this strategic infrastructure.

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