

## **Transport Devolution**

### **Purpose of the report**

For discussion and direction

### **Summary**

The LG Group's lobbying for greater local control in transport has been successful. The Department for Transport (DfT) is preparing to devolve greater control of bus services, rail franchising and Local Major Transport Scheme funding.

Devolution needs to enable better local transport integration. The LG Group can support local authorities and their communities by campaigning for a strategic approach to devolution, aimed at delivering better local economic outcomes as well as addressing specific rail and bus issues.

The Board can work with the sector and government to understand the value for money arguments and the financial and governance arrangements which will make devolution work.

### **Recommendation**

Members are asked to consider the proposals and political leadership required.

### **Action**

Officers to implement programme of support as agreed by members.

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## **Transport Devolution**

### **Background**

1. The context for all public policy decision-making is shifting quickly and significantly. Reduced public funding and the move to greater localism, which is given legislative foundations through the Localism Bill and the New National Planning Policy Framework, will have long term implications not least in the area of transport policy.
2. The LG Group has successfully argued that transport networks, including rail, are crucial to the sustainable economic development of cities and local economies and that there should be greater control by local authorities over decisions about transport investment in their areas.
3. Two recent developments, the Competition Commission's investigation into local bus services and the report of the Rail Value for Money Study (the McNulty report), indicate that there is now a substantial weight of opinion behind the concept of greater local control.
4. Ensuring that transport is integrated at a local level is essential to achieving the full economic benefits of local control of decision-making. The LG Group has a key role in ensuring that discussions on devolution of transport responsibilities are joined-up.
5. Local authorities and their partners will want to take advantage of the opportunities provided by the move to greater localism, but will need to understand the specific circumstances in which it makes sense to take on these new responsibilities.
6. Examples from elsewhere, including the Netherlands, demonstrate that there is scope for a more integrated approach to local transport planning and delivery which could include integrated contracts for rail and bus services. Opportunities to explore such approaches need to be created here.

### **Economic benefits of local control of transport**

7. Research on the economic benefits of local control of transport is limited. However, Eddington (2006) looked in depth at the relationship between transport infrastructure and the local economy. His report acknowledged the complexity of ensuring that transport decisions are taken at the right level. However, the report noted a number of points which suggest that it is necessary for local authorities and their local partners to embrace greater local transport decision-making including:

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- 7.1 the significant number of journeys which are self-contained at a sub-national level
  - 7.2 the need to ensure that decision-making for transport fits with decisions on housing, employment, skills, planning, physical regeneration and economic development
  - 7.3 the need to draw on local knowledge to identify tailored solutions.
8. However, the move to devolve is taking place at a time of unprecedented reductions in public spending. Local government will only want to take on greater responsibilities once it has understood the risks and negotiated the right terms for a more devolved system.
  9. A key question in relation to rail and bus devolution will be whether greater economic benefit can be attributed to local control of transport. Studies of some continental European city regions suggest that there is a close link between local control over transport, very well organised public transport policies and impressive GDP per capita outcomes for those cities. In contrast, GDP per capita in UK city regions, outside London, is relatively low and a lack of local control over transport decisions is likely to be one of the contributing factors.
  10. The Association of Community Rail Partnerships, in a joint project with Department for Transport and Passenger Focus, commissioned Transport Regeneration Limited to present an evidence base on the value of Community Rail Partnerships (CRP). This found that an active CRP could boost usage by 7 per cent over three years – equivalent to 2 per cent a year – over and above underlying growth in comparable lines and that CRPs provided economic benefits by supporting access to work and education and by encouraging tourism and regeneration.
  11. A recent report for the Passenger Transport Executives Group (PTEG) demonstrated that smaller public transport schemes (such as bus priority bus schemes) of the sort which can only be delivered by local/regional bodies funded by the Integrated Transport Block (which was halved in the CSR) show high value for money.
  12. Where research has been done it seems to indicate that greater local control over transport decisions leads to better local outcomes.

Recommendation: There is a need to maintain a policy debate with transport Ministers to ensure that devolution is strategic and joined up. As part of the process of debate it will be important to continue to gather and disseminate evidence of the benefits of local management of transport decisions.

## **Bus Services**

### **Summary**

13. There is now a growing recognition that local control of bus services would lead to better outcomes for service users. The recent Competition Commission's Report has pointed out the failures of the current system to generate any real competition in local service provision. The LG Group has argued for the current subsidy package to be replaced with a devolved single stream of public subsidy for bus services that would empower local transport authorities to commission bus services from providers and purchase concessionary fares schemes locally. The need for reform to break the cycle of fare increases and service reductions is now even more pressing.
14. The ongoing review of the Bus Service Operating Grant (BSOG) is likely to lead to greater control by local authorities over how this grant is spent. This is a move in the right direction and is to be welcomed.

Recommendation: With the Competition Commission's final report on bus services imminent, the Board may wish to engage with ministers as soon as possible on wider reforms to the management of local bus services.

### **Reforming the system**

15. The LG Group has a long held position that there is a greater role for local authorities in local bus franchising and that there should be a single stream of bus subsidy and local determination on how this is spent.
16. The Competition Commission's interim report on bus competition has supported the LG Group view on the need for greater local authority involvement in bus franchising. It is now necessary for local government to work with Government and providers to establish what this would mean in practice.
17. Quality Contracts are a provision of the 2008 Transport Act which ostensibly provide a mechanism for local authorities to franchise bus services. However, this approach is unpopular with local authorities because it is bureaucratic and costly. In discussion with partners we need to establish:
- 17.1 the changes that could be made to the existing process to make Quality Contracts a viable approach
  - 17.2 the additional support the central government could provide to enable examples of local franchising to be established, this could include simplifying the processes in pilot areas.

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18. The DfT is considering options for devolving responsibility for BSOG to local authorities. Although this falls short of the LG Group's call for devolution of a single funding stream, it is a positive move. There is a role for the Economy and Transport Board in ensuring that the devolution of BSOG funding provides for sufficient local determination in how the money is spent.
19. One of the most significant issues for bus services is the overall level of funding. Previous reports have noted the planned 20 per cent reduction in BSOG and the impact of the local government settlement on local transport investment. This has also been the subject of a recent Transport Select Committee report which noted the LG Group's role in identifying the impact of funding reductions and disseminating examples of innovative practice. However, there is now increasing evidence that the impact of reduced funding is acute and that the most vulnerable in our communities are disproportionately affected. Through the work of Association of Transport Co-ordinators (ATCO) and PTEG this is now documented.

Recommendation: The LG Group has a role in working with local authorities to develop an evidence base on the implications of reduced funding for bus services, to identify innovative responses and to consider the implications for wider bus reform.

## **Rail Services**

### **Summary**

20. There are a number of examples, including Merseyrail, Scotrail and Transport for London, where greater local control over rail has led to better outcomes for service users. Following the McNulty report, which calls for the greater involvement of local authorities in rail decisions, there is a move within government to explore devolution options. In any devolved system an effective relationship between local authorities and Network Rail (NR) will be crucial. The Board is already working with the Office of Rail Regulation on how this could be achieved.

Recommendation: The LG Group should develop an improvement offer to councils that can support political leadership and develop understanding of the opportunities and risks associated with rail devolution.

### **McNulty Report**

21. The report of the McNulty Inquiry recognised the need for greater local involvement in decisions about rail services and called for "greater localism, with more involvement in England of local authorities and/or PTEs, with local decision-making brought more closely together with budget responsibility and

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accountability". It went on to recommend that the DfT should "establish and implement a subsidy control process in which individual programmes and, potentially, PTEs and/or local authorities manage their subsidy allocations, but the overall subsidy is managed centrally against the national plan".

22. The report referred to "DfT's discussions with PTEs on alternative models of franchising that could fit with a more devolved approach, and supports continuation of this work on franchising models and the development of an overall conceptual framework, with a view to possible first application on the re-franchising of Northern". It argued that "even without substantive devolution, there could be merit in introducing, as a precursor to franchise procurement, stronger incentives for PTEs to propose efficiency measures and to receive a share of the benefits. In addition, there may be scope to allow local bodies other than PTEs to offer similar increment and decrement incentives to encourage greater local involvement".
23. The McNulty report therefore offers local government an opportunity to exert greater influence over the provision of rail services and raises the distinct possibility that local authorities could take on responsibility for franchising rail services as has happened already in Merseyside, London and Scotland, with results that are generally seen as successful in terms of investment, performance and passenger satisfaction.
24. This initiative could represent a watershed moment in local government. If local councils can take on responsibility for local rail services they will significantly increase their power to influence the local economy.

**Devolution – issues**

25. At the same time there are a number of issues which will need to be addressed if devolution of rail franchising is to proceed.
26. Investment: For local control to make a difference, barriers to investment within the existing system need to be removed. Incentives and interfaces will need to be revised centrally. McNulty has recommended similar changes.
27. Cost structures: Costs need to be taken out of the system and the apportioning of costs between passenger and freight services needs to be reviewed.
28. Flexibility over franchises: Flexibility over the form of franchises will be required. Some councils may not want to be involved, others may be ready and able to be fully engaged. Different franchise lengths will be suitable in different areas. Maximum flexibility should be provided. Councils will need technical expertise in drawing up franchises. This currently only exists within DfT.

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29. Governance: Outside PTE areas, councils will probably need to form consortia if they want to manage franchises. Others may want to buy in that service from neighbouring PTEs. Again, a flexible approach will be essential.
30. Finance: McNulty argued that it ought to be possible to reduce the cost of the rail network by 30 per cent by 2018-9. There is a risk that if government simply hands over a tapering subsidy to local authorities that assumes McNulty's savings can be found, councils will be left with inadequate funds to operate services and in some areas devolution could mean councils being handed responsibility for reductions in spending.
31. Relationship between operator and infrastructure: this risk is heightened by the fact that much of the 30 per cent saving would have to come from an improvement in Network Rail's (NR) performance and a subsequent lowering of its charges. The relationship between franchiser, franchisee, regulator (ORR) and NR will need to be structured in a manner that ensures councils are not caught between the Government's pursuit of savings and NR's failure to deliver – receiving a reduced subsidy without seeing a reduction in NR's charges. The regulatory regime needs to be strong enough to ensure NR does deliver. One of the tests NR should be subject to is "what is NR doing to facilitate and encourage innovation, devolution and investment?" Barriers to these outcomes must be removed. This is why PR13 is vital (see below).

**ORR Periodic Review of Network Rail (PR13)**

32. At the Board's last meeting ORR set out the purpose of the periodic review it is undertaking of Network Rail. This should provide a major opportunity to drive through a step change in industry performance and efficiency. It will go beyond NR and look at how it should work more closely with train operators, suppliers and others to reduce costs and deliver more for customers. ORR made it clear that it wants to build on McNulty and involve the Board – and the sector – in the periodic review process. Given the issues set out above, sector involvement in PR13 could prove crucial in making rail devolution work. We have therefore initiated discussions with ORR at officer level and arranged a joint meeting with the board for 19 October. ORR's supervision of NR has been analysed – with some criticism - in a recent report by the Public Accounts Committee (a summary is appended). The regulatory framework which ORR will use to oversee NR will be key in ensuring the success of devolution; the board has a vital role to play in shaping that relationship.

Recommendation: Board Members are asked to consider the issues to be addressed in its discussions with the ORR

## **Local Major Transport Scheme Funding**

### **Summary**

33. The government has signalled its desire to reduce central control over Local Major Transport Scheme funding. This represents a success for LG Group lobbying. There is now a key role for the Board to ensure that the reform delivers real devolution.

Recommendation: Devolution of transport funding is to be welcomed, but there is a need for the Board to discuss with Ministers how the devolution of local transport scheme funding can be integrated with other elements of transport devolution.

### **Reform of the scheme**

34. Local Major Transport Scheme funding is another area where local authorities can expect to have a greater decision-making role. The DfT stated in November 2010 that it will “work in partnership with local communities to develop a new framework for the funding of Local Major Transport Schemes over time, one that will have a reduced role for central government and give a proper voice to locally elected representatives and business interests”. Any new arrangements will apply to Local Major Transport Scheme funding in the next spending review period from 2015. However, given the lead-in time required to develop schemes it is likely that decisions on the principles underpinning the future of the scheme will be taken in the next few months.

35. Any decision to decentralise is to be welcomed and represents a significant success for the LG Group’s lobbying. The current scheme has required local authorities to apply significant financial and other resources in a bidding process and there are opportunities in the design of any new scheme to substantially reduce these costs.

36. There are a number of issues which will need to be considered in the devolution of funding decisions. Issues include:

36.1 At this stage it is difficult to say what the level of funding will be in the next spending round from 2015. However, there is a continuing need for Local Major Transport Scheme funding. The LG Group will want to lobby for a sufficient level of funding as part of the Group’s overall work on the next CSR.

36.2 Moving away from a nationally determined bidding process will mean the introduction of an allocation process. There are a variety of variables that could be used to determine the allocation and each will result in a different pattern of allocation.



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- 36.3 Governance arrangements will be a key element of the reformed scheme. It is very unlikely that the allocation will be to individual authorities. A sub-national geography will be required which could be consortia of local authorities and/or LEPs.

37. The Economy and Transport Board has a key role in ensuring that:

- 37.1 the allocation process is fair
- 37.2 there is a strong degree of local democratic representation in the decision making process
- 37.3 local authorities themselves have significant flexibility in determining the appropriate local geography and shape of sub-national consortia.

**Conclusion and next steps**

38. The argument for greater local control in transport decision-making is strong and has been acknowledged both by McNulty and the Competition Commission. Detailed work will need to be done on rail and bus devolution, but it is important that the Board continues to champion a strategic approach to devolution which recognises the benefits of integrated local transport systems to better local economic, environmental and social outcomes.
39. The Board has a key role in developing and supporting political leadership which is essential to achieving the best outcomes for local communities from transport devolution.
40. Officers are meeting with local authorities and DfT officials and these discussions have been positive. However, a meeting between the Board and transport ministers is now necessary to ensure that devolution can take place in a way which achieves the best outcomes for communities.
41. Transport is an integral part of local economic development and a transport event is planned as part of the Economy and Transport Board's series of events aimed at supporting councils' ambition for economic growth (Item 3 on this agenda outlines the proposals in more detail).

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