

Introduction

1. This document is a Submission to the Lyons Inquiry into Local Government Funding.
2. *pteg* represents the interests of the seven Passenger Transport Executives (including Strathclyde PTE). Together we serve over 13m people, 22% of the population of Britain. *pteg* aims to influence the national public transport agenda by raising the profile of public transport with the Government as well as stimulating debate nationally on how best to promote services.
3. PTEs are grant funded by, and implement the policies of, the PTAs (Passenger Transport Authorities) made up of Elected Members, who raise funds through a levy on their constituent Metropolitan District Councils.

Detail

4. The Review will quite understandably be concentrating primarily on the funding of local authorities. However, PTAs and PTEs are largely funded by local government, so we believe that issues affecting them should form a part of the Review.
5. We understand that the Government's own Balance of Funding Review identified a number of factors to be taken into account, such as Accountability, Fairness and Flexibility. We believe accountability is especially important.
6. To quote the Layfield report, "the first requirement of a financial system is accountability: whoever is responsible for incurring the expenditure should also be responsible for raising the necessary revenue". We believe that the issue of accountability is a crucial one for PTAs and PTEs, and is not reflected in the current arrangements for the funding of local transport in the Metropolitan areas.
7. PTAs have a concern about the way they are currently funded. In particular, they believe that their status as levying bodies, rather than precepting bodies, results in a lack of transparency and accountability. It is also increasingly generating tensions between PTAs and their constituent District Councils, who see PTAs' growing requirements as being in direct competition with their own directly-provided services.

- 8 This is because Government revenue grant in respect of public transport (flowing from Formula Funding Shares) goes to the District Councils while the expenditure rests with the PTAs, thus resulting in PTA levies being artificially high. Problems arise because:
- Districts cannot trace how the extra RSG has fed through to them, because of the complexity involved in the distribution of RSG (with the exception of finance charges)
 - The position can sometimes be further complicated by the impact of 'floors and ceilings'
 - Districts have many other competing demands on their budgets.
- 9 These difficulties are constraining PTAs' ability to deliver the Government's transport policies in the metropolitan areas, and the outcome is that District Councils invariably pressure PTAs to keep their Levy rises to the minimum. A "lowest common denominator" effect has tended to operate where the District(s) with the least favourable annual settlement have often dictated a low level of PTA levy increase, thus jeopardising the delivery of agreed policy objectives. All PTAs comprise between four and 10 Districts, so the combined effect of the lowest common denominator effect over a period of years can be quite significant.
- 10 The situation has become exacerbated as a consequence of the move to Local Transport Plans (LTPs) with a much greater emphasis on public transport investment in order to achieve local and national policies. This success has resulted in a substantial uplift in capital spending by PTAs, much of which is being funded by borrowing using Department for Transport credit approvals. Since 1995/96 there has been (roughly) a threefold increase in the LTP settlements for public transport (excluding major schemes and maintenance). This has not been matched by anything like an equivalent increase in revenue resources, and although the extra debt charges are reflected in District Councils' Revenue Support Grant, the Districts are generally unwilling or unable to passport the resources through to PTAs, because of the reasons outlined above. This could frustrate major aspects of the Government's plans for integrated transport.
- 11 PTAs were originally precepting bodies after the abolition of the Metropolitan Counties, but became levying bodies in 1990. A return to precepting for PTAs would remove, or certainly reduce, these problems. However, the problems associated with such a change are well understood by *pteg*, and have been previously discussed with Government officials. The main issue here is the difficulties inherent in the establishment of a suitable Formula Funding Share for PTAs. This arises mainly from the fact that there would be problems in defining transport "need" given the differences between shire and metropolitan areas.

An Alternative Approach

- 12 There can be no substitute for a direct grant relationship between the Government and PTAs in relation to LTP development. Apart from the passporting issue, the current recognition of LTP spending is related entirely to capital expenditure/borrowing, which ignores the ensuing operating costs of new facilities. It would clearly therefore be in the best interests of PTAs to receive a specific grant in relation to LTP projects, as a direct consequence of their programme bids. Such an arrangement would help Metropolitan Districts and PTAs to plan levy increases on a more incremental basis and avoid the inevitable unevenness in revenue budgets which capital investment can cause, with serious consequences for annual levy settlements Districts.
- 13 Such changes would also be beneficial to Government. The significant funding of public transport improvements in metropolitan areas would be emphasised instead of being hidden from public view.
- 14 The ODPM is currently consulting on proposals for Three Year revenue and Capital Funding. This includes the suggestion that major capital projects, including transport schemes, might be funded by Government via direct capital grant, rather than by issuing credit approvals with debt charges then being supported through Revenue Support Grant. Such an approach would go a long way towards resolving the problems identified above, and *pteg* has responded to the Consultation Paper in support of this proposal. A copy of our response to the ODPM is attached for information.

Conclusion

- 14 In conclusion, therefore, *pteg* wishes to emphasis the following points:
 - There is a lack of transparency and accountability in the way that PTAs are funded, which inevitably generates tensions between PTAs and their constituent District Councils
 - The flow of Government revenue grant in respect of public transport results in PTA levies being artificially high, because Revenue Support Grant is received by the Districts
 - These difficulties are constraining PTAs' ability to deliver the Government's transport policies in the metropolitan areas
 - The situation has become exacerbated as a consequence of the move to Local Transport Plans (LTPs), where a substantial uplift in capital spending by PTAs has not been matched by an equivalent increase in revenue resources
 - A specific grant to PTAs in relation to LTP projects would ease pressures on PTA levies to their constituent Districts, while at the same time enhancing the implementation of the Government's public transport objectives in the major conurbations.

**RESPONSE TO ODPM CONSULTATION PAPER
THREE YEAR REVENUE AND CAPITAL SETTLEMENTS****SUBMISSION BY *pteg*****Introduction**

1. This document is a submission from *pteg*, the Passenger Transport Executive Group, to the Office of the Deputy Prime Minister in response to the Consultation Paper on Three Year Revenue and Capital Settlements.
7. *pteg* represents the interests of the seven Passenger Transport Executives (including Strathclyde PTE). Together we serve over 13m people, 22% of the population of Britain. *pteg* aims to influence the national public transport agenda by raising the profile of public transport with the Government as well as stimulating debate nationally on how best to promote services.
8. PTEs are grant funded by, and implement the policies of, the PTAs (Passenger Transport Authorities) made up of Elected Members, who raise funds through a levy on their constituent Metropolitan District Councils.

Background

9. The Consultation Paper understandably concentrates on local authorities, with some reference to Police and Fire Authorities, which are, of course, precepting bodies. However, PTAs and PTEs are largely funded by local government, and we believe that some of the issues raised in the Consultation Paper are relevant to us as transport organisations.
 - a. PTAs have a concern about the way they are currently funded. In particular, they believe that their status as levying bodies, rather than precepting bodies, results in a lack of transparency and accountability. It is also increasingly generating tensions between PTAs and their constituent District Councils, who see PTAs' growing funding requirements, largely arising from the revenue costs of delivering large and ambitious Local Transport Plans (LTPs), as being in direct competition with their own directly-provided services.
10. This is because Government revenue support grant in respect of public transport (flowing from Formula Funding Shares in respect of supported borrowing) goes to the District Councils, while the expenditure rests with the PTAs, thus resulting in PTA levies being artificially high.

- 11 Problems arise because:
- Districts cannot easily trace how the extra RSG has fed through to them, because of the complexity involved in the distribution of RSG
 - The position can sometimes be further complicated by the impact of 'floors and ceilings'
 - Districts have many other competing demands on their budgets.
- 12 These difficulties are constraining PTAs' ability to deliver the Government's transport policies in the metropolitan areas, and the outcome is that District Councils invariably pressure PTAs to keep their Levy rises to the minimum. A "lowest common denominator" effect has tended to operate where the District(s) with the least favourable annual settlement have often dictated a low level of PTA levy increase, thus jeopardising the delivery of agreed policy objectives. All PTAs comprise between four and 10 Districts, so the combined effect of the lowest common denominator effect over a period of years can be quite significant.
- 12 The situation has become exacerbated as a consequence of the move to LTPs, with a much greater emphasis on public transport investment in order to achieve local and national policies. This success has resulted in a substantial uplift in capital spending by PTAs, much of which is being funded by borrowing using Department for Transport credit approvals. Since 1995/96 there has been (roughly) a threefold increase in the LTP settlements for public transport (excluding major schemes and maintenance). This has not been matched by anything like an equivalent increase in revenue resources, and although the extra debt charges are reflected in District Councils' Revenue Support Grant, the Districts are generally unwilling or unable to passport the resources through to PTAs, because of the reasons outlined above. This could frustrate major aspects of the Government's plans for integrated transport.
- 13 PTAs were originally precepting bodies after the abolition of the Metropolitan Counties, but became levying bodies in 1990. A return to precepting for PTAs would remove, or certainly reduce, these problems. However, the problems associated with such a change are well understood by *pteg*, and have been previously discussed with Government officials.

An Alternative Approach

- 15 We have previously argued in Submissions to Government that there can be no substitute for a direct grant relationship between the Government and PTAs in relation to LTP development. Apart from the passporting issue, the current recognition of LTP spending is related entirely to capital expenditure/borrowing, which ignores the ensuing operating costs of new facilities. It would clearly therefore be in the best interests of PTAs to receive a specific grant in relation to LTP projects, as a direct consequence of their programme bids. Such an arrangement would help both Metropolitan Districts and PTAs to plan levy increases on a more incremental basis and avoid the inevitable unevenness in revenue budgets which capital investment can cause, with serious consequences for the annual settlement from Districts.
- 16 Such changes would also be beneficial to Government. The significant funding of public transport improvements in metropolitan areas would be emphasised instead of being hidden from public view.

Specific Comments on the Consultation Paper

- 13 Given the arguments made above, *pteg* welcomes the Government's suggestion in the Consultation Paper that major capital schemes such as transport projects could be funded in a different way. Questions 9 and 11 are particularly relevant.

Question 9: Views are invited on how major projects should be defined. Should there be one or more cash value threshold(s) and, if so, what value should they be set at and why? Or should thresholds be set as a percentage of an authority's ongoing capital programme? Or are there other approaches that could be used?

- 14 *pteg* believes that most major capital transport projects delivered by PTAs, often in partnership with District Councils and other stakeholders, should be considered for a new approach to funding. Definitions could be based on existing LTP criteria. This leads on to the next question:

Question 11: Views are invited on whether a move to capital grants for emergencies or large one-off projects would be helpful.

- 15 *pteg* believes that the problems of transparency, accountability and deliverability identified above would be largely solved by moving from the existing system whereby Supported Capital Expenditure Revenue (SCE(R)) is provided as revenue support grant to Districts, to a new system in which capital grants are paid directly to PTAs, the bodies which actually incur the capital expenditure.

Conclusion

16 In conclusion, therefore, *pteg* wishes to emphasis the following points:

- There is a lack of transparency and accountability in the way that PTAs are funded, which inevitably generates tensions between PTAs and their constituent District Councils
- The flow of Government revenue grant in respect of public transport results in PTA levies being artificially high, because Revenue Support Grant is received by the Districts
- These difficulties are constraining PTAs' ability to deliver the Government's transport policies in the metropolitan areas
- The situation has become exacerbated as a consequence of the move to Local Transport Plans (LTPs), where a substantial uplift in capital spending by PTAs has not been matched by an equivalent increase in revenue resources
- A specific capital grant to PTAs in relation to LTP projects would ease pressures on PTA levies to their constituent Districts, while at the same time enhancing the implementation of the Government's public transport objectives in the major conurbations.