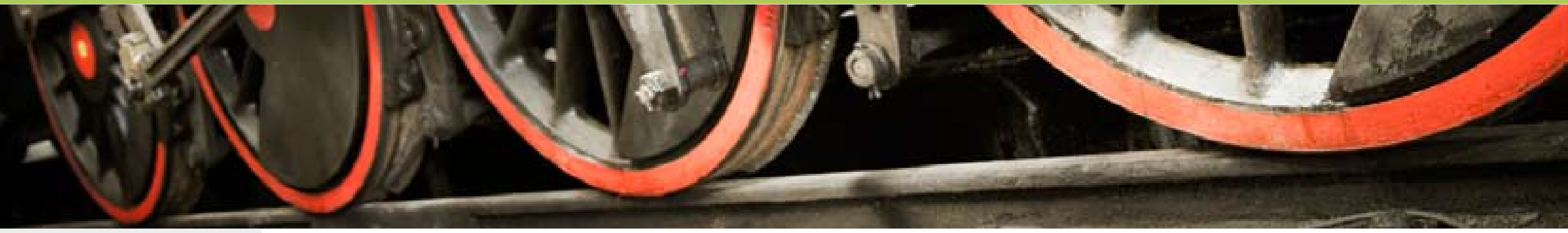

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Keeping the wheels from falling off:

Why England needs a new urban transport investment fund

Adam Marshall

Executive Summary

With each passing week, the public finances look more and more precarious. For England's cities, the next decade is likely to be marked by a wide-ranging cutback in Government capital investment, with transport and other infrastructure projects pared back significantly. Despite transport's role as an enabler of economic growth, it remains low on Ministers' priority lists – well behind education, health and defence.

Yet public transport infrastructure needs – especially in England's regional cities – remain significant. A decade of increased spending has not closed the 'infrastructure gap' faced by cities like Leeds, Manchester, Birmingham, Cambridge, Reading or Bristol. So if cities are to lead the economic recovery over the longer term, new sources of transport investment will be urgently required.

This *Policy Solutions* note sets out a blueprint for a new Urban Transport Investment Fund. The Fund is not a new Government spending programme – but a way to simultaneously deliver high-quality public transport infrastructure and returns for central government, local authorities and private sector investors. Over the next year, we urge all major political parties to work with cities to build up detailed plans to launch a city-focused transport Fund, following the 2010 General Election.

Recommendations for Government:

1. **Abandon the current local road pricing push by the end of 2009 if there are no takers** – and safeguard the £1bn congestion charging pot for long-term urban public transport investment. While we support the principle of local road pricing, the Government's existing approach will not work in the current economic and political climate.

2. After the next general election, **create a public-private Urban Transport Investment Fund**, which will enable long-term investment in public transport at no net additional cost to the Treasury. This Fund could bring together up to £4bn for public transport investment in its initial phases.

3. **Give Fund member cities greater power to invest in transport projects using 'Accelerated Development Zones'**, which would allow them to borrow against future income streams to deliver much-needed infrastructure.

policy solutions: April 2009

Introduction

Despite a decade of increased spending, public transport infrastructure in England's major cities still has a long way to go. Significant capital investment is still needed if cities' transport networks are to deliver economic competitiveness, carbon reductions, and improved quality of life.[1]

At a time of global recession, public transport is not a top priority in the corridors of Whitehall. The £20bn fiscal stimulus of recent months has not substantially increased spending on our cities' public transport infrastructure. Indeed, transport stimulus focused on major inter-city roads, and was limited to £700m – just 24% of the total capital spend brought forward, and dwarfed by the £12.5bn VAT cut.[2] However, falling tax revenues, bank bail-outs and fiscal stimulus packages have pushed Government borrowing to record levels – guaranteeing severe fiscal tightening from 2011 onward.[3]

"Significant capital investment is still needed if cities' transport networks are to deliver economic competitiveness carbon reducations, and improved quality of life"

Against this fiscal backdrop, it is unlikely that central government will be the source of radical new funding packages for transport links within and between England's Core Cities. The large capital grants of the so-called 'N.I.C.E. decade' will become rarer. How, then, can cities invest in local transport over the coming years – given its importance as an enabler of economic recovery and future growth?

This *Policy Solutions* note argues that the introduction of an Urban Transport Investment Fund – with resources from major cities, Government and the private sector – could help to boost investment in urban public transport in the medium-term. It urges all three main political parties to include a dedicated Fund in their manifestos for the 2010 General Election. Further, it proposes that financial resources currently earmarked for local road pricing schemes be used as seed-corn capital for the new Fund – and attract private sector equity investors. With public and private sector contributions, the Fund could generate a £4bn investment 'pot' within just a few years.

The urban 'infrastructure gap'

In recent years, business groups, experts and politicians alike have argued that Britain's major cities face substantial infrastructure gaps.[4] European countries such as Spain and France spend a considerably larger percentage of their GDP on transport than the UK,[5] and fund ambitious urban public transport schemes. Despite the importance of good transport infrastructure to economic growth, and to cities' economic recovery, transport remains a relatively low political priority.

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1. As set out by the Department for Transport in Delivering a Sustainable Transport System (Nov 2008).
2. HM Treasury (2008) Pre-Budget Report 2008: facing global challenges – supporting people through difficult times. London: HM Treasury. See pp. 113-114
3. PwC (2009) Dealing with debt: reforming public services and narrowing the fiscal gap. London: PwC; IFS (2009) The IFS Green Budget. London: IFS; Bundred S (2009) 'Our public debt is hitting Armageddon levels', The Times, 27th February
4. All Party Urban Development Group (2007) Loosening the leash: how local government can deliver infrastructure with private sector money. London: APUDG; Institution of Civil Engineers (2008) The State of the Nation: Transport. London: ICE; British Chambers of Commerce (2008) The Congestion Question. London: BCC; Centre for Cities and PricewaterhouseCoopers (2008) Delivering Local Growth. London: PwC
5. During the 1990s, France and Germany spent an average of 1.5% of GDP on transport investment – compared to under 1% for the UK. Source: www.eurostat.eu

In London, significant investment is taking place to modernise the capital's overcrowded public transport networks. Elsewhere, however, the overall level of resource earmarked for new and improved local and regional transport infrastructure outside the South East is comparatively small.[6] According to Government statistics, over 70% of commuters in England's six biggest regional conurbations still travel to work by car[7] – often because public transport networks are either too skeletal or too crowded to provide a viable alternative.

English cities envy the powers and funding resources of continental and North American cities – not to mention London – where mayors and groups of local authorities frequently plan, finance and deliver metro extensions, light rail lines, and bus improvements with less dependence on central grants. Yet a massive shift toward this model – and away from the centralisation that has characterised English local government for the past three decades – is unlikely. While England's cities need more flexible funding sources for transport investment, none of the main political parties have proposed radical changes to the central-local relationship. More pragmatic solutions to cities' 'infrastructure gaps' will be needed.

"More pragmatic solutions to cities' 'infrastructure gaps' will be needed"

The funding context

At present, new transport schemes in Britain's biggest cities are overwhelmingly funded through three sources: Government grants, the Public Works Loan Board (PWLB) and the Private Finance Initiative (PFI). All are likely to become more problematic in the future:

- **Grants:** according to the Government, transport capital spending has risen from £2.9bn in 1998/99 to £11.4bn in 2007/08 – a real terms increase of 13% each year.[8] In line with this, local capital spending has also risen substantially – and cities have been able to source substantial scheme funding through Local Transport Plans, Regional Funding Allocations and direct bids to the Department for Transport. However, regional funding sources have been heavily oversubscribed and prioritise road projects over urban public transport, as recently reported by the Campaign for Better Transport.[9] What's more, the fiscal tightening predicted from 2011 onward will make grant funding much harder to come by. The Institute for Fiscal Studies, for example, predicts that transport investment spending could fall by 4% in real terms each year between 2011/12 and 2013/14.[10]

- **Public Works Loan Board:** in existence for over 130 years, the Board provides local authorities with loans for capital projects – secured against councils' own revenue streams. In 2007/08, it provided over £10bn worth of new loans. Cities have gravitated toward the Board because they have historically charged cheaper interest rates than the open market. In the future, however, the PWLB will be subject to much tighter limitations as successive governments struggle to bring down national debt levels, which could reach 70% of GDP, according to recent estimates.[11]

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6. In 2008, 56% of all identifiable transport capital expenditure was in the three South Eastern regions – which account for only 42% of the English population. Sources: HM Treasury (2008) Public Expenditure Statistics Analysis 2008. London: HMT, and 2006 mid-year population estimates from www.statistics.gov.uk
7. Department for Transport (2009) Regional Transport Statistics: 2008 edition. London: DfT. This percentage is an average for Tyne and Wear, Greater Manchester, Merseyside, West Yorkshire, South Yorkshire and the West Midlands.
8. HM Treasury (2008) Pre-Budget Report, op cit, p. 108
9. Campaign for Better Transport (2009) Regional Funding Advice: driving transport down a carbon cul-de-sac. London: CBT
10. IFS Green Budget, figure 9.10
11. Ibid.

- **Private Finance Initiative:** used extensively for roads schemes and maintenance, PFI has also been used to fund Nottingham's first tram line, a new transport interchange in Doncaster and several other public transport projects. However, PFI's future as a funding method is now open to question – as the Government has been forced to step in to underwrite £13bn worth of new PFI projects, including £3.1bn in transport projects, threatened with collapse due to the credit crunch.[12] The Conservatives have recently questioned whether PFI should continue in its present form, suggesting that its importance as a funding model for infrastructure could recede under a future Tory government.

"Solutions require a greater mix of cities' own resources, new forms of local revenue-raising, and better forms of financial innovation"

Moving away from grants

Given projected fiscal conditions and difficulties with existing funding sources, cities will need to come up with new ways to finance major transport projects. The solutions require a greater mix of cities' own resources, new forms of local revenue-raising and better forms of financial innovation.

Central government has already attempted to encourage this shift. Its four-year effort to incentivise cities to adopt local road pricing measures through the Congestion Transport Innovation Fund (C-TIF) is a case in point.

Congestion Transport Innovation Fund: local road pricing

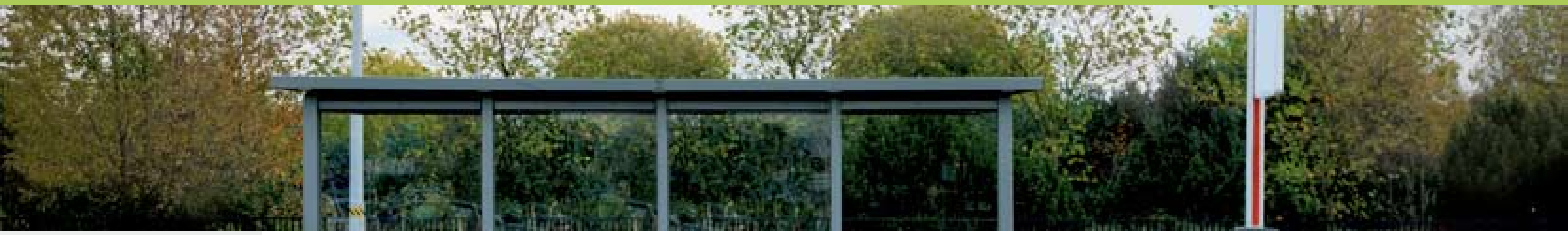
When the Government launched its drive to incentivise local road pricing schemes in 2005, Britain's cities were in the midst of a sustained period of economic growth. Ministers were confident that the £200m-per-year 'carrot' offered by the C-TIF was large enough to get several cities to sign up for local congestion charging schemes, building on the lessons from London.

Three events have derailed the Government's local road pricing strategy:

- **The 2007 Downing Street e-petition, which garnered nearly two million signatures against road pricing.** The petition forced ministers to back down on a national charging scheme – and subsequently caused them to keep a low profile on local road pricing as well.

- **The overwhelming 'no' vote in Greater Manchester in December 2008.** The Centre for Cities strongly supported the Greater Manchester C-TIF bid, which would have introduced one of the world's most ambitious 'smart' congestion charging systems. We argued that it would deliver substantial economic and social benefits to the city-region – alongside a once-in-a-lifetime investment opportunity. And we felt that the C-TIF programme was an important stepping-stone toward a fairer and more economically-beneficial approach to pricing travel. But the results of the December 2008 referendum show the depth of public antipathy, and make it extremely difficult for other TIF cities to win the support of their residents. This includes Cambridge, where we have urged the County Council to make a now-or-never decision on TIF.

12. HM Treasury press release, 3 March 2009



- **The impact of the recession on cities and consumers.** Worsening economic conditions are now impacting our cities, with job losses, business closures and rising unemployment dominating local headlines. The Government's local road pricing strategy – already foundering before the recession – now looks even more unrealistic. And the remaining unspent funds are conspicuous at a time when money is in short supply in Treasury coffers.

What next?

Attitudes have shifted against local congestion charging, despite the Government's economic, fiscal and environmental interest. As a result, we recently urged Cambridge to make a swift decision on its own TIF bid.[13] Yet public reactions to C-TIF in Manchester, Cambridge and elsewhere suggest that attempts to incentivise local schemes are unlikely to succeed in the current climate. Future Governments may need to look again at national road pricing to achieve their demand management objectives.

The Department for Transport and city leaders need to take radical action to safeguard the £1bn-plus still allocated to C-TIF – so that the money is not lost to local transport projects. **As a first step, Ministers should set a final deadline for TIF bids. If none proceed by the end of 2009, C-TIF resources should be de-coupled from road pricing, and rolled into a new Urban Transport Investment Fund for capital projects – ensuring these resources are spent improving public transport in our major cities.**

"A new approach is needed – complete with investment tools that help our biggest regional cities to deliver future competitiveness and growth"

Local road pricing's failure to take off makes two things clear. First, city residents have been willing to fund transport improvements through general taxation – but still have a hard time accepting pay-as-you-go user charges, even when the revenues go straight into transport schemes. Second, Ministers need a new approach to urban transport investment. The debate over local road pricing, dominated by the question of whether government is trying to 'blackmail' councils, has ensured that few alternative ideas have been put forward, either at national or city level. A new approach is needed – complete with investment tools that help our biggest regional cities to deliver future competitiveness and growth.

Policy Solution: Urban Transport Investment Fund

Introduction

A dedicated Urban Transport Investment Fund – with deposits from the Department for Transport, member cities and the private sector – could be part of the answer to cities' transport funding problems. By marshalling financial resources and technical expertise, a Fund could help to take more of the politics out of transport funding, and make robust decisions on whether to support specific local schemes. And most importantly, a Fund could bring together a critical mass of public and private capital for transport infrastructure investments just as Governments become less willing to invest directly.

The Fund proposed here would loan out resources to member cities seeking to undertake well-researched, properly-planned transport infrastructure projects. Repayment of these

13. Tochtermann L (2009) Cambridge: Closing the Gap. London: Centre for Cities

loans – alongside further injections of capital from investors – would replenish the Fund and allow it to make additional commitments over time.

> **"Could an Urban Transport Investment Fund help close the Metro extension's funding gap?"**

How it might work: Midland Metro extension, West Midlands

Centro – the transport authority in the West Midlands – has had plans to extend the Midland Metro tram line through Birmingham city centre and into the Black Country for the last decade. The estimated cost of this project is around £430m, but it has repeatedly been delayed by funding problems. The City Region of Birmingham, Coventry and the Black Country also has a proposal for a Metro line from the city centre to Birmingham International Airport. Could an Urban Transport Investment Fund help close the Metro extension's funding gap? Here's how it might work:

- **Bid:** Centro and the city-region prepare a bid for a portion of the project's cost, with robust estimates, a clear business case and proposals for repayment.
- **Evaluation:** the Fund's independent board then judge the project's viability and potential return on investment, and take a decision on whether to support it.
- **Execution:** up-front resources from the Fund enable the Metro extension to New Street Station, Birmingham International Airport and the Black Country to be built swiftly.
- **Repayment:** Centro and the city-region repay the Fund's loans over the longer-term – with built-in investment premia. Repayments could be based capturing the land value uplift in areas alongside the new stations, e.g. through an Accelerated Development Zone (see below).

Existing Infrastructure Funds

A Fund of this sort is not without precedent. Beyond the PWLB, a small number of other institutions can also provide capital support to transport projects in the UK:

- The European Investment Bank (EIB), for example, has granted loans of over €2.7bn to UK transport projects over the last five years – including the renewal of the West Coast Main Line, the extension of the East London Line and the modernisation of several airports.[14] It has also developed a new instrument called JESSICA, which would allow UK regions to invest EU structural funds in an urban development fund, together with other public and private sector resources. This arrangement has the advantage of being off-balance sheet.[15]

- The South West Regional Infrastructure Fund (RIF), which went live in March 2008, is a pot of £80m dedicated to forward-funding infrastructure projects that unlock business or housing growth in the region.[16] The Fund's pinpoint investments are subsequently recovered from planning contributions, which are made once development has been completed. The South East region is also now planning a RIF, with an initial pot of £35m.[17]

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14. *EIB website: www.eib.org*
15. *EIB (2008) JESSICA: a new way of using EU funding to promote sustainable investments and growth in urban areas. Luxembourg: EIB*
16. *See SWRDA et al (2006) Regional Infrastructure Funds: a prospectus. Bristol: SWRDA*
17. *SERA et al (2009) Regional Funding Advice for South East England. Guildford: SERA*

Canada-Ontario Municipal Rural Infrastructure Fund

This fund invests in infrastructure in smaller urban centres in the Canadian province of Ontario. It was founded with C$298m from the Canadian government, and matched by C$298m from the provincial government. Together with contributions from municipalities – which are also one of the core decision-making partners – the fund is expected to result in over C$900m worth of infrastructure projects over a five-year period.[18]

"A tightly-focused Urban Transport Investment Fund – rather than a wide-ranging mutual bank – could help to win more councils over"

In recent months, there have also been calls to make better use of the reserves and investments held by English local councils – which are estimated to total £38.5bn.[19] The New Local Government Network (NLGN), for example, has championed the creation of a 'council mutual bank' – which could pool cash reserves and lend out some of its resources to member authorities for long-term investments.[20] However, some councils remain wary of making long-term commitments with their reserves, which they typically invest in short-term deposits.

The NLGN is right to argue that councils are being too risk-averse with these resources, and that a portion could easily be invested to finance high-quality infrastructure. A tightly-focused Urban Transport Investment Fund – rather than a wide-ranging mutual bank – could help to win more councils over. The Fund would also add value in a range of other ways:

- **Scale and flexibility:** the new Fund could bring together between £2bn and £4bn in its earliest years of operation – especially now that infrastructure is seen as an increasingly attractive asset class. The South West RIF, by contrast, is limited to £80m, and the proposed South East RIF to £35m in its initial phase. Any urban development fund created under the EIB's JESSICA arrangements would probably be of a similar scale, given the limited size of the UK's remaining EU structural funds budget.[21] As proposed here, an Urban Transport Investment Fund could also grow to £4bn and beyond – through reinvested profits, taking on private sector equity partners or converting into a fully-fledged bank (see below).

- **Focus:** the new Fund would focus explicitly on public transport in England's big metropolitan areas outside London – whereas other instruments must juggle competing priorities. The EIB, for example, has the capacity to fund around 10 national projects in the UK each year, mostly through PFI arrangements. The South West RIF, meanwhile, is open to everything from rural flood defences to land remediation. And the PWLB is currently the first port of call for nearly all local capital borrowing.

- **Terms:** while the EIB can and does lend long-term, there are doubts about whether a council mutual bank would be able to do so – since, as noted above, many councils keep their reserves on deposit for relatively short periods of time.[22]

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18. See www.comrif.ca
19. Of which bank reserves are approximately £20bn. See www.statistics.gov.uk/downloads/theme_economy/FinStats_Mar09.pdf, table 1.3D, and also Travers T (2008) 'Be afraid, be very afraid', Public Finance, 19 December
20. Leslie C (2008) Investing together: the case for a local authority mutual fund. London: NLGN
21. Marshall A (2007) Last Orders: what the new EU budget means for Britain's cities. London: Centre for Cities.
22. NLGN seminar, 23 February 2009

A new Fund could help move beyond this issue, and also finance projects seeking to use innovative repayment methods – such as the Accelerated Development Zone / Tax Increment Financing model currently being promoted by the Core Cities Group and PricewaterhouseCoopers.[23] Investors could then be remunerated using capital returns, project revenues, or a mixture of both, depending on the investment portfolio and individual investors' needs.

- **Forward funding:** the proposed Fund would be well-positioned to tackle some of the well-known issues around forward-funding, which often result in the delay or cancellation of key urban transport projects, such as Birmingham's New Street Station or Manchester's Metrolink extension, both of which were substantially delayed.
- **Joint control and governance:** while it is beyond the scope of this note to set out detailed governance arrangements for the Fund, we believe that this is an opportunity to test out 'hybrid' governance arrangements that include member cities, central government and private sector equity investors. This sort of structure would be very different to the PWLB and PFI, which are ultimately under direct Treasury control.
- **Independence and efficiency:** as an independent vehicle with multiple investors, the Fund would help to drive up the quality of transport projects – by requiring clear scheme appraisals, risk management, and delivery proposals. Only high-quality transport schemes would be taken forward – as progress would be more closely tied to a project's robustness, rather than short-term political expediency.

What resources could the Fund include?

As noted above, the Fund could grow to around £4bn – and include a range of funding streams and investors. We propose that C-TIF resources – the money set aside by the Government to promote local road pricing schemes – form the first tranche of capital (approximately £1bn).

In order to make the Fund a true central-local joint venture, we propose that interested cities provide some level of joint matching investment (e.g. £1bn) in order to gain access to capital. While councils may be loath to make long-term investments, a moderate contribution will be needed to give cities an ownership stake in the Fund – and help to lever in private sector equity investors.

"In order to make the Fund a true central-local joint venture, we propose that interested cities provide some level of joint matching investment (e.g. £1bn) in order to gain access to capital"

Private sector equity investments in infrastructure are common in countries like Germany, Canada and Spain. In the medium-term, initial investments by Government and city councils could be supplemented by private sector capital – subject to the easing of the credit crunch. In fact, given increased investor interest in infrastructure projects, the Fund could scale up its private sector participation over time, making the delivery of cities' public transport infrastructure progressively less dependent on Government resources. Private sector participation could eventually reach as high as 50% of the Fund's capital.

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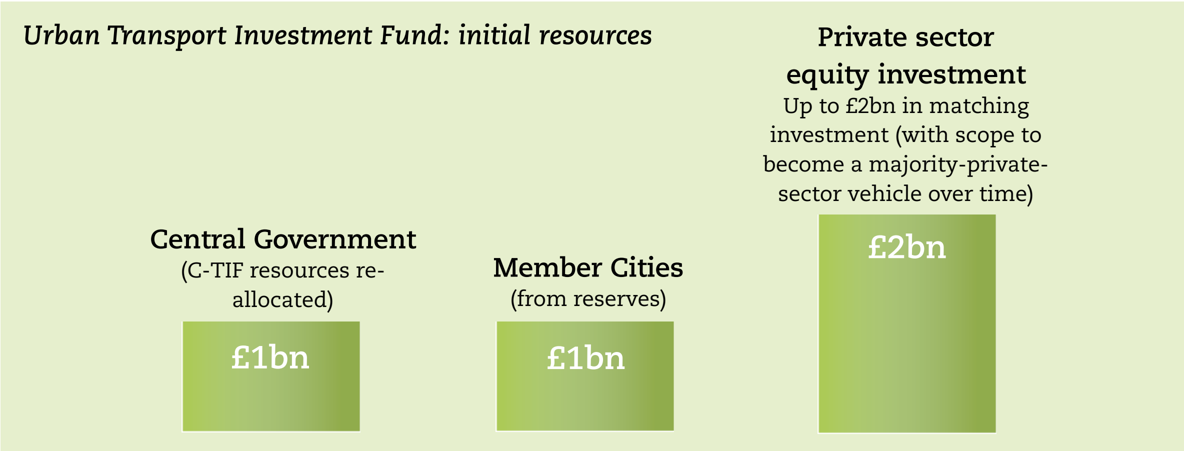
23. Core Cities Group and PwC (2008) Unlocking city growth: interim findings on new finance mechanisms. Manchester: Core Cities Group



"Given increased investor interest in infrastructure projects, the Fund could scale up its private sector participation over time, making the delivery of cities' public transport infrastructure progressively less dependent on Government resources"

Over the longer-term, the Fund could also grow by becoming the disbursing authority for transport grants, or as the recipient of a share of planning gain obligations generated in member cities. This would have the effect of growing the Fund's capital base over time, alongside regular loan repayments.

A National Urban Transport Infrastructure Bank?

The proposals in this note refer specifically to the creation of a Fund, which would amass and lend out capital to specific transport projects. In order to ensure confidence and manage levels of risk, the Fund would not borrow against its assets on the open market like a traditional bank. However, should the Fund concept work well, there could be scope to convert it into a fully-fledged Urban Transport Infrastructure Bank over the long-term.

In recent months, a National Infrastructure Bank has been proposed by a range of academics and lawmakers in the United States – including President Barack Obama himself.[24] These proposals call for a Bank with some $60bn in initial capital resources, a sum far larger than the Fund proposed here. If progressed, these US proposals bear careful scrutiny – as they could provide useful lessons for UK policy-makers.

What are the barriers to setting up a Fund?

This high-level note sets out the broad outlines of an Urban Transport Investment Fund. It is not within the scope of this paper to conduct detailed legal and financial analyses at this stage. However, it is possible to flag up some of the political and fiscal barriers to the creation of such a Fund – which would have to be overcome in order to proceed. These include:

- **Buy-in:** Whitehall departments are always hesitant to give up power over capital spending resources. At the same time, councils are not yet fully convinced of the case for investing reserves over the long-term, much less pooling them with others. Some city leaders also still think that transport schemes will be funded predominantly by grants, as they have been in the past. Both central and local government will need to undergo a fairly radical re-think for a Fund to work.

24. See, for example, Ehrlich E & Rohaytn F (2008) 'A New Bank to Save Our Infrastructure' New York Review of Books 55:15 (October)

- **Accounting rules:** issues around balance sheet treatment and public sector investment in a profit-seeking vehicle need to be tackled for a Fund to take off. However, with public sector borrowing hitting record highs, and fiscal tightening imminent, an independent Fund would allow for much-needed long-term investment flexibility, while remaining transparent.

- **Risk management:** while a Fund would allow for risks to be spread across a range of transport infrastructure investments, there are varying attitudes toward risk in central and local government – so the Fund's exposure would need to be carefully managed.

"We would urge all main parties to give major cities the power to capture business rate growth over longer time periods to fund specific infrastructure projects"

- **Repayment:** the biggest barrier to the successful operation of a Fund is the question of whether cities and city-regions have sufficient revenue-raising levers to pay back long-term loans. Unlike most US and continental European cities, British cities have few revenue-raising tools – which has historically limited their ability to borrow money for transformational infrastructure projects.

Relocalisation of business rates

The re-localisation of part or all of the business rate – the property taxes paid on shops, offices and other commercial premises – would give cities far greater flexibility to borrow from an Urban Transport Investment Fund.

The Government is currently legislating to allow cities to levy a 2p supplement on the national business rate. The Centre for Cities has been a long-time supporter of business rate supplements – which could underpin relatively modest new investments in transport infrastructure.[25]

Over the longer-term, however, we believe that greater re-localisation will be required so that cities and city-regions can use their own resources to raise capital for critical infrastructure projects, especially during periods of positive economic growth.

The Conservative Party has recently proposed a 'business increase bonus' – which would allow local authorities to retain increases in their business rate take for a six-year period.[26] This is a good start – but, like the Government's overly-complex and under-resourced Local Authority Business Growth Incentives scheme, does not allow councils to retain extra revenues for long enough to invest in new infrastructure. Consequently, **we would urge all main parties to go beyond existing schemes and proposals – and give major cities the power to capture business rate growth over longer time periods to fund specific infrastructure projects.** This would allow cities to use rates uplift to repay infrastructure loans from the Fund, using mechanisms such as Accelerated Development Zones, a form of US-style Tax Increment Financing.[27]

Additionally, a longer period of business rates 'capture' would be an important step toward an eventual full re-localisation of business rates – which would give cities far greater freedom to invest in local infrastructure in the future.

25. For detailed modelling of a 2p business rate supplement, see Marshall A & Finch D (2006) City Leadership: giving city-regions the power to grow. London: Centre for Cities at ippr

Why now?

Amidst global economic shocks, rescue plans and rising unemployment, Ministers and their Conservative shadows are under pressure to link every policy announcement to recession and recovery. The only transport projects that have been high on Ministers' priority lists in recent months are 'shovel-ready' initiatives – many of them roads – which have so far received a token share of the money pumped into the economy and the banking system. Never seen as a priority subject at the best of times, cities' long-term public transport needs have fallen further down the priorities list.

"If we want cities to lead the UK's recovery, a radical change in the way that we think about transport infrastructure is required"

But if we want cities to lead the UK's recovery, a radical change in the way that we think about transport infrastructure is required. Banks are unwilling to lend in the short-term; local authorities are looking for better returns on their investments; and the gloomy fiscal picture means that major new capital investment is unlikely over the next decade.

New financial tools – and new sources of investment – are needed to deliver major new public transport schemes that underpin the economic, environmental and social objectives shared by all three main political parties. A new, flexible Urban Transport Investment Fund, aimed at unlocking private sector equity investment over time, should feature in all parties' General Election manifestos as one part of a new funding mix.

Despite significant increases in transport investment over the past decade,[28] the Labour Government lacks a clear narrative on the future of urban transport. The party needs to move on from its attempts to introduce local road pricing – and concentrate on new ways to help cities deliver improved public transport networks. The Fund proposals outlined above would be one way to do this.

A Fund would also fit in well with the Conservatives' recent commitments on decentralisation and devolution – which, if enacted, would give cities greater control over increases in business rates and the council tax. Together with the party's commitment to explore new local bond issues, these proposals would help cities access the new Fund.

The Liberal Democrats, meanwhile, have set out proposals for a Future Transport Fund, which would use freight road-user charging revenues to pay for green transport infrastructure investments at the national level. An Urban Transport Investment Fund would complement these proposals – and provides a good fit with the party's long-standing commitment to devolving more control over funding decisions away from Whitehall and Westminster.

26. The Conservative Party (2009) Control Shift: returning power to local communities. London: Conservative Party
27. Core Cities Group and PwC, op. cit.; British Property Federation (2009) Tax Increment Financing: a new tool for funding regeneration in the UK? London: BPF.
28. Transport spend has risen from 0.8% of GDP in 1999/2000 to 1.5% in 2007/08. However, expenditure was even higher in the early 1990s, when it consistently ran at 1.5-1.7% of GDP. See HM Treasury (2009), Public Expenditure Statistical Analyses 2008, table 4.4.

Next steps

This note has set out some of the principal arguments in favour of an Urban Transport Investment Fund which would help selected English cities deliver serious improvements in local public transport over the next decade. The Fund is a new investment model – not just a new way of spending Government cash – and it has the long-term potential to make money for its members and shareholders.

For the Fund to become a reality, significant work will be required to identify and deal with the fiscal, legal and political barriers outlined above. To that end, we suggest the following course of action:

Short-term recommendations:

- **Department for Transport Ministers** should de-couple C-TIF funding from local road pricing by the end of 2009, and focus on more realistic ways to use these resources to deliver better urban public transport infrastructure. They should work with the Treasury and with Opposition parties to agree that the £1bn currently available remains earmarked for transport projects in England's cities, regardless of fiscal pressures and the outcome of future elections.
- **Treasury, Department for Transport and interested cities** should jointly commission work to explore the case for a dedicated Urban Transport Investment Fund, open to both public and private sector investors.
- **All three major political parties** should consider the case for the introduction of a dedicated Fund as part of their General Election manifestos.

"All three major political parties should consider the case for the introduction of a dedicated Fund as part of their General Election manifestos"

Longer-term recommendations:

- **The next Government** should introduce a dedicated Urban Transport Investment Fund, open to a select group of cities (both large and smaller) that commit matching resources of their own. The Fund should be set up so that the initial public sector capital (around £2bn) could be supplemented with matching levels of private sector investment, creating a long-term investment source worth at least £4bn.
- **Simultaneously, the next Government** should legislate for the creation of Accelerated Development Zones, which cities could then use to access Urban Transport Investment Fund resources for large-scale public transport projects.

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