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**Louise Ellman MP**
**House of Commons**
**London SW1A 0AA**

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Dear Louise,

Thank you for your letter of 11 July on the regional distribution of public transport expenditure across England. You enclosed a paper from the Commons Scrutiny Unit containing analysis of the issue, and asked for my comments.

Much of the paper is focused on the expenditure differences between London and the other regions of England. Indeed, it states on page 5 that "the disparity is mainly in the form of London versus other regions". It presents several graphs, derived from HM Treasury's Public Expenditure Statistical Analysis (PESA), showing regional differences in transport expenditure per head in which London's spend is substantially higher than elsewhere.

As a general observation on this analysis, it is important to note that expenditure comparisons on a 'per-head' basis (using resident populations) can present a skewed picture of the distribution of benefits for transport generally, and for transport in London particularly. This is because the transport networks in London are routinely used by a very large number of other regions' residents. The ONS Labour Force Survey estimates that London has around 800,000 'inward commuters' - that is, employees whose jobs are in London but whose usual place of residence is outside London. All of these employees will, by definition, use some part of the London transport network every time they travel to their workplace. Once other journeys by non-residents are counted (e.g. business or leisure trips, visiting tourists, people making onward travel

connections), it is likely that the London transport networks serve, on a typical working day, around 1 million users who are resident elsewhere. Clearly, the issue of non-resident transport users affects other regions as well, but the Labour Force Survey data suggests that London is the largest net recipient of non-resident users, and by a large margin.

The consequence of this is that standard regional expenditure analysis on a 'per head' basis will tend to overstate the difference between London and the rest of the country on transport. These comparisons use each region's resident population as the denominator, meaning that non-resident transport users (and the substantial benefits they derive) are overlooked.

Even allowing for this point, one would expect London's 'per head' transport expenditure to be higher than the national average, as the Scrutiny Unit paper bears out. London residents comprise around 15% of the population of England, but London accounts for half of all bus passenger journeys in England, and around 60% of rail travel in Britain starts in, ends at or crosses London. London provides key international travel gateways (via Heathrow airport and St Pancras International station) for the whole of the country. The city is densely populated and fast-growing (its population grew by 12% between 2001 and 2011, double the rate in the rest of England), meaning that demand on its infrastructure is continuing to grow at a rapid pace. It is right that the Government is investing to respond to these increasing pressures on London's transport system and to improve the experience of its users, given the critical importance of London to the UK economy.

The Scrutiny Unit's paper also cites analysis in a report by IPPR North which looked at the regional distribution of transport-related projects in the National Infrastructure Pipeline dataset, published by HM Treasury in November 2011. It quotes the IPPR North 'headline' conclusion that, for Pipeline transport projects involving public funding, £2,731 per head would be spent in London compared to £5 per head in the North East.

I believe this comparison to be flawed, as the Pipeline dataset was simply not designed to support an analysis of this type. In particular, Pipeline transport projects were not explicitly apportioned to regions on the basis of where the benefits would be derived (as PESA attempts to do) and where a project straddled regions or had national-level coverage, no region was allocated at all. One such project is the planned improvement to the East Coast Main Line, to be delivered by 2013/14 at a total cost of £582m, which will bring clear and significant benefits to the North East. However, as this was not allocated to any single region in the Pipeline dataset, its benefits to the North East were not counted in the IPPR's analysis. Similarly, the capital 'block grants'

paid to all local transport authorities outside London, and the local major transport schemes which encompass all regions except London and were approved shortly after the Pipeline was published, were also omitted.

The Scrutiny Unit paper rightly advises that "the IPPR North results should be interpreted with caution" and notes that they relate to future plans rather than past expenditure. While it is impossible to be definitive for this reason, I do not believe that the future regional spending differences will be remotely as large as the IPPR North 'headline' analysis might suggest.

You also specifically asked for my views on the way that funding is allocated to local authorities and public corporations, and the extent to which this may result in regional biases. "Local authorities" and "public corporations" are two of the three broad types of public sector organisations that are covered by PESA, with "central government" being the third type. The Scrutiny Unit paper notes that, during 2010/11, there were no great regional differences in transport spending per head by central government bodies, but large differences in spending per head by local authorities and public corporations, with spending much the highest in London (Figure 3, page 5). It may therefore help to detail the main areas of transport expenditure managed by public corporations and local authorities in 2010/11.

Public corporations

Almost all of the public corporation transport spending recorded in PESA (well over 90% of all such spending in England in 2010/11) relates to London Underground capital expenditure. Clearly, the benefits of this expenditure are allocated predominantly to London, and they accounted for around £160 per head in 2010/11. I should point out that Network Rail's public funding is not counted under the "public corporation" category in PESA. Most public funding of Network Rail is paid by grant from the Department for Transport and is therefore counted under "central government".

Local authorities

All transport expenditure by local authorities is included in this total. Within London, this therefore includes expenditure not only by individual boroughs (e.g. on road maintenance) but also by Transport for London (TfL), which maintains and operates London's heavily-utilised city-wide networks. TfL is also responsible for the Crossrail project, all of whose costs are therefore allocated to the London region in PESA. Crossrail incurred £875m of capital expenditure during 2010/11, equivalent to just over £100 per London resident. However, Crossrail will deliver major benefits outside London (increasing capacity and serving numerous

stations in the South East and East of England regions), as well as within the capital. The construction work on Crossrail (which began in 2009) is one of the primary reasons for the recent widening of the inter-regional discrepancy on capital spending that was highlighted in the Scrutiny Unit paper (Figure 6, page 7).

I hope this helpful.

Yours Patrick

**THE RT. HON. PATRICK McLOUGHLIN**