**Pteg Initial Spending Review Briefing 2015**

*This note provides pteg’s initial analysis of the Spending Review 2015. We are still working through the calculations and the detail, so these figures should be treated with caution. We are not in a position to say whether funding is going up or down at the moment as fully comparable figures are not yet available.*

**Introduction**

The 2015 Comprehensive Spending Review, published on the 25 November, has set out UK government’s departmental expenditure limits (DELs) for the period 2016-19, and indicative funding for 2019-2021. Although these figures can be revised at each Spring Budget and Autumn Statement, this is usually as the result of under-spends or windfalls. There is likely to be a mini-Spending Review or Spending Round in 2018, which will confirm departmental budgets for 2019-21 and indicative spending beyond.

The CSR provides only limited, and often incomplete, information on the fate of individual departmental programmes. Additional information has been trickling in over the past few days but it will probably take another week or two until we get complete clarity on DfT grants. This year, this has been complicated by a major change to the way in which Network Rail is treated in DfT accounts.

**Headline announcements**

**Department for Transport**

Table 1. Department for transport funding over the course of the parliament

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **£ Billion** | | | | | | |
|  | **Baseline** |  | | | | | |
|  | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-2021** | **Change** |
| **Resource DEL** | 2.6 | 2.0 | 2.1 | 2.2 | 1.8 | \* | -31% |
| **Capital DEL** | 6.1 | 6.3 | 7.6 | 8.9 | 11.4 | 12.4 | 103% |
| **Total DEL** | 8.7 | 8.3 | 9.7 | 11.1 | 13.2 | \* | 52% |

***CAPITAL***

All indications are that **local transport capital funding** (major schemes, integrated transport block, most of which flows into the Local Growth Fund pot, highways maintenance, cycling and sustainable travel) will increase over the CSR period, and is likely to exceed in real terms the funding which was available in the years prior to the recession. Detailed outcomes below:

* The current funding for **major schemes** (all currently routed through LGF) will be topped up with a £0.5bn ring-fenced fund for large local projects towards the end of the CSR period.
* The **ITB** formula grant has survived the CSR at its current level of around £0.25m/year, without any short term changes to the allocation formula. The ITB contribution to the LGF will remain at its current level.
* The current **highways maintenance** grant (~£1bn/year) will be topped up with a £50m / year Potholes grant aimed at accelerated maintenance. This ties in with one of the recommendations in the recent pteg report on the economics of highways maintenance.
* There will be a £300m **development fund** to prepare proposals for large transport projects. This seems to build directly on our revenue-capital funding report The **Local Sustainable Transport Fund** will continue under a different name, with around £100m/year of capital funding. This exceeds the average annual capital funding over the previous government but is partly the result of a fall in LSTF revenue funding.
* **Cycling** funding to local government will continue broadly at current levels, although much of this is already committed through the Cycle City Ambition and other DfT programmes.
* Overall in sharp contrast with the 2010 CSR when major schemes, ITB and highways maintenance grants all suffered severe and unexpected cuts. This outcome is at least in part the result of our efforts to develop a solid evidence base, which is responsive to emerging policy thinking.

**REVENUE/RESOURCE**

Overall, DfT resource budget will be cut by 37% in money terms between 2015-16 and 2019-20. However, this masks big differences between funding streams.

The CSR has largely confirmed **TfL**’s capital grant and borrowing limit, as previously set out in the 2013 Spending Round. However, its resource grant will disappear over the period of the CSR, which accounts for a large proportion of the cut to DfT’s revenue budget.

In terms of **rail franchising**, HMT and DfT seem to have made a fairly optimistic assessment of revenue streams from premium payments. This leaves the DfT little room for manoeuvre in terms of future franchise specifications although private sector involvement, for example, in rolling stock enhancements, smart ticketing, stations, could shift some of this off the government’s balance sheet. It’s as yet unclear what shape the metropolitan rail grant will take in future although some new information should emerge as part of the forthcoming Northern/TPE award decision.

The **Bus Services Operators Grant** has been retained at its current level of around £0.25bn/year. This is a major achievement for pteg and our partners, with BSOG having often been in HMT’s and a previous DfT Secretary of State’s sights in the past. And it is even more of an achievement given the substantial cut to DfT’s overall resource budget.

Which takes us to the main piece of bad news – **LSTF revenue funding**. This will amount to £80m, compared to around £400m between 2011/12 and 2015/16. Some of this has been converted into LSTF capital funding, but this still implies an overall cut to sustainable transport funding.

**NETWORK RAIL AND HIGHWAYS ENGLAND**

The CSR appears to have left **Network Rail**, **Highways Agency** and **HS2** funding largely un-changed from the 2013 Spending Round. However, the majority of Network Rail funding was moved from the DfT’s Departmental Expenditure Limit (DEL) to Annually Managed Expenditure (AME), earlier in 2015, while Highways Agency funding went in the opposite direction. We will therefore need more time to confirm this initial assessment.

In practice, the move from DEL to AME acknowledges the fact that Network Rail may be required to borrow more than anticipated as the result of fluctuation in costs year on year. This is partly good news as it gives NR a degree of flexibility in managing these fluctuations. But, ultimately, NR’s total borrowing will continue to be capped.

**Department for Communities and Local Government**

Table 2. DCLG funding over the course of the parliament

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **£ Billion** | | | | | | |
|  | **Baseline** |  | | | | | |
|  | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **2020-2021** | **Change** |
| **DCLG local government DEL** | 11.5 | 9.6 | 7.4 | 6.1 | 5.4 | \* | -53% |
| **Locally financed expenditure** | 28.8 | 29 | 31.5 | 33.6 | 35.1 | \* | 22% |
| **Total DEL** | 40.3 | 38.6 | 38.9 | 39.7 | 40.5 | \* | 0.5% |

(Table Note: This is non-ring-fenced local government money)

It’s as yet unclear how the CSR will affect **local government finances**. The move towards fully devolved business rates will see a very steep reduction in non-ring-fenced financial flows between central and local government, but HMT has argued that this will largely be matched by increases in local income sources. Even if this turns out to be the case, however, there could be large distributional impacts between areas. We will therefore have to wait for the Local Government Funding Settlement to understand what this will mean in practice for metropolitan districts. We will also seek any early feedback from colleagues in LGA and SIGOMA.