Briefing

Spring multi-year spending review: recommendations for the DfT

April 2025

Summary

Renewing the UK's transport network is fundamental to achieving the government's growth, clean energy and health missions. The system is inefficient, unreliable and historically underfunded and is now holding back the economy. The spending review in June 2025 will be central to turning this around.

Too often, public and active transport provision is a postcode lottery and a barrier to opportunity. UK workers spend more time commuting than their counterparts in all but two OECD countries.[1] And it is estimated that traffic congestion cost the UK economy £7.7 billion in 2024.[2] Road transport is the UK's biggest source of carbon emissions and is choking our streets with air pollution, costing the NHS millions.[3,4]

Electrifying transport at pace will reduce exposure to volatile international fossil fuel markets and could be an industrial opportunity for the UK.[5]

The investment needed to deliver on commitments for inclusive regional growth, achieved through better transport, can be partly funded by making taxes fairer for cleaner forms of transport and redirecting spending towards sustainable projects which have better growth prospects.

Transport funding

While the autumn budget and the first phase of the spending review increased total investment, the Department for Transport (DfT) was not a beneficiary. The DfT's overall budget was, in fact, reduced by 2.5 per cent.[6] Its capital investment budget received the largest reduction, proportionately, of any government department between 2023-24 and 2025-26.[7]

Delivering on the government's ambitious public transport agenda to support the growth mission, reduce carbon emissions and make communities healthier will require a real terms increase in capital investment in transport over the remainder of this parliament. Operational expenditure should also be maintained to prevent further above inflation fare increases for passengers.

Enabling the switch to electric vehicles

Despite rising electric vehicle sales, the UK's cars, vans and lorries are still predominantly powered by polluting petrol and diesel, and road transport is the biggest source of the UK's greenhouse gas emissions.

The Zero Emission Vehicle (ZEV) mandate was introduced in 2024 to drive up the supply of electric vehicles. It is the UK's single biggest emission cutting policy.[8] The government recently announced it will extend flexibilities within the ZEV mandate until 2029, which could lead to a higher proportion of hybrids being sold and slow down the transition to fully electric vehicles (EVs).[9] To maintain the momentum of EV sales and the carbon savings potential of the mandate, the government should bring forward greater demand side support for EVs. This can be done by investing more in charging infrastructure, particularly in regions with lower rates of coverage, and other incentives to switch to electric cars and vans. A rapid transition to EVs could add £16.1 billion to the gross value added (GVA) of the UK's automotive sector, with a risk of a £34.1 billion decline if the transition stalls.[10] To drive the transition, the government should:

- **Extend the Local Electric Vehicle Infrastructure (LEVI) fund**
  This should extend beyond the current financial year and ensure the level of public funding available for councils is not reduced in real terms between 2024-25 and 2025-26. The government's commitment of £200 million investment in electric vehicle charging for 2025-26 is welcome. To maintain the pace of growth in the electric vehicle transition, LEVI funding, currently only guaranteed until 2024-25, should be set out until 2028-29 and concentrated in regions where charging coverage is low, to address regional inequalities. In January 2025, Westminster Borough Council had more charging points than Greater Manchester and Merseyside combined, despite these metropolitan counties together having more than 20 times the population.[11]
- **Deliver the rapid charging fund of £950 million**
  This should be focused on financing grid connections suitable for ultra rapid charging on the strategic road network.[12]
- **Cut VAT on public electric vehicle charging, from 20 per cent to five per cent**
  This change in the next budget would cost of £315 million by 2030.[13] It would bring the cost of on street charging in line with the price of charging at home, ensuring those without access to home chargers are not paying a premium.
- **Scrap low return road building projects and reallocate funding**
  This would divert the money from scrapped new large scale roads projects to maintain the existing road network and sustainable transport infrastructure.[14] Road building creates more traffic, so it does not tackle the issue of congestion. The Lower Thames Crossing is forecast to cost £9.2-10.2 billion and the DfT has revised down the economic benefits of the scheme from £4.3 to £3 billion.[15,16]

Better public and active transport for growth

The quality, cost and availability of public and active transport across the UK is a postcode lottery that holds back growth. Transport for the North estimates that better connecting northern urban centres to one another could help to deliver £118 billion in economic growth and 850,000 new jobs by 2050.[17]

Case studies show walkers, cyclists and public transport users spend around 40 per cent more with local businesses than car drivers.[18] As we showed in our *Next stop, better rail* report, while rail travel compares favourably with cars for journeys in and out of London, travelling by train within and between other regions and urban centres is more often uncompetitive with driving on either the cost or time of journeys. Rail integration with bus services is also poor in many places making travel even slower.[19]

Poor public transport provision particularly affects those on lower incomes who are less likely to have access to a car. People see public transport as integral to improving their living standards, a fair net zero transition and reducing regional inequality.[20]

Investing in better bus services

Improving bus services and electrifying the UK's bus fleet is one of the easiest, cheapest and quickest ways to reduce emissions from surface transport and improve life for poorer households. Reforms that give local leaders more control of bus services should be matched with more support.

- **Extend the £3 bus fare cap for the whole period of the spending review**
  This would provide certainty to operators, local authorities and passengers and would cost just £1.4 million annually.[21] Phase one of the government's spending review committed a welcome £1 billion to keep bus fares down in 2025, protect local routes and deliver more reliable services, but more long term certainty is needed.
- **Fund local transport authorities to provide every community in the country with an hourly minimum bus service**
  Basic service levels should be enshrined in law through the Bus Services Bill currently passing through parliament. The countryside charity CPRE has previously estimated that hourly minimum services for rural communities would cost £2.7 billion annually.[22] Every £1 spent on bus services has a return on investment of up to £3.80 in economic, social and environmental benefits.[23]
- **Introduce a new central multi-year grant to drive bus decarbonisation**
  This should be equivalent to the £593 million Zero Emission Bus Regional Areas (ZEBRA) scheme, which ends in 2025. It would fund the decarbonisation of the bus fleet by 40 per cent in metropolitan areas across England by 2030.[24]

Investing in a better rail network

The government has promised to reinvigorate the railways under public ownership and set targets to shift more freight from road to rail and grow passenger numbers to cut emissions from the transport sector.[25] The Labour-commissioned 'Rail and urban transport review' recommended doubling the mode share of rail within ten years.[26] However, the government has already cut rail connectivity schemes. In July 2024, the chancellor announced the cancellation of the £500 million Restoring Your Railway fund, which had been introduced by the previous administration to reopen rail lines to "provide better access to jobs, homes and education, and level up and reconnect communities."[27] Our findings in *Next stop, better rail* also underscored the pressing need for higher investment in regional rail beyond the South East, to support growth and tackle regional inequality.

- **Increase regional rail investment, specifically where connectivity and service reliability are poor**

  Many regional growth plans were relying on the delivery of phase 2 of HS2. The previous government promised to repurpose funds from the cancelled northern leg of HS2 to improve transport connections.[28] The following connections should be prioritised: the planned Crewe to Manchester element of Northern Powerhouse Rail and improving connections from East to West Midlands.

- **Provide adequate revenue support to cap any annual increases in the price of rail fares at the rate of inflation**

  In March 2025 rail fares increased by 4.6 per cent, one per cent above the Retail Price Index (RPI) rate, and the price of railcards also increased. Since fuel duty was first frozen in 2011, keeping the price of car travel down, rail fares have increased more than 50 per cent, further preventing low income groups from accessing education, work and leisure opportunities, hindering growth.[29] To maintain the affordability of public transport and tackle the cost of living crisis, the Treasury should provide adequate operational funding in 2026-27 and 2027-28 to ensure regulated rail fares do not rise above inflation.

- **Provide sufficient long term funding for mayoral authorities**

  This should be enough to deliver the vision in the forthcoming national integrated transport strategy. Phase two of the government's spending review will include new financial settlements on transport for six of the largest mayoral combined authorities in England. The National Infrastructure Assessment warns that poor public transport provision is a drag on productivity in many city regions.[30] As the government develops its national integrated transport strategy to improve public transport connectivity, it must ensure that it provides sufficient multi-year funding through the City Region Sustainable Transport Settlements (CRSTS), to bring the biggest cities up to the same standard of public transport provision as equivalent European cities and London.

- **Identify priority rail investment areas to deliver the promised growth targets for freight and passengers**

  The government has promised to set stretching targets as part of rail reform. It needs to commit adequate funding in phase two of its spending review to meet them. In total, to double service levels by 2030 for light rail, trams and trains, the TUC calculates that capital expenditure of around £10.9 billion is required.[31] This is comparable to the cost of the Lower Thames Crossing road project.

Investing in active travel

Phase two of the spending review must meet Labour's commitment to invest "unprecedented levels of funding" in walking and cycling.[32] Maintenance and development of walking and cycling infrastructure promotes physical activity and cuts air pollution, which improves the health of communities, lowering the burden on the NHS, supporting the government's health mission and improving productivity. The DfT's own research shows the average return on investment for every £1 spent on active travel infrastructure is £5.62, from reducing congestion and absenteeism, and increasing high street footfall.[33] Building good quality infrastructure is vital to change travel behaviour, as seen in London where the Cycleway network has quadrupled since 2016 leading to a 26 per cent increase in cycle journeys between 2019-2024.[34]

- **Deliver an ambitious Third Cycling and Walking Investment Strategy (CWIS3)**

  The national cycle network needs to be included properly as part of the UK's national transport infrastructure, prioritised by government, rather than being a patchy, underfunded network, dependent only on the services of a charity to develop.

- **Commit to a phased ten year active travel investment plan of £23.2 billion, and execute the first phase**[35]

  Doing this would match Dutch levels of cycling (28 per cent of all journeys by bicycle, rising to 32-44 per cent for journey's up to 5km).[36] This is high value for money as it could bring nearly £0.25 trillion worth of benefits to the UK by 2050, in areas such as public health, reduced emissions and lower congestion.[37]

Raising revenue with fairer transport taxes

Realising Labour's vision for better quality transport across the country, will require significant investment to boost economic growth and increase productivity, particularly in northern England. Investment in clean transport can be balanced and partly paid for by taxing polluting forms of transport. Ending tax breaks for aviation, which is the most polluting form of transport, would create a fairer system. Driving has been effectively subsidised through taxes, contributing to a long term trend where the cost of public transport has risen faster than the cost of driving a petrol or diesel car.[38] The brunt of the impact has fallen on poorer households who are less likely to own a car or own one car for several people.

- **Introduce a per mile heavy goods vehicle (HGV) levy in line with European HGV charging models**
  This would raise £1.5 billion by 2030, drive the decarbonisation of HGVs, and help to rebalance rail and road freight costs.[39]

- **End the 14 year fuel duty freeze and reverse the temporary 5p cut to fuel duty**
  This would stop the erosion of government revenues and provide funds to reinvest in cleaner transport. The Office for Budget Responsibility (OBR) expects that reversing the 5p cut and ending the fuel duty freeze would raise £2.7 billion in 2026-27.[40] Cumulative impacts of these cuts and the freeze have amounted to the Treasury subsidising fuel duty by £130 billion since it was introduced in 2011. Revenue losses as a result would be in the order of £200 billion by 2028, even if the government lifted the rate freeze beyond 2024.[41] The fuel duty freeze has increased UK carbon emissions by seven per cent since 2011.[42] Freezing fuel duty disproportionately benefits wealthier households who drive more and in bigger cars.[43]

- **Introduce a kerosene tax on European and US flights to raise nearly £5 billion by 2030, with discounts for sustainable aviation fuel**[44]
  Aviation fuel is currently untaxed, unlike fuel for surface transport, and this has led to perverse incentives to fly rather than take the train for short haul journeys.

- **Introduce a frequent flyer levy to replace air passenger duty**
  Under this levy the first round-trip flight taken in a year would not be subject to departure tax, but the tax would then increase with each subsequent flight. Working families taking one holiday abroad a year would not pay the tax. Research in 2021 found that more than two thirds of the UK public supported a frequent flyer levy.[45]

- **Increase Air Passenger Duty on private jets**
  The intention to raise this in the 2024 autumn budget was a positive first step in addressing the gross under taxation of aviation. But evidence from the aviation sector shows the rates considered will not significantly discourage private jet use. Raising the rate would also mean further revenue for the Treasury.[46] Options include a higher tax rate for kerosene used in private jets.[47]

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Endnotes

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