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Transport Committee

Transport and the economy

Third Report of Session 2010–11

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The Transport Committee

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Summary

The Government has said that it is focusing its transport policy on contributing to economic growth and carbon reduction targets while reducing the fiscal deficit. Economic rebalancing—including reducing the "north-south divide"—is a primary objective. At the same time the Government has distanced itself from the last major study of transport and the economy—the 2006 Eddington Transport Study—and rejected a number of its key recommendations, particularly on road pricing, airport capacity and high speed rail.

The Government has not provided an assessment of the implications of its decisions; nor explained how its investments will deliver the growth and rebalancing that it is seeking. Transport investment can enable and stimulate economic growth but it does not guarantee it. Transport investment intended to stimulate growth needs to be closely linked to a proactive approach to economic development.

The Government has swept away the regional tier of planning and institutions, to be replaced by Local Enterprise Partnerships and other arrangements. Most of these are at the early stages of formation, or yet to be established. With regard to transport functions, these may not be in place until the end of this Parliament.

We call on the Government to:

- publish a White Paper on transport and the economy, clarifying the nature of the economic solutions that it is seeking to deliver through transport spending and how the schemes that it is supporting will achieve these aims;
- ensure that transport investment and economic development are properly integrated;
- provide greater transparency in the appraisal and decision-making process with regard to new schemes, and
- ensure that the institutions and arrangements required to plan and prioritise sub-national transport schemes are developed and made effective as soon as possible.

1 Introduction

The challenge for transport

1. The UK's economic situation has changed dramatically over the past three years. Steady GDP growth in the period 2000–2007 has given way to low or negative growth, an increased fiscal deficit and higher levels of unemployment. Following the general election in May 2010, the Coalition Government stated that reducing the government deficit was its most urgent task and that it would "support sustainable growth and enterprise, balanced across all regions and all industries, and promote the green industries".[1]

2. Transport was expected to play a key part. The Secretary of State for Transport, Rt Hon Philip Hammond MP, told us that the Government's priorities for transport were to support sustainable economic growth and to contribute to the Government's 2020 carbon reduction targets, within the overarching constraint of reducing the deficit.[2] Supporting the economy has long been an objective of government transport policy. This Government, perhaps more than most,[3] appears to be focusing on it more sharply, no doubt due to the precarious state of the economy.

3. Investment in transport infrastructure was prioritised in the October 2010 Spending Review, reflecting the Government's view that long-term investment in transport infrastructure was essential to competiveness and economic growth. Whereas the resource budget for the Department for Transport (DfT) was cut by 21% (the average across government departments), the capital programme was reduced by only 11% compared with an average of 29%. According to HM Treasury, in 2014–15 DfT capital investment will be higher in real terms than in 2005–06.[4]

4. As well as supporting overall growth, the Government has made clear its intention to use investment in transport, particularly in high speed rail, as a means to rebalance the economy and to reduce regional inequalities:

> Our vision is a transport system that is an engine for growth [...] to radically reshape our economic geography [...] to help bridge the North-South divide that has limited for too long growth outside the South East.[5]

5. **We welcome the Secretary of State's focus on using transport to support and stimulate the UK economy and to reduce the economic disparities between different parts of the country and we call on him to explain how his policy will achieve that end.**

[1] HM Government: *The Coalition: our programme for government*, 20 May 2010

[2] Transport Committee, *Secretary of State's Priorities for Transport*, oral evidence, 26 July 2010, Q 3

[3] Under the previous Government, the DfT had five strategic objectives, including supporting economic growth. (DfT, *Annual Report and Resource Accounts 2008-09*, HC454, 16 July 2009, p 14)

[4] HM Treasury, *Spending Review 2010*, Cm 7942, October 2010, pp 10, 11 and 46

[5] DfT, *Business Plan 2010-11*, November 2010, p 1

Our inquiry

6. We believe that supporting sustainable economic growth should be the overriding objective for the DfT. We have, therefore, decided to inquire into how best transport can support this objective. In particular:

- Have the UK's economic conditions materially changed since the Eddington Transport Study in 2006[6] and, if so, does this affect the relationship between transport spending and UK economic growth?
- What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?
- What should be the balance between resource spending[7] and capital investment?
- Are the current methods for assessing proposed transport schemes satisfactory?
- How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

We have not attempted to assess the Government's other main objective for transport—reducing carbon emissions.

7. Our purpose was not to comment on individual transport schemes but on how priorities should be set, the process of scheme appraisal and decision-making, and the structures within which schemes are planned. Although many transport investment decisions were announced in the Spending Review, the Government will be taking further decisions on which schemes to support over the coming months and years, including £600m for local authority major schemes in the Department's new "development pool" and bids for the £560m Local Sustainable Transport Fund.[8] We noted also the Government's commitment to reforming the way in which decisions are made on which transport projects to prioritise.[9] We hope our Report and the supporting evidence proves of value in these processes.

8. Our inquiry generated considerable interest and we received written evidence from 117 organisations and individuals as well as related correspondence. We held six oral evidence sessions, including two in Hull and Birmingham where we were also able to visit the local transport infrastructure and to meet local business people and community representatives. We were advised throughout by Dr Dan Graham, Transport Economist from Imperial College London, and Mr Kelvin MacDonald of Spatial Effects Ltd, an independent planning consultant.[10] We are most grateful to all those who assisted us in our inquiry.

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[6] The last major study of transport and the economy. See Chapter 2 of our Report.

[7] We have used the term 'resource' in this Report as it is the term used in central government accounts; local government and others tend to refer to 'revenue' or 'current' spending.

[8] HC Deb, 4 February 2011, col 60WS

[9] This was contained in Coalition Agreement and details are contained in the DfT's Business Plan 2010-11, November 2010, Action 3.1 vii, p 9

[10] Dr Graham and Kelvin Macdonald made formal declarations of interests which can be found in the formal minutes of the Transport Committee, Session 2010-11, Appendix B

2 Relationship between transport and the economy

The Eddington Transport Study

Analysis

9. The long-term relationship between transport and the UK's productivity was investigated by Sir Rod Eddington in 2006 in a major study for HM Treasury and the DfT.[11] The Eddington Transport Study was a detailed, expert study and we have not tried to repeat the underlying economic analysis. It was not without its critics and we have not treated it as a blueprint, to be adhered to in all cases. It is, however, an important work and provides a useful reference point for our inquiry. We have explored whether conditions have changed significantly since the report was published and, if so, what the implications might be. It has been helpful that a number of those experts who advised Sir Rod Eddington have submitted evidence to our inquiry.

10. Eddington concluded that

> There is clear evidence that a comprehensive and high-performing transport system is an important enabler of sustained economic prosperity....
>
> Transport cannot of itself create growth: it is an enabler that can improve productivity when other conditions are right...[12]

He identified seven main linkages by which transport improvements had an impact on economic growth. These were:

- **Improved business efficiency**, notably by travel time savings, improving journey time reliability and travel quality;
- Stimulating business **investment and innovation** by supporting economies of scale and new ways of working;
- **Agglomeration economies** which bring firms closer (in space or time) to other firms or workers in the same sector ;
- Improved **labour market efficiency**, enabling firms to access a larger labour supply, and wider employment opportunities for workers and those seeking work;
- Increasing **competition** by opening access to new markets**,** principally by integration of world markets;
- Increasing **domestic and international trade** by reducing trading costs, and

[11] *The Eddington Transport Study: The case for action: Sir Rod Eddington's advice to Government*, Summary Report, December 2006
[12] Ibid, pp 1 and 11

- Attracting **globally mobile activity** to the UK, by providing an attractive business environment and good quality of life. [13]

11. Eddington concluded that the UK's existing transport network was largely complete in terms of its coverage and that the greatest benefits from transport investment were likely to come, domestically, from focusing on reducing congestion and relieving bottlenecks on road and rail networks; and, globally, from increasing international connectivity. He estimated that, if left unchecked, the rising cost of congestion would cost the UK economy an extra £22 billion per annum by 2025.

Eddington's recommendations

12. Eddington recommended a "sophisticated policy mix", with investment decisions based on a rigorous policy process, without favouring any particular mode. He recommended that new investment be targeted at heavily-used areas and corridors showing signs of congestion or unreliability, with the following three strategic economic priorities:

- Congested and growing city catchments;
- Key inter-urban corridors, and
- International gateways (ports and airports).[14]

13. He strongly endorsed the use of pricing mechanisms, particularly road pricing, to make better use of the existing network. Eddington was much less enthusiastic about schemes for which there was little existing demand and was disparaging about what he termed "grand projects", such as high speed rail. Although he concluded that connectivity within the UK was generally not a barrier to growth, he judged that improved international connectivity would be important for accessing emerging markets, such as China.

14. He demonstrated that transport investments of the type he recommended had large benefit to cost ratios (BCR). Although he was addressing strategic economic issues, he noted that the BCRs of small-scale schemes were often better than for larger schemes. He strongly supported a broadening of the assessment criteria to capture the wider economic impacts that were not included in conventional appraisal of proposed projects. The economic case for addressing climate change within transport policy, as set out in a parallel report by Sir Nicholas Stern,[15] was fully accepted and Eddington recommended that it should be incorporated into the appraisal process.

Changed economic conditions

15. There have been a number of changes in economic conditions and transport demand since the publication of the Eddington Transport Study in 2006. In particular:

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[13] Ibid, p 15. Eddington referred to these as microeconomic drivers.

[14] Ibid, p 7

[15] *Stern Review of the economics of climate change*, HM Treasury and Cabinet Office, 2006

- Economic output, measured by GDP, is lower[16] than the levels assumed by Eddington and future growth rates are also projected to be lower;[17]
- Fuel prices are higher than assumed; [18]
- The amount of public money available for transport investment and operations is now considerably lower;
- Transport demand levels are somewhat lower than forecast, although there is considerable variation across and within modes;
- HGV traffic is lower yet light van traffic has increased substantially;
- Car traffic has grown more slowly than forecast;
- Overall demand for rail travel has proved relatively resilient to the recession,[19] and
- Air travel and port traffic has been significantly reduced by the recession but growth is now returning.

Analysis still valid?

16. Despite changes in economic conditions and transport demand, the predominant view of our witnesses, including the DfT, academics, business groups, local authorities[20] and transport professionals[21] was that Eddington's broad *analysis* of the linkages between transport and the economy held true. The DfT's conclusion was that, despite the lower rates of GDP and transport growth, Eddington's analysis that well-targeted investment in transport remained an important contributor to all of the above mechanisms remained valid:

> [...] whilst different economic conditions may lead to short-term variations in the scale of the relationship between transport investment and economic growth, the underlying linkages remain. The fundamental relationship between transport investment and growth therefore remains consistent with the Eddington Study's findings.[22]

17. The Campaign for Better Transport and others noted that the transport intensity[23] of economic growth had reduced.[24] The Northern Way had identified regional differences: "Every point of economic growth in the North led to transport demand growing more

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[16] Some 10-15% lower according to Dr Marsden and Professor Mackie. See Ev 131

[17] Ev 228

[18] Ev 131

[19] Q 410. ATCO announced 1 February 2011 that passenger numbers were at their highest peace-time level since 1922.

[20] Ev 221

[21] Ev 139

[22] Ev 228

[23] The amount of transport generated by a given level of economic output.

[24] Ev 208 and Q61 [Mr Griffiths]

strongly in the North when compared with the South."[25] Professor Phil Goodwin pointed out that car use *per person* had been stable or falling for some years and suggested that a peak in car traffic may have been reached.[26] The DfT accepted that car traffic was growing more slowly than in previous decades but still forecast that total car miles would continue to rise—at an average rate of 1.1% per annum until 2035—based on growth in GDP and population and falling real costs of driving.[27]

18. We sought the views of our witnesses as to whether the lower rates of economic growth and the lower volumes of vehicles, passengers and freight traffic implied that investment levels could or should be reduced. Dr Marsden and Professor Mackie responded that, under such circumstances, the BCR cut off for project approval should be raised and that the case for capacity-related investment was relatively weakened.[28] However, the extensive list of potential projects, promoted so strongly by industry, local government and others, suggests that there is no shortage of schemes that might meet a higher threshold and be deserving of funding, as Professor Glaister indicated.[29]

19. Business groups, such as the Confederation of British Industry (CBI) and the Federation of Small Businesses, strongly endorsed the fundamental point that the links between economic growth, competiveness and a good transport system remained strong. Not only did they believe that investment in transport could have good economic returns, but they also considered that investment in transport was one of the most economically productive areas of public spending. The CBI was critical of what it saw as the UK's historic low levels of government investment in transport infrastructure, relative to its existing and future competitor countries. Whilst accepting the need for fiscal restraint it favoured maximising investment in transport using new funding models. The CBI called for public infrastructure investment, including transport, to be restored to 2.25% of GDP over the Spending Review period.[30] Unite also called for increased levels of spending on transport infrastructure and operations. The view that the UK had underinvested in transport was endorsed by others, including local government. According to the Local Government Association (LGA):

> ....because the UK has under-resourced transport over the long term, a backlog of major investment needs remains, and the priorities identified by Eddington [...] continue to be salient today.
>
> The economic potential of many places in England remains untapped because of transport issues.[31]

20. Although there was general agreement about Eddington's analysis and three broad priorities, we received a range of views about:

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[25] Ev 156

[26] Ev 176

[27] Ev 252

[28] Ev 131

[29] Q 445 [Professor Glaister]

[30] Ev 202

[31] Ev 221

- its current application at local level;
- how regional economic imbalances should be addressed;
- the scheme appraisal methodology which plays a large part determining which schemes go forward, and
- the implications of certain elements of Eddington's "sophisticated policy mix", particularly road pricing, being ruled out by government.

We address these aspects in subsequent sections of this Report.

21. **A fundamental conclusion of the Eddington Transport Study was that a comprehensive and efficient transport system was vital to the UK's economy. Despite GDP, traffic volumes and public spending being at levels somewhat lower than Eddington envisaged, it is clear to us that investment in the transport system remains a high priority in order to support economic growth. Congestion on road, rail and air networks remains a major constraint on growth.**

Integrating transport with economic development

22. Despite the general agreement amongst our witnesses about the important linkages between transport and the economy, some emphasised that increased transport spending did not lead *automatically* to greater economic growth. Mr Chris Riley, a former Chief Economist at the DfT, said that it was unwise to expect too much from transport schemes:

> [...] one of the extraordinary things about British economic history is how little the underlying rate of economic growth has varied. We have had big cycles over many centuries but the underlying rate of growth has remained pretty close to 2%, or thereabouts, for hundreds of years. I think if transport—or indeed any other policy—were capable of adding a quarter of a percentage point to our underlying growth rate that would be regarded as a great success. One of the great problems of economic policy, for all Governments, has been Ministers deluding themselves that they have produced a sea change in our growth prospects and then of course it all comes to a terrible halt, as we have seen in 2008.[32]

23. Professor Henry Overman said that 'transformational' impacts were rarely achieved, even with very substantial investments. He cited the Humber Bridge as an example:

> One of the problems is that people tend to take their pet project and basically try to justify support for it, on the basis that it will be transformational, and many of these claims for projects that will be transformational do not materialise once we go ahead and invest large amounts of money. I was in Hull; the Humber Bridge was supposed to transform the economy of that part of the world. If you go back and look at the narrative, that is what it was going to do and it didn't.[33]

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[32] Q 55 {Mr Riley]

[33] Q 10 [Professor Overman]

Box 1: Hull

Hull lies on the north coast of the Humber Estuary in Yorkshire. It has a resident population of 262,400 people (2009); 14.4% of the economically active population are unemployed (2009–10).

Kingston upon Hull City Council, a unitary authority, is seeking improved access to northern ports: schemes include improvements to the A63 Castle Street in Hull and the A160 on the south bank of the Humber. It is also seeking upgrades to strategic roads, including the A164, A1079 and A15, to reduce the 'remoteness' of Hull. The toll for a car crossing Humber Bridge is £2.70 and the local authorities and others are seeking a reduction through removal or reduction of the toll debt.

The Port of Hull, owned and operated by Associated British Ports, has strong short-sea trade links with continental Europe, Scandinavia and the Baltic and worldwide deep-sea trade. It is the UK's leading softwood timber port and the Humber's only passenger port.

Most bus services in and around Hull are provided by EYMS Group; Stagecoach also operates services into Hull. Bus and rail services are linked at the Transport Interchange. Since 2000, Hull has been served by a direct rail service to London, operated by First Hull Trains, an open-access operator.

Sources: Hull City Council (Ev 231) and Hull Labour Market Profile, September 2010

24. Professor Roger Vickerman outlined some of the difficulties in predicting and assessing the economic impacts of transport investment.[34] "Beware of simple answers with transport because each case is different." He gave examples of schemes from the European continent that had resulted in significant economic benefits and others which had not. The first high speed rail (TGV) line between Paris and Lyon, built principally for capacity reasons, had brought substantial economic benefits; however, the high speed rail (AVE) line between Madrid and Seville had failed to meet its economic regeneration objectives for Seville.[35] Professor Tomaney said that Spanish cities had undertaken economic development planning in association with the development of the high speed rail network but this had not been successful in the case of Seville.[36]

25. We considered other examples. Mr David Bull of Birmingham City Council pointed to the important role of transport schemes, including relocating roads, in supporting major investments such as the Millennium Point (an engineering, technology and education centre) and the Science Park which "had had a major impact on the city." Transport was also integral to schemes outside the city centre, such as major employment sites at Selly

[34] Ev 142

[35] Q 467

[36] Q 32

Oak and, potentially, at Longbridge.[37] The Minister of State for Transport, Rt Hon Theresa Villiers MP, cited upgrades to the Jubilee line and the Docklands Light Railway which successfully supported investment and job creation at Canary Wharf.[38]

Box 2: Birmingham

Birmingham lies 110 miles north-west of London, in the West Midlands. It has a population of 1 million people. During the past decade it has experienced unemployment levels above those of other English core cities, partly due to the closure of the Longbridge car works.

Birmingham is located at the centre of the Midlands motorway network. It is on the West Coast mainline and is served by two rail lines to London; High Speed 2 would provide a third. It has one of the largest bus networks in England, largely commercially operated by National Express which also operates the Midland Metro tram service between Birmingham and Wolverhampton.

26. It was notable that many of our witnesses, from local government, academia and elsewhere, placed a new emphasis on the need to integrate transport and economic development, reflecting the difficult economic conditions in recent times. Councillor Timothy Huxtable told us how Birmingham City Council had combined the transport and regeneration portfolios. Similarly, Councillor Peter Box CBE, Chair of the newly-formed LGA Economy and Transport Board, said:

> Too often in the past economic development has been seen separately from investment in transport. [...] the LGA position and local government's position is that we need far better integration between economic development and transport.[39]

27. Sir Robin Wales, Mayor of the London Borough of Newham, described the dislocation of national economic development and transport policies at Stratford. Despite the investment of £210m in Stratford International station, no trains stopped there and the station was unused. He outlined the substantial potential for economic growth in east London, based on high speed rail services and, as he saw it, the need to design transport schemes to address development needs more directly.[40]

[37] Q 169

[38] Q 486

[39] Q 468

[40] Q 314 and Ev 106

Rebalancing the economy

28. The Government has frequently cited "rebalancing the economy" as one of its major economic objectives, not least in relation to transport.[41] Rebalancing seems to have a number of dimensions:

- Reducing reliance on the public sector and creating more private sector employment;[42]
- Reducing reliance on the banking sector and boosting other industries, including manufacturing,[43] and
- Reducing economic disparities between regions—the "north-south divide".[44]

29. The Government has used the objective of reducing the north-south divide as a major argument to justify transport investment, particularly High Speed 2 (HS2). Evidence from organisations in the West Midlands, the north-east and north-west of England and Scotland[45] showed support for high-speed rail and a strong desire to be connected to the network in order to spread the economic benefits. The Minister, Mrs Villiers, told us that "[...] high-speed rail I believe will provide a major boost to our efforts to address the long-standing prosperity gap between north and south."[46] However, the HS2 business case does not include an assessment of the project's regeneration impacts and so it is difficult to assess to what extent HS2 is likely deliver regeneration or rebalancing.[47]

30. The Minister accepted the need to integrate transport and economic development strategies but currently it seems that economic development aspects are being left to local authorities. Her answer did not convince us that there was an explicit government economic development strategy to accompany its proposals for the construction of HS2.[48]

31. Transport investment can play a vital role in supporting economic growth and regeneration. However, as Eddington demonstrated, economic growth does not follow transport investment automatically. Where transport is being used to stimulate economic growth, a proactive approach to economic development planning is required. To be effective, transport and economic development strategies must be fully integrated. **The Government must ensure that where it approves transport schemes designed to stimulate economic growth and rebalance the economy, they are supported by convincing economic development strategies. For major schemes that the Government is promoting itself, such as High Speed 2, it must work with local and regional bodies to**

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[41] For example, Speech by Rt Hon Philip Hammond MP at High Speed Rail Business Debate, Birmingham NEC, 29 November 2010

[42] For example, the letter from the Prime Minister, Rt Hon David Cameron MP, to the Chair of the Liaison Committee, 29 November 2010, "The Regional Growth Fund is intended to rebalance those areas of the economy which are currently reliant on the public sector, including areas outside of London. The Department for Transport is contributing around a third of the funding to the £1.4 billion Fund, and we are keen for bids to include transport elements."

[43] Speech by the Prime Minister, *Transforming the British economy: Coalition strategy for economic growth,* 28 May 2010

[44] Rt Hon Theresa Villiers MP, HC Deb, 25 November 2010, Col 186WH

[45] Ev w151

[46] Q 486

[47] Qq 322-333 The Business Case for the HS2 London-Birmingham section shows a BCR of 2.4 which increases to 2.7 when Wider Economic Impacts are included. (High Speed Two Ltd, Report to Government, Part 9 of 11, Chapter 4, Fig 4.3a)

[48] Q 512

develop effective economic development strategies that integrate with its transport proposals.

The need for policy clarification

A coherent framework

32. The Eddington Transport Study was not merely 'another study': it had some far-reaching consequences. In response to Eddington, the Government of the day issued a new transport policy statement, *Towards a sustainable transport system*,[49] restructured the DfT and revised its transport investment priorities on the principles set out in the Study. It also launched a programme of studies and pilot schemes. The DfT's subsequent report, *Delivering a sustainable transport system,* identified the 14 national transport corridors connecting the 10 largest conurbations and the 17 international gateways on which investment would be focused.[50] Many transport professionals[51] regarded this as the de facto basis of the national policy statement on national transport networks which the then Government was intending to publish in 2010 and which the new Government has indicated that it will publish at some point.[52]

33. The previous Government abandoned attempts to introduce a national road pricing scheme after encountering public opposition. Instead, it opted to encourage local authorities to introduce local congestion charging schemes, and provided support for this through its Transport Innovation Fund. However, no scheme was introduced.[53] We previously acknowledged the political and technical difficulties that any government might face in introducing road pricing.[54] Following a change of Secretary of State for Transport,[55] the then Government also changed its position on the issue of high speed rail, rejecting Eddington's advice on this issue. However, the underlying policy approach was retained.

Taking a selective view of Eddington

34. Mrs Villiers told us that the Government took a selective view of the Eddington Transport Study. She accepted that "some of the work" produced by in the Eddington Study was "useful and still valuable". However:

> We are a new Government. This was a report produced by the previous Government. We will draw on it where we feel its conclusions are useful and its

[49] DfT, *Towards a sustainable transport system*, October 2007

[50] DfT, *Delivering a sustainable transport system*, November 2008

[51] For example, see Transport Committee, Fifth Report of Session 2009-10, *The proposal for a national Policy Statement on Ports*, HC 217, 17 March 2010, pp 17-18 and oral evidence.

[52] Rt Hon Eric Pickles MP, HC Deb, 20 December 2010, col 142WS. See also Department of Communities and Local Government, *Major infrastructure planning reform: Work plan*, 20 December 2010

[53] The central London congestion charge scheme was introduced earlier (2003), by the Mayor of London, without support from central government.

[54] Transport Committee, Sixth Report of Session 2008-09, *Taxes and charges on road users*, HC 103, 24 July 2009, pp 32-32

[55] In October 2008 the Rt Hon Geoff Hoon MP replaced the Rt Hon Ruth Kelly MP as Secretary of State for Transport.

> analysis is helpful. On other points, where we don't agree with it, no, we won't be adopting Eddington's approach.[56]

35. Rather than working from a set of policy objectives, the current Government has decided to support certain major schemes and to rule others out. In particular, the Government has supported the HS2 rail project to link London with Birmingham and cities in the north; and it has supported Crossrail, Thameslink and Tube upgrades in London. It has ruled out road pricing and additional runways in the south-east of England. The transport investment programme, announced following the 2010 Spending Review, was widely seen as favouring rail over road, suggesting that the Government was not taking a mode-neutral approach to investment decisions.[57]

36. Efficient pricing of transport demand was a fundamental part of the policy mix recommended by Eddington. He described road pricing as a 'no brainer'. This was largely because he saw cities as the main generators of economic wealth and the locations where a reduction in congestion would have the greatest economic benefit. Professor Goodwin and other witnesses said that the absence of road pricing had significant implications for Eddington's analysis and the benefits likely to be derived from large road schemes. He described it as investment that "made things worse more slowly" rather than "making things better".[58] Professor Wenban-Smith said that, without road pricing, the main outcomes would be additional traffic and a more dispersed population.

> Eddington's priorities were [...] made in the context of road-user pricing being part of the package. [..] Without road-user pricing, his priorities would inevitably lead to more congestion as people take advantage of the additional road space to spread themselves further over the landscape.[59]

37. The removal of road pricing from the policy mix is perhaps the most significant change since the Eddington Transport Study was published. The DfT has not explained the full implications of removing this policy option for Eddington's conclusions or for the new Government's strategic policy framework and they remain unclear.

Calls for clarification

38. Given the priority that the Government has placed on transport investment to support economic growth, the lack of an explicit policy framework was a concern raised by a number of witnesses to our inquiry. Mr Michael Roberts, Chief Executive of ATOC, said:

> The Committee may therefore wish to consider whether the time is approaching when Government needs to re-state its overall strategy for transport [...] Much of the focus of Government policy since the General Election, for understandable reasons, has been driven by the need to tackle the public spending challenge. The need now is to build on that and develop a clear narrative which takes stock of developments since Eddington and shows how Government policies towards different transport

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[56] Q 499

[57] For example, ATOC (Q413) and the RAC Foundation (Q453)

[58] Ev 176

[59] Q 3

> modes are "joined-up" in promoting economic growth, social progress and environmental improvement. Far from being an academic exercise, this is essential in ensuring there is a coherent framework within which the private sector among others can play a full and effective part in delivering Britain's transport needs.[60]

39. Professor Glaister, when asked about the RAC Foundation's priorities for transport investment, expressed a similar view:

> The top priority for me is stepping back and forming a coherent view about what the problem we are trying to solve is and then assessing the proposals that are on the table against those objectives.[61]

Representatives of the aviation and tourism industries were particularly critical of the Government's lack of strategy with regard to aviation,[62] despite the praise for the economic benefits of UK aviation from transport ministers[63] and the Prime Minister's call to boost the UK's attractiveness as an international tourist destination in order to create jobs and to rebalance the economy:

> Tourism is a fiercely competitive market, requiring skills, talent, enterprise and a government that backs Britain. It's fundamental to the rebuilding and rebalancing of our economy. [...] The UK has fallen from sixth to eleventh place in the World Economic Forum's Travel and Tourism Competitiveness Ratings between 2008 and 2009. I want to see us in the top five destinations in the world. But that means being much more competitive internationally.[64]

Organisations outside London were concerned about the impacts on international investment in the regions as a result of the limited and reducing number of services to Heathrow from airports within the UK. Investments in international gateways have been shown to have some of the highest economic BCRs, with benefits exceeding costs by average ratio of six to one.[65] The closure of London Heathrow airport during the severe weather in December 2010 showed the vulnerability of the UK's international connections, with consequent impacts on businesses and passengers.

40. Much investment in transport, particularly in ports and airports, is promoted and funded by the private sector. Many witnesses from the business community were anxious to see greater clarity and stability in the planning system. A system of national policy statements was introduced under the Planning Act 2008 to increase certainty regarding the development of nationally important infrastructure, including transport. Although the Government has said that national policy statements are of great importance, the national policy statement for ports remains in draft and the Government has said that it will not

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[60] Ev 259

[61] Q 432

[62] Q 403 [Mr Buck]

[63] Rt Hon Theresa Villiers MP, speech at Transport Times conference (A new strategy for Aviation), London, 26 January 2011

[64] The Prime Minister's speech on tourism, 12 August 2010, central London

[65] Eddington 2006, p 35

issue a national policy statement for airports, as planned by the last Government.[66] The Minister has confirmed that the Government intends to "take the process forward with Parliament before the summer recess."[67]

41. **It is disappointing that the UK's international gateways—major ports and airports—do not feature more prominently in the Government's strategy for transport and the economy. We call on the Government to clarify how it intends to address the needs of businesses for increased international connectivity, in London and the regions.**

The case for a new Transport White Paper

42. The links between transport investment and economic growth are varied and complex. Improved transport can improve business efficiency, stimulate investment, increase employment opportunities and provide access to new markets. Eddington's analysis and broad conclusions were generally endorsed by witnesses to our inquiry. The Government has rejected some of his key recommendations and it has not published any alternative analytical framework or assessment of how it will deliver its economic objectives. As such, the Government lacks a coherent policy framework in the very area in which the Government claims to be concentrating its efforts and resources. The continued delay in producing national policy statements for transport widens the policy gap. The January 2011 White Paper *Creating Growth, Cutting Carbon*[68] related only to the £560m Local Sustainable Transport Fund.

43. **The Government must explain the nature of the economic solutions that it is seeking to deliver through transport spending and how the schemes that it is supporting will achieve these aims. A detailed set of objectives and a robust analytical framework are required against which proposals can be assessed. Large sums of money are involved and difficult choices have to be made. We recommend that a White Paper be published, clarifying the Government's objectives for *all* transport spending and the criteria it will use for deciding between different claims on the available resources.**

[66] Rt Hon Eric Pickles MP, HC Deb, 20 December 2010, col 142WS. See also Department of Communities and Local Government, *Major infrastructure planning reform: Work plan*, 20 December 2010

[67] Letter from Mike Penning MP, Parliamentary Under Secretary of State, to Louise Ellman MP, Chair of Transport Select Committee, 1 February 2011

[68] DfT, *Creating Growth, Cutting Carbon*, Cm 7996, January 2011

3 Spending priorities

Support for investment in transport

44. Real levels of transport spending increased substantially over the past 10 years. Chart 1 below shows how UK transport spending—capital and resource, at all levels of government—more than doubled, rising from £11.2 billion in 1999–00 to £23.1 billion in 2009–10 (at 2009–10 prices). Chart 2 shows a similar picture for spending in England only.[69]

45. Despite these substantial spending increases, many witnesses referred to a legacy of under-investment, raising questions over past approaches to the economic co-ordination problem as it applies to transport. Councillor Jon Hunt, Chair of Centro, for example, described the extensive and "pressing" needs of the West Midlands area.[70] In addition, one investment often generates further demands.[71] For example, it was argued that in order to achieve the full economic benefits from HS2, enhancements to regional rail services in the West Midlands and Yorkshire would be required.[72]

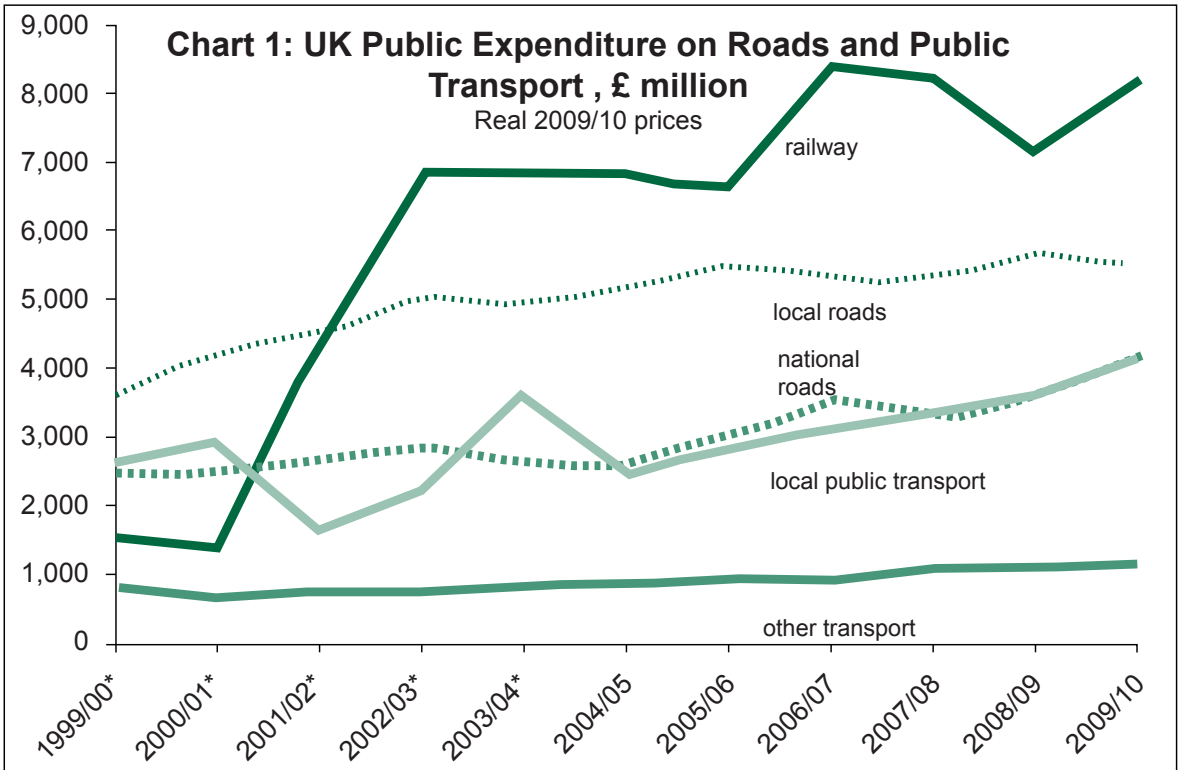
46. Table 1 shows the DfT's budget over the Spending Review period. As we have noted, the Department secured a better settlement than the average funding outcome across Government but the list of transport needs and potentially worthwhile schemes presented to us would add up to a great deal more than current funding limits. Demand will always outstrip the funds available: so long as major projects are funded centrally, government has to choose between competing projects. We sought to establish if spending priorities could be identified.

[69] Earlier data for England are not available at this level of detail.

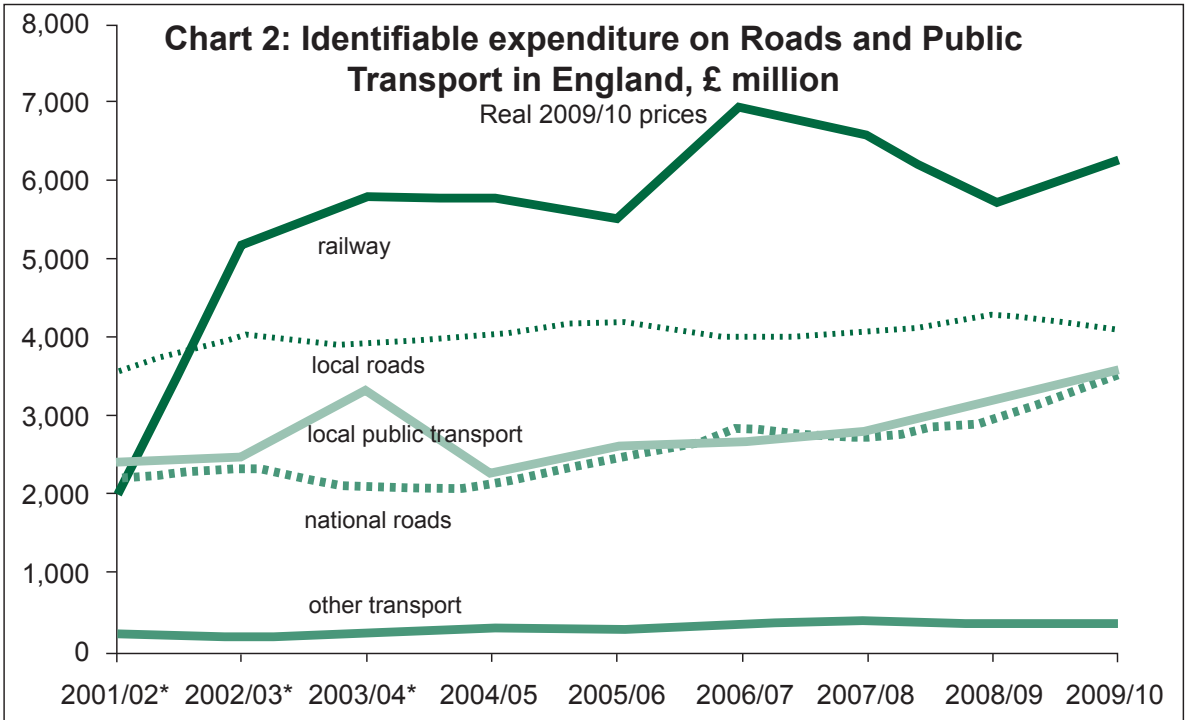
[70] Q 167

[71] We drew attention to this issue in a Transport Committee, Priorities for Investment in the railways, Third Report of session 2009-10, HC 38, 15 February 2010, p 13.

[72] Q 109



* Prior to 2004/05 information is taken from different editions of PESA. Information may not be fully consistent across editions of PESA due to changes in classifications and coverage



* Prior to 2004/05 information is taken from different editions of PESA. Information may not be fully consistent across editions of PESA due to changes in classifications and coverage

Table 1. 2010 Spending Review, Department for Transport capital and resource budgets

(nominal expenditure)	2010/11 (Baseline)	2011/12	2012/13	2013/14	2014/15	2010/11 – 2014/15 % reduction[2]
Capital (£m)[1]						
National roads	1,571	1,244	921	877	1,041	
Rail	3,778	4,109	4,896	4,662	4,532	
Local government funding:	1,618	1,554	1,503	1,465	1,664	
of which:						
Local sustainable transport fund	n/a	30	40	60	80	
Maintenance	871	806	779	750	707	
Integrated Transport Block Grant	450	300	320	320	450	
Major local enhancement schemes	199	418	364	335	427	
London Transport grants	n/a	424	352	184	0	
Other programmes	719	400	410	292	281	
of which:						
Regional growth fund	n/a	165	100	-	-	
Capital Total	**7,686**	**7,731**	**8,082**	**7,480**	**7,517**	
Resource (£m)						
National Roads	1,124	1,118	1,016	998	947	-23%
Rail	-337	-87	-247	-483	-435	n/a
Local government funding[3]	473	378	401	413	420	-28%
of which:						
Local Sustainable Transport Fund	n/a	50	100	100	100	n/a
Transferred to CLG formula grants[3]	n/a	303	276	288	295	n/a
Local Private Finance Initiative	170	195	239	311	320	71%
London transport grants	2,764	2,804	2,803	2,699	2,404	-21%
of which:						
General TfL grant	1,934	1,943	1,922	1,795	1,517	-28%
Investment grant	892	861	881	904	928	n/a
Other programmes	1,091	1,007	907	1,131	884	-27%
of which:						
Regional Growth Fund	n/a	-	-	200	-	
Departmental Administration	295	272	252	233	216	-33%
VED Collection & Enforcement[5]	191	189	190	191	191	-9%
Resource Total	**5,141**	**5,299**	**5,033**	**4,971**	**4,436**	**-21%**

Notes:
[1] The Government's spending review process allocated capital according to a bottom-up appraisal methodology; baselines for 2010/11 for individual programmes are therefore estimates and inflated baselines for subsequent years are not available. Therefore savings against baseline do not apply.

[2] % reductions compared to the 2010/11 baseline adjusted for inflation

[3] These payments transfer to DCLG budgets and are therefore not included in DfT's total Departmental Expenditure Limits. The baseline includes funding for demographic pressures on Concessionary Fares in later years
Source: Transport Spending Review Press Notice, Department for Transport, 20 October 2010.

Identifying priorities

Strategic economic priorities

47. There was a general consensus that the three broad strategic economic priorities (urban, inter-urban and international gateways) identified by Eddington remained relevant. The Government's position on these priorities was much less clear and the Minister declined explicitly to endorse Eddington's priorities. The DfT's written evidence was sparse on the question of priorities, referring only to the Spending Review and broad principles such as reducing the deficit and cutting waste. We probed our witnesses as to whether specific types of transport scheme (by mode, size, location etc.) could be identified as more likely than others to serve the objective of growth and decarbonisation.

48. Professors Tomaney, Wenban-Smith and Goodwin all argued that the best long-run investments were in urban schemes, although public transport schemes did not always perform well on the DfT's appraisal criteria. Professor Goodwin also claimed that small-scale projects tended to have the best economic returns, a point endorsed by the Local Government Officers Technical Advisers Group and others.[73]

Location

49. Professor Tomaney argued that the economic recession had had a bigger impact in the north than in the south and that this should give rise to new priorities, particularly in favour of increased urban public transport schemes within and between the cities of the north in order to boost their capacity for economic growth.

50. Transport spending—capital and resource combined—per head in London in 2008–09 was over twice the average for England and almost twice the UK average (Table 2). London has enjoyed substantially higher levels of transport capital investment than other parts of the country, increasing by 44% between 2004–05 and 2009–10, faster than all other parts except Scotland and the east of England. This trend looks set to continue, with major investments in Crossrail (£15 billion), Thameslink (£5.5 billion) and the Tube upgrades (£6 billion).[74] The higher levels of transport capital investment in London were offset somewhat by slower growth in resource (revenue) support.

51. Of course, London's transport network serves not only Londoners but also large numbers of tourists, commuters and others from outside London; passenger numbers are expected to grow substantially in the near future. Transport for London emphasised to us the high economic returns achieved by investment in London's transport system and the contribution that this makes to the UK economy. The Northern Way, however, challenged some of the assessments by London First (cited by Transport for London) and argued that investment in schemes in the north of England could produce equal or higher returns, as demonstrated by the strategic highway schemes which the DfT has agreed to fund. The Northern Way also pointed to the significant increase in demand for rail services in the north and lower capital costs for rail schemes outside London.[75]

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[73] Ev w27

[74] We cited similar figures, provided by pteg, in the appendix to our earlier report, Transport Committee, *Priorities for investment in the railways*, Third Report of Session 2009-10, HC 38, February 2009.

[75] Q 311

Table 2: Identifiable UK expenditure on transport by country and region

	Transport expenditure				of which: capital		
	2004–05 outturn (£m)	2008–09 outturn (£m)	2008–09 per head, indexed[1]	% change 2004/05 – 2008/09	2004–05 outturn (£m)	2008–09 outturn (£m)	% change 2004/05 – 2008/09
2009/10 prices							
North East	516	613	70	19%	263	326	24%
North West	1,918	2,004	86	4%	863	1,039	20%
Yorkshire and the Humber	1,010	1,312	74	30%	482	676	40%
East Midlands	948	1,001	67	6%	457	575	26%
West Midlands	1,370	1,423	78	4%	629	788	25%
East	1,108	1,424	73	29%	628	973	55%
London	4,453	4,962	192	11%	2,140	3,039	42%
South East	2,198	2,437	86	11%	1,350	1,726	28%
South West	1,063	1,253	71	18%	538	708	32%
England	14,585	16,430	94	13%	7,350	9,850	34%
Scotland	1,825	2,772	158	52%	835	1,232	47%
Wales	912	1,074	106	18%	365	504	38%
Northern Ireland	378	548	91	45%	128	274	113%
UK identifiable expenditure	17,699	20,824	100	18%	8,679	11,859	37%

Notes:

[1] UK identifiable expenditure = 100

Source: Table 9.8e and 9.16 PESA 2010; HM Treasury GDP Deflator

Transport modes

52. There was a general view that a 'balance' of investment in different transport modes was the best strategy although witnesses were not in clear agreement about the 'correct' balance. As noted earlier, organisations representing business were in favour of more transport investment for all modes and reluctant to express negative views about any particular mode. However, the Federation of Small Businesses was clear that, for the majority of its members, the priority was to improve the road network, with rail and air improvements relevant only in some locations. We were struck, however, by the evident support by the business community in Birmingham[76] for public transport enhancements—mainly but not exclusively to rail—suggesting that businesses as well as local authorities in major cities see public transport as the long-term priority for city centres.

53. Despite the fact that twice as many journeys are made by bus as by rail each year, buses featured much less frequently in the answers from our witnesses. Much of this may be due to the fact that bus services depend on resource spending and operational subsidy, and not on capital investment decisions by government. The 20% reduction in Bus Service Operators Grant (BSOG), combined with a tightening of concessionary travel reimbursement rules and reductions to local authority formula grant, was a serious concern to the bus industry, local authorities and passenger groups. We are investigating the impact of these changes in our inquiry into the funding of bus services.[77]

54. The freight sector, also easily overlooked in discussions of priorities but so important to the UK economy, requires a mix of investments to improve its efficiency and capacity. Mr Gazzard, representing the Chartered institute of Logistics and Transportation UK, described the high impact that some relatively small interventions could have, for both road and rail freight. He suggested that the rail freight network could be "transform[ed] for £200 million."[78] Ms Lindsay Durham, Head of Rail Strategy at Freightliner, explained that the priority for rail freight was improved rail connections to the major ports, particularly Felixstowe and Southampton. She favoured selective improvements to existing lines.[79] When asked about the possibility of a dedicated freight route from the Channel Tunnel to Glasgow linking all the main conurbations of Britain and capable of carrying full-scale lorry trailers on trains, the Secretary of State said he was "very happy to consider any proposals and particularly innovative proposals, innovatively financed, will certainly be considered, yes."[80]

55. Professor Overman recommended against over-committing to one particular mode or particular type of scheme. He recommended that the emphasis should be on *how* schemes were appraised and selected. Different areas required different solutions and local circumstances were extremely important. Broad statements about the merits of, say, road versus rail were not always helpful in making spending decisions. Each proposal should be

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[76] Qq 210, 254

[77] Transport Committee: Inquiry into bus services after the spending review. The first oral evidence session was held 25 January 2011.

[78] Q 419

[79] Qq 210-226

[80] Transport Committee, *Secretary of State's priorities for transport*, Transcript of oral evidence, 26 July 2010, Q 39

assessed on its merits. For example, whereas there is considerable scope for increasing the share of freight that is carried by rail, we heard how the nature of the container traffic at the Port of Hull did not make rail an attractive option for some of this business.[81]

56. For the first time, 'alternatives to travel' have been included in the portfolio of a transport minister.[82] Oxfordshire County Council challenged 'civil service silos' to alleviate transport problems by promoting a network of high-speed broadband across the country.[83] The Transport Planning Society and the Local Government Technical Advisers Group advocated greater priority for electronic communication, smarter choices and behaviour change measures.[84]

Within modes

57. Priorities tended to be clearer within modes. The aviation industry, beyond its concerns about the constraints on airport capacity in the south east, was concerned about the impacts of increased air passenger duty (APD), visa costs and delays to international passengers at UK Border Agency control points. The Northern Way concluded that adjustment to APD was the most viable public policy lever available to the Government to support services from regional airports and urged the Government to consider regionally-banded rates of the duty.[85] The DfT, in conjunction with other government departments, is addressing issues relating to the quality of the passenger experience. Mrs Villiers also told us that ministers were providing analysis to the Treasury on the impacts of APD on transport demand but she would not share with us the Department's views.

58. The Association of Train Operating Companies (ATOC) emphasised that its first priority is investment in the existing rail network, particularly improvements to line speed (which help generate revenue) and measures to reduce overcrowding. ATOC supports long-term expansion of the network, including high speed rail, but it is concerned that an enlarged network might not be affordable.[86]

59. There did not appear to be a single priority for roads. There were calls for investment in new highway schemes within and between urban areas, and for an increased focus on maintenance of existing roads. Businesses and local authorities in Hull argued strongly for an improvement to a major road (A63 Castle Street) to reduce delays for port traffic and to reduce the severance that the existing road created between the city centre and the waterfront. Norfolk Chamber of Commerce advocated dualling of the A11 (a scheme approved in the Spending Review) and the Northern Distributor Road, i.e. road enhancements within and between urban areas.

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[81] Q 142

[82] The Under Secretary of State, Norman Baker MP

[83] Ev w88

[84] Ev 187 and Ev w27

[85] Mr John Jarvis, Northern Way, speech at Transport Times conference (A new strategy for Aviation), London, 26 January 2011

[86] Q 412-3 and Ev 259

60. The local authority Association of Directors of Environment, Planning and Transport (ADEPT)[87] told us that maintenance of existing assets—roads, traffic control systems, etc.—was the current priority for many local highway authorities and felt that maintenance had been underplayed in the Eddington Transport Study. Oxfordshire County Council said that, due to the spending squeeze, almost all its highways capital funds were being allocated to highways maintenance.[88] Local roads are of crucial economic importance.

Priorities depend on circumstances

61. Given the complexity of our transport system and the diversity of circumstances across the country, it is no surprise that a nationally-applicable hierarchy of priorities between or within scheme types cannot be identified. There needs to be a broad policy framework to guide and coordinate strategy within and across areas and modes. Within this framework, priorities need to be determined and decisions made at the appropriate level: locally or regionally, and only in limited cases by central government. We note the calls for local authorities, or groups of authorities, to be given greater control over transport budgets and spending decisions. Dr Marsden and Professor Mackie endorsed these calls, suggesting that the threshold for government approval of schemes should be raised from £10m to £100m. These calls seem to be in keeping with the Government's overall approach to devolving responsibilities and reducing micro-management of local authorities. Such a high threshold would, however, exceed the transport spending of many local authorities and might require the establishment of robust sub-national groupings of local authorities—something we consider in Chapter 5.

62. **No one mode or one type of scheme is the answer to promoting economic growth in every part of England. National government is not well placed to decide what is best for a local area. We support the moves towards increased local control of budgets and decision-making and recommend that the Government consider raising the threshold for government approval and appraisal of transport schemes.**

Financial arrangements and distortions

63. The types of scheme that are promoted and approved depend not only on needs and benefits but also on institutional and funding arrangements. The existence of separate funds, their criteria, the division between capital and resource (revenue) expenditure, and mismatches between scheme funders and promoters can all affect the prioritisation process.

Greater flexibility and certainty

64. The Government says that it "will no longer micromanage local authorities by dividing their funding into numerous complex streams".[89] It has reduced the number of grant streams for transport-specific projects to four main sources:

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[87] Formerly the County Surveyors Association

[88] Ev w88

[89] DfT, *Business Plan 2010-11*, November 2010, p 4

- Major schemes (capital);
- Highways maintenance (capital);
- Small transport improvement schemes (capital), and
- Local Sustainable Transport Fund (capital and revenue).

All other revenue grant will be paid via the Department of Communities and Local Government's Formula Grant mechanism.[90]

65. The Government has also introduced greater flexibility of spending for local authorities through a reduction in ring-fencing in local government grant. In principle these simplifications allow those closest to the situation greater flexibility, certainty and ability to determine their own priorities. However, some areas of local government spending are still ring-fenced, such as schools and education transport. Within the context of an overall reduction in local authority grant of 28%, the impact of the flexibility may be felt most heavily on other areas, including transport. ADEPT suggested that, amongst other impacts, cuts of 50% in rural bus services could result.[91] It also pointed to the potential "vicious circle" of increasing costs and deteriorating road conditions if insufficient sums were spent on preventative maintenance.[92]

66. Local government is seeking even greater local control of budgets, including those for transport. Mr Geoff Inskip, Centro, insisted that the West Midlands was not seeking more government money but greater control over the amount it was allocated—a single funding pot.[93] The advantages would be greater certainty of funding, local flexibility, and a confidence in timescales that would make it easier to attract private sector funding.[94]

Small schemes

67. The Government has introduced a Local Sustainable Transport Fund worth £560 million over four years, from which £80 million will be available in 20011/12 to local authorities through a competitive bidding process. This will comprise both capital and resource funding.[95] The resource funding is recognised to be vital for these types of scheme. Keith Buchan, Transport Planning Association Director, made the point that packaging these schemes into a single fund should help to demonstrate that, taken together, small-scale schemes can have a sizeable impact.[96] In the light of the evidence that we received endorsing the economic benefits of small schemes, this is to be welcomed.

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[90] *Local Transport Today*, 29 October 2010, p 5

[91] Q 454 ff

[92] Ev 151

[93] Q 183

[94] Q 189

[95] *Local Transport Today*, 24 December 2010, p 3

[96] Q 378

68. Nonetheless, witnesses expressed concerns that the overall level of resources for small scale, high value schemes was being reduced disproportionately.[97] The Local Sustainable Transport Fund needs to be seen in the wider context of cuts to funds that would previously have resourced these types of scheme. These include the Integrated Transport block grant (down from £450 million in 2010/11 to £300 million in 2011/12),[98] grants previously administered by Cycling England and the 28% reduction in local authority formula grant.

69. The initial impact of the Government's cutbacks in transport funding seems to be that small schemes, such as sustainable travel plans, are being reduced disproportionately, despite their high benefit to cost ratios. Cuts to travel planning staff have been amongst the first to be implemented by local authorities.[99] As noted above, some local authorities are focusing resources on maintenance.

70. **It seems likely that, despite their often high benefits, small schemes, including sustainable transport schemes, may be cut disproportionately as a result of the new transport funding arrangement. We will be watching to see whether the Local Sustainable Transport Fund reverses this trend. Road maintenance—a spending area where short-term cuts can increase long-term term costs—is also of concern.**

Local contributions

71. The financing arrangements and disparities between who pays for transport projects and who benefits can also influence the priorities of transport bodies. Excluding expenditure on rail, most funding for transport is raised by central government and spent by local government. As Professor Overman explained, these factors can distort the decision-making process:

> If you are Manchester, Leeds and Birmingham local authorities I can see why you think that HS2 is a fantastically good idea. If we think about where the benefits of that are going to be, they are going to be in those areas, whereas at the moment how we are going to pay for it is left rather vague. I assume potentially quite a lot of this will come from public expenditure; whereas, if you think about the intra-urban schemes, a much larger chunk of this potentially falls on the local authorities affected. That provides a skew on decision making that is more general.[100]

72. A system where all relevant stakeholders, including the tiers of government and the private sector, contribute to scheme costs might remove some of the distortions. Professor Wenban-Smith outlined the situation in Germany where federal, state and local authorities jointly funded schemes. In his view, this was a better arrangement. The DfT's policy has been to require local authorities to contribute 10% of scheme costs. Some local authorities have recently offered to meet a higher percentage—up to 40%—for schemes in the

[97] Q 450 [ADEPT] and Ev w27 [TAG]

[98] *Local Transport Today*, 24 December 2010, p 3

[99] *Local Transport Today,* 23 July 2010, p 1

[100] Q 24

development pool.[101] This may reduce the distortions described above although it may also place those authorities unable to make higher contributions at a disadvantage.

Capital-resource spending balance

73. HM Treasury distinguishes between resource (current) expenditure and capital expenditure (investment). Resource expenditure is deemed to provide no tangible lasting asset; capital expenditure, by contrast, results in a lasting asset that yields benefits over an extended period. For example, road safety publicity would be classified as resource expenditure whereas the installation of a new pedestrian crossing would be classified as capital.

74. The view of witnesses to this inquiry was that the distinction between capital and resource spending—while understandable—could function in an arbitrary way and should be as flexible as possible. Large capital schemes often need to be accompanied by activities that require resource expenditure, and projects funded from resource budgets could have high and lasting benefits and be introduced more quickly than capital projects. Hull City Council warned against the dangers of investing in capital schemes without adequate resource funding support:

> There would also be little point in delivering expensive capital schemes if insufficient revenue were then to be available to cover running costs as is likely to be the case with prestige public transport schemes and has historically been the case with the Humber Bridge.[102]

[101] *Local Transport Today*, 24 December 2010, p 1

[102] Ev 231

4 Appraisal and decision-making

Overall process

75. Major transport schemes promoted by local authorities and the Highways Agency would normally be funded by central government. The Secretary of State for Transport decides whether or not to approve funding for such schemes on an individual basis.[103] Part of the decision-making process involves a detailed appraisal of the proposed scheme using an approach specified by the DfT. As there are far more proposals for transport investment than funds available, the appraisal and decision-making processes are critical.

Appraisal

UK transport appraisal

76. The economic appraisal of transport projects in the UK is now approaching its 50th birthday.[104] Over these years, cost-benefit analysis has been developed to assess the general economic welfare costs and benefits of transport schemes. This assesses the impacts of a broad range of factors, including travel time savings, safety and the environment, by converting them to monetary values. The methodology has traditionally concentrated on impacts that are relatively direct and measurable, such as travel times, but it has increasingly incorporated wider impacts, such as carbon emissions.[105]

77. It has long been recognised that the wider impacts of transport on the economy, such as the agglomeration impacts described in Chapter 2, could be important. However, these were difficult to determine accurately and have not always been well represented in appraisal.[106] The issue was revisited most recently by the Eddington Transport Study.

New Approach to Appraisal

78. The DfT requires major scheme proposals to be assessed using the New Approach to Appraisal (NATA), a sophisticated method based on cost benefit analysis. NATA was introduced in 1998 to provide more consistent appraisal of public and private transport schemes, and a balanced assessment of economic and environmental benefits, to assist with decision-making within and across modes.

[103] A separate approval is required for planning permission.

[104] Coburn, Beesley and Reynolds, *The London-Birmingham Motorway, Traffic and Economics*, Road Research Laboratory Technical Paper 46, HMSO, 1960

[105] MacKie, P, *Cost-Benefit Analysis in Transport: A UK Perspective*, *OECD/ITF Joint Transport Research Centre Discussion Papers*, No. 2010/16, 2010

[106] Sir George Leitch (Chairman), *Report of the Advisory Committee on Trunk Road Assessment*, HMSO, 1978

Criticisms of NATA

79. Despite its sophistication, NATA is not without its critics, including two current transport ministers (Minister of State, Mrs Theresa Villiers MP and Under-Secretary of State, Norman Baker MP) when in opposition. The Coalition Agreement included a commitment to reform the decision-making process and the DfT Business Plan says that the DfT will:

> reform the way that transport projects are assessed and funding prioritisation decisions are made so that the benefits of low carbon proposals are fully recognised. [It will] Review and revise DfT guidance on appraising projects; [and] Review and revise DfT processes for assessing schemes and supporting Ministerial decisions.[107]

The DfT's Chief Economist (Tera Allas) said that the department had a rolling programme of improvements to NATA.[108]

80. Various criticisms and concerns were expressed in the course of our inquiry. The Royal Town Planning Institute and Transport Planning Society described the existing methods for assessing and prioritising proposed schemes as unsatisfactory and called for a fundamental overhaul.[109] Amongst the criticisms that witnesses made were:

- NATA does not clearly identify or fully calculate the impacts of schemes on the "real economy". If the priority is to use transport investment to support an economic recovery, i.e. to use investment as a stimulus measure, then, in the view of various organisations, it would be useful to have specific information on the expected economic returns from investment, as well as on the general welfare returns. [110]

- The wider economic impacts (WEI) are still not fully included. The DfT amended NATA in 2010 to allow inclusion of some WEIs which are clearly additional to the conventional benefits of time savings. This has considerably increased the estimated benefits of some schemes. For example, the benefits from Crossrail have increased from £20 billion over 30 years to £50 billion over 60 years. However, some witnesses wanted to see the evaluation broadened further. Questions also remain over the accuracy of the approach used to estimate WEIs.

- Regeneration impacts—which are additional to WEIs—are not included. These impacts are harder to define and vary by location and scheme type. They may include jobs created, improved physical environment, improved image, increased confidence in an area and impacts on the attitudes of businesses and investors. The Government's 'economic rebalancing' of the north and south would also fall—at least partly—under this heading. In the view of some of our witnesses, such as Professor Wenban-Smith, these were amongst the most important impacts and needed to feature much more prominently in the appraisal.

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[107] DfT, *Business Plan 2010-211*, November 2010, Action 3.1, p 9

[108] Q 559 and Ev 252

[109] Ev 163

[110] Ev w109

- The main economic benefit from many schemes is made up of small time savings to many drivers and passengers over a long period.[111] It is not clear if these small time savings are converted into productive economic benefits and some witnesses said that they should be given less weight within the appraisal. The DfT intends to amend NATA so that small time savings will be identified separately so that ministers can see to what extent the appraisal of a scheme depends on this component.

- Redistribution impacts amongst different areas and income groups are not assessed. According to the Northern Way, redistribution effects were probably stronger than local productivity gains.[112] For large schemes these may be substantial. Mr Malcolm Griffiths of Bluespace Thinking consultancy said that these impacts had not been officially calculated in relation to HS2.[113]

- Some argued that the price of carbon used in NATA is too low, thereby undervaluing impacts on climate change and schemes that may reduce carbon emissions.[114] The DfT says it has increased this to reflect the latest advice from the Department of Energy and Climate Change.

- That the whole process was too technical—a "black box"—with too many factors reduced to a monetary value. As such, there was a danger that too much emphasis was placed on the BCR result without a clear understanding of what it comprised.

In defence of NATA

81. NATA also has its strong supporters, some of whom saw the various criticisms as misplaced and changes as unnecessary or unhelpful. Chris Riley, for example, addressed many of the criticisms. [115] There was concern that the appraisal process was now mixing carefully-defined, tangible factors, such as time savings, with WEI factors that were much more complex, harder to measure and poorly understood. There was also the concern that including these wider impacts might involve double counting.

82. Dr Marsden and Professor Mackie were against separating benefits to the economy from other benefits, such as safety and the environment, and implying that the former were somehow of greater value. Dr Adrian Davis, representing the Directors of Public Health in the West of England Partnership Area, said that the economic costs and benefits on public health should be fully included. The cost to the NHS of inadequate physical activity was approximately £9 billion per annum and encouraging active travel was one of the most cost-effective means to promote physical activity.

[111] Ev 208, Ev 163 and Ev w27

[112] Ev 156

[113] Ev 247

[114] Ev 208

[115] Ev 237and Ev 131

83. The Secretary of State for Transport said the DfT was unique in Whitehall in having such a sophisticated economic appraisal tool and described how he had been able to use it to good effect in discussions with HM Treasury leading up to the Spending Review.[116]

Non-trivial sums

84. During our inquiry we were given examples of projects with very large projected economic benefits. Some of these were calculated using NATA, and some using alternative methodologies. For example:

- Crossrail—£50 billon over 60 years according to the DfT;[117]
- Tube upgrades—£36 billion over 60 years (Transport for London);[118]
- Removal of tolls on the Humber Bridge—£1.1 billion by 2032 (North Lincolnshire Council);[119]
- HS2 plus regional rail enhancements—£1.5 billion per annum in the West Midlands (Centro), [120] and
- The Northern Way said that the total wider economic impacts of HS2 (London to Leeds and Manchester via Birmingham) had been estimated at £13 billion over 60 years, including £5 billion in the North.[121]

Mr Griffiths pointed out that the basis for such figures is not always clear and that the figures are not always cited consistently. Figures for the same scheme sometimes differed widely.[122] Other witnesses said that some claims were overly optimistic and hard to substantiate.[123]

85. We endorse the need for a rigorous appraisal process to inform the decision-making process. Without objective appraisal, decisions would have to be taken purely on qualitative grounds. The economic benefits from some transport schemes are very large and justify the large amounts of public investment in transport. It is important, however, that the appraisal is credible and consistent so that decisions can be made objectively. It is clear that the links between transport and the economy are complex and that the wider economic benefits, though much cited, are not always well specified or understood.

86. **Although the DfT says that economic appraisal is only one part of the decision-making process, it is clear that considerable importance is attached to its outcome—**

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[116] *Local Transport Today*, 12 November 2010, p 5

[117] Ev 252

[118] Ev 121

[119] Ev 233

[120] Centro, *How HS2 will transform the West Midlands*, August 2010, (Based on a study by KPMG.) http://www.centro.org.uk/rail/HighSpeed2.aspx

[121] Q 327

[122] Ev 247

[123] Q 54 [Goodwin]

particularly the resulting benefit to cost ratio. It is, therefore, important that the process should be as robust and widely-accepted as possible.

87. **The DfT needs to encourage good practice in appraisal so that it makes the right choices about which schemes to support. We recommend that the DfT should provide a formal statement in the appraisal process about the treatment of regeneration benefits; and identify separately the overall the impacts of a scheme on the 'real economy'. In addition, the Department should promote more ex-post research into the wider economic impacts of transport.**

Decision-making process

Policy considerations

88. The DfT has been keen to emphasise that the economic appraisal in NATA is only a tool in the decision-making process. Projects are considered using the Treasury five case model:

- Strategic fit;
- Value for money;
- The ability of the promoter to deliver the project;
- Project affordability and financial stability, and
- Evidence that the project can be satisfactorily procured.

Of these, the assessment of strategic fit is essentially a policy matter, as is the relative weight to be given to each of the five cases. The other cases are more technical in their nature. If they wish to, ministers can consider issues such as regional equity, modal distribution and modal equity (as well as other policy issues such as carbon impact and compatibility with housing policy) when considering the first case i.e. the strategic fit.[124]

89. The value for money assessment—BCR—is an important aspect, which ministers frequently cite when announcing spending decisions.[125] However, decisions are not taken on this basis alone. The Secretary of State for Transport told us that, if they were, almost all funds would go to strategic highway schemes and schemes in London. He explained that various "non-monetised adjustments" were made, including "regional equity" and "modal equity" consideration.[126] [127]

[124] Ev 252

[125] For example, Secretary of State Rt Hon Philip Hammond MP, HC Deb 4 February 2011, col 60WS; and Under Secretary of State Mike Penning MP, HC Deb 27 July 2010, col 201WH.

[126] Transport Committee, Secretary of State's Priorities for Transport, Oral evidence, 26 July 2010, Qq 26, 30

[127] DfT, *NATA Refresh: Appraisal for a Sustainable Transport System*, April 2009, pp 52-57

Regional equity

90. Exactly how the Government applies "regional equity" is not entirely clear. Contrary to a more purist economic approach, the DfT uses a national value of wages in the value for money appraisal, regardless of differences in wages across the regions, otherwise this would "skew investment towards regions with higher average earnings [...] and divert investment from the north to the south east."[128] Beyond this, it would seem to be a matter of ensuring that the distribution of funds appears to be reasonably fair. Whether there is a more rigorous or prescriptive formulae is unclear. It is even less clear how "modal distribution and modal equity" are applied.[129]

91. We asked Mrs Villiers whether the present Government would, in the next few years, seek to redress the imbalance in transport spending between the south-east and the rest of the country. She said:

> We certainly want to be fair between different regions. We also have an overarching policy [...] to try and close the prosperity gap between north and south. One of the ways in which we could do that is by targeting our transport spending on projects which will generate growth in different regions. In the comprehensive spending review process the concerns of different areas of the country were certainly taken on board. There is a tension here in that, very often, the transport projects in London and the south-east can generate bigger benefits.[130]

She emphasised that although London had received substantial funding for several major public transport schemes in the Spending Review, eight of the 14 major highway schemes approved had been in the north, a perspective endorsed by the Northern Way.[131]

The case for greater transparency

92. A number of witnesses, such as the CBI, have commented that the decision-making process requires greater transparency. For example,

> ....there is a lack of transparency as to how the current Department of Transport budget is spent; we are unable to undertake analysis in the way we would to our own business.[132]

Mr Riley said that transparency was one of the most important criteria of a decision-making system. He acknowledged that the present system was reasonably transparent but felt it should go further.[133] The promoter of a scheme is required to publish the business case on its website at the same time that it sends it to the DfT for appraisal. However, Professor Glaister—a seasoned observer of these matters—said that it was difficult to

[128] Ev 252

[129] Ev 252

[130] Q 501

[131] Ev 156

[132] Ev 217

[133] Q 67

compare the assessments of projects across modes.[134] The Northern Way sought to analyse the transport investment decisions announced in the Spending Review and those announced subsequently. It concluded that, it was difficult to compare across modes and between strategic and local schemes, and that there was "little clarity on how issues of regional equity [were or would be] factored into Ministerial decision making."[135]

93. The DfT is not required routinely to publish information about the schemes that it is appraising or the details of its appraisal under the five factors listed above. The BCRs of the Highways Agency managed motorway schemes, approved in the Spending Review, were published on the HA's website, but these details are not readily available for local authority highway schemes or for rail schemes. Details of the other four criteria, such as strategic fit, do not appear to be in the public domain.

94. The DfT has sought to improve transparency in its decision-making process. The Secretary of State recently provided an update on his decisions on investment in highways transport schemes, providing more detail of the schemes under consideration and their value for money appraisal than previously.[136]

95. **Decision-making cannot and should not be reduced to numerical calculation. Value judgements, political considerations and long-term vision are inevitable and proper aspects of the process. We welcome the recent moves by the Secretary of State for Transport towards improving transparency in the decision-making process for transport investment. However, more comprehensive information and greater transparency should be provided in the decision-making process so that both the technical basis and ministerial judgements are explicit.**

[134] Qq 444-445

[135] Ev 254

[136] HC Deb 4 February 2011, col 60WS. The Secretary of State Rt Hon Philip Hammond MP confirmed funding for nine schemes and further consideration of the Mersey Gateway Bridge scheme. Mr Hammond also stated that the DfT had published all the BCRs for schemes under consideration.

5 Local and regional transport planning

The regional level

A decade of regional planning

96. During the past decade, the previous Government established organisations to provide a level of strategic planning, representation and governance between central government and local authorities. In Scotland and Wales most transport functions were transferred to the devolved administrations; and in London many powers to plan and coordinate transport were devolved to the Greater London Authority. In the eight English regions outside London no such devolution occurred but regional bodies and plans were developed, backed with resources to promote regional economic growth. The new Government is in the process of abolishing the regional tier of planning and government in England. We have investigated the broad implications of these changes for transport.

97. Regional spatial strategies were introduced in the Planning and Compulsory Purchase Act 2004, bringing together the former regional planning guidance, regional transport strategies and regional economic strategies. They were intended to bring together strategic transport planning and economic growth plans and the infrastructure that such growth required. Local development frameworks and local transport plans, produced by local authorities, were required to be consistent with regional spatial strategies.

98. A regional funding allocation (RFA) process was introduced, whereby a partnership of local transport authorities, the regional assembly and regional development agency provided coordinated advice to government on their priorities for major transport schemes within each region. This also included Highways Agency non-national trunk road schemes.

99. The RDAs, established in 1998, provided resources—financial, technical and staff—to assist with the regional spatial strategies (which were being prepared by Regional Assemblies) and regional funding allocation and other regional level strategic transport functions. Precise arrangements varied across the English regions. In the north of England the three northern regional development agencies combined to form the Northern Way. Its Transport Compact has undertaken research, planning and lobbying on transport strategy and investment across the north of England. For example, in 2010 it submitted transport priorities for northern regions to HM Treasury as part of the Spending Review process.[137]

Abolition of regional plans and organisations

100. On taking office, the new Government moved swiftly to remove the regional tier of planning and governance. The Government announced that regional spatial strategies had been revoked—although, following a successful legal challenge to the way that this decision was made, regional spatial strategies have been re-instated, for now.[138] Regional

[137] Ev 161

[138] Following a High Court judgement in favour of CALA Homes on 10 November 2010.

government offices are to close from the end of March 2011;[139] regional development agencies have largely ceased to operate and are to be abolished by 31 March 2012;[140] and the local authority leaders' boards (the replacement in 2009 for the regional assemblies) are to lose their statutory functions.[141]

101. The Government has introduced a number of mechanisms to encourage strategic planning including a new duty to co-operate to be placed on local authorities. Recognising that local authority areas are too small for some strategic functions, the Government is promoting Local Enterprise Partnerships (LEPs)—partnerships between local government and business, based "functional economic areas". These are intended to:

> create the right environment for business and growth in their areas by tackling issues such as planning and housing, local transport and infrastructure priorities, employment and enterprise and the transition to the low carbon economy. [142]

LEPs, along with the Regional Growth Fund and other proposals, are intended to underpin future regeneration activity. The Local Growth White Paper said that LEPs would have a transport remit.

102. These changes are part of the Government's localism agenda which aims to decentralise powers to local authorities and communities. The Localism Bill, under which many of these changes will be enacted, was introduced to Parliament in December 2010. The Localism Bill provides the legal basis for the abolition of regional spatial strategies. The Bill does not, however, contain any reference to LEPs as these are not intended to be statutory bodies.

The strategic gap?

103. There was some concern amongst witnesses that aspects of strategic transport planning needed to be undertaken at a scale larger than LEPs and that local authorities and LEPs would not have the capacity adequately to develop regional or cross-regional transport proposals. Merseytravel said that the revocation of the RSS would reduce capacity to plan for larger infrastructure requirements and to balance competing needs within a region. It also suggested that this might lead to neglect of the economically weaker areas within a region.[143] Some aspects of strategic transport planning have evolved on a scale larger even than the outgoing government regions. The Northern Way's evidence suggests that its work at the cross-regional level may have contributed to securing the Government's commitment to the Northern Hub rail scheme[144] and to the relatively favourable decisions on investment in strategic road schemes in the north of England

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[139] Secretary of State for Communities and Local Government, HC Deb, 22 July 2010, col 28WS, confirmed in the 2010 Spending Review

[140] As a result, the future of the Northern Way is also unclear.

[141] The CLG Committee has been undertaking a parallel inquiry into the abolition of Regional Spatial Strategies.

[142] Letter from the Secretaries of State for Business, Enterprise and Skills and Communities and Local Government to local authority leaders and business leaders, *Local Enterprise Partnerships*, 29 June 2010.

[143] Ev w21

[144] The Northern Hub scheme, formerly known as the Manchester Hub, refers to the £530 million Network Rail scheme to increase passenger capacity and relieve bottlenecks on services travelling into and through the Manchester rail network. It is anticipated that funding for the scheme will be include in Control Period 5 (2014-2019).

announced in the Spending Review.[145] Councillor Peter Box CBE, representing the Local Government Association, was more optimistic, however, and told us that the nature of investment had changed and that groups of authorities working together in those areas that have city region LEPs would be able to handle large scale transport schemes.[146]

104. There were also concerns about the loss of capacity as a result of the abolition of the RDA and government regional offices, particularly at a time when local government was experiencing severe cuts in funding. Professor Mackie described it as an "institutional deficit" creating particular difficulties for transport.[147] He said that the English regions would be less able to compete with the devolved administrations in Wales, Scotland and the arrangements in London, leading to imbalances in future funding allocations. Hull City Council raised similar concerns about the loss of regional capacity, particularly in dealings with Network Rail and the Highways Agency, and a reduction in understanding of local issues by the DfT when functions are transferred to its headquarters in London.[148]

105. **We are concerned that the abolition of regional planning organisations and the lack of effective strategies at the regional level, at a time when local authorities have reduced resources, will lead to a loss of strategic transport planning capacity in some of the areas where it is most needed. The risks are that major schemes that cross LEP boundaries, important to the economic development of a region, may not be adequately investigated or promoted and that decisions on scheme prioritisation will have to be made by central government rather than by local organisations which best know the priorities of their area. This may lead to a worsening of regional imbalances and poor decision-making.**

Sub-regional planning

106. Having noted the need for adequate capacity at the regional or inter-regional level, there was wide support for the city region or the journey to work area to be the spatial building block for most transport planning. The LGA criticised "the arbitrary structures of government regions" and supported their replacement by "more meaningful areas defined by LEPs."

> The LGA believes that the sub-region provides the best framework for transport governance, and that such a geography based on labour market areas is essential to move forward.[149]

107. Some areas with strong links to particular cities, such as the areas around Leeds and Manchester, supported the sub-region as the appropriate scale for most strategic transport planning and decision making. The Greater Manchester Authorities said that:

> there is clear evidence [...] that the sub-regions like Greater Manchester act as a 'functioning economic area' in their own right. As such, they provide the optimum

[145] Ev 161

[146] Q 462

[147] Q 154

[148] Ev 231

[149] Ev 221

> spatial scale within which to take effective decisions on trading-off across expenditure areas to maximise local and national economic outcomes.[150]

108. South Yorkshire Passenger Transport Executive also endorsed a sub-regional approach:

> In our experience schemes have always been planned and promoted locally, not regionally. ITAs are well placed to join up planning and decision making previously undertaken by the Regional Spatial Strategies.[151]

109. This view was also supported by local authorities in the south of England, such as Southampton City Council.[152] Professor Vickerman outlined the problem in the south east region where it was "very difficult to take transport decisions" because the region excluded London which was the major driver of economic and transport trends.[153] The Northern Way, however, emphasised that a wider perspective may be necessary, noting that many of the strategic weaknesses in the north's transport system crossed city region boundaries and that the journey to work catchment areas overlapped.

110. Regarding the regional funding allocation process, Geoff Inskip, CEO of Centro, said that

> it was never really regional. It was all really controlled by central government." The appraisal process was "very heavy handed and very much controlled by government. [...] you still had to jump over hurdles and hurdles and hurdles to get release of the funding.[154]

The Transport Planning Society said that the previous regional planning arrangements were not satisfactory and the previous regional funding allocation arrangements had tended to produce lists of local schemes rather than strategic regional priorities. The schemes that the DfT was asked to fund were "a rag-bag of horse-traded individual schemes."[155] The Campaign for Better Transport made a similar point.[156] In response to questioning by our Chair, Louise Ellman MP, during a meeting of the Liaison Committee, the Prime Minister said that

> We are looking to develop less bureaucratic successor arrangements to the previous Government's Regional Funding Allocations for transport. These will give a proper voice to elected local authorities and business interests in scheme prioritisation.[157]

He agreed to take a personal interest in ensuring that regional perspectives and regional prioritisation regarding transport were not lost as a result of the changes.

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[150] Ev w109

[151] Ev w58

[152] Ev w39

[153] Q 482

[154] Q 176

[155] Q 394 [Keith Buchan]

[156] Ev 208

[157] Letter from the Prime Minister to the Chair of Liaison Committee, 29 November 2010

Potential problems with Local Enterprise Partnerships

111. As noted above, the Government is encouraging local authorities and businesses to establish LEPs to support economic regeneration. At the end of 2010, the Department for Communities and Local Government had approved the formation of 28 LEPs, covering 70% of the English population. It is clear from some evidence we received that some organisations wanted and expected LEPs to cover the journey to work area. However, the LEPs approved to date show a wide variety of geographical bases. During our inquiry, we heard from a number of witnesses engaged in trying to establish LEPs. Councillor Box, in his capacity as leader of Wakefield Council, was working with the Leeds city region and an LEP was evolving.[158] Councillor Box emphasised that stability and adequate finance-raising powers, rather than structures, were the key to success so that planning and investment could proceed effectively.[159]

112. Despite support for the concept of planning transport at the journey to work level and a willingness to engage in LEP arrangements, we found problems, uncertainty and concern from both the public and private sectors. In Hull we heard of the difficulties of establishing an LEP for the area. The chief executive of the Hull Chamber of Commerce referred to conflicting guidance from the Department for Business , Innovation and Skills and the Department for Communities and Local Government:

> [...] one or two people may have spotted that we had a small hiccup on the LEPs issue locally, which we are looking to resolve in a multi-tier way. We feel we've all been put on a football pitch with no white lines or goalposts by Eric Pickles and Vince Cable, because the two Departments have differing views themselves. So our business perspective, looking at a pan-Humber model [...] is different from what Eric Pickles has been talking about, which was a, "Run barefoot through the grass and do what you like," sort of approach.[160]

113. The Institute of Directors, though critical of RDAs, was unhappy about the Government's insistence on the abolition of RDAs and the creation of LEPs; it favoured a reformist rather than "abolitionist" approach. It also criticised the lack of powers—particularly as they are not to be statutory bodies—and resources for LEPs.[161] The Campaign for Better Transport and the Directors of Public Health for the West of England were concerned that the LEPs would not be adequate, at least in the interim, and that planning policy risked being fragmented.[162]

114. It would seem that the DfT is not entirely clear about how strategic transport planning is expected to take place or the role of LEPs. In its written evidence to the inquiry, the DfT said:

> Local authorities remain responsible for planning transport priorities and interventions in their areas. [...]. The Department will also be looking to develop

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[158] Q 464

[159] Q 481

[160] Q 138

[161] Institute of Directors, *Big Picture*, Quarter 4, 2010, No 9, pp 51-61

[162] Ev 192

> successor arrangements to the Regional Funding Allocations for transport that, over time, give a proper voice in scheme prioritisation to elected local authorities and business interests. We hope that Local Enterprise Partnerships will have an important role in this.[163]

115. We questioned transport ministers on this. On 26 July 2010, the Secretary of State suggested that the DfT would "need to create appropriate channels" to discuss sub-national funding for transport.[164] In November, he said "by the end of this Parliament, we expect to have developed arrangements for devolving local authority capital, so that decisions about how it is spent can be made sub-nationally". LEPs were "too small on a stand-alone basis to perform a strategic transport function" but "groups of LEPs working together around appropriate geographies would be the right unit with which to engage".[165] In December, Mrs Villiers explained:

> although it may be the end of the Parliament by the time a formal system is set up, that doesn't mean that in the interim we won't be engaging closely with local authorities and LEPs. The worries the Secretary of State has about LEPs at the moment is that they are relatively small geographic units.[166]

We note a recent announcement from the DfT that it now proposes to "ensure a transport presence outside London to continue [its] work with local government and other sub-national strategic interests", to be established before the closure of Government Offices for the Regions.[167]

116. It is clear that LEPs are at an early stage. The remit, powers, resources and governance of LEPs are uncertain. Much work remains for central government, local authorities and the business community to define the role of LEPs and to ensure that they succeed. The situation is made potentially more difficult by the fact that LEPs are not to be statutory bodies, thus reducing the ability of Government to influence their remit and the issues in which they engage. There is also, as yet, no certainty that the whole of England will be covered by LEPs. **We are concerned that the role of LEPs in setting priorities for investment in transport projects is far from clear and may not be resolved until the end of the Parliament. This risks creating a vacuum which could impact on the development of strategic transport schemes, including those that should go forward to the next Spending Review, planned for 2014. We expect the DfT to engage with the Departments for Business, Innovation and Skills and Communities and Local Government to seek to ensure that transport is properly considered in all LEP arrangements and to engage with LEPs in developing the stability needed for transport planning and prioritisation at the sub-national level. We intend to keep a close eye on how LEPs develop and deliver transport planning functions during the course of this Parliament. We urge the Prime Minister to take a personal interest in these issues, as he indicated he would.**

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[163] Ev 228

[164] Transport Committee, Secretary of State's Priorities for Transport, Oral evidence, 26 July 2010, Q 33

[165] Transport Committee, Transport and the outcome of the Spending Review, Oral evidence, 24 November 2010, Q 20

[166] Q 561

[167] DfT, *Newsletter to Local authority Senior Officers*, January 2011, http://www.dft.gov.uk

6 Conclusion

117. The need for transport to play an effective part in supporting and stimulating the economy is great. It is therefore crucial that the Government provides clarity on how this should be achieved so that the most beneficial schemes can be developed and proceed through the decision-making process—whether at local or national level—efficiently and with reasonable certainty.

Conclusions and recommendations

1. We welcome the Secretary of State's focus on using transport to support and stimulate the UK economy and to reduce the economic disparities between different parts of the country and we call on him to explain how his policy will achieve that end. (Paragraph 5)

2. A fundamental conclusion of the Eddington Transport Study was that a comprehensive and efficient transport system was vital to the UK's economy. Despite GDP, traffic volumes and public spending being at levels somewhat lower than Eddington envisaged, it is clear to us that investment in the transport system remains a high priority in order to support economic growth. Congestion on road, rail and air networks remains a major constraint on growth. (Paragraph 21)

3. The Government must ensure that where it approves transport schemes designed to stimulate economic growth and rebalance the economy, they are supported by convincing economic development strategies. For major schemes that the Government is promoting itself, such as High Speed 2, it must work with local and regional bodies to develop effective economic development strategies that integrate with its transport proposals. (Paragraph 31)

4. It is disappointing that the UK's international gateways—major ports and airports—do not feature more prominently in the Government's strategy for transport and the economy. We call on the Government to clarify how it intends to address the needs of businesses for increased international connectivity, in London and the regions. (Paragraph 41)

5. The Government must explain the nature of the economic solutions that it is seeking to deliver through transport spending and how the schemes that it is supporting will achieve these aims. A detailed set of objectives and a robust analytical framework are required against which proposals can be assessed. Large sums of money are involved and difficult choices have to be made. We recommend that a White Paper be published, clarifying the Government's objectives for all transport spending and the criteria it will use for deciding between different claims on the available resources. (Paragraph 43)

6. No one mode or one type of scheme is the answer to promoting economic growth in every part of England. National government is not well placed to decide what is best for a local area. We support the moves towards increased local control of budgets and decision-making and recommend that the Government consider raising the threshold for government approval and appraisal of transport schemes. (Paragraph 62)

7. It seems likely that, despite their often high benefits, small schemes, including sustainable transport schemes, may be cut disproportionately as a result of the new transport funding arrangement. We will be watching to see whether the Local Sustainable Transport Fund reverses this trend. Road maintenance—a spending area

where short-term cuts can increase long-term term costs—is also of concern. (Paragraph 70)

8. Although the DfT says that economic appraisal is only one part of the decision-making process, it is clear that considerable importance is attached to its outcome—particularly the resulting benefit to cost ratio. It is, therefore, important that the process should be as robust and widely-accepted as possible. (Paragraph 86)

9. The DfT needs to encourage good practice in appraisal so that it makes the right choices about which schemes to support. We recommend that the DfT should provide a formal statement in the appraisal process about the treatment of regeneration benefits; and identify separately the overall the impacts of a scheme on the 'real economy'. In addition, the Department should promote more ex-post research into the wider economic impacts of transport. (Paragraph 87)

10. Decision-making cannot and should not be reduced to numerical calculation. Value judgements, political considerations and long-term vision are inevitable and proper aspects of the process. We welcome the recent moves by the Secretary of State for Transport towards improving transparency in the decision-making process for transport investment. However, more comprehensive information and greater transparency should be provided in the decision-making process so that both the technical basis and ministerial judgements are explicit. (Paragraph 95)

11. We are concerned that the abolition of regional planning organisations and the lack of effective strategies at the regional level, at a time when local authorities have reduced resources, will lead to a loss of strategic transport planning capacity in some of the areas where it is most needed. The risks are that major schemes that cross LEP boundaries, important to the economic development of a region, may not be adequately investigated or promoted and that decisions on scheme prioritisation will have to be made by central government rather than by local organisations which best know the priorities of their area. This may lead to a worsening of regional imbalances and poor decision-making. (Paragraph 105)

12. We are concerned that the role of LEPs in setting priorities for investment in transport projects is far from clear and may not be resolved until the end of the Parliament. This risks creating a vacuum which could impact on the development of strategic transport schemes, including those that should go forward to the next Spending Review, planned for 2014. We expect the DfT to engage with the Departments for Business, Innovation and Skills and Communities and Local Government to seek to ensure that transport is properly considered in all LEP arrangements and to engage with LEPs in developing the stability needed for transport planning and prioritisation at the sub-national level. We intend to keep a close eye on how LEPs develop and deliver transport planning functions during the course of this Parliament. We urge the Prime Minister to take a personal interest in these issues, as he indicated he would. (Paragraph 116)

Formal Minutes

Tuesday 15 February 2011

Members present:

Mrs Louise Ellman, in the Chair

Steve Baker	Mr John Leech
Mr Tom Harris	Paul Maynard
Julie Hilling	Gavin Shuker
Kelvin Hopkins	

Draft Report (*Transport and the economy*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 30 read and agreed to.

Paragraph 31 read.

Amendment proposed, in line 24, to leave out from "transport is" to end, and insert "intended to stimulate economic activity, the Government must state clearly who will bear the cost of that transport investment. **The Government must ensure that where it approves transport schemes designed to stimulate economic growth and rebalance the economy it states clearly not just the benefits of the proposal, but also the foreseeable costs and their consequences. For major schemes that the Government is promoting itself, such as HS2, it must elaborate clearly the economic mechanisms by which the claimed benefits will be delivered."**—(*Steve Baker.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 1	Noes, 6
Steve Baker	Mr Tom Harris
	Julie Hilling
	Kelvin Hopkins
	Mr John Leech
	Paul Maynard
	Gavin Shuker

Paragraph agreed to.

Paragraphs 32 to 117 read and agreed to.

Text boxes 1 and 2 agreed to.

Summary agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Written evidence was ordered to be reported to the House for placing in the Library and Parliamentary Archives.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Tuesday 1 March at 10.00 am

Witnesses

Tuesday 19 October 2010

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Professor Henry Overman, London School of Economics**, Professor John Tomaney,** University of Newcastle, and **Professor Alan Wenban-Smith** — Ev 1

Professor Phil Goodwin, University of West of England, **Malcolm Griffiths**, Bluespace Thinking Ltd, **Chris Riley**, Consultant — Ev 10

Tuesday 2 November 2010

Councillor David Woods, Portfolio Holder, Environmental Sustainability, Hull City Council, **Mark Jones**, Head of Economic Development and Regeneration, Hull City Council, **Simon Driver**, Chief Executive, North Lincolnshire Council; and **Jodie Booth**, Transport Planning Manager, North Lincolnshire Council — Ev 17

Matt Jukes, Port Director (Hull and Goole), Associated British Ports, **Malcolm Bingham**, Head of Policy, Yorkshire and the Humber Region, Freight Transport Association, **Dr Ian Kelly**, Chief Executive, Hull and Humber Chamber of Commerce; and **Carole Goodair**, Chairman, East Yorkshire Federation of Small Businesses — Ev 23

Peter Shipp, Chairman and Chief Executive, East Yorkshire Motor Services, **James Adeshiyan**, General Manager, First Hull Trains, **Adam Fowler**, Co-ordinator, Hull Environment Forum; and **Professor Peter Mackie**, Research Professor, Institute for Transport Studies, University of Leeds — Ev 28

Tuesday 16 November 2010

Councillor Timothy Huxtable, Cabinet Member, Transportation, Birmingham City Council, **David Bull**, Assistant Director, Development, Birmingham City Council, **Geoff Inskip**, Chief Executive, Centro, and **Councillor Jon Hunt**, Vice-Chair, Centro — Ev 33

Martin Dyer, Deputy Chair, West Midlands Transport Group, **Lindsay Durham**, Head of Rail Strategy, Freightliner, **John Morris**, Head of Government and Industry Affairs, Birmingham International Airport; and **Richard Winfield**, Principal Consultant, Brefi Group, Birmingham Forward — Ev 40

Nicola Moss, Head of Franchise Management, London Midland, **Martin Hancock**, Marketing Development Director, Business, National Express, **Tim Walley**, Board Member of the Retail Bid and General Manager, Bullring Birmingham; and **Gerald Kells**, West Midlands Regional Sustainability Forum — Ev 46

Tuesday 30 November 2010

Matthew Farrow, Head of Energy, Transport and Planning, CBI, **Matthew Jaffa**, Deputy Head of Policy, Federation of Small Businesses, **David Bishop**, Head of Tourism Affairs, VisitBritain; and **Graham Stevenson**, National Organiser for Transport, Unite the Union Ev 52

Steve Allen, Managing Director, Finance, Transport for London, **John Jarvis**, Transport Director, The Northern Way, **Sir Robin Wales**, Mayor, London Borough of Newham; and **Alison Munro**, Chief Executive, HS2 Ltd Ev 60

Stephen Joseph OBE, Chief Executive Officer, Campaign for Better Transport, **Keith Buchan**, Board Member – Policy Lead, Transport Planning Society, **Dr Adrian Davis**, Public Health support to City Development Bristol City Council, Directors of Public Health for the West of England Partnership Area; and **Joe Rukin**, Convenor, Stop HS2 Ev 67

Tuesday 7 December 2010

Simon Buck, British Air Transport Association, **Michael Roberts**, Association of Train Operating Companies, **Richard Bird**, UK Major Ports Group, and **Nick Gazzard**, Chartered Institute of Logistics and Transport Ev 75

Professor Stephen Glaister, RAC Foundation, **George Batten**, President ADEPT, and **Les Warneford**, Stagecoach Ev 82

Professor Roger Vickerman, University of Kent, **Richard Summers**, Royal Town Planning Institute, and **Councillor Peter Box CBE**, Local Government Association Ev 87

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Rt Hon Theresa Villiers MP, Minister of State, **Tera Allas**, Director and Chief Economist of the Transport Analysis and Economics Directorate, and **Tracey Waltho**, Director of Finance Strategy, Department for Transport Ev 93

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2	Federation of Small Businesses	Ev 109
3	Malcolm Griffiths (Bluespace Thinking Ltd)	Ev 110, Ev 117, Ev 119, Ev 247
4	Transport for London	Ev 121
5	Stagecoach Group plc	Ev 127
6	Dr Greg Marsden and Professor Peter Mackie	Ev 131
7	Unite - the union	Ev 134
8	Professor Henry Overman	Ev 137
9	The Chartered Institute of Logistics and Transport	Ev 139
10	Professor Roger Vickerman	Ev 142
11	UK Major Ports Group	Ev 144
12	VisitBritain	Ev 145
13	ADEPT	Ev 151
14	The Northern Way	Ev 156, Ev 161, Ev 254
15	Royal Town Planning Institute and the Transport Planning Society	Ev 163
16	RAC Foundation	Ev 170, Ev 175
17	Professor Phil Goodwin	Ev 176
18	The Transport Planning Society	Ev 187, Ev 190
19	Directors of Public Health for the West of England Partnership Area	Ev 192
20	British Air Transport Association	Ev 194 Ev 252
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22	CBI	Ev 202
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27	Professor Alan Wenban-Smith	Ev 225, Ev 227
28	Department for Transport	Ev 228, Ev 252
29	Kingston upon Hull City Council	Ev 231
30	North Lincolnshire Council	Ev 233
31	Chris Riley	Ev 237
32	West Midlands Regional Sustainability Forum	Ev 241
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35	Association of Train Operating Companies	Ev 259

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1	Royal Aeronautical Society	Ev w1
2	Richard Starling	Ev w5
3	Derek Halden	Ev w5
4	Liftshare	Ev w6
5	PACTS	Ev w7
6	Transport Research Laboratory	Ev w10
7	Transport-Watch	Ev w12
8	Merseytravel	Ev w21
9	Passenger Focus	Ev w23
10	Local Government Technical Advisers Group	Ev w27
11	Rail Freight Group	Ev w30
12	TravelWatch NorthWest	Ev w33
13	National Alliance Against Tolls	Ev w37
14	Virgin Atlantic Airways Ltd	Ev w40
15	Independent Transport Commission	Ev w43
16	David Simmonds Consultancy Ltd	Ev w47
17	Wharf Weston	Ev w49
18	BAR UK	Ev w55
19	North of Tyne Transport Group (Supported by Inclusion North)	Ev w56
20	Norfolk Chamber of Commerce	ev w57
21	South Yorkshire Passenger Transport Executive	Ev w58
22	Edward A. Gibbins	Ev w61
23	Light Rail Transit Association	Ev w67
24	Southampton City Council	Ev w39
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27	London First	Ev w73
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29	ASLEF	Ev w83
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31	West of England Authorities	Ev w85
32	Oxfordshire County Council	Ev w88
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34	Town and Country Planning Association	Ev w92
35	English Regional Development Agencies	Ev w96
36	Halton Borough Council	Ev w101
37	Dr David Metz	Ev w104
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45	City of York Council	Ev w135
46	DB Schenker	Ev w139
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49	Aberdeen City and Shire Economic Futures and the North East Scotland Transport Partnership	Ev w151
50	UKLPG	Ev w154
51	Network Rail	Ev w156
52	Hampshire County Council	Ev w161
53	Hampshire Chamber of Commerce	Ev w163
54	London Chamber of Commerce and Industry	Ev w165
55	Gatwick Airport Limited	Ev w168
56	Dr John Walker	Ev w173
57	Westminster City Council	Ev w178
58	Skills for Logistics	Ev w180
59	The Automobile Association	Ev w182
60	Gladwin Associates Limited	Ev w184
61	Central London Forward	Ev w185
62	Campaign to Protect Rural England	Ev w189
63	Airport Operators Association	Ev w193
64	Bombardier Transportation UK Limited	Ev w198
65	Invensys Rail	Ev w202
66	British Airways plc	Ev w205
67	ABTA	Ev w209
68	The North East Chamber of Commerce	Ev w211
69	The Tourism Alliance	Ev w213
70	Manchester Airports Group	Ev w216
71	Stephen Plowden	Ev w219
72	British Vehicle Rental and Leasing Association	Ev w223
73	The Chamber of Shipping	Ev w224
74	The Road Haulage Association	Ev w225
75	City of London Corporation	Ev w226
76	Flybe	Ev w228
77	West Midlands Friends of the Earth	Ev w230
78	West Midlands Campaign for Better Transport	Ev w233
79	Chiltern Countryside Group	Ev w235
80	Association of Train Operating Companies	Ev w241
81	North East Lincolnshire Council	Ev w243
82	HS2 Action Alliance	Ev w243, Ev w249

List of unprinted evidence

The following written evidence has been reported to the House, but to save printing costs has not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives (www.parliament.uk/archives), and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074; email archives@parliament.uk). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

Mr J Jackson

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–11

First Special Report	The major road network: Government response to the Committee's Eighth Report of Session 2009–10	HC 421
Second Special Report	Update on the London Underground and the public-private (PPP) partnership agreements: Government response to the Committee's Seventh Report of Session 2009–10	HC 467
Third Special Report	The performance of the Department for Transport: Government response to the Committee's Fourth Report of Session 2009–10	HC 549
First Report	Drink and drug driving law	HC 460
Second Report	Financial scrutiny of the Department for Transport	HC 683
Third Report	Transport and the economy	HC 473

Oral evidence

Taken before the Transport Committee

on Tuesday 19 October 2010

Members present:

Mrs Louise Ellman (Chair)

Kelvin Hopkins	Angela Smith
Kwasi Kwarteng	Iain Stewart
Paul Maynard	Julian Sturdy

Examination of Witnesses

Witnesses: **Professor Henry Overman**, London School of Economics, **Professor John Tomaney**, University of Newcastle, and **Professor Alan Wenban-Smith**, Birmingham City University, gave evidence.

Q1 Chair: Good morning, gentlemen. Would you like to identify yourselves for our records, please? Could I start at this end?
Professor Henry Overman: Henry Overman from the London School of Economics.
Professor Alan Wenban-Smith: Alan Wenban-Smith, Urban & Regional Policy, Birmingham City University.
Professor John Tomaney: John Tomaney, Newcastle University.

Q2 Chair: Thank you very much. The last major study into transport and the economy was the Eddington report in 2006. Do you feel that that report is still relevant today?
Professor Henry Overman: Yes, I think it is. My take on this is that we are richer than we were when Eddington was being written, even if the growth rate has been lower than during the time of Eddington. The decisions that Eddington was looking at were about the long-term impact in transport in this country, and I don't see that much has changed. I think the emphasis on gateways, inter-urban corridors, relieving congestion, still stands. I think the advice to be realistic about the benefits and not commit yourself right at the beginning to one particular mode of transport, as the solution to all your problems, is correct. So basically, I think that the recommendation still stands.

Q3 Chair: Any comments, Professor Wenban-Smith?
Professor Wenban-Smith: I have a slightly more sceptical view, in the sense that I think Eddington's priorities were correct, dealing with the problems of conurbations, of inter-urban corridors and international gateways. But the trouble is, the actual priorities, in terms of schemes, depended on a system of cost-benefit analysis that has been very heavily criticised and I think, in many ways and respects, is quite misleading. It was also made in the context of road-user pricing being part of the package. Eddington himself would describe that as a no-brainer. Without road-user pricing, his priorities would inevitably lead to more congestion as people take advantage of the additional road space to spread themselves further over the landscape, which is what tends to happen. So I think Eddington's priorities are fine but the actual list of schemes that descends from that is much more doubtful.

Q4 Chair: So you don't think the absence of road pricing, and less economic growth than predicted, has a material effect on his recommendations?
Professor Alan Wenban-Smith: No; on the contrary. I am saying that, without road pricing, Eddington's priorities would lead to more congestion, more dispersion, more CO2 production, and so on. It would be less good for the economy without road pricing.

Q5 Chair: Thank you. Professor Tomaney, do have any views on Eddington and how we should see it today?
Professor John Tomaney: Yes. I largely agree with Eddington's essential analysis that there is a relationship between transport connectivity and economic growth. I think what has changed is the economic conditions, quite markedly. They have changed in terms of the lower overall level of growth—as Henry has already pointed out—and I think that is significant. Economic conditions have changed, in that there are clearly going to be less resources available for major transport investments.
In addition, I would like to draw attention to what I think may prove to be one significant development. That is that the current economic conditions have had a very distinctive geography attached to them. We've seen the recession having a bigger impact in the north and in the south. In thinking about the future of transport investments, that should obviously be part of any serious consideration, especially given that we now have a Government who are committed to rebalancing the national economy away from an alleged over-dependence on financial services in the south-east of England. The role of transport in all of that, if we take the essential premise of Eddington, is going to be critical to achieving that objective, so I think some things have changed.

Q6 Chair: So what lessons would you draw from that? Is there any particular type of transport investment that should be supported, rather than another one?
Professor John Tomaney: There are many kinds of transport investments that ought to be supported, but

I think critical would be those that support the improvement of urban transport systems and the connectivity of city regions, particularly in areas like the north of England—say, between Leeds and Manchester—which raise the possibility of the development or the agglomeration of further economic activities in the north and may play a part in rebalancing the national economy, if that's the key policy objective.

Q7 Chair: Should investment go into new schemes rather than maintaining existing ones? Is there a choice to be made there?

Q8 ***Professor Henry Overman:*** I think there is a choice to be made. That is a question that is not sensible to try and answer in a general sense. This is one of the crucial lessons from Eddington that I just see slipping further and further away from us, which is that we need to be making these decisions on a project-by-project basis. So there will be some new investment that clearly, given where we are with public expenditure, should not be being made. There are projects that were on the books that we could easily be ditching. Likewise, there is some recurrent expenditure on existing commitments that we are compelled to get rid of. But the idea that somehow we can—in the abstract—make a decision between the balance of these two things I think is just impossible. We need people who know what the projects are delivering to be making these decisions on a project-by-project basis, not on an overall broad abstract basis.

Professor Alan Wenban-Smith: I might be able to add a bit to that. I should say I'm not a proper professor; I'm not an academic, I'm not an economist. My credentials are very much having been a local government officer responsible for exactly the sorts of things you have been talking about: transport planning in places like Birmingham and Newcastle, as it happens. This kind of question, the balance between new projects and maintaining what you have is very difficult and very important. It deals with one of your questions later on about the balance between revenue and capital projects. There is a huge volume of revenue spending necessary to keep the existing stock in good heart and doing its job. At the margin, the question of whether you can better spend the money by investing in a new project, that has capital charges spent over a long period of time, is something that, as I think Henry said, is not something for a general judgment. It's something you need to make as a judgment in the circumstances of your particular patch.

I used to be chairman of the Chief Engineers and Planning Officers Group of the West Midlands and what we did was to put together our programme of balance, small, large and revenue schemes, and it cannot be done from Whitehall would be my view.

Q9 Kwasi Kwarteng: This is a double-barrelled question. We have all read the Eddington report and my understanding is that he is very, as you say, focused on project-by-project and looking at where the difficulties are, and then trying to solve those, as opposed to having these blue sky grand projects. Surely there is scope for these big projects that the Government have. I take an extreme example. Before we had aeroplanes. Once aeroplanes were invented, clearly, there would be a decision to build an airport. There is no way you can do a cost-benefit analysis of that, if you haven't had any experience of what aeroplanes could do. That's an extreme case. I am not saying something like that is going to happen any time soon. But surely there is some scope for thinking outside this sort of project-by-project, what I might call a nodal focus on particular problems and solving those in a book-keeping kind of way. Do you have any thoughts on that?

Professor Alan Wenban-Smith: Sorry; you may have misunderstood what I said. I didn't mean that every decision must be done on a sort of—

Q10 Kwasi Kwarteng: No, sorry, I am not asking a question on what you said. I'm asking a general question.

Professor Alan Wenban-Smith: Okay, perhaps some of my colleagues would like to—

Professor John Tomaney: I think there is international evidence that strategic investments in big transport infrastructure can have economic development impacts. We can find that sort of evidence around the world. We're finding it particularly in the newly industrialising countries at the moment. There is plenty of evidence of that. These arguments are certainly being deployed in the north of England, for instance. The future of Teesport and its disconnection from national transport networks; the relative difficulty of getting goods in and out of the port to markets in other parts of the UK has been emphasised as a lost opportunity, in that sense. There are opportunities to make investments in that port, which potentially relieve burdens on infrastructure in the south, but they're not going to be justified probably using traditional cost-benefit analysis. On the contrary, when those methods are applied, then these sorts of investments are shown not to have a sufficient return. I think your point is a fair one but, nevertheless, there is no general rule I think; that would be my view on this. The decisions that are taken in the end are often strategic, political ones rather than narrowly economic ones, in that sense.

Professor Henry Overman: One of the problems is that people tend to take their pet project and basically try to justify support for it, on the basis that it will be transformational, and many of these claims for projects that will be transformational do not materialise once we go ahead and invest large amounts of money. I was in Hull; the Humber Bridge was supposed to transform the economy of that part of the world. If you go back and look at the narrative, that is what it was going to do and it didn't. I still think there is a strong argument for thinking about the main benefits of transport being from: how many people are going to use it, how much faster, safer and environmentally friendly their journeys are going to be. Sometimes that might be terribly hard to predict for something new but, at the end of the day, the benefits of the airports do come from people who use them.

Kwasi Kwarteng: You could not possibly model that; that is my point. At some level, you have to have a strategic decision.

Professor Henry Overman: I think this is right. In the time I have been on Eddington, advising DfT and High Speed 2 afterwards, the point I have consistently made to them is that our understanding of those wider economic benefits is still limited. The rush to bolt it all into the traditional cost-benefit analysis rather misses the point that, at some level, we need to be making strategic decisions about this, and then using the cost-benefit analysis to help inform those strategic decisions, plus other forms of evidence on those things. I do think a mistake that DfT made was to rush to try and incorporate all of those things into its formal appraisal process, which I believe has probably added more noise than signal in the process.

Q11 Chair: So what you are saying is that you are agreeing there is a need for strategic decisions and they need some provision, but that can't always be accommodated in the formula that we have?

Professor Henry Overman: I think formal cost-benefit analysis remains a good check on the extent of the claims that are being made for things. We may well then decide that other evidence that we have—particularly for some big decisions—says, "Well look, we're just going to overrule this". But still, looking at how many people we think are going to use it, how much faster their journey is going to be, how much more environmentally friendly and how much safer, is still a useful cross-check to be done. We then may want some process for making strategic decisions where that is one part of the information set that we use.

Q12 Kwasi Kwarteng: Just to clarify, what you are saying is that we shouldn't solely use cost-benefit analysis nor should we solely go on this sort of big picture, strategic decision making, but we should somehow use them in tandem. Is that what you are saying?

Professor Henry Overman: I think, particularly for larger schemes that are going to be very expensive, cost-benefit analysis forms part of the set of information that you would gather to make a strategic decision.

Chair: Is it on this?

Q13 Angela Smith: It is on that question. The statement you have just made, I think helps clarify things a little, because I was beginning to think that perhaps you were recommending an approach that is reactive in many ways, which will continue to intensify the regional disparities that we suffer from in this country in terms of economic performance. Perhaps you would like to comment on that, Professor Overman.

Professor Henry Overman: I take it this way. Let's take High Speed 2; let's take a concrete example to motivate the discussion here. I think, broadly speaking, the evidence that High Speed 2 will lead to a reduction in disparity is pretty limited. Taking the evidence that we have, which is the cost-benefit analysis—which delivers pretty low benefits to costs for High Speed 2—plus the wider evidence that people bring to bear, which seems to me to make a series of claims about benefits of High Speed that I don't think stack up. So then, let's offset that against going to Manchester, Leeds, Newcastle, Bristol and doing investments in those cities, so focusing on identifying a whole group of intra-urban transport. I think, if we looked at that carefully, we would find that the broad suite of evidence that we bring to bear would be much more favourable to those intra-urban projects than it would be to High Speed 2. You set out your objective—

Q14 Chair: You are illustrating that, which is helpful to us, but you're also making an assumption about choices there. Professor Tomaney, do you want to comment on this?

Professor John Tomaney: I broadly agree with Henry on the point that the evidence that HS2 will have a positive impact on rebalancing the national economy, to use the current jargon, is not really there. I think the international evidence suggests that, where you make these big investments in this kind of infrastructure—particularly high speed train networks—as important to the investment in the infrastructure itself is investment in the conditions of the nodes around the lines that stimulate economic benefit and economic development. There is some evidence from European high speed train systems, and from Asian high speed train systems, that this is a critical ingredient, and in the debates around HS2 I haven't really seen that discussed. This points to the need for understanding transport in a wider economic development context, rather than just simply a single investment designed to have an immediate impact.

Q15 Julian Sturdy: My point is following on from what we have been talking about. I agree with the comments about pet projects. I have been a local councillor and seen that in action in the Department for Transport. So I think you make some very good points there. In the wider context, is it possible to say what types of transport schemes have the largest benefit on the economy? I am not talking regionally; I'm talking nationally here as well to try and get away from this pet project argument.

Professor Alan Wenban-Smith: I think the important thing is to get away from the proposition that transport benefits are the only benefit that matters. We tend to talk in terms of user time savings, accident savings, operating costs, that kind of thing. The important effects on the economy are knock-ons from that, or indeed quite independent of that in some ways.

To my mind, one of the things that would make the biggest difference to the national economy, in terms of transport, would be investing heavily in public transport systems in our big cities, because it is strikingly clear that we've failed to do that for 50 years now. If you look at continental Europe, and cities of similar size to Birmingham and Newcastle—cities I've done a lot of work in—their productivity, relative to the national level, is streets above our UK experience. I think it is down to the failure to take advantage of a lot of people in a relatively limited space, which good public transport is absolutely

critical to. You don't need to look further than London to see the productivity benefits of having good public transport. To my mind, that is something truly transformational that we could and should do and we've failed to do.

Q16 Kelvin Hopkins: This is interesting because I thought I was in a tiny minority of HS2 sceptics. The opportunity costs of producing this railway line, which would save a tiny amount of time between major cities, as opposed to investing in improvements elsewhere, I think is considerable and I am glad to hear what you have had to say. Is it not the case, that if we could get some of the freight off the existing main lines, dedicate them to fast rather than high speed passenger, we would do much better? I am thinking of 140 mile an hour working on the east coast main line, with a couple of loops and quadrupling the track at Welwyn, to solve the problem on that side of the country; 135 mile an hour working on west coast main line with, again, some improvements to overcome those problems, and a dedicated freight line that takes all the freight off. That seems to me a much more sensible approach than HS2.
Professor John Tomaney: I'm not a railway engineer so I'm going to pass on that.

Q17 Chair: We're not having an inquiry today into HS2 but it is relevant to some of these issues. Can we consider the general issue—which I think you have answered—about looking at local improvements as well the major schemes? In today's situation, with all the economic problems here, how important do you think it is to look at local improvements on schemes, whether they be rail schemes or other schemes? How significant are they in terms of the economy? That is the question that we are looking at here.
Professor Alan Wenban-Smith: My view, having had the responsibility of bringing together transport, economic planning and spatial planning in real places, is: it is absolutely crucial that those things are joined together. It is a real problem achieving that level of integration. We did it for a while in the West Midlands but sadly it petered away because there are separate cultures, separate Whitehall silos that each department relates to, and it is very difficult to get that connection. We did, in fact, produce an integrated transport policy. We had it agreed in government that we would have one bag of money, not six different bags. It didn't survive the onslaught of the civil servants, I'm afraid. They took the view that these are separate pockets of money, even though they are in one pair of trousers, worn by the Minister.

Q18 Paul Maynard: Professor Overman was mentioning earlier about the need to make strategic decisions, to look not just on cost-benefit analyses but on additional measures. What role do you think national policy statements could have in improving the quality of decision making, and how would the national policy statements themselves need to be improved as a tool of good public policy? Following on from that, given they are national policy statements and given the abolition of the regional development agencies and the statutory functions of the regional local government leaders boards, how do you see the regional voice of transport priority making now taking place? How is that going to occur or how could it occur, given we seem to have a blank sheet at the moment?
Professor John Tomaney: If I take the last point first, I think you've identified a really big issue. We're replacing the regional spatial strategies, which were an attempt to integrate some of these questions, which Alan has just mentioned: land use, transport, economic development planning. They were flawed in some ways but they were an effort to do that. We have certainly seen the end of those but we're potentially facing a situation of the creation of Local Enterprise Partnerships, of which I think, at the latest count, there are some 56 proposed. I think that there are some big issues about how they're going to operate, because, in principle, they are entitled to bid for transport powers for their local area. My reading is that very few of the Local Enterprise Partnership proposals contain very specific suggestions, in relation to transport and in relation to the kinds of powers that they would like to exercise, although the Secretary of State, Mr Pickles, says that they potentially can have whatever powers they want.
Taking my region, one scenario would be that you would have a multiplicity of small Local Enterprise Partnerships covering part of the region where you can very readily identify the spillovers, in terms of transport planning, from one place to the next. At the moment there is no mechanism for resolving the potential tensions. So, for instance, in Tyne and Wear you have potentially three Local Enterprise Partnerships and yet the urban transport system—the Tyne and Wear Metro—running through all three of those. What will the mechanisms be for ensuring a rational use of resources in relation to public transport in these areas? These are huge open questions. You have identified an important issue but I don't know the answer to them, I'm afraid.
Professor Henry Overman: I broadly support the move to LEPs but I think there are two things they are not set up to do very well: the inter-urban transport schemes that have impacts on the wider environment, and housing decisions. I think in many circumstances, with the larger inter-urban schemes, it's hard to see—in areas where the LEPs are fragmented across the area that is going to be affected by the scheme—how they will reach a decision on this. I think it will have to go back to the DFT with input from the Local Enterprise Partnerships.

Q19 Chair: It doesn't seem to quite fit with the localism agenda, does it?
Professor Henry Overman: There are a bunch of decisions that you will be able to push down to LEPs, which will be the perfectly appropriately vehicle for making them. But LEPs are not the vehicle for making decisions about inter-urban corridor investments, for example. Those will just have to come back to the centre with input from the affected Local Enterprise Partnership.
Professor Alan Wenban-Smith: It is absolutely right. Subsidiarity cuts two ways. Certainly it is very important to devolve appropriate decisions, so that

things can be joined up better, but there are some decisions that necessarily have to be taken at national level: national corridors, the balance between regions, for example. It's very bad for the UK, as a whole, for regions to be grossly unequal and that's something that is absolutely inalienably a national responsibility.

Q20 Paul Maynard: I have a specific question, about whether national policy statements were an appropriate vehicle to achieve that regional rebalancing and whether they are working well at the moment and, if not, how they could be improved?
Chair: We have had a national policy statement on ports and it is very unclear quite where that is going. We are waiting for national policy statements on national networks. No mention has been made of that since May, so we don't know what is happening with that one. Do you think this is an important concept in developing transport and for the economy?
Professor Alan Wenban-Smith: It potentially could be and should be. The only example I have is the national policy statements on energy but these were missing any kind of sub-national dimension at all. I remember asking Ed Miliband, when he was Secretary of State, "If generation is going to be wherever it needs to be, because that is where the wind and the tide is and the structure of industry is changing, so consumption is going to be wherever that ends up, how come you can have a national policy statement that doesn't say anything about the potential of the mismatch between these things?" He said, "Good question. I don't know the answer".
Professor Henry Overman: At the very minimum, I think what they will need to do is to set out the rules of the game for all these LEPs that are going to be making decisions. That will be an important role for national policy, to make it clear to the Local Enterprise Partnerships, or whoever is making these decisions, what the framework is within which they are going to be making them. So I do think that national guidelines here will need to move away from saying, "We think you should do that" to, "Here is the broad framework within which we think you should be making these decisions". So we tell people what we are going to do about carbon pricing, so that they know how they need to be taking that into account when they are making their local decisions.
I would see us moving towards those things, trying to set the frameworks within which decisions are made, rather than saying, "We think we're going to do this port here and that port there". Although there will still need to be some decisions along those lines where these are big national decisions. But generally speaking, I think they are about the framework, setting the framework within which these decisions need to be made, rather than giving very explicit guidance for the decisions.

Q21 Chair: Professor Tomaney, do you have any views on this?
Professor John Tomaney: I think what we're talking about is where the limits to localism lie and the extent to which central Government are prepared to draw limits around what localism can do. The rhetoric from Government at the moment is that there will be no limit to localism, as I understand it—reading the speeches from Ministers—but, as my colleagues are pointing out, there are practical limits to localism. One is that Local Enterprise Partnerships are very small but don't represent functional economic regions. Some of them do but many of them don't. There will inevitably be a situation where Government have to come in and resolve difficulties, spillovers between different jurisdictions, if you like. Then there are big questions; carbon pricing is a good example, or about investment in capacity in renewable energies, and so on, that Government will have to be clear about. I think at the moment that isn't part of what we're hearing from Government, but I suspect that perhaps dragged kicking and screaming it will have to be part of Government policy.

Q22 Iain Stewart: In a way you've touched on the question I wanted to ask, and that is to introduce the "who pays" element into who shapes the strategic objectives and prioritises the specific schemes? What is your view of the mix between public investment from general taxation, business-led private investment and the user contribution? From those three broad categories, who should be the one that drives the choices that we have to make?
Professor John Tomaney: It would seem to me that the likely mix of these is going to differ quite radically around the country. There are already significant private contributions to big infrastructures in London, for instance, or at least resources raised at a local level. It is very much more difficult to see how significant private investments in major infrastructure will occur in, say, the north of England. There may be possibilities in relation to, for example, Manchester, but in many other northern cities the scope for significant private investment seems to me to be much more limited than it would be in the south of England. So I think that is a crucial point.
The same would also be true of user charges. The capacity of northern towns to generate significant user charges, I think, is obviously going to be a lot less than is the case in the south. If we're moving in the direction of more user contributions, a greater role for private investment in this process, then we're probably going to see very increased regional differences in the provision of the transport infrastructure.
Chair: Mr Stewart, do you want add anything?
Iain Stewart: No. I'm interested in the other panellists' views.
Professor Alan Wenban-Smith: I think it is very important that there is a connection between who pays and who makes decisions. It is a bit artificial saying, "We are going to localise decision making but all the money is going to come from centre". That doesn't work in my opinion. You have to find some way of raising the money more locally, whether or not it's from users—and that is obviously potentially a major target if you move towards road user pricing in all sorts of different forms. But there are other means—such as tax increment financing; land value taxation—of supporting local infrastructure investment. Those would all make a lot of sense, and it would give a lot

more muscle and purpose to the whole spatial planning system if those were part and parcel of it.
At present, the ways of getting money out of developers are pretty accidental in their incidence. Some local authorities are very good at it; some are very bad at it. It is almost a lottery and you get a lot of free riders. There are real problems about that. As John Tomaney said, it means that parts of the country that may need infrastructure at least are able to get the money from that kind of source to support it. It's a mess. I think we'd be much better off moving towards local sources of finance of the sort I have mentioned, and much more responsibility for local raising as well as spending of that money.

Q23 Chair: Professor Overman, would you like to comment on this?
Professor Henry Overman: Broadly speaking, I agree that we need to have the people who are making the decision on this more closely connected to the financing of it. Inter-urban versus intra-urban has always been an issue. To use High Speed 2 as an example again, if you are—

Q24 Chair: Can we have another example as well?
Professor Henry Overman: If you are Manchester, Leeds and Birmingham local authorities I can see why you think that High Speed 2 is a fantastically good idea. If we think about where the benefits of that are going to be, they are going to be in those areas, whereas at the moment how we are going to pay for it is left rather vague. I assume potentially quite a lot of this will come from public expenditure; whereas, if you think about the intra-urban schemes, a much larger chunk of this potentially falls on the local authorities affected. That provides a skew on decision making that is more general. This is always the claim that was made for buses over light rail, for example. Financing things does create rather large distortions in the decision-making process.

Q25 Chair: What conclusions do you reach then, in answer to the question, on the implications of methods of financing for decision making on investment?
Professor Henry Overman: I think I am in line with what the others have said. We have to try and extract the user benefits as much as possible. That includes people who get uplift on their land values, but also the people using it, so those seem to be two ready sources that we'd need to be extracting from. This is why I'm in favour of road pricing. Then we need to make the decision on the balance depending on the context of the project.

Q26 Kelvin Hopkins: Isn't there a striking contrast between Britain and continental Europe in all transport, in that we have privatised and fragmented our railway system; we have privatised and deregulated our buses? Organising integrated, planned transport systems, when that is the situation, is much more difficult.
Wasn't it the case that in Tyne and Wear, for example, they were just about to get an effective integrated bus and local rail system and it was all privatised and it fell apart? Isn't there a lesson for us all in this? Indeed if we looked at the one project where major private finance was involved, the PPP on the Tube, this turned out to be an expensive disaster. Indeed on a recent visit to SNCF, SNCF has said, "Yes in France when we say 'PPP', we mean public, public, public".
Chair: So what is the role of private funding for economically beneficial transport schemes?
Professor Alan Wenban-Smith: I would step back a little bit further from Mr Hopkins' question, because I think what he is saying—maybe I am misinterpreting here—is that you need transport to be part of a bigger story about what we're trying to do. Tyne and Wear is very much a case in point. I was in charge of strategic planning in Tyne and Wear at the time and I remember it well. There is a problem there. When you fragment these things, you don't get the benefit.
What is interesting, I think, when you compare with continental Europe, they spend a lot more money on transport generally, both public and private transport: it is not either/or. I think it is no accident that they treat transport as part of the whole business of building their cities or building their countries, not as something separate, which is what we do. So they get a lot more support for transport spending, because it is much more broadly based. I think there is a lesson for us in that.

Q27 Chair: Does the current thinking encompass wide enough benefits? Is it looking beyond the specific scheme?
Professor Alan Wenban-Smith: Yes. It is about the question we started with, about the difference in the cost benefit of particular schemes, the bigger picture. I think what is critical of the bigger picture—and Henry has made the point very well—you get pet schemes supported for their transformational effects. It is like the iconic buildings that make me reach for a gun, I have to say. There is a need to have a line of logic connecting what you are going to do with the transport field, with the wider effect you are producing, and to adduce evidence about how those effects will work out. That is a much broader, more strategic kind of thing than cost-benefit analysis.

Q28 Kwasi Kwarteng: I just wanted to clarify something. You are saying we should have a more strategic approach, as they have in continental Europe?
Professor John Tomaney: Can I just give an explanation on this? Privatisation and fragmentation are not necessarily the same thing. There is a great diversity in the mix of public and private in the provision of transport infrastructures across Europe and around the world. Privatisation can exist with integrated transport planning. There are many examples of that. Significant parts of the transport infrastructure in Sweden are privatised but there is a highly integrated transport planning system. The same could be said in Germany and the same could be said in Japan. So privatisation does not preclude integrated transport planning. It has done in this country but it is not the inevitable outcome.

Q29 Julian Sturdy: Professor Wenban-Smith, you said something a few moments ago regarding

developer contributions not working. I would just be interested in your views on that within your previous profession within local government and a local authority. It is something that I have seen regularly and it frustrates me. Personally, I think local authorities need to think longer term over section 106 funding and things like that, but do you think there should be any more powers for them to try and use the money better? Quite often there are time constraints over how they can use it, so they think short term rather than long term and that is causing problems.

Professor Alan Wenban-Smith: It is a very bitty source of finance. It is almost accidental. All kinds of local site factors come in; it is about what you need to do to develop the site at all, and things of that nature. It is so constrained. I tried in Birmingham to get, for example, a levy from section 106 into a fund for building light rail.

Julian Sturdy: Absolutely, yes.

Professor Alan Wenban-Smith: The legal advice was, "Yes, you can do it but it's going to be blooming difficult and you'll have to have some way of spending it in a much shorter term than you are likely to accumulate the relevant amounts of money". So there are real major difficulties about that.

I think there is a need for a different form of local finance. A community infrastructure levy was one such. I hold no candle for that in particular. Land value planning taxation seems an obvious one. It is very local and very specific. Various forms of development levy could be erected. There is always a difficulty about that, in that some places are enormously profitable to develop and other places struggle to develop at all; the incidence of the value you can get does not match the needs in any particular way. So it needs a serious look on a broader basis, and some equalising between places with different potential.

Professor Henry Overman: My feeling on section 106 is that a big part of the problem is that these are negotiated on a project-by-project, site-by-site basis. If you look in the area of housing, which has some interesting parallels here, a large number of local authorities raise zero effectively from section 106 agreements with developers. If you speak to housing developers the interesting thing is most of them are in favour of section 106 over anything else. I have always thought that should tell you pretty well everything you want to know about how well section 106 extracts development gains from the developers. So I think that a move to something that is more systematic, and relies less on the individual negotiating skills of the local authorities, probably is the thing that we will have to do if we want to extract more of this benefit. Again, I am not tied to one particular model. It seems to me there are many difficulties as you start to do that, but it does seem to me that section 106 has not achieved either in housing or in infrastructure development.

Q30 Julian Sturdy: So there has to be some changing of the system?

Professor Henry Overman: I think generally we need to move away from the section 106. I think that it was nice, in the sense that it gave flexibility to negotiate locally what you might want to achieve but, in practice, it hasn't ended up extracting from developers the windfall benefits that they are accumulating as a result of planning decisions.

Q31 Julian Sturdy: For the major projects?

Professor Henry Overman: I think for most projects. So I think there is a serious—

Julian Sturdy: Yes. It goes back probably to what you said about the pet projects, because it tends to go on to pet projects rather than major projects that can benefit the areas.

Q32 Paul Maynard: You were speaking earlier about comparisons with Europe, which sounded quite interesting, and particularly the amount of extra money they are spending over there. Is that occurring at a sub-national level of government, those spending decisions and spending activities? Secondly, do the economic and social benefits derived from that extra transport spending match up to the amount of extra spending? Is it delivering value for money in your view?

If you could take the example of the AVE network in Spain, my understanding was the decision was only taken to build that network, on the proviso that the Spanish regional governments constructed economic development plans that were considered to be credible by central Government before a decision was made to then go ahead with that network. How important do you believe the existence of credible economic development plans are before any decision is taken to go ahead with a project? Would it be wrong to wait and say, "Let's decide to go ahead with a project" and then, "Oh can we have an economic development plan too?" Is it not the case that one needs to precede the other for the full benefit of the transport spending to be obtained? That is a very long question, sorry.

Professor Alan Wenban-Smith: Just starting with the continental experience, I think the level of decision making is very important. The German system, I think is particularly interesting, in that any particular major project is likely to have funding from the federal government, the Laender, the regional government and the locality. They negotiate a funding package between them, each of them having the objectives they want to see reflected in the final scheme. It is a very collaborative way of working.

I'm particularly familiar with the system in Hanover that I visited a couple of times and it's enormously impressive. I've not seen any formal cost-benefit analysis of it but they spent a lot of money. It is an integrated exercise with rebuilding the city. To answer an earlier question, they did it with a thing called the Verkehrsverbund, which is a partnership of providers, who are usually private sector, who agree to operate it as an integrated system. All you can say is it works; it is enormously impressive. If you look at the German productivity per head of major cities, it is streets above the equivalent figures relative to the national productivity of UK cities and, I must say, I associate the two. I can't give you evidence to that effect but that is my opinion.

You had a second question, which I have now lost.

Professor John Tomaney: I think the first point to make is there is considerable variation in the structures of regional governments across Europe, so there isn't a continental model as such that we can point to. In your Spanish case, the powers of the Spanish regions are very extensive and have grown quite markedly over a relatively short period of time of about 20 or 30 years. It is quite correct to say that the major Spanish cities and regions did develop economic development plans in association with the arrival of the high speed train network, but it's also true to say that not all of them succeeded. A very good example—which Henry's colleague, Andrés Rodriguez-Pose, has written about—is the case of Seville, in which a huge amount of investment went into very large-scale developments that were intended to derive benefits from the arrival of the high speed train, and that hasn't been very successful.

There are other examples around Europe where you could point to greater success. A good example would be southern Sweden, particular Malmo, which is, by Swedish standards, a disadvantaged region but it is also another region that is connected directly to the Copenhagen region by the Oresund bridge. Slowly, the economic benefits of that are becoming apparent in Malmo and there is a slow integration of the labour markets between prosperous Copenhagen and less prosperous Malmo using this transport link. For instance, Copenhagen airport becomes the airport for Malmo and the connectivity of Malmo, in that sense, is improved. You can find evidence both ways in Europe. There isn't a golden rule, I think, but in principle regional and local authorities have played a very key role in trying to develop structures that potentially extract the benefits of having these major infrastructures developed in their regions.

You could point to some of the French cities as well, like Lyon, which could make the case that it has benefited from this as well.

Q33 Chair: Professor Overman, do you want to add anything to those comments?

***Professor Henry Overman*:** I'm always a sceptic on these things. I think part of the problem is that we look at these places; we see they're high density, living in flats and using lots of public transport, and we'd like our cities to be like that, despite the fact that the vast majority of our population want exactly the opposite from those things. There is a sense in which we want a transport system that delivers what people want, consistent with the other objectives around global warming, around carbon, and so on. I do think there is a tendency to look at continental Europe, look at it all being high density and public transport, thinking, "This is a fantastically good thing" and then imagining, "If only we could be like this".

Chair: I think the issue behind this particular question is about economic development plans in the area concerned, so it is rather bigger than that.

Q34 Iain Stewart: A thought came to me. The discussion we have been having is primarily about the traditional modes of transport that, as a country, we want to make. Looking into the medium and long term, how is technology going to change that, with fast broadband and video conferencing and all the developments that are going to happen? Are we still going to need, as a population, to move vast sections of us from home to work between 7.00 am and 9.00 am and then back home in the late afternoon, early evening? Are we going to have a complete step change in how we think about our transport planning as a result of new technology?

Professor Henry Overman: For sure, we have a great track record of failing to predict the large shifts that are going to come, but I don't have any claim to be about to improve that track record for you. The thing we have consistently seen is that these claims about the fact that we will have flexible working and people will commute from home, and so on, those claims so far have proved to be broadly unfounded and the demand for transport has increased over time.

The crucial thing it does highlight—which is something that I consistently push—is that, as much as possible, the sensible strategy is not to make the large, sunk, fixed cost things that Government do unless we absolutely have to. Something that we often see is this feeling that we have to make a decision one way or the other on these things. For example, this is why some people argue that designated bus routes may well be a better way of going, in a world of uncertainty, than fixed light rail. Those arguments are quite interesting. Of course, the problem is that they also highlight the car and personal forms of transport as being the ultimate in flexibility.

Q35 Chair: So are you saying you do not think that these technological changes are going to make a significant difference to transport needs?

Professor Henry Overman: I'm just saying I don't know—

Chair: You don't know?

Professor Henry Overman: No, I'm saying in a world where you don't know—

Q36 Chair: Does anybody else have any view on that? You don't have to say anything if you don't want to on that. Is this going to make a major difference to transport needs?

Professor John Tomaney: I think these technologies contain the potential to transform the way we live and work but—as Henry says—the very least you could say is that progress, in the direction that you have just described, is very slow indeed, because there's lots of path dependency and sunk costs involved in the way we live our lives. In particular, one of the most difficult things to do, of course, is to change people's behaviours. Policy levers to do that are much more difficult to develop than the traditional kinds of policy levers, which involve providing infrastructure, and so on. It's possible that these things will have the impacts you are suggesting but there was that famous front page of *The Economist*, from a few years ago, that stated that "Lunch still matters". There is this propulsion for people to continue to work in the ways that they always have done. To bank on the kinds of changes that you are talking about, I think would be a big risk. Nevertheless, it could be that changes do move in those directions.

Professor Alan Wenban-Smith: A lot of information is embodied in people and things and won't go down wires. We do, at higher levels, need to make face-to-face contact with people; there seems to be something about the human condition involved there. I should say I think technology change may be forced because oil prices are going to go very much higher in the not too distant future, leaving aside any questions of carbon output and all of that kind of thing. I think we are going to have to find some other ways of dealing with things. One of the things that seems to have gone away, and maybe it will come back again, is smart roads, roads that are much more wired up to interact with the vehicles on them, for example.

Q37 Iain Stewart: I just want to come in, in terms of, particularly at the moment when we have significant pressure on public funds, to what extent should the Government choose—if there is a choice—between investing in increasing the transport capacity and perhaps investing in technology, rolling out superfast broadband, that might diminish the need to travel?

Professor John Tomaney: There may be economic advantages to superfast broadband but it's not clear that, among them, is that it will diminish the propensity of people to travel. For instance, there is quite a large amount of fairly convincing academic evidence that information and communications technologies accelerate processes of agglomeration at a national scale. The technology is only as useful as the people who have the skills to use it and if those skills are concentrated in certain regions or cities, the introduction of these kinds of technologies can accelerate the growth of regional disparities. So there are lots of unintended consequences at work here that we need to very carefully consider.

Q38 Kelvin Hopkins: The focus of transport discussion in Britain is always, it seems to me, on passengers. If we are talking about economic development, freight is a major component, or should be, and yet rail freight, in particular, the volume of freight, the proportion of freight that goes by rail is pathetic in Britain, simply because the capacity is not there. The capacity is not just about track; it's about gauge as well. We can't get road trailers on trains and we can't get full scale containers through many of our bridges and tunnels. I have a specific scheme I am involved with, but isn't there a case for significant investment in dedicated rail freight that would take freight off the motorways, off the north-south tracks and link all the conurbations with the Channel Tunnel?

Professor John Tomaney: That sounds like a pet scheme.

Kelvin Hopkins: I have the details if you want.

Q39 Chair: Does anybody want to comment on rail freight?

Professor Alan Wenban-Smith: I think it is partly a question of the distances. We're just a little twig of a rail network. In continental Europe, there's much longer distances and that suits rail haulage, the penalties of offloading and on loading at either end are much less severe, relative to the distances hauled. The real thing for rail freight would be to connect up our little twig better with the continental tree. Again, you're right, you have the gauge issue.

Q40 Kelvin Hopkins: You have to have capacity to put trailers on trains and also put full size containers on trains.

Professor Alan Wenban-Smith: The gauge issue, that's right. I agree.

Q41 Chair: Does anyone else want to comment on rail freight?

Professor Henry Overman: It is a good example of where I can refer you back to the very conversation we had at the beginning, which is that I would not want to say either way what I think, without looking at the specifics of the schemes and what the analysis says about the benefits of the cost ratio of it. The Northern Way, in its portfolio of projects that it has pushed on to its transport compact, does identify some expenditure targeted at freight that seems to deliver quite large benefit-cost ratios and we clearly should be doing those. Again, it is just so dangerous to go down this route of saying, "The issue is freight or the issue is high speed". I think there will be a number of freight investments that will be basically being supported, on the basis of being transformational, and very few of them will turn out to be so, whereas there will be some that look very good on the basis of reasonable projections about what we think would happen. I think we should be doing those.

Q42 Angela Smith: I am not interested in the transformational but I am interested in dealing with what Eddington described in 2006, which is an analysis that suggests that the rise in cost of congestion will cost the UK economy something in the region of £22 billion by 2025. Isn't the overriding strategic objective, when it comes to transport, the need to ensure that we tackle that congestion effectively, that whatever we do is designed to make sure that we move goods and people as efficiently as possible to their markets? In order to do that, we have to sometimes understand that transport is not just reactive and based on users and cost ratios but also sometimes factors, such as the impact on congestion, and the impact on markets and labour and movement of goods—as Kelvin pointed out—is incredibly important.

Professor Alan Wenban-Smith: There is a basic problem here, which is that if you put in new investment, particularly in roads where there's no price mechanism to counter that, it simply brings forth more demand, which may be producing perfectly worthwhile things but it is not a cure for congestion.

Q43 Angela Smith: I am not talking about just roads. I am talking about public transport primarily, to be honest.

Professor Alan Wenban-Smith: No indeed. It is a particular problem in roads because there isn't a price mechanism for controlling demand.

Q44 Angela Smith: But I think Eddington was talking about dealing with road congestion and understanding that railways and bus networks have an important part to play in dealing with that congestion.

Q45 ***Professor Alan Wenban-Smith:*** The thing that always strikes me about rail congestion is that we carry round great chunks of fresh air called the first class section of trains. Half the train this morning was first class that had about three people in it. Why do we do that?

Professor Henry Overman: We do it because it allows the rail companies to make more money and reduces the public subsidy that we pay them, so let's be a bit careful here. These pricing structures do play some role in ensuring that we extract money from the users.

Chair: We are looking at the importance of transport investment in the economy. Ms Smith has raised an issue. Does anyone want to answer that question?

Angela Smith: I am not talking about empty carriages. I am talking about the investment policy, the policy on the investment that we need to put in place, as UK plc, to ensure that goods and markets are as connected as possible, as efficiently as possible, and that labour is able to get to its place of work in order to improve productivity in the UK.

Chair: Could I ask each of you then for your final comments, in response to Ms Smith's important question: what do you see as the key areas for transport investment to improve the economy, apart from looking strictly at cost-benefit analysis in the way that it has been put forward? Are there any specific things?

Professor John Tomaney: I think that the point that was raised by Mr Maynard, earlier on, about the way we think about the connections between transport infrastructure and economic development planning is critical. In the current environment of austerity there will be a real danger that we stop thinking about that connection, and that would be something that I would urge the Committee to consider.

Q46 Chair: Thank you. What is the most important thing to you, Professor?

Professor Alan Wenban-Smith: I would agree entirely with that comment, and my view of that would lead you to the proposition that increasing productivity in the big cities is a major concern for regional balance, as well as output; public transport that makes them work properly.

Professor Henry Overman: Reducing congestion. Eddington identified it: reducing congestion in urban areas. It's absolutely clear that this is where the largest benefits are.

Chair: Thank you very much for coming and answering so many questions.

Examination of Witnesses

Witnesses: **Professor Phil Goodwin**, University of West of England, **Malcolm Griffiths**, Bluespace Thinking Ltd, **Chris Riley**, Consultant, gave evidence.

Q47 Chair: Good morning, gentlemen. Would you identify yourselves, please, for our records? Could I start at this end with Mr Riley?

Mr Riley: I'm Chris Riley. I was DfT's chief economist until five years ago, since when I've been an economic consultant. I work part of my time on transport.

Professor Phil Goodwin: Phil Goodwin, currently at the University of West of England and formerly a member of SACTRA, the Standing Advisory Committee on Trunk Road Assessment, and head of the Transport Research Groups at Oxford University and University College, London.

Mr Griffiths: I'm Malcolm Griffiths. I have a small consultancy called Bluespace Thinking. I'm a civil engineer by background. I've had 30 years in the civil engineering and energy businesses, most of which was involved in the development of strategy and decision making. So my interest is in good decision making rather than transport specifically.

Q48 Chair: Thank you. Would you consider that Eddington's recommendations are relevant today, with lower traffic growth and lower economic activity than predicted?

Professor Phil Goodwin: A large part of my evidence is about trying to push at the Eddington conclusions to see how vulnerable they are. My feeling would be that, like your previous witnesses, in terms of priorities there may be a lot more benefit to be gained from a focus on urban transport, especially city transport. That is in terms of the priorities among the three priority areas.

For policy, I think the Eddington conclusion—that, if the Department for Transport's traffic forecasts are right and if there is no road pricing, there is no infrastructure capacity improvement which can actually make traffic conditions better—is a robust one. I think that is still valid, although I now take a different view than he did, and that the Department for Transport has done, about the possibilities of traffic growth being very much less than was assumed then.

On evidence, I think there is a vast range of evidence now, which Eddington was not able to take into account, about the benefits and costs of other policy options, including non-pricing methods of reducing car use, which shift the balance among the types of projects that you would want to support.

Q49 Chair: Does anybody else want to comment on that? Mr Riley.

Mr Riley: I think that Eddington's main conclusions remain valid, although clearly the context is rather different from what he was assuming. I think his assessment of the key priority areas is still valid: urban congestion, inter-urban networks and international networks. His focus on the importance of value for money, in making decisions about transport

spending, seems to me absolutely right and one which we should pay great attention to.

I think the third key conclusion of his, which is the importance of getting prices right, which underlay both the Eddington study and also the Stern report on climate change, seems to me absolutely crucial. I don't think his other conclusions suffer if we don't have road pricing, but clearly road pricing is an important element of his conclusions that still is very important. Lower economic growth will reduce the value for money from transport investment across the piece because it will mean less pressure on transport capacity, but the basic messages that he put forward—and I think the priorities that he put forward—seem to me to be the right ones.

Q50 Chair: Mr Griffiths?

Mr Griffiths: Yes, I agree. I think the trend of where he was going was correct. I think two things have changed though. One is that saturation per person, in travel terms, has now appeared; it is now there in the numbers. Whether that is due to technology, or other things, that is to be seen. It is certainly not just an economic effect. So that saturation has occurred.

The other thing is, if you look at the economic changes as to where the economic growth has come from and which sectors of society it has occurred to, the wealthy have got wealthier and the increase is in things like health, education, property, financial services. We've seen manufacturing and agriculture go down over the period. I think that impacts on where transportation should be focusing to help the economy going forward.

Q51 Kelvin Hopkins: Just to follow that point, the Government are talking about rebalancing the economy. You have mentioned manufacturing and I agree absolutely, but the big manufacturing sectors and the ones that need the development are further north, not in the south-east. The big conurbations are the midlands and the north, north-east and Scotland, but they don't have an effective strategic freight network to serve them, and this is one of the points made in our papers here. So freight is constantly underplayed. People talk about marginal changes, little improvements here, little improvements there, but you probably heard my earlier questions about the need for dedicated freight corridors, particularly on rail, capable of taking the kind of volumes of freight we need to transport.

Mr Riley: The first observation I would make is that the freight intensity of the economy, as I understand it, is falling and I have no reason to think that, even with some rebalancing of the economy, that trend will not continue. But I think, as previous witnesses have said, whether investment in rail freight is good value for money depends on the numbers and depends on whether that is better for the economy than ensuring there is sufficient capacity for other forms of freight. I think there is an open question about that.

Mr Griffiths: If you're deciding where to put your business you need a good work force; you need an experienced workface; you need those people to be able to get to your business and you need to be able to send your product to market. Those are the three things in that decision. I think the question of freight is dependent on how we see the economy going because if we're going to a services economy—be it financial services or information technology services—then there is not a lot of freight involved in that. It is much more the high-speed broadband and things.

My own view is that in part we have to reverse the decline in manufacturing. The imports that we are now getting in manufacturing are far exceeding our exports and they are the technology things: they are the computers, the TVs, everything that we have going forward. So I do think we need to reverse manufacturing.

Whether we need new freight infrastructure or not I don't know. It is a case of looking at: where can we have the economic development; what are the products going to be; where are the markets; do they need rail freight or are there existing systems? I don't know the answer to that.

Q52 Kelvin Hopkins: I am in contact with supermarkets over this. Supermarkets are keen to get more of their inter-urban traffic on to rail but the capacity isn't there. I have meetings with them. If we could get just the supermarket traffic—that is going to continue, food and drink are going to continue—could we not investigate or at least think there is a realistic possibility that they might shift a substantial proportion of their road traffic on to rail if the capacity was there?

Mr Griffiths: I totally agree with that. I was talking to a gentleman yesterday about Rugeley. Rugeley is an area that is quite some way down, in terms of health and economic development. He explained to me that they have a new warehouse there that could give employment as a distribution centre, but they didn't have transportation links to the warehouse. In that context, freight clearly has to be important.

Q53 Chair: Should there be more flexibility between capital and revenue expenditure?

Professor Phil Goodwin: I'd like to come in on that, but could I also comment on the freight thing, because I'd like to add another point there. It does seem to me that there is a very attractive idea of having a strategic rail freight network with a European dimension and with connectivity, that being the key. You have to have unbroken connectivity to make that work. But I think my view is a bigger contribution to freight efficiency than that—not instead but as well—would be gained from giving freight a higher priority in access to scarce road space than it currently has. One of the ways of doing that is encouraging a greater transfer of car use from the road network—where very often it's not necessary—to rail and public transport, thereby giving more elbow room to have freight priority systems, especially on the roads to and from ports, that sort of area. So I do think there is an interaction between the freight side and the passenger side here.

On revenue and capital, I think we have a bit of a problem in that, although both manifestly are going to be subject to very tight constraints over the next few years, there is an implicit assumption that capital is good because it is investing for the future and revenue

spending is bad because it is subsidies. I don't think that is valid at all. What is getting the highest value for money, in transport congestion and economic terms at the moment, includes a lot of quite cheap revenue schemes. I think we have to find a way of raising their position in the moral high ground of what gives good value for money.

Mr Riley: I agree very much with the points that Phil has just made.

A point I would also make is that ideally capital spending, when it is worth while, should be financed largely by borrowing—debt—because the benefits accrue very largely to future transport users, future generations, and that is the way you should pay for them. Current spending should be financed out of current user charges and taxation. That is the way that ensures equity between the generations. That is a flexibility that is not always allowable within the way in which we control public expenditure, but ideally it should be. I can't believe that very good capital projects, financed by additional borrowing, would suddenly cause a great loss of confidence in our fiscal policy. So that is the first point I would make.

Secondly, I think there is an issue about maintenance of existing assets. If we don't maintain worthwhile transport assets in a reasonable state, we just simply store up the need for more capital spending in the future and that is an extremely short-sighted approach. Not only do we save some money if we don't maintain our assets but the value of those assets goes down, so the public sector is not gaining anything by making this false economy.

The final point I would make is that the most important thing is that we use our existing assets, as Eddington said, as efficiently as possible, and that comes back once again to getting the prices right.

Q54 Paul Maynard: We have had a lot of attention so far on the issue of appraisal, cost-benefit analyses, wider economic impacts. How can we improve the current assessment system to better reflect the need for economic growth when taking transport decisions? Do we need to re-design the cost-benefit analysis or do we need to put something in place that is parallel to it and, if so, what would that something be?

Professor Phil Goodwin: My feeling here is that it is a very tricky problem that may not be solved by successively more and more elaborate calculus methods of doing the sums. I live with these sums. That is part of my life. I am very well aware that they are imperfect. I think the key thing is about scrutiny and challenge, not about big consultancy studies to do the sums. That is why in relation, Mr Maynard, to your earlier points about transport policy statements and a new planning regime, it does seem to me there is an enormous danger in having abandoned the formal scrutiny and challenge that used to be carried out in the public inquiry set-up, the reason for that precisely being the points that you mention: this is all very complicated; it produces vast volumes of paper; claims are made that are extraordinarily difficult to substantiate—usually over optimistic—and the only way one is going to be able to get that is by having a level of technical scrutiny and debate and challenge, by people who disagree with each other. I am a great fan of the almost courtroom atmosphere in this, if you take my meaning.

Q55 Paul Maynard: What should "transformational" mean, in terms of economic growth? It is a word that is getting old. What should it mean?

Chair: "Transformational". What should it do in relation to economic activity? What should it mean and what has it meant in the past?

Mr Riley: I think one of the extraordinary things about British economic history is how little the underlying rate of economic growth has varied. We have had big cycles over many centuries but the underlying rate of growth has remained pretty close to 2%, or thereabouts, for hundreds of years. I think if transport—or indeed any other policy—were capable of adding a quarter of a percentage point to our underlying growth rate that would be regarded as a great success. One of the great problems of economic policy, for all Governments, has been Ministers deluding themselves that they have produced a sea change in our growth prospects and then of course it all comes to a terrible halt, as we have seen in 2008.

Mr Griffiths: Thinking about "transformational" and thinking about "strategic", these things have to start with a hypothesis of something that can be done that will make things so much better for people. They don't start with a whole bunch of detailed numbers in a computer. You first have to say, "I think doing this, that and the other will make a difference". My own particular view, in terms of the economy, is getting people in the lower 30% of households into work and having a better standard of living. I think health costs would reduce; I think welfare benefits would accrue. I think that is important. From a transportation point of view, I think it is getting individuals to work quickly and cheaply. It may lead to subsidy. It almost certainly leads to better bus services, to car sharing—dealing with the cultural difficulties of that—and some of the ICT-type benefits.

But it starts with a hypothesis and you can then say, "Yes that may work" and then you test it with the analysis. You see whether that really stacks up. To me that is transformational thinking, as opposed to this project or that project that is suddenly going to change things. It isn't. It is going to be more difficult than that.

Q56 Kwasi Kwarteng: It was interesting; I'm not sure how much of the last panel you saw, in terms of the people and their contributions, but it seems to me that what you are suggesting is at subtle variance with what a gentleman in the last session was saying, when he said that he wanted to look at projects on an individual basis. I am caricaturing what he said because he did accept that there was scope for strategic decisions, but he was very focused on the project-by-project basis and you seem to be saying something quite different from that.

Mr Griffiths: I am saying that, at that higher level of strategy, do we focus on long distance travel; short distance travel; trains; buses? I think you have to have a transformational and strategic hypothesis, then you test it with the analysis and then you say, "These projects fit and these ones don't". You do the analysis

in tiers, as opposed to putting forward a pet project and trying to decide whether this is good or not.

Q57 Kwasi Kwarteng: Sure and, in terms of policy, which body or Minister or Department do you see driving that strategic vision?
Mr Griffiths: I think it is for central Government Departments to provide that sort of thinking but then for the localities to say, "It works for us" or "It doesn't work for us", and make the decisions about it.

Q58 Chair: Do you think the encouragement to look at it in that way should come from the centre, although counties should be looking at what they require?
***Mr Griffiths*:** I do. Bear in mind that my background is more business than politics, but I know that big multinational companies develop their strategy and their hypotheses centrally; they lay down systems that subsidiaries need to comply with; then they let the subsidiaries get on with running the business. But that strategic thinking only needs to be done once. It needs to be done with consultation and involving everyone but it only needs to be done once.

Q59 Chair: Perhaps you could link it with some of the points you made in your written evidence, where you were talking about smaller projects giving better value for money than larger ones, which is not the same thinking that DfT has. Perhaps you could link that?
Professor Phil Goodwin: Yes. I am wrestling with this word "transformational". I think I have come to the conclusion it is best to avoid it. The reason for avoiding it is because it almost inevitably leads you to make claims for individual schemes, which individual schemes are quite incapable of delivering and possibly even the transport sector, as a whole, is incapable of delivering. I do however use the word "strategic". I think that is a useful one and it seems to me there that "strategic" should not be a code word for big schemes. In order to justify huge schemes they call it "strategic".
Strategic is about the coherence and logical consistency among all the different elements of policies that are aimed not to undermine each other. It seems to me that an inescapable conclusion from localism is that there must be strategic divergence in the pathways adopted by different parts of the country, different cities and different regions. The result of that will be a greater evidence base on which ones work well and which ones work poorly. That will be a stronger long-term strategic position to be in, just as our experience in the UK is immensely strengthened by the fact that some other European countries have been doing something different and we can, therefore, look to evidence.
My own calculations for what they are worth suggest that, by quite a big margin, the best value for money at the moment is coming from things like smarter choices packages composed of workplace and school travel plans and individual travel marketing; behaviour change schemes that are astonishingly successful, in spite of the presumption that it is impossible to change human behaviour. It is not impossible at all. It is happening on a very, very big scale all the time.

Q60 Chair: Are they successful for economic activity, as distinct from successful for environmental purposes or relieving localised congestion, making people's lives more pleasant? Are they successful in relation to the economy?
Professor Phil Goodwin: I take the view that there are two elements to that. The first is that contribution to narrower transport objectives—congestion, safety, efficient movement—is a necessary condition for there to be any wider macro-economic benefit. It is not a sufficient contribution but it is a necessary one. You are not going to get top-up effects on the economy if you do not have improvements in travel conditions to start with. Therefore, prima facie, there is at least a case to argue that the investments that are delivering the biggest narrow transport benefits may also be delivering the bigger potential for wider economic benefits as well.
The second element of that, which is indirect evidence but I think quite persuasive, is that at least some of the areas in which these policies are most successful are also those which the macro-economic analysis suggests have the greatest potential. For example, in very short distance movements in efficient inner and central city areas, the agglomeration argument is enormously helped by these sorts of small-scale policies, provided they are done, I should say, in quite a big way. The individual elements are small but the overall effort that you have to put in does add up.

Q61 Chair: Mr Griffiths, in your written evidence you say that current appraisal methods favour the larger major capital projects. How does that happen?
Mr Griffiths: It is quite specific and detailed but I think it has three stages. Firstly, historically there has been the view that travel correlates with GDP increase. That connection has disappeared, with the effect of saturation and what has happened over the last few years. If you look over the last six years of data from the Office of the Rail Regulator and the ONS, that correlation is not there. That correlation then goes into something that is called "elasticities" and they are much higher for longer distances. Again, that arrangement has disappeared and, in fact, there is a new revision of the appraisal guidance that hasn't yet been put into place, but that will dramatically change that.
Now, because of those two changes, whenever you do a calculation, if it's big and it's going a long way, it will look much more beneficial than it will do when the appraisal method has caught up with what's happened over the last 10 or 15 years.
Mr Riley: I have a comment on that. As I read the evidence, and as Phil's paper sets out, it is very often the smallest schemes that have the biggest rates of return using the appraisal methods we currently use. So I am not really quite sure I understand the proposition that the appraisal system benefits large schemes.
If I may just comment briefly on the general points that have been raised here; it is clear that the strategic analysis of big schemes will typically tend to be of a

different form, using different models and different approaches, than the analysis of small schemes, or individual schemes rather than strategies. The basic framework that the current appraisal system uses—I have to declare an interest, having been involved in developing it—is the overall effect on welfare including, the economic benefits, the social benefits and environmental benefits, and to try and make those as transparent as possible, which seems to me absolutely essential.

That is not to say that it's not perfectly reasonable to focus on a particular component of it, which individual Ministers, or governments or lobbyists, will do at different times, focusing on the effects on economic growth or the effects on the environment, or whatever. That seems to be a perfectly reasonable adjunct to go alongside the existing appraisal methodology.

I think the third point I would stress—which Henry Overman made this morning—was that some of the wider benefits or impacts of big transport schemes, which might or might not be called "transformational", are very difficult to understand and model. To try and shoehorn them into a very tightly defined methodology, which we currently have, is not going to be the end of the story. It's very important to bring to bear other kinds of evidence that can support the overall decision, whether it is strategic or local.

Q62 Paul Maynard: If it is very difficult to construct one single calculation that will turn out a number at the end, in order to rank 10 projects in order and go for the top three, when you have a defined pot of money—and a smaller pot at the moment, as we now have—what mechanisms should we be trying to use to decide between say a Mersey gateway and a northern hub, or a northern hub or the HS2? How do we prioritise? If I understood Professor Goodwin correctly, it has all become so complex and we are almost being reduced to going on a hunch, perhaps. That is perhaps a bit unfair.

Mr Riley: It's always been the case that appraisal is just one input into decisions and that is absolutely right. The methodology we have is not sufficiently robust to be able to just simply take the top ones off the list. It's a matter for politicians and local decision makers to make choices. The plea I would make is: it is important that they should be based, as far as possible, on evidence. What form that evidence takes may vary according to the type of scheme or strategy that is being considered. It doesn't have to be all shoehorned into a model.

Q63 Kwasi Kwarteng: I think it is obvious to the general public that these decisions are political. No sophisticated model in the world is going to be able to decide between building a bridge across the Humber, or whatever it is, and something in Cornwall. That isn't the function of these models to do that; I appreciate that.

What I was particularly interested in is this question of strategic direction. Ultimately, I accept these are political decisions but do you think there is a possibility for a framework beyond the cost-benefit analysis—this is going back to a question my colleague asked—where we can appraise these different things to make it slightly more objective? What I am saying is: obviously, ultimately, these are political decisions but is there any way we can try and create some sort of framework of looking at these?

Chair: Is there any way of trying to assess what we do or we don't call transformational schemes, strategic schemes?

Professor Phil Goodwin: I think there is. I suppose there are two big errors that one might make with the structure of benefit cost analysis. One is to say, "It's perfect" and the other is to say, "It's rubbish" and both of them leave you helpless in the hands of manipulation. I do think that a framework along the lines of that which the Department for Transport has worked out over the years—sometimes it has three main priorities and sometimes it has five, and it always allows for the statement of both the economic calculations, and the policy, equity and social argument as well—is right, and to be required to do it formally and thoughtfully, and then be open to criticism and scrutiny helps.

What one wants to do is look at patterns and it does seem to me that there are very clear patterns now; the sorts of strategies that are coming out with good rates of return, do seem to be robust over many different situations and subject to all sorts of trying to test away at the assumptions. I think that is useful.

I was interested in the apparent conflict between Malcolm and Chris's point: is the existing system biased or not, for or against big schemes? I think the resolution, why they are both right in a sense, is that if it is done properly, the present situation need not be biased, but it's almost never done properly because there is so much vested interest—

Q64 Chair: Who decides what is proper?

Professor Phil Goodwin: I take your point, and that is why I am in favour of that: once the calculations have been done, they must be open to challenge and argument and then it is a political process.

Q65 Chair: Professor Goodwin, have you spoken to the DfT with your proposals for appraisals?

Professor Phil Goodwin: Yes, indeed.

Q66 Chair: What has its response been? Can you tell us?

Professor Phil Goodwin: If I can be a tiny bit heretical, the Department for Transport within it has about the same range of views about transport strategy as exists in the population, or indeed on this Committee, and quite right too. Therefore, it doesn't surprise me at all to meet people who say, "Great, you're doing a grand job. We can't say it but you keep on saying it, it's great," and others who are saying, "You must be out of your mind, this is not the way that we do our calculations at all" and maybe the conventional wisdom is somewhere in the middle. Maybe recently ex-Department for Transport officials are the people to ask about that.

Chair: When we read that response, we will have to consider what we think it means.

Q67 Kelvin Hopkins: I must say I have a very jaded view of Government decision making in Britain over a long period. We are very good at saying no to things. We are very good at underfunding things and we are very good at making wrong decisions. I hesitate to say this in front of Chris Riley, who was centrally involved during the exchange rate mechanism; for example, privatising the railways, the PPP scheme, and we could go on. Giving tax credits to the HMRC was complete nonsense, in my view.
Chair: Can we keep to transport, Mr Hopkins? I know it's tempting.
Kelvin Hopkins: Malcolm Griffiths talked about the way companies operate and they decide very carefully their strategic way forward, to make sure they get the decision right presumably, and then allow work to be carried out at a lower level and different arms, and so on, but they make sure they get the decision right in the first place and then they support it. British Government and British politics, it seems to me are governed by pre-judgments; people have ideals. I have been talking to a senior civil servant—more than one in fact—who says that, with all this talk of evidence-based policy, if politicians or senior officials don't write the policy, they ignore the evidence. Is that not the case?
Mr Riley: I couldn't possibly comment on that, but I think it does lead one to the view that the most important consideration in many ways is transparency, that the evidence on which decisions are made should be laid out as clearly as possible. I think that is one of the great merits of the present system we have, but it should go wider than that. If there are specific objectives or other criteria that are brought to bear within decisions, then there are perfectly good techniques available for displaying these. You can even analyse them, in a very technical way, using multi-criteria analysis if you wish, but the important thing is they should be set out clearly. So, where there is a political judgement or an arbitrary judgement of some other kind imposed on analysis, it should be absolutely clear and then that gives commentators the opportunity to criticise and to comment.

Q68 Chair: What is going to happen now with regional projects, if we have LEPs and no RDAs and no regional government offices? Does anybody have a view on how they would be taken forward?
Mr Riley: There is clearly a need for co-ordination of some kind between local authorities on decisions affecting their local areas. I think for national schemes, for inter-urban schemes, those have to be taken centrally, very largely, but for schemes that are primarily local in nature, and given that local authority boundaries are not big enough to encapsulate the whole area of a city region, let us say, there has to be co-ordination.
Local Enterprise Partnerships are evidently a way of trying to bring this about but, from what we have heard, they are not going to do that necessarily. We've heard this morning already that there are three in the Tyne and Wear area, so how are they going to be co-ordinated? The Government has a responsibility to facilitate the kind of co-ordination that is necessary to make sure that transport planning, how it links with housing and all the rest of it, at an appropriately defined regional level, does happen. Therefore, I think we have to wait and see how Local Enterprise Partnerships function.

Q69 Chair: So you think the Government will have to look at ways of doing this?
Mr Riley: There needs to be co-ordination, if this is going to be done efficiently, at a city regional level or at an economic regional level.

Q70 Chair: The issue here is for schemes that cross those boundaries and are not at levels.
Mr Riley: Yes; like travel to work areas, for example. The proof of the pudding will be in the eating but, at the end of the day, someone—and I guess it has to be central Government—needs to ensure that there is sufficient co-ordination across local authorities, or across Local Enterprise Partnerships, taking place.

Q71 Paul Maynard: Do you think that transport policy in the north of England is, or should be, any different from transport policy in the rest of the country?
Mr Griffiths: It goes back to the discussion we were having earlier, in terms of urban congestion and getting people to work and having transportation that fits with other policies in a particular area. If you look at London, London is almost the perfect example of where there is lots of transportation all coming in, and things are working, and you get something like Docklands that needs regenerating and the developers come in and the transport comes in. To my mind, there needs to be more of a focus on that, on the northern urban areas that need to be developed. That could well mean that more money goes into that than in other places.
We have talked about a framework. The high-level framework is about resource allocation, so whether it's, "I'll give this much money for long distance; this much money for urban congestion", whatever those big policy things are, that is the framework. Those are the political decisions supported by lots of evidence, "If you do this, this is what will come out". Having allocated the resources, then it is for the localities to get on and say, "Right, this project is better than that; that project is better than the other. Three of us need to get together to make something work across areas".

Q72 Julian Sturdy: Just following on from that point, outside of London, do you feel that part of the problem has been that local authorities have been making transport decisions on their individual area and not looking at the bigger picture? I think London is an exception to that and this especially relates to the north. The LEPs, if they're done on a city region basis where they are based around the way people move to work and things like that—based on an economic sense—will help slightly to balance that out and move away from the more parochial thinking that transport has been done within local authorities over the past few years.
Professor Phil Goodwin: The problem is when the historically determined local authority boundaries don't correspond anymore with the economic entity of

the area. This happens quite often when two small towns, in effect, merge and become a single city but they still have two separate town councils. Having said that, I must say I don't detect a lot of difference between the concerns, the range of alternatives for solving them, the sensitivities in discussions about transport strategy in the north or in the far west or in the south. There is a difference clearly between urban areas and rural areas, but I don't think there are different criteria that are applying in the north discussion and the south discussion. Basically, it's the same thing.

Mr Riley: I think there is a different dimension to this and that is the whole question of regional balance and regional equity. If one simply adopted the national principles of looking ideally for where the best value for money is and applied that across the country, you might well end up concentrating your investment in the most dynamic, fast-growing regions—like London and the south-east, for example—because rates of return, as measured, would be higher and that would arguably generate the best economic benefit for the country as a whole. However, there is another objective and that is about the balance between regions, the equity between regions, and the great unknowable about how much investment in transport in less well performing regions would help, which is debateable. I think that other dimension has to be factored in, as I think the Secretary of State said in the evidence he gave to you in July.

Q73 Chair: How important is it we invest in ports and airports in supporting economic activity, investment and tourism?

Q74 ***Professor Phil Goodwin:*** It is not clear to me that a port deserves an entirely different importance to any other area of important economic activity. I was a non-executive director of a major port for 15 years and I fought—as one would—for the priority of that port, but when it comes down to it, the transport issues that affected it were largely those about the delivery of customers, both freight and passengers, on a crowded road and rail system where this wasn't about investment in the port at all. This was about investment in the connection between the port and the rest of the country. I think I took that to be Eddington's focus. He was talking about access to ports, rather than the investment strategy of the port itself, which, life being what it is, is largely going to be taken on commercial grounds anyway.

Chair: Thank you very much for coming and for answering our questions.

Tuesday 2 November 2010

Members present:

Mrs Louise Ellman (Chair)

Mr Tom Harris	Paul Maynard
Kelvin Hopkins	Iain Stewart
Kwasi Kwarteng	

Examination of Witnesses

Witnesses: **Councillor David Woods**, Portfolio Holder, Environmental Sustainability, Hull City Council, **Mark Jones**, Head of Economic Development and Regeneration, Hull City Council, **Simon Driver**, Chief Executive, North Lincolnshire Council, and **Jodie Booth**, Transport Planning Manager, North Lincolnshire Council, gave evidence.

Q75 Chair: Good morning and welcome, all of you, to this meeting of the Transport Select Committee. We normally have our meetings in London but we decided it was the right thing for us to come here to Hull today. We know what an important city Hull is, with very particular concerns about transport, and we thought it was very important that we came here to see and hear for ourselves what your issues are, so I hope that, during our questions, you'll feel able to tell us the things that you think are most important, to help us with our national inquiry into transport and the economy.

I'd like to ask everybody, please, to make sure their mobile phones are switched off, because I've been told that they interfere with our recording system if they're on, so I'd be very grateful if everyone could switch their phones off. I'd like to ask our witnesses here, please, to identify themselves. Could you just give your name and the organisation you're representing? It's for our records, so that our recorders are clear who's speaking and we get that down properly.

David Woods: I am Councillor David Woods and I'm the portfolio holder for environmental sustainability with Hull City Council.

Mark Jones: Mark Jones, officer with Hull City Council.

Jodie Booth: Jodie Booth, North Lincolnshire Council, Transport Planning Manager.

Simon Driver: Simon Driver, Chief Executive of North Lincolnshire Council.

Q76 Chair: Thank you very much. How important are transport improvements to economic regeneration in your areas? Who'd like to give me a thought on that one? Anyone? If you just indicate if you want to speak. Mr Jones?

Mark Jones: I think, in terms of the Humber estuary as being the largest trading estuary in the UK, the UK being a maritime trading nation, appropriate transport infrastructure to match what is a private-sector-led investment in the port infrastructure is an absolute imperative and, over the past 20 years here in the Humber, we have seen a very significant amount of investment from port owners, port operators and maritime operators, which hasn't been matched by a commensurate amount of investment in the public transport infrastructure. Yorkshire and Humber tends to be at the lower end of UK investment, and the Humber in particular, which is hugely dependent on an appropriate infrastructure in terms of transport to match its maritime trade opportunities, tends to have been left behind over recent years.

Q77 Chair: Thank you. Turning to North Lincolnshire, have you got similar views, Ms Booth?

Jodie Booth: Yes. I would like to say that definitely putting some money into infrastructure is absolutely important for stimulating the economy and, particularly in this economic climate, it's absolutely important, both in rail and road freight, to put some investment in to stimulate economic growth. Particularly as well, as Mark has alluded to, the ports are a particularly important industry around here, and something that can stimulate private-sector investment and encourage that growth, and as Eddington has pointed out through his study, there is a need to focus on international gateways, ports and airports. We do have that facility within our area in the Hull and Humber ports, and there's certainly a massive opportunity here at the moment to put that infrastructure into this area to facilitate that private-sector investment that the country drastically needs at the moment to rebalance the economy.

Simon Driver: Building on that as well, I think in particular it's looking at job opportunities in the sub-region and opening up movement across the sub-region. It's looking at where the investment is on both banks through the ports industry but also through the oil refining industry, the chemical industry and, potentially, renewable energy, as well as in the more traditional areas. That relies on not only transport infrastructure, both road and rail, but support for public transport to allow people in those areas of unemployment to access the jobs. The jobs that are being created will be created by significant private-sector investment, particularly on the south bank. We need to open up those job opportunities to where the large pockets of unemployment are in the sub-region.

Q78 Kwasi Kwarteng: I was just wondering: you were saying that, obviously, you needed more money to be spent on that infrastructure, but within that framework, would you prioritise certain modes of transportation. So, you have a pot of money, but obviously it's restricted, so where would you channel that money ideally? Would you have road

infrastructure or rail infrastructure? What do you think is the top priority?

Jodie Booth: I think it's important to look at where you can actually stimulate the most economic growth and look at the actual figures in terms of where you can bring in the most private-sector investment, what will start to stimulate economic growth in terms of bringing the jobs into the area, and make the decisions on the back of that. Obviously, as well, there's the issue around sustainability, and looking at not only the environmental issues but where you can provide sustainable economic growth and, in those areas, we should be looking at putting in investment. Whether that is road or rail, or a combination of both, we should be looking at both of those issues.

Obviously, we do have the largest port complex in the country in terms of tonnage within our area. We also take 20% of the UK's rail freight out of the ports, so there are some real key issues for us on both road and rail. Particularly in this economic climate, when there isn't a lot of money to go around—we understand that—we have to look at those issues and look at where we can stimulate the most economic growth for the north but also for the whole of the UK.

Q79 Kwasi Kwarteng: Could I just ask a follow-on to that? Specifically, in terms of this local region, do you have any overriding priorities? If you had to choose between rail and road, for instance, what choice would you make?

Jodie Booth: We, obviously, have a major asset in our area in terms of the ports, and we would like to see investment concentrated around the port areas, not only bringing road and rail freight in and out of the ports but, as my colleague has alluded to, looking at getting the employment from both sides of the Humber into those jobs as well, so that we can keep it within the UK and within our areas.

David Woods: I think we've already identified that some of the road network hasn't had any investment for many years now to a point where it is not capable of taking the kind of added traffic—just the road traffic—that the ports will generate in the future. Obviously, on sustainability, we would like to see an increase in freight on the railway lines, but Hull in particular has a single line that runs through the middle of the city, and infrastructure building for that would not have as much impact as sorting out some of the road issues that we have, and I'm sure you'll see those. I'm sure that it's the same for the south bank as well.

I have to say one of the major road issues, of course, for the Humber and the Humber ports, is the question of the bridge and how that's going to fit in in the future with the financing for the bridge and improvements to the road. So, initially, I think we need to see some movement on the road infrastructure. Certainly, in the future, high-speed rail links to Leeds and to West Yorkshire and improved railway links between both sides of the Humber and that hub around Leeds would be something that we'd want to see almost running in parallel with the road improvements.

Q80 Kwasi Kwarteng: Let me just clarify this for my own purposes: you're saying that the road infrastructure is the most immediate priority you have.

Mark Jones: Yes, I think so. There are certain sections of roads, and I'm sure that you will have seen those, certainly in the centre of Hull, on Castle street, which cuts the city in half, and most of the investment would be going in the east of the city, which means we have this logjam in the centre; similarly, with the south bank, there is the issue of access to the ports at Immingham. So, there are these specific areas in the road network that, I think, would have the priority.

Q81 Chair: You mentioned rail as well. Which aspects of rail are most important at the moment?

David Woods: Well, I'm sure they'll speak for the south bank. Certainly, the single rail that we have through the city is not up to capacity yet but it certainly will be in the future, and I think we need to see how that can be sorted out.

Q82 Chair: You mentioned rail service to Leeds. Is that a high priority?

David Woods: Yes, I think so, just for commuting, but also for freight as well.

Mark Jones: I think one of the things that I'd like to bring into this is looking at transport in terms of its total context. Eddington tended to look at it as a means of transit, and there are trade-offs between time, cost and quality. I think, when you link transport to ports, we should think about ports in terms of economic value-added and as a total system. It's not just about a dock and a road at the end of the dock. I think Simon alluded to this in terms of the value-added. Our ports in terms of the wider economy aren't just competing with the UK ports; they're also competing with continental ports for inward investment and value-added adjacent to the ports. I think it's quite important that the Committee looks at the economic potential that we can derive from that. In terms of rebalancing the economy, road transport and port-centric logistics certainly offer us the better opportunity for creating more value-added jobs on both banks of the Humber.

Q83 Chair: How important is the development of the port to the whole area?

Mark Jones: It's hugely important in terms of, if you look at the gross value-added, if you discounted the ports and port-related businesses such as chemicals and steel, which rely on the ports, and there's an interdependency, then our GVA would drop considerably, and so would our employment. More importantly, though, looking to the future, the source of our gross value added is going to come from our basic economic base, which is the ports sector. It's the reason for the very existence of this city; it's the reason for the existence of Scunthorpe and Immingham. They are all port-related in some way.

Q84 Kelvin Hopkins: In your opening statement, Mr Jones, you implied some disappointment that public-sector investment hadn't matched private-sector investment. Where was the fault? Was it the local authority's fault? Was it the regional development

agency? Was it national? And which particular areas of public investment were you concerned about?

Mark Jones: I wouldn't want to apportion blame, because I think we all have a responsibility for recognising where our greatest economic effort should be. Certainly, if you look how the port systems on the Humber developed, they were developed by the railways. They were developed in parallel, north and south bank, and then the motorways arrived, and the Humber bridge, but they never quite got to the port gates. Had this been Holland, they would have got to the ports and been renewed three times by now. I know we're not in the predict-and-provide mode any longer, but certainly recognising that amount of investment that has gone in through the Humber. If my figures are right, in the late '80s the Humber was handling about 30 million tonnes of goods a year; I think it's approaching about 80 million tonnes or 85 million tonnes now, and that is, essentially, coming through the same transport infrastructure as in the late '80s.

Q85 Kelvin Hopkins: I have a specific question about railways. One of the problems with Britain's railways is that the gauge is too small to take containers in most areas. Are you restricted with long-distance rail freight simply because the gauge isn't big enough?

Simon Driver: Yes, certainly that's one of the major challenges we have on the south bank from the port of Immingham, just to increase that capacity, and it's gauge enhancements that are needed in a relatively small-scale part of the railway to actually access the national rail network. As Mr Jones has said, there has been very limited investment in the last 30 years, and yet the port of Immingham now handles nearly 70 million tonnes through the year. A large amount of that does go through the rail network for relatively short distances to feed the power stations and the steelworks in the region and beyond, but the potential for the development has got to be through the containerisation developments, and the investment will be forthcoming, but it does need the enhancements in the rail gauge in particular.

Jodie Booth: Just to refer back to two points you've made. First of all, you asked how important the ports are to the region? And then the issues about the road and rail—

Q86 Chair: We want to talk about the port at the moment and the gauge, and access to the port.

Jodie Booth: Yes. Well, in line with that as well, and referring back to the public-sector investment that we've had, I think it's important to say that the Humber ports are the UK's biggest in terms of tonnage, and home to the UK's biggest refinery cluster as well. We do have the largest remaining development site in the north of England and we have the prospect of bringing in up to 20,000 private-sector jobs. We do have the best opportunity in the north of England to rebalance the economy. However, we do have issues, both on road and rail, and particularly in relation to freight.

Now, with relation to the rail and the limitations that we have, we don't have gauge enhancements, which would allow the larger containers to get out of the ports, and also, from the environmental side of things, allow more out for less. So, by 2014, in the way current investment is going, we will be the last remaining large, major port in the UK not to have these gauge enhancements in the Hull and Humber region.

As announced last week, the A160 and A63 road schemes will not be taken forward, at the earliest, until 2015. This could well stimulate private-sector investment, with up to 20,000 private-sector jobs on the back of it, should we get that investment in the area.

Q87 Chair: Is this direct access to the ports?

Jodie Booth: Direct access to the ports of Immingham and to the port of Hull.

Q88 Chair: Have you been promised anything on the rail gauge before?

Jodie Booth: On rail gauge, we have had much research done by Network Rail and Northern Way into looking at the gauge enhancements and what's necessary. Now, we haven't had the funding promised to the region as yet, but that's something we've been looking into. We know that Southampton is currently getting the gauge enhancements, and Teesport is to come online in the next couple of years, and like I say, the Humber ports will be the last remaining port by 2014 not to have the gauge enhancements.

Q89 Iain Stewart: I'd just like to get a sense of the north bank and the south bank. You have two different council areas. To what extent, when it comes to planning all these transport projects and bidding for scare resources, are you rivals or partners? Do both banks have to develop together, or can it be one against the other?

Jodie Booth: I think we have been working as a city region—as a Hull and Humber ports city region—but I think what's fair to say is that we can't have a proper functional sub-region without action on the tolls. Obviously, we have the Humber bridge between both sides. We have had research looking into the tolls and we have the currently DFT study, and now the newly announced Treasury study as well. What we seem to have are a lot of studies going into the actual issues, but we haven't had any firm action on what will happen with the tolls. We have real uncertainty around this particular area, which causes problems both for the public and the private sector in terms of bringing confidence in the area to work as the Hull and Humber Ports.

Mark Jones: Obviously, in terms of the road improvements, we're talking about major capital schemes, looking at 2015. Okay, we may be disappointed, but we know where we are in terms of UK plc's finances. The Humber bridge tolls issue is an immediate fiscal issue that is acting as a fiscal drag in terms of optimising the estuary. I'd just like to say, Chair, in terms of the rail issue on the north bank in terms of gauge enhancement, it isn't as much of a problem and, indeed, working with Network Rail and the RDA, Yorkshire Forward, and the city council, under the Northern Way umbrella, we've secured

improvement investment to our rail line down to the port.

Q90 Iain Stewart: I'm not diminishing the importance of the bridge and the tolls, but in terms of general economic development and the type of transport projects that will enhance that, do the north and the south have to work together to secure that, or could one develop independently of the other? Are your main communications westwards?

Simon Driver: I think that is it. There can be some development but I think the important thing is that, in looking at, if you like, the development, it's the Hull and Humber ports, because that's the thing that actually unites the sub-region, but we need to make complementary development and investment on both banks of the Humber. One of the problems in the past has been the infrastructure has looked east-west, and the movement, though, of labour in particular into regeneration opportunities has to be north-south because, again, coming back to an earlier point, the bridge was built to unite the two banks of the Humber. It's failed to do that; it actually divides them at a time when, quite rightly, we need private-sector development—the opportunities are there.

The development has been announced already and planning permission has been approved for 4,500 jobs on a logistics park on the south bank, with the potential for a marine energy park. There's some pre-consultation happening already, and 20,000 jobs may come from that. Where the labour comes from, the mobility of labour isn't there. Quite clearly, the work that the city region has commissioned shows the two distinct travel-to-work areas—one on the north bank and one on the south bank—because of the impact of the bridge. Hull can't act as the true regional city that it should be because of the barriers to movement, in particular for labour, but also social movement, because of the impact of the bridge. That needs to be done to allow the sub-region to develop as a natural economic area, but also to build on the key issue for the UK, which is the development of the port and also the renewable energy.

Q91 Mr Harris: Can I go back just a little bit to the gauge enhancement for direct access to the port? Has a price tag been put on that? If so, how does that compare with the cost of some of the strategic road schemes that are on the go?

Jodie Booth: For the south Humber bank improvements and gauge enhancements, it will cost approximately £5.5 million to get out to the east coast mainline in Doncaster from the port of Immingham. The A160 scheme that we have currently with Government is approximately £114 million for the road improvements.

Q92 Mr Harris: That's useful. The original question I wanted to ask was in relation to your opening statement, when you said about the need to rebalance the economy. How is it imbalanced?

Jodie Booth: It is imbalanced between the north and the south. The rebalance of the economy between the north and the south has been alluded to in many Government documents.

Q93 Mr Harris: What would be the best way of rebalancing that in terms of transport infrastructure?

Jodie Booth: As Eddington has pointed out, transport can play a key part in actually stimulating the economy within the UK, and the key gateways that he refers to in terms of stimulating that economy is key international gateways, ports and airports. As one of the biggest—well, the biggest in terms of tonnage—ports in the area, we feel that if we can get the infrastructure in place, we can facilitate private-sector investment, which the Government, at this time, want to see us achieve.

Q94 Mr Harris: If you forgive me, though, Eddington didn't really say that transport infrastructure would stimulate the economy; he said it could facilitate economic growth but it wouldn't actually stimulate it on its own. So, what would be the drivers for stimulating the economy? Transport would help, but there'd have to be other factors there. What would they be?

Jodie Booth: Well, we have key bottlenecks, obviously, around the country at the moment, and one of those is at the port of Immingham and also at the port of Hull. Now, we see our area as quite fundamental in stimulating that economy, and transport infrastructure can facilitate the private-sector investment coming into this area and then stimulating the economy and putting jobs and private-sector investment into this area, which is needed.

Q95 Mr Harris: So, it's private-sector investment that you're looking for?

Jodie Booth: We have the potential of private-sector investment coming into the Hull and Humber ports city region, particularly around port industry, around renewables and offshore wind, and what we're saying is that we need the transport infrastructure in place, and other infrastructure as well, which we already have private-sector investment added into that. By putting the transport infrastructure in place, it will facilitate and stimulate that interest from the private sector to create the jobs that are well needed within this area and within the UK.

Q96 Chair: Is it difficult to get private-sector investment in transport schemes?

Mark Jones: Also on the previous question, the Humber's locational advantage is that we're the most northerly 12-hour crossing of the North sea, which allows full and efficient optimisation of equipment in terms of vessel utilisation and keeping the costs down in the logistics chain. As soon as those just-in-time cargos or time-sensitive cargos come off, which could be high-value, either way, and they hit a bottleneck very close to the port gates, which they don't experience in continental Europe, and the tacho is running, that then starts to deter private-sector investment. It also deters port-centric logistics, where logistics value-added operations are located close to our ports. That could be for mass customisation for UK markets or vice versa, because if coming out of there they suddenly hit a tacho block, then time is money in terms of deliveries.

Q97 Chair: But can you get private-sector investment in transport infrastructure?
Mark Jones: We can in terms of the complementary transport infrastructure around the ports, but there is an assumption that it should be matched by the public sector.

Q98 Paul Maynard: You're going to have a significant number of transport projects you're very keen to progress across all modes. I'm wondering: how do you prioritise between all those different projects? At what organisational level does that discussion take place or should that discussion take place? How do you balance themes such as the international gateway—the ports you mention—and the smaller projects that may benefit, say, commuters within Hull? How do you ensure that the international gateway doesn't overshadow other, more minor projects that might deliver greater benefit for the people of Hull?
Mark Jones: We're very conscious that it's about full effort from all partners, whether it's private or public-sector, in terms of really trying to squeeze as much out of existing infrastructure as we can. So, our close working with the Highways Agency ensures that we've approved or have an agreement of headroom, which allows investment and planning permission to take place in Hull. I think as well, in terms of close working between both banks at the city regional level and into the regional level, we have agreed that kind of balance about what is for local benefit and which is for the benefit of UK plc. So, I think there are a lot of parties, actually, concentrated on making as much difference as we can do. The issue in terms of prioritisation is always going to be the most difficult one, though, particularly on the major schemes, because the demands of the north and south bank are very, very similar.

Q99 Paul Maynard: So, how do you make those decisions? What future does the city region have, given the advent of the Local Economic Partnerships, for example?
Mark Jones: We do have a unitary leaders' structure, where the unitary leaders actually agree priorities, together with the portfolio holders for transport. But again, I would stress that the two transport systems, the north bank and the south bank, are very similar, and actually what we're talking about is the last mile—an exaggeration, sorry—but the last mile to the port, in reality.

Q100 Chair: You mentioned before the work you'd done with Yorkshire Forward, and you mentioned the Northern Way. Can that kind of work continue when there are only the Local Economic Partnerships?
Mark Jones: I think the close working can continue in terms of commitment.

Q101 Chair: But what about implementing? You can have close working and commitment that go on for many years without a result, can't you? It's implementation.
Mark Jones: I think the challenge, Chair, is going to be northern UK plc, because the Northern Way did serve a purpose to bring people together to think beyond their boundaries and think about transport as a full system.

Q102 Chair: Do you think it's important that the Northern Way continues?
Mark Jones: Or something replaces the Northern Way. It could be a meeting of LEPs, but there has to be that level of total system understanding.

Q103 Kwasi Kwarteng: I'm very interested in the specific—I'm referring back to Eddington, sorry—problem that the area faces. From what you're saying, it seems that the last mile or so of connectivity between the port and the rest of the transport infrastructure is what we should be focusing on, because it's very easy for us to get into a broad-brush discussion and say, 'We need more money and we need this, that and the other.' If there was a specific problem that needed to be solved, would you say that that was getting the last mile, as it were, of connectivity to the actual port itself?
Mark Jones: From my position, Chair, the last mile is a slight exaggeration; it's a little bit more. The systems, when they were designed in the '70s, were designed to enter the lock gates, and they've never got there.
Simon Driver: Going back to the your question about the future, this region has been very clearly identified as in need of LEPs, city regions or whatever you call them to provide a coalition of local businesses and local government to work together at a level well above the local area. In Yorkshire and the Humber, we're having tentative discussions about maintaining an infrastructure; in particular, recognising what transport contributes, not just to the last mile to the gate but how it fits in strategically, right across the development. Opening up opportunities for economic regeneration in one part of the region links in with other flows right cross the region, well beyond the local bit. I think it's the one area we've identified that actually needs, in the localism agenda, to be actually taken at a higher spatial level.

Q104 Kelvin Hopkins: I've spoken to other freight operators elsewhere in Europe and in Britain, and one of the problems with Britain is, of course, we have a very substantial trade deficit: we import much more than we export. Some operators say that they lose money because they have to send back their lorries or trains or whatever—containers—empty. They're full one way and empty the other way. If they can fill them up both ways, it becomes much more profitable and the costs go down. Is that a significant factor in Hull? Do you import much more than you export in terms of tonnage?
Mark Jones: Yes, it is a significant factor in terms of empty equipment, but I don't think it's anything that's unique to Hull. It's a UK plc issue.
Simon Driver: Just to add on that as well, I think one of the reasons why we're looking for the development and the private-sector investment that is being proposed now is to develop complementary industries at the ports to allow that to happen, recognising that Immingham is a bulk port. A lot of goods come in to

supply the sailing industry and the power energy. That's why you need to develop manufacturing plants there to allow the outward trade to happen there as well.

Jodie Booth: If I can just refer back to the point that was made earlier about the last mile into the ports and around, there is obviously the regional aspect as well. I would agree with Mark regarding the south bank in that it isn't just the last mile of access into the ports. Also, in terms of public sector investment in transport infrastructure, I think that's quite right. What we're talking about here is major schemes, which we look to Government to support. We do have our internal infrastructure on the South Humber Gateway as well that we look to provide support and improvements on as well. So, it's a package rather than just a few individual, major schemes. In terms of the regional—

Q105 Chair: Could I just stop you there for a moment? Do you have any views about the appraisal processes for deciding which major schemes can go forward? Are they clear enough or are they satisfactory? Does anybody have any comment on that?

Mark Jones: Thank you, Chair. I'd like to say that, from our perspective, there has been an improvement in the appraisal processes. From the Humber's point of view, what it doesn't take account of is future potential in terms of availability of land close to areas of emerging inward investment. I think there needs to be some form of sophistication to capture that future economic potential that we don't use, but I would stress that there has been a big improvement in the appraisal process.

David Woods: Yes, it's really just to build on that. We've talked about the use of the ports, and obviously the ports themselves being a driver for the local economy around transport and transport links; I think what we've seen over the past few years in Hull, and to a degree on the south bank as well, is that inward investment to manufacturing into Hull also requires those transport links and that last mile that we've talked about. I think in 1995 the IBM report said that Hull was a potential area for growth in renewable technologies and again, we've seen comments from the Government about the idea of port areas being potential sites for renewables and for investment in factories and local development. Although that specifically is not transport itself, it does need transport infrastructure to get local development and investment into Hull, which will have that knock-on effect locally. It is both directions.

Q106 Paul Maynard: It's a very quick question aimed specifically at North Lincolnshire, Mr Driver. Have you noticed any tangible, demonstrable economic benefits from the direct rail service from London to Hull in your particular region?

Simon Driver: London to Hull direct service? I mean—

Chair: We had a very good journey here on First Hull Trains; has that made a difference economically?

Paul Maynard: Specifically in North Lincolnshire.

Simon Driver: In North Lincolnshire, I think it is perhaps hard to say, because obviously the links are east-west to the east coast mainline and Doncaster. So obviously, the links are parallel.

Q107 Paul Maynard: So it has not had a tangible economic benefit to your region?

Simon Driver: I think it has to the region in terms of any sort of direct rail movement in the sub-region, but obviously access to rail is looking where people live.

Q108 Chair: How important are buses in helping people to get to work and to get to local amenities? Are you concerned about current proposals to reduce the bus service operators grant, Mr Jones?

Mark Jones: In places like Hull buses are absolutely critical, particularly in terms of the low level of car ownership and the high level of deprivation concentrated in the city. Buses are essential in terms of getting people to travel to learn and to work, and there is a concern that any future reductions could have a very negative impact, not just in terms of Hull but also the services that extend to the suburbs. Working together with the regional development agency, we've invested a considerable amount of money into a transport interchange to remove barriers to bus and train travel.

Q109 Mr Harris: Mr Woods, you have mentioned high-speed rail. This is a question to the entire panel: would it be fair to conclude that, since none of you mentioned high-speed rail in your written submission, you don't think it is a priority or wouldn't have any particular benefit for the region?

David Woods: We've talked about the local rail structure and its connectivity with Leeds. The proposed high-speed link, as I understand it, is a Y-shaped design that goes up to the Midlands and, of course, to the Leeds area, which is—

Mr Harris: I'm glad your hand is round the right way there.

David Woods: Yes. I think both the high-speed links down to the south of England and potentially up to the east coast to the north-east are very important. The links between the ports areas and the Leeds area would become crucial. I think the two things go hand in hand. In summary, there would have to be improvements made to local transport links in conjunction with the high speed link.

Q110 Mr Harris: But the announcement by the Government to go ahead with High Speed 2 hasn't set the heather alight, I'm guessing. It's not what everyone is talking about in terms of economic development, is it?

David Woods: At the moment I think high speed for us is many years away; we're looking at sorting out the bottlenecks we have now because that would give us the opportunity to add further transport links in the future.

Q111 Mr Harris: In the longer term though, do you think that better links to London and the south, or indeed to the north-west, via high speed, is something that you would embrace?

David Woods: Yes. I suppose you have to look at the geography of where Hull and the south bank are:

we're 60 or 70 miles away from other cities. Most of the country has more connectivity with large cities and large urban areas than we have, so the ability to connect with high-speed rail would be important economically.

Q112 Kwasi Kwarteng: Just one last question: if there were one thing in the past 30 years that we should have done in terms of transport policy that would have had a direct benefit specifically to the port, what would that have been?

Simon Driver: If I can loosely use your concept of ports, and going back to what the Hull and Humber port city region is all about, clearly the one thing would be free access of labour and social movements, which would mean no tolls on the bridge. One thing we would have had would have been proper development, and we would have had people being able to move and have full mobility regarding where the jobs were.

Chair: Would that have made the bridge more beneficial?

Simon Driver: That would have made the bridge fulfil its purpose, which was to unite the sub-region not divide it.

Jodie Booth: I would reiterate those comments in terms of the question that has been asked.

Mark Jones: I think 30 years ago, before the green lobby, to have completed the planned motorway around the north of Hull and leading right to the port gates.

Chair: Councillor Woods, have you one last point?

David Woods: I do agree with comments about the bridge. In some respects the bridge has been a link and a barrier to not just jobs and travel to work but education and growth of the area. So I would probably say the bridge, but I will say Castle street as well because that is also important

Chair: Thank you very much. You've been very informative and very helpful, thank you.

Examination of Witnesses

Witnesses: **Matt Jukes**, Port Director (Hull and Goole), Associated British Ports, **Malcolm Bingham**, Head of Policy, Yorkshire and the Humber Region, Freight Transport Association, **Dr Ian Kelly**, Chief Executive, Hull and Humber Chamber of Commerce, and **Carole Goodair**, Chairman, East Yorkshire Federation of Small Businesses, gave evidence.

Q113 Chair: Good morning, and welcome to the Transport Select Committee. We're very pleased to be here and to hear evidence directly from you. Could I ask you please to give your name and the organisation that you represent? It's for our records and to make our recordings easier to identify.

Matt Jukes: I'm the Port Director for Associated British Ports in Hull and Goole. ABP is the largest port operator in the UK and on the Humber we operate Hull and Goole on the North bank and Grimsby and Immingham on the South bank.

Dr Kelly: I'm Ian Kelly. I'm Chief Executive of Hull and Humber Chamber of Commerce.

Carole Goodair: Morning, I'm Carole Goodair. I'm here to represent the Federation of Small Businesses in the East Yorkshire area.

Malcolm Bingham: Good morning, my name's Malcolm Bingham. I'm Head of Policy for the Freight Transport Association in the North of England.

Q114 Chair: Is there a case for more investment in transport and what's the most important area of that investment, if so? All hands go up.

Dr Kelly: I think one of the bits of information we've produced based on Treasury statistics is how badly the Yorkshire region has done compared with the 12 UK regions and nations over the past two years since 2003/4. We've come 11th, 12th, 12th, eighth, ninth and eighth out of 12. Within the Yorkshire region, we feel that the Humber is particularly badly done to in terms of coming at the bottom of the Yorkshire and Humber region. From that perspective, over a long period of time we feel we've done very badly, which is why we're keen to have three schemes come forward all in a very short time period in order to catch up.

Q115 Chair: What's the most important investment needed at the moment?

Dr Kelly: I think we very much accept what Government have come out with. The Chancellor has talked about reviewing the bridge tolls. We can live with Castle street. We have some issues with A160 on the current timescale, but I think the bridge toll review is paramount at the moment, given the economic difficulties that we'll have in this area and the money that is taken out.

Matt Jukes: I agree with Ian's comments, but I would also say that the road developments on both the north and south bank are particularly key. Obviously, we have had the announcement with regard to the DFT's policy in assessing the various road schemes stating that the A63 and Castle street will be looked at in 2015. I think if you look at the potential that the Humber ports have for creating new jobs with regard to what Mr Harris said about rebalancing the economy, I think it isn't just about a north bank to south bank switch for me, it is about creating manufacturing jobs. We're not moving people down to the south-east to do jobs down there; what we need to do is create jobs in this region. I think the ports have a fantastic opportunity to be able to do that. There is private sector investment that will go into the ports, that would bring massive benefits to the regions that surround them. I think in Hull there are 5,000 people that come to work on the port every day. There are between 20,000 and 25,000 people that work in the port of Hull because the port is here. We have some significant opportunities, but it's almost as if we need a catalyst of money to be spent on infrastructure upgrades in order for us to be able to deliver these opportunities.

Q116 Chair: Any other views on the most important kind of transport investment required?
Malcolm Bingham: I think for freight operators generally, one of the biggest problem areas is unreliability of journey time by road or rail. Where we see the problem is in an enormous amount of pinch points right across the north of England, effectively, but in this region as well. These areas need that investment to ensure that freight isn't held up, which adds cost to the industry and the goods that are sold on to the customer.
Carole Goodair: Basically, in the last decade I think we've done all done a very good job in Hull in attracting people to live here and to get small businesses growing. Some of these businesses have grown into bigger businesses. I agree with everybody here, we've found ourselves in a situation where our road infrastructure just cannot take any more. We've widened them and done everything possible.

Q117 Chair: Your written evidence stresses roads a great deal, so is that what you see as an important area?
Carole Goodair: Yes, but it is linked in with customers being unable to get here.

Q118 Chair: So it is congestion and delays on the roads.
Carole Goodair: Basically, yes. We need some new infrastructure over the whole town. The roads are full to capacity at the moment. We've widened them and done everything we can to them. We just need a completely new infrastructure; for example, someone touched on the subject of a new ring road.

Q119 Paul Maynard: I'm delighted we've managed to establish that abolishing the toll was the No. 1 priority, because in all the briefings it was not clear which of the many transport projects in the area was the crucial one. How do you feel it is best to arrive at a hierarchy of importance? Everybody has ideas. This is addressed to Mr Dukes in particular: I note in Eddington he emphasises the importance of international gateways. Do you believe that the interests of the international gateways are best promoted at a national level or at a regional or sub-regional level?
Matt Jukes: There are a couple of questions within that. To go back to the point that we are all in agreement regarding the tolls, I think it's a close run thing. I think that from the port's perspective, the road and infrastructure is very important as well, as is free movement of labour across the Humber. In terms of Eddington, the main ports on the Humber—Hull, Immingham and Grimsby—were all identified as major important gateways in various DFT reports. I think the market will pretty much dictate where the port developments need to take place. It's a competitive environment. There is private-sector investment that will take place on these facilities. I think if you look at how you prioritise transport investment, I think what isn't taken into account now is the potential for future development. Currently we look at the existing structure and the existing problems. I think the next stage that is needed is to look at what doors could be opened as a result of various investments. I think there is a regional case to make there; there is also a national decision to be made.

Q120 Paul Maynard: Who should make that regional case?
Matt Jukes: I think you have got a selection of those individuals sitting in front of you today. It is for us to make sure that national Government are aware of the potential that we have both in terms of investment and job creation, and to make the case. We know funds are tight and will be getting tighter, but I think the balance needs to be between private-sector investment in the ports themselves and—because of the wider benefits—the wider stakeholders, be they regional or national, making sure that those international gateways are connected to the rest of the UK.

Q121 Chair: If resources are getting tighter—and they are—you have to identify what matters most. We're trying to get a sense of what you think matters most. I know that everything matters, but what matters more?
Dr Kelly: Could I first of all say thank you very much for coming here, for a start? I appreciate that Philip Larkin called it the end of the line, but we see it as the gateway to Europe and the world, and that is why we emphasise that we do feel that we've been rather badly done to over generations. Therefore we feel we ought to be allowed a little catch up time, particularly if deprived areas in the private sector are going to play a leading role going forward. On the bridge tolls issue, again we take a sophisticated approach. We would say, for example, a £1 toll is a sensible toll for cars and also a calibrated approach for lorries, because we do appreciate that we can't have everything all at once. As Matt says, there are three clustered issues, if you like, of schemes that are top of our list. We do have a dialogue, particularly in the private sector, with our local authorities across four authority areas in the Humber, to try and give you a generally calibrated, intelligent and consensual message.
Malcolm Bingham: I want to come back to the point about who should prioritise, and whether it should be a national issue or whether it should be a sub-regional issue. We've talked a lot this morning about goods coming through the international gateway, but those goods have got to get to the marketplace. The marketplace will not simply be a local area around the port. You must distribute it inwardly through corridors into the hinterland to the customers. Therefore, we believe that stage of planning and approval for infrastructure investment should be a national issue rather than a local one.

Q122 Iain Stewart: Mr Bingham touched on exactly the area that I wanted to raise. One of the areas we're looking at is the balance between smaller, local, infrastructure projects and national, supra-region, strategic ones. Specifically, if you get your wish approved for rail improvements to the ports and then that is successful in generating high volumes of traffic, what is your capacity within the rest of the network to bring those goods in and out, or are we just going

to be moving the problem from here to another part of the network? If so, that is something that needs to be addressed at a national level.

Matt Jukes: That's right. Speaking from my own perspective, we've been working with Network Rail to identify the high capacity upgrades that we can do to the rail line in Hull. We did benefit from some funding from Yorkshire Forward and Network Rail, and Northern Way and ABP invested in upgrading our rail facilities about four years ago. Obviously, the high cube issue will only get us to Doncaster. The rail investment that is forecast for getting us up to high cube will get us to Doncaster and then we have to wait to get it to the rest of the UK market. I think it is important that the National Networks Study joins up along with the National Ports Study to not just identify what we need to do in our ports but, exactly as you said, to make sure that an onward distribution network is in place to connect the ports further inland.

Q123 Mr Harris: I'll be delicate in how I put this. We've been here an hour so far and I get the distinct impression that you, and the previous witnesses, all have priorities and great ideas and everything. However, it comes down to who speaks for the area and who prioritises. I have to tell you, a Minister with spending decisions likes nothing more than a region with no specific action plan and with a whole range of spending commitments and spending requests, because then a Minister can just pick a few, and please some people and annoy other people. Where you don't speak with a single voice and show that you are looking for specific priorities, it is not good for a particular region. Up until now, we've had a consensus on, "It would be a great thing to get rid of the tolls." Now we have a split there. Now a £1 toll is what is being looked for. I make that as a point rather than a question, but I'd appreciate your comments.

For example, we heard earlier on that the gauge enhancement, which would be needed to provide direct access to the port, has something like a £5 million price tag, whereas many of the road schemes are talking about hundreds of millions of pounds. Would it even be possible for there to be a consensus to say that the gauge enhancement project should take priority, since presumably the business case for that would be significantly higher in terms of outcomes? Is there not even consensus on prioritising that particular project?

Q124 Chair: Gauge enhancement, is that the top priority?

Matt Jukes: I think gauge enhancement is important but what you have to do is look at the growth areas that the Hull and Humber ports are looking at. We're a short-seaport operation, which means we don't handle the biggest deep-sea container ships. We handle smaller feedering vessels that will have come in from the continent from places such as Rotterdam and Antwerp. I think if you look at where the growth opportunity areas are, they're in areas like renewables, which we have spoken about today. We have significant areas of land available for development on both the north and the south banks. It is an area where significant levels of investment and jobs are almost waiting for us to develop so that they can take advantage. It is the rebalancing that I touched upon earlier on. So I think looking at the potential of the ports, and looking at the development, investment and business growth potential from running the ports, I would say that rail enhancement would come after the road upgrades that we need.

Q125 Chair: Ms Goodair, what's your view on that from a perspective of small businesses?

Carole Goodair: We need road improvements.

Q126 Chair: Is this new roads, or improvements and maintenance?

Carole Goodair: As I've said, the roads we have have been widened. We're really stretched, there's nothing else. I'm not an engineer, but looking at the roads when I'm driving around, there's nothing more that we do that they haven't tried to do. So we need to look at a whole new system that our town badly needs.

Q127 Chair: Is this to do with local roads?

Carole Goodair: It's mainly the city centre, which affects the ports, the rail and the buses. How do the people get around once we bring them here?

Q128 Chair: You think city centre roads have more priority?

Carole Goodair: Particularly round the Hessle which links with the Humber bridge. When you get past there, it's not quite as bad. As you know, once you head into Hull you go nowhere. Garrison road, which leads in, has engineering works and roundabouts. I could go on.

Q129 Mr Harris: I want to add a supplementary question there. As we approach the new age of austerity, isn't it incumbent on you to go for the low-hanging fruit? If you hold out for some of these road projects, once you're replaced a couple of roundabouts or widened them you will have hit the £5 million mark. Wouldn't it be more strategic for you to go for what is actually achievable; not exclusively, but for example, the gauge enhancement. Frankly, looking into the future with a crystal ball, you're not going to get hundreds of millions of pounds for these road projects.

Carole Goodair: All I'm saying is that it seems to me as though they've tried to do a very good job with the space that we've got here in Hull, but the population and small businesses have grown drastically over the last 10 years, and we're now having a problem in trying to accommodate everything to keep it growing. The question is: where do we best spend the money? I'm willing to debate that this morning.

Dr Kelly: Unlike my colleague Mr Shipp's buses, we've had nothing for so long that we now have three schemes that have come together all at once and are all critical for us. This is why we're pushing all three. We have a complete consensus across the public and private sector—

Q130 Chair: What are the three?

Dr Kelly: That's the bridge tolls, Castle street and the A160. The bridge tolls have been a logistical noose that has been tightening over the past 30 years. It is a debt issue—a revenue issue—for the Treasury. It is a toll tax; it is not a capital roads programme issue, so the two should be looked at in separate senses. We've paid over £330 million to the Exchequer for a bridge that cost £98 million—

Q131 Mr Harris: And we're very grateful.
Dr Kelly: Indeed, but it's a tax from this deprived part of the world, as we're sometimes seen, down to London, which equates to £20 million a year out of the local economy. We get that right with a pound in the bucket from cars and you get £500 million worth of benefit to the local economy over the next 20 years. That is valuable. Therefore, what we're saying within that is that we'll not request complete abolition, because we're reasonable people up here; we'll say a pound in the bucket, but let's get on with these two capital schemes as well—Castle street and the A160.
Malcolm Bingham: Can I just go back to the gauge issue to try and explore one area? We can move high cube boxes without increasing gauge. The problem is, it's expensive to do so because you end up having to use low-slung wagons, which effectively you can only put one large box on as opposed to two on flat-bed wagons. Therefore it becomes a more expensive option and it starts to deter that type of freight movement through an area because it's too expensive to do it; however, it can be done. I suppose really it depends what you're trying to deliver. A lot of the things that come out of the south bank of the Humber are actually bulk freight that doesn't need a high cube clearance, but if you tried to develop that potential to get fast moving commercial goods through the Humber ports, you would need that development to encourage private investment and private industry to receive it.
Chair: I know that all of these things are important; we're just trying to identify things you see as the top priorities. It is not that other things don't matter, though.

Q132 Kelvin Hopkins: I have a particular interest in rail freight and I don't accept the arguments about rail freight not being the future simply because we haven't got the right railway system at the moment. In Holland, by contrast, the Betuweroute from Rotterdam to the Ruhr was built by state funding and is capable of taking full-scale lorries on trains and double-stack containers. Everything is just done because the state wanted to do it. I don't accept either that the age of austerity is going to go on. I think in three years' time, the Government will be looking desperately for public sector projects to build in order to revive the economy, because we are going to go into a recession. That is a personal view that won't be shared by the others. They will be looking for big things. What about a Betuweroute from Hull to the west midlands or the midlands, linking up with motorways, where you can roll on your lorries straight on to trains, either with the trailers or the tractors as well, and then roll off with a separate service, backwards and forwards, getting them to the places they need to go? That takes the pressure off local roads as well, there would be less road damage and less coned-off lanes for road repairs because lorries cause the damage. There would be all sorts of benefits. Would the thought of a dedicated rail freight route on flat land—there is plenty of it here, it seems, so it would not be difficult to do—from Hull to these other areas, with roll-on roll-off capacity, not be attractive?
Malcolm Bingham: I sometimes find it difficult arguing against how goods come in through our southern ports as compared with the northern ports. I advocate northern ports, but that exact opportunity for freight routes running across the north of England is sadly missing and it does discourage that type of movement.

Q133 Kwasi Kwarteng: My understanding is that we're trying to find out from you what your needs are. I could come up with a scheme, with respect, and say, "Wouldn't this be a good idea?" Actually, I think the fact-finding is very useful. From what I'm hearing, the bridge tolls and the road network are the two most important things by a very long way in terms of the eight people we have seen. That seems to be a very interesting finding from this morning.

Q134 Paul Maynard: We've had lots of ideas, lots of priorities and lots of schemes. I'd just like to explore what would happen if your dreams ever came true. You all represent business. What economic development planning did you observe taking place by the local councils when the direct rail services to London were restored? Equally, you've done a very good job campaigning over the issue of the tolls, what planning for economic development is currently occurring for if you ever got your wish and tolls were abolished on the Humber bridge? Is there any planning going on, or are you just going to make it up as you go along once it happens?
Matt Jukes: To answer your question, I think planning goes on all the time in relation to looking at the developments we have planned.
Chair: Could I ask members of the public, please, not to keep talking to witnesses? I'm sure they're quite capable of answering for themselves. They're doing very well.
Matt Jukes: So you look at the various schemes for development and investment that we have across the Humber ports and that goes on all the time. I think the argument in relation to bridge tolls has always been that it has been a hindrance to labour markets moving across the Humber bridge. Does it stop it? No. Does it stifle it? Probably yes, it does. Speaking from a parochial side, in Hull we have a bigger workforce so it's not creating quite the same level of issue as it is on the south bank. We are on with our planning now; we don't do it in case the bridge tolls go. We can't stop our development plans on the basis of something we might not get, so it goes on all the time.

Q135 Paul Maynard: There is no specific response to specific projects. It's ongoing.
Matt Jukes: Yes. I think the other point that I would make in relation to that particular north bank issue regarding the roads—and Mark Jones and Councillor

Woods covered this to a degree earlier on—is that we are getting close to reaching capacity restriction on the A63 in Castle street. When we do reach that, further development at the port, which is on the eastern side of the city, will be objected to by the Highways Agency. We will stifle growth in the port. We can't move the port. There have been some people that have suggested that we move it somewhere else; it's not quite as straightforward as that. We will be facing the issue where we do have investments to make, where we do have jobs to create, and we have a lot of schemes on the table, but we won't be able to because the highways network will be at capacity.

Q136 Chair: I want to turn to appraisal schemes. Do you think that current ways of doing appraisals for schemes to see which are better for economic growth are adequate? Indeed, are they clear on how decisions are made? Does anybody have a view on that?
Malcolm Bingham: From our point of view, inputting into appraisals can be difficult from an industry point of view. We think we understand what it is and we try to lobby in that way to make sure that our members' views are reflected in those appraisals. We do that by consulting democratically through our system to get our members' views about what priorities should come first. Sometimes we find it very difficult to get that information into the right place. We feed it, but we're not sure how much notice is taken of it.

Q137 Chair: Is that a general view of it, that you're not clear or happy with it?
Matt Jukes: I've alluded to it a little bit before, but the point that I would make in terms of the appraisal process as it stands is that looking at the potential the investments can unlock is not something that is taken into account at the moment to any significant degree. The Humber is the busiest port complex in the UK. We are right next to the round three offshore development zones for the biggest offshore wind developments in the world. If we can unlock both north and south bank access issues, we have the key strategic sites in the Port of Hull and on the south bank that we can develop. We need to make sure that the logistics that work for the manufactures, both in terms of their supply and in terms of their staff. If that kind of potential regarding what we can achieve if we spend the money is actually reflected in an assessment, that's the way you'll get best value for money. I don't think that happens at the moment.

Q138 Chair: Are you involved in the new Local Economic Partnerships? You're laughing, which we can't record, so you will have to say something about that. Why are you laughing?
Dr Kelly: I think obviously one or two people may have spotted that we had a small hiccup on the LEPs issue locally, which we are looking to resolve in a multi-tier way. We feel we've all been put on a football pitch with no white lines or goalposts by Eric Pickles and Vince Cable, because the two Departments have differing views themselves. So our business perspective, looking at a pan-Humber model—as there is a ports cluster, a chemical cluster and a chamber development support through the Humber model—is different from what Eric Pickles has been talking about, which was a, "Run barefoot through the grass and do what you like," sort of approach. In that sense, it's not been helpful to us.
We will find solutions: we're probably going to need a multi-tiered LEPs approach that reflects differing local authority requirements to get access to pathfinder housing cash. Business needs to look at this as the largest trading estuary in the UK and recognise the huge opportunities for renewables. ABP and ourselves at the chamber have been working very closely to try and work with the four local authorities; indeed, even when they're whispering in my ear, we do still talk to the local authorities and we will find solutions. However, we in the private sector do feel we've not been helped by what, I think Richard Lambert called, "A bit of a shambles of a process."

Q139 Chair: Well that's quite diplomatic. Does anybody have anything to add on LEPs and your involvement or non-involvement?
Malcolm Bingham: Only stepping back one stage. When industry looks at a new Government proposal of this sort, there's always uncertainty about how you engage with that process. I think that's our problem at the moment. The uncertainty of where LEPs are going, and indeed even the formatting of them, means that it seems to be pretty open to local organisations to set up, and that's difficult for us to understand and input into at this stage.

Q140 Chair: How important are local bus services to your businesses?
Dr Kelly: They're not specifically important usually to the Chief Executives or Managing Directors, but to the employees they are actually. Good transport infrastructure through the buses is important. We don't have trams or guided bus systems. We do have some good bus companies and I think, in that respect, we are able to access larger rural areas to bring into our urban centres. In that regard, we are very much supportive of the bus industry being allowed to function effectively across the whole Humber sub-region, rural and urban areas alike.

Q141 Chair: We had a very good journey up here this morning on Hull First. Has that made a big contribution to the economy here?
Dr Kelly: I was part of the delegation led by Alan Johnson and Hull City Council that led the charge. Chris Garnett at the old GNER said there wasn't demand in this part of the world for a good train service above and beyond once there and once back a day. I think we've proved, having put the evidence base in front of the Strategic Rail Authority at the time, that there is the demand for a quality service in this part of the world, and we have a first class service which we worked together on to get. It has made a big difference in helping businesses to come up to Hull and for us, as business leaders, to get down to London to tell you our needs.
Matt Jukes: I would just emphasise that point. I think increasingly, as we try to attract inward investment of significant levels from big international companies, the links with this region and London are very

important. Most of them will have head offices in London. It's all about not just the offer in terms of what we can develop and what we can provide but the quality of life, connectivity and everything else. So I think the direct calls are important to us.

Q142 Kwasi Kwarteng: I just wanted to pick up on something you said earlier about appraisals. You were suggesting that we weren't looking at the potential; we were looking at page, as it were, as we see it. What specific decisions would your approach support that aren't been taken now? That is directed to Mr Jukes.
Matt Jukes: I think, again, our written evidence made reference to the Humber Green Economy Gateway scheme that we're looking at. There is Humber potential for all of that. There has obviously been Government involvement in relation to trying to attract the offshore wind turbine manufacturers to the UK and we're in the ideal spot to be able to deliver that. I think when you look at that kind of potential, and when you join us, not just locally in doing a hard sell in relation to national Government but listening to the big international companies that want to come to the UK and want to come to the Humber, the decision-making process for road upgrades—I would focus specifically on seeing that as the key growth market that we have in the short to medium term—would be speeded up dramatically. I accept the point that road upgrades are significantly more expensive than rail enhancements, but we have to recognise the strengths that we have as well as the weaknesses. Regarding the southern ports and their rail access, there are large volumes of containers coming in to the southern ports on deep-sea ships all going to single locations. The Humber isn't a deep-sea operation in relation to containers, so you get 300 or 400 containers coming in at a time; the way logistics works is that it's best to distribute those by road, like it or not. Of course, I suppose the other side to that and the other thing we have on the Humber is in waterway connectivity and sustainable transport, not just through rail but through coastal shipping. We can take advantage of that. To your specific point, it would be to get the engagement from the people that will invest and listen to local businesses both sides of the Humber. This is something on which we are entirely agreed. This is a massive opportunity for us. It's not a case of either, "We'd like it on the south bank," or, "We'd like it on the north bank." What we're saying is that there's potential on both sides, and we'd like it on both sides please. In doing this we will unlock a massive opportunity.

Q143 Chair: Thank you very much and thank you for coming and answering our questions.

Examination of Witnesses

Witnesses: **Peter Shipp**, Chairman and Chief Executive, East Yorkshire Motor Services, **James Adeshiyan**, General Manager, First Hull Trains, **Adam Fowler**, Co-ordinator, Hull Environment Forum, and **Professor Peter Mackie**, Research Professor, Institute for Transport Studies, University of Leeds, gave evidence.

Q144 Chair: Good afternoon gentlemen. Could I ask you please to give your name and the organisation that you represent for our records and to help identify you on our recording?
James Adeshiyan: James Adeshiyan from First Hull Trains.
Professor Mackie: Peter Mackie from the Institute for Transport Studies, University of Leeds.
Adam Fowler: Adam Fowler, from the City of Hull and Humber Environment Forum.
Peter Shipp: Peter Shipp, Chairman and Chief Executive of EYMS Group, which is a private, independent bus company. I think it is the largest of its type in the country.

Q145 Chair: Thank you very much. What types of transport investment should we prioritise or would you like to see prioritised here? Who would like to start?
Professor Mackie: I would like to see urban transport investment prioritised. I believe we have a significant deficit in urban transport infrastructure; that inevitably means public transport, things aiming at reliability and service quality improvements in our big cities. I believe that the cities are the engines of the future economy, and poor quality supporting infrastructure—in the transport sector among others—is a constraint on economic performance. In the north of England we have these big conurbations 40 miles apart. The connectivity between those conurbations and the opportunity to create what Professor Robson from Manchester University used to call the Hanseatic League of the North is a very important opportunity for the UK.
Chair: So urban transport and connectivity.

Q146 Kwasi Kwarteng: On that specific point you gave a very full answer, but it was a very general answer. "Connectivity" is a very general word; I am very interested in what modes you would be promoting. Regarding this Hanseatic League, will there be a rail link? Will there be a road link or bus services? What sort of specifics could you give us on that?
Professor Mackie: Obviously that is where assessment comes into the picture. If you ask me my knowledge of the relative merits of electrification and higher speeds on a trans-Pennine line versus improved capacity on the M62 and the M60, then I'd say you're not asking the right person. I say evidence base is crucial, and you need a lot of information from a lot of sources in order to be able to be in a position to make those choices.

Q147 Kwasi Kwarteng: With respect, you can understand that, from the point of view of a Minister or of Government, saying, "We need better connectivity," isn't particularly helpful. We all agree

that we need better connectivity, but I think for the purposes of the Committee, we have to try and really get some sort of specificity and focus on what the nature of those connections will be.

Q148 Chair: Would anyone like to join in and be more specific on what's required or perhaps have a different view? In terms of priorities, we all want everything. We're trying to identify what you see as your priorities.

Peter Shipp: I'm pleased to note that you and one or two of your colleagues have mentioned bus services. They tend to be the forgotten things sometimes. I accept that bus services aren't an end to everything and I agree with a lot of what my colleagues earlier this morning have said about the Humber bridge tolls and about Castle street, because Castle street is important to us as well. We don't particularly use it, but of course what happens when Castle street gets blocked is that traffic overflows into the city centre and then causes all sorts of problems. You did mention specifically BSOG and concessionary fares. My take on all this would be that every aspect, in a sense, needs some investment, but I do question the need for some of the very expensive capital schemes, in whatever mode. Some of them are very justifiable but I question some others.

My view would be, certainly, that one of the priorities ought to be to maintain what we have and improve it. I think that's a point Professor Mackie made in his paper, which I've only had a brief chance to look at this morning. It seems to me that we're in danger of losing some of what we have, and surely our first priority should be to maintain what we have and improve it, so long as it's good, rather than necessarily go for great schemes that cost an awful lot of money. I can bring you one particular specific action plan that I think you wanted, Mr Harris, and that was to maintain the level of concessionary fares reimbursement and BSOG, because for about £5 million a year we can maintain the level of bus services in this area. The issues are the same in the rest of the country, but they seem to be somewhat exaggerated in this area because East Riding is largely a rural authority, which, as a lot of people seem to forget, is one of the largest rural areas in the country and is very difficult to serve.

What concerns me is that buses as a whole throughout the UK carry about 64 million passengers a year, according to my latest figures from 2008; that's three times the entire rail and underground network. Even if you exclude leisure from that figure, it's still about 51 million passengers a year, which is still over twice the number on the entire rail and underground network. In Hull, for example, we know from figures that the council has produced that nearly half of people who come in to Hull to shop, come in by bus. What concerns me is that proposed BSOG cuts, even at 20% and not until 2012—but 2012 is only 18 months away—will lose my company £600,000 a year. At the moment the proposal for concessionary fares risks losing us £2.25 million a year, and that's going to mean, inevitably, however hard we try, major cuts in bus services and a large increase in bus fares. My concern is that's going to stifle investment and stifle existing employment. As Ian Kelly mentioned, the bosses don't tend to use buses, but the employees certainly do.

Q149 Chair: Do smaller local schemes or wider strategic schemes matter most? How are you going to get connectivity, if you don't have the wider strategic schemes?

Adam Fowler: I think that's an important point. Just to come back to the context of rail investment, mention has been made of connectivity with London. Often, Hull and the Humber area looks westwards in the wider regional context, and certainly one of our problems has been—and I think our friends in West Yorkshire and South Yorkshire have faced this as well—congestion issues in the Leeds–Manchester corridor. I certainly think that the Humber sub-region is somewhat divorced from its natural centre, which should be looking west. London is important and Hull Trains has done a fantastic job, and not just in terms of connectivity. I think the issue here is what transport can do for the perception of an area like Hull. It hasn't just created more direct trains, for example, between Hull and London, it has spread the word of what Hull and the sub-region has to offer. It's important to see transport in a wider social and economic role as well. Coming back to your specific question earlier about investment in the rail infrastructure, let's look west. There are certainly signalling issues and infrastructure issues. It is logical to look at how Hull and the East Riding area and indeed, to some extent, the south bank in the south Humber region are connected to the west.

Q150 Chair: Any specific schemes in the pipeline or perhaps being rejected or deferred that you think should be instigated?

Adam Fowler: There is one that continually gets pushed back, and that is signalling issues. Hull is a major port city, of course—as you've heard from ABP—and yet the last train into Hull on an evening from the West is 11 o'clock at night, because of Victorian signal boxes. Now certainly my colleagues at Hull and East Riding councils and Yorkshire Forward have been pushing for a long time to get major investments to automate the crossings between Hull and the connection with the mainline west. So from a business and even a prestige point of view, it's absurd that you can't leave London later than half past eight at night with First Hull Trains or even later than 10 o'clock at night from Leeds or Manchester. That's been going on now for 20 or so years.

Q151 Chair: So you see looking at those things as very important and—

Adam Fowler: Yes, and it would be relatively small-scale investment as well with signalling and crossing improvements.

Q152 Paul Maynard: We do seem to be retreating somewhat from our consensus about tolls on the bridges being the big issue. We've heard several different answers now. With particular regard to perhaps Mr Adeshiyan, I'm interested in what involvement you all have in terms of trying to set an agreed transport agenda for the sub-region. Where do

you all come together to discuss these issues and thrash out what you think is important? Where you have a pot of money, how do you apportion it? Is there any body that exists where these issues are discussed and conclusions are reached that can then be presented upwards to Government?

Q153 Chair: Is there any way in the new proposed arrangements that you think you will be able to come together to identify priorities? Mr Adeshiyan, do you want to comment on that?

James Adeshiyan: From a First Hull Trains perspective, I think what the individuals on the Panel have actually said is that sometimes there are no straightforward answers in terms of some of the actual challenges that Hull and the Humber face. From a First Hull Trains perspective, we've always seen that the through service to London would unlock some of the economic potential of this particular region. In as far as the wider strategic issues within Hull and the Humber and coming together to discuss what the actual real key drivers are for wider transport solutions, I have to say, from my perspective, that it has been pretty focused on rail and rail alone, in a sense. Some of the bigger challenges around the more urban issues, as opposed to the direct link from London to Hull, also need to be looked at, as Adam said. That's something that I would concur with. I think where I do agree with him is that some of the more localised schemes, such as the branch line that you came up on today, for example, between Selby and Hull, are the areas which do need ongoing investment. Bearing in mind, back in 1999 we only had one direct service from London to Hull and around 3% growth at that particular time. By 2005, after the introduction of our service in 2000, that had risen to something like a 61% growth level in traffic to London. Obviously, there was a need for that particular direct link. I would say that investment on that particular line hasn't especially followed, but then again, why would it with some of the bigger challenges in the wider community?

From my perspective, anything that can be done by Network Rail to improve some of the signalling challenges that we have would be beneficial. On that particular line we have seven signal boxes, for example. As Adam has said, those signal boxes will close at a particular time because those individuals are on 12-hour shifts, so it does restrict the ongoing growth of direct services to London for First Hull Trains. For us, that would need to be an area of any scheme that we were to look at. It would be around the infrastructure on that branch line going on to the east coast mainline, which is a more strategic issue and one that is currently being looked at.

Q154 Chair: Professor Mackie, could you give us an idea of how it's going to be possible for people to come together to decide what their priorities are under the new regime, whether it's local government, business or others with an interest in an area wider than their locality?

Professor Mackie: No, I have absolutely no idea of how this is going to work, and I am extremely worried that there is going to be an institutional deficit. We are seeing several things happening simultaneously: a reduction in the capacity of the Department for Transport at central level; a reduction in the significance of the RDA tier; a change in the planning system; an abolition of the Regional Spatial Strategies; and the creation of the LEPs. I could go on, but let me say just one thing. I think transport is a particularly difficult area in planning terms, because you have the local interest, or the regional interest, interfaced with the national interest. You need both parties to come together and it is not at all clear how that is going to play out in this new environment. If your Committee can help to address the question of how it's going to play out, and to put your views, I feel that will be one big win from your inquiry.

Q155 Chair: Mr Shipp, do you have any different views on how people will be able to come together to be able to indentify priorities?

Peter Shipp: Not really a different view, but I think at the moment it is a disappointment. I'm not too knowledgeable about them, but from what I hear it is a disappointment that we haven't managed to get together to get a LEP sorted out for this area. It does seem disappointing, because to me that would seem to be a major way forward. I hope that can be solved soon. In the meantime—and I'm no spokesman for it although we've been a member for a long time—the Hull and Humber Chamber of Commerce is a major chamber in the country. It spans the Humber and it embraces private business and the public sector very well, I think. We are involved in it very closely and in the absence of anything else, and, as Professor Mackie says, the disappearance of some of the bodies that might do that function at the moment, I think there is a function there for the Chamber, which works very well and could work even better if given more support and more involvement from business and the public sector.

Adam Fowler: Chair, I share the concerns that there is a danger here that we will become almost parochial. The one thing we did have with organisations such as the RDAs was a big regional strategic view. I think that some of the evidence that has been presented just previous to us, about how the future of the Humber is the Humber and about some of the investment we can capture, is very important. If we get too localised and don't see that Yorkshire and Humber view, transport will suffer. Unfortunately, if we are not careful, we are going to see that fragmentation. For some of the big issues, it should not just be the Hull and East Riding or the North Lincolnshire authorities on their own. We need to see the bigger picture from a transport perspective.

The other point I would make is that transport has to be sustainable and responsive. It's there for freight, but it's also there for movement of people in one way or another. To echo one of Peter's points earlier, one thing I'm concerned about, depending on whether you are in an urban or a rural context, but particularly in the rural context, is sustaining that network with Bus Service Operators Grant, concessionary fare reimbursement, and the pressure local authorities are coming under to support fragile marginal service.

We are quite lucky in this area that we do have a local operator willing to put more back into the region than in other similar areas. We don't get into a situation like North Yorkshire, where there are proposals for large-scale cuts. Only last week I ran a surgery with members of the public, and already I am hearing from people who are having difficulties getting into work. So in an economic context, young people living in rural areas and trying to find work in the urban context are finding it increasingly difficult to maintain that fragile sustainable network, which is generally to do with bus services.

Q156 Iain Stewart: Thank you. Two questions from me. The first is specifically to Mr Adeshiyan. First Hull Trains has clearly been a success story in increasing services and increasing passenger volumes. I'm just wondering what evidence you have to show whether you have grown the market—have you increased the total number of people travelling between those destinations, or have you been successful in replacing journeys by people who maybe would have driven all the way to London or driven to Doncaster to connect to a train from there? My second question to the panel more generally: I'm trying to get a steer on what barriers there are to developing the LEPs in this area as a cohesive voice. Is there a historical rivalry between the north and the south? I know the Humberside area was much derided from the '70s onwards. Is it a cultural and historical barrier or is there something else that we should be looking at?

James Adeshiyan: I'll answer the first question as best I can. I think from a First Hull Trains perspective, what we have done is not only grown the overall pot of rail travel from this particular part of the country, we've also continually grown it over the last 10 years. I think what comes out of that—

Q157 Chair: Mr Adeshiyan, the question is not about the undoubted success of First Hull Trains, which we all acknowledge; we're looking at the cohesiveness, or otherwise, of the area, in terms of moving forward with new priorities. That's simply what we want to explore at the moment.

James Adeshiyan: All I would say really is that the aim of First Hull Trains was to increase travel to London. We've done that successfully and I think it is important to note that it has been very good for the local community to be connected to London, and as a result of that the number of journeys taken to London has increased massively over the last 10 years.

Q158 Iain Stewart: Is that total journeys, looking at all modes of transport?

James Adeshiyan: Total journeys, basically. I think what we've been successful in doing, which is important as well, is moving people from cars into trains, especially on routes such as Selby and Brough, but also from Hull directly.

Q159 Chair: Professor Mackie, what can you tell us about the cohesiveness of the area?

Professor Mackie: I wanted just to comment on the second question, if I may. I'm just an academic so I'm an outsider in how these circles really work, but I do think the Northern Way has been an extremely useful space. It has enabled interested parties from different parts of the three regions to come together and begin to interface, if you like, with technical discussions about schemes, and form views about strategic questions like the high-speed line. To my mind, as an outsider, it's been quite a revelation in terms of the success of getting people with different local interests in a room together to engage with the big questions. Going back to one of the discussions from a previous session, I will be sorry if that space is a casualty of what is going on at the moment.

Adam Fowler: If I may answer the second part of your question, there are different levels. First Hull Trains is one example of big strategic schemes, but also the work with First Trans Pennine Express to create a half-hourly service between Hull, Leeds and Manchester is another priority we all see. The Chamber of Commerce and the local authorities have worked together on it and I hope it will become an option, and possibly there will be electrification of the rail line to Hull once the infrastructure has been upgraded. I think there is general partnership working on that, and Yorkshire Forward and the Northern Ways helped with that. Having recently sat on a scrutiny commission for one of the local authorities round here, I agree that there is still some local parochialism and it stops at the boundary. We can't have that; it has to be the bigger picture. Potentially there is parochialism on the north bank with the two local authorities, but also on the south bank as well. Often there is very little synergy beyond the big schemes, whether it be freight or passenger, and the link between the north and south bank. The recurrent theme we hear today is that the Humber is one product socially, culturally and economically. As Peter said, often it is the small-scale interventions that make sure things connect; if there is public sector investment, sustaining what we have and that responsive network. Particularly from an economic perspective, if the new jobs are to come to the rural areas, even some of the outer urban areas, we have to provide a responsive, sustainable transport network, not just think immediately of the private car but train, dial-a-ride and community transport. The bus network, particularly round here, is a major impact. I would stick my neck out here and say that certainly at a local level we need more joint working about what we are trying to achieve and to recognise the importance of the best way to get people from A to B and therefore what those needs are.

Q160 Mr Harris: at the risk of provoking gales of laughter, what do you think of the Local Enterprise Partnerships? Would your own organisations get involved in them?

Peter Shipp: I do not know enough about them to be specific, but from what I hear we would certainly wish to get involved. I see them as a major influence on transport infrastructure and projects, and transport generally. That is my business and that is what I am passionate about. I would certainly get involved, as I try to do in more or less everything else that goes on. In answering the question why we have not come up

with a particular proposal for one and there are conflicting ones, I agree with Adam that to some extent perhaps there is local parochialism, but when we were asked by consultants what we would suggest personally, it actually embraced both. It might have been too big for what the Government are proposing. I am not quite sure, but that would be the south bank and would include the Scarborough area. The trouble is, in my view, in the southern part of the north bank there is a definite linkage with the south bank; clearly, ports and everything else go together. However, towards the north of the old Humberside region—I use that word carefully, as you have said—there is a definite linkage with Scarborough and that part of North Yorkshire. It might be too big, but, not knowing the details of how the Government wish these things to happen, I can see some merit in it being a rather larger one. Certainly, we would very much wish to take part in whatever happens there.

Q161 Chair: Professor Mackie, do you want to add anything?

Professor Mackie: Briefly, I think Peter Shipp has posed a key question. Even in a relatively self-contained part of the world the question arises as to what boundaries these things should have in order to deliver effective transport planning and prioritisation throughout their areas, and what powers and funding they should have in order to help determine the relative priority of transport against all other sectors of local authority expenditure. I would reiterate that the 28% cut in the CLG revenue budget is potentially very important for transport.

Mr Harris: Is it right to get the impression that at this stage, as far as the Local Enterprise Partnerships are concerned, no one is quite clear about how they will operate or how effective they will be? Have you had any role at all in early discussions about them?

Q162 Chair: I think you are saying "No". We can't record nods of the head.

Professor Mackie: No.

Peter Shipp: I speak from my own point of view. We have a little knowledge. I am aware of others, particularly the chamber, who have a lot more knowledge than I do. I think there has been quite a lot of discussion, and it is important now that we try to get acts together and put a proper proposal to the Government, one that I hope could be accepted. I know that the first tranche has been agreed. That is very important because I see it as having a major influence on the transport side, apart from anything else.

Q163 Kwasi Kwarteng: Having asked specific questions in earlier testimonies, I want to ask a very general question. I appreciate that all of you have specific hats—academia, trains, the environment forum and so forth—but you know the area. What do people out there—the consumers who use your products—think about transport in the area? What do you hear? What is your sense of consumer or customer satisfaction in terms of transport in this area?

Peter Shipp: Generally, the impression is quite good. I am an advocate for bus services but I readily acknowledge the importance to many businesses of cars and trains. No doubt First Hull Trains has developed the market; it has taken quite a bit off coach services to London. Be that as it may, you are catering for a slightly different market. I think the overall impression is very good. People complain about the road network and the traffic particularly on Castle street; they say the traffic is terrible. I know from experience elsewhere that it is not quite as bad as some other places, but it is a major issue for Hull. Castle street in particular and the Humber bridge tolls constantly come up as a public issue as well.

Adam Fowler: It is relative. Generally, if you are looking at road issues and congestion in the Humber region, it is nothing like what I am sure many Members here face in the South and South East. It is relative, isn't it?

Q164 Kwasi Kwarteng: What do people talk about?

Adam Fowler: I do not think it is that. It is a mixed view. Certainly, First Hull Trains and Trans Pennine have benefited; there are certain gaps in other parts of the local rail structure with Northern and the perception of rail travel there. For bus travel, in the urban area, certainly in Hull, Grimsby and Scunthorpe to some extent, we run surgeries as well. In all those areas we speak to thousands of people every year. Generally, in the more urban areas it is a pretty stable, responsive bus network. As you get out, as I did this morning—I left a surgery in the rural East Riding towards Spurn point—the perception of bus travel is much less because, as Peter mentioned, they are very rural areas.

Professor Mackie: I have to answer for Leeds because I do not know about this area. For Leeds, the issues are queuing on the motorway, unreliability, poor resilience and the wires down at Retford on the east coast main line. There is a set of issues of that kind. Reliability and resilience of the network are crucial.

Q165 Chair: Mr Adeshiyan, is there anything? Apart from First Hull Trains, which we know about.

James Adeshiyan: To be fair, I do not have much to add. The big issue that people mention is the resilience of our infrastructure.

Chair: Gentlemen, thank you very much for coming to answer our questions.

Tuesday 16 November 2010

Members present:

Mrs Louise Ellman (Chair)

Kelvin Hopkins	Gavin Shuker
Kwasi Kwarteng	Iain Stewart
Paul Maynard	Julian Sturdy

Examination of Witnesses

Witnesses: **Councillor Timothy Huxtable**, Cabinet Member, Transportation, Birmingham City Council, **David Bull**, Assistant Director, Development, Birmingham City Council, **Geoff Inskip**, Chief Executive, Centro, and **Councillor Jon Hunt**, Vice-Chair, Centro, gave evidence.

Q166 Chair: Good morning gentlemen and thank you very much for coming to this meeting of the Transport Select Committee. We are conducting a national inquiry into transport and the economy, but we felt it was important to come out of London to take evidence, so today we're here in Birmingham to listen directly to you about issues you feel are important and to spend some time looking around the city for ourselves, as well. I'd like to start by asking you to identify yourselves with your name and the organisation you represent.

Councillor Timothy Huxtable: Good morning. Councillor Timothy Huxtable, Cabinet Member for Transportation and Regeneration, Birmingham City Council.

David Bull: David Bull, Birmingham City Council, Assistant Director, Development Strategy.

Geoff Inskip: Geoff Inskip, I'm the Chief Executive at Centro.

Councillor Jon Hunt: I'm Councillor Jon Hunt and I'm Vice-Chair of the West Midlands Integrated Transport Authority.

Q167 Chair: Thank you. How important are transport improvements to economic regeneration in Birmingham?

Councillor Timothy Huxtable: They're absolutely crucial and integral. This is why Birmingham City Council actually merged the transportation and regeneration portfolios into one. Birmingham is among the core cities that are the engine houses of the British economy, and the transport infrastructure is absolutely crucial in terms of the free movement of people, services and goods in order to help us deliver our economic regeneration objectives.

David Bull: We're in a position where we have a high base for unemployment in Birmingham. The Big City Plan is a major proposal that fully incorporates transport and connectivity, so that the city can work with developers in bringing forward the transport infrastructure that is crucial in the current climate in giving the developers viable development. Therefore, getting our fair share of funding for transport infrastructure means that we can work closely with the private sector, as we are, and with Centro, in providing the improved and sustainable walking, cycling and public transport schemes, as well as access to car parks, that are vital for jobs and regeneration in this city in the future. We certainly feel that London and the South-East have had more than their fair share of capital infrastructure. We feel that in the current difficult financial climate the Midlands, and indeed the North-West and North-East, should be getting infrastructure to support our economies and reduce unemployment.

Geoff Inskip: It is increasingly recognised, not only by the Coalition but also from experience in Europe, that transport is a real driver for economic growth. There are lots of examples that we can give in relation to just how important it is that the transport investment comes in at a time when we need to regenerate our economy and make sure that the economy is really punching its weight. For example, the recent announcement by the Coalition regarding Midland Metro in Birmingham was obviously great and very welcome news for us. It creates over 1,300 jobs and it has a GVA impact of about £50 million a year, which means that there will be just over a two-year payback in terms of what the local economy will bring. I think that point about transport investment being a real driver for economic growth is increasingly recognised now. Certainly, there is another very good example whereby the Business Improvement Districts in Birmingham, of which we now have four, have come together to talk about transport needs to ensure that the city centre works better. So, we have got a Big City Plan and we have a transport element to that, called Vision for Movement. The Committee may have seen this, but if you haven't, we'll send it to you to show you how important the private sector believes that getting the transport offer right is, in terms of good connectivity in order to ensure that there is a good, efficient transport system, so that they can actually thrive in this environment too.

Councillor Jon Hunt: I think we need to stress that the whole West Midlands conurbation, not just Birmingham, has pressing transport needs. In fact, the Black Country conurbation, which is of a similar size to Birmingham, is lagging economically behind Birmingham, which is perhaps a reflection of historically poor and intractable transport issues across that conurbation. These issues will need to be solved within the next few years.

Q168 Chair: Do you think there is any danger that people are looking at just Birmingham and forgetting the areas outside Birmingham?

Councillor Jon Hunt: It need not be a danger. I think Birmingham will increasingly become the transport

hub for the West Midlands, if not the whole country, in many respects. What we need to do is unlock those links between the Black Country, Birmingham and other parts of the region. Some of those schemes are already in place and in the pipeline, but there is more that needs to be done.

Q169 Chair: Are there any examples of transport projects or investments that have made a real difference to the economy?
David Bull: If you look at the strategy that Birmingham City Council has had in recent years, transport, and the investment in transport, has been critical in putting in major improvements in the east side of the city. This includes Millennium Point, opening up the Science Park and putting in new highways in that area while removing the old ones. That has had a major impact in the city. At the moment we're constructing Selly Oak New Road, which is opening up a major site development and which will create thousands of jobs over the next five to 10 years. That highway is under construction and is in the area where the new Queen Elizabeth II Hospital has been opened, which is a very big, large, new hospital.
Indeed, there is potential for further job creation. For example, at Longbridge, where as you know, 6,000 Rover jobs disappeared a few years ago, we are being held back from development in that area because we need £30 million worth of infrastructure investment to open up the 140 hectare site. We can bid for that through the Regional Growth Fund, or we can bid for that through TIF funding—Accelerated Development Zone funding—but there are a lot of hoops to jump through when it is absolutely obvious that, if we had the funding for capital, we would be able to create 10,000 jobs in that area more rapidly. So, this direct link between infrastructure and jobs is the critical issue. The problem is how many hoops we have to jump through in order to get the funding in different areas to support development.

Q170 Chair: Are you clear at the moment just what you have to do to develop that particular project? You are talking about hoops to jump through: do you know what hoops they are, if they exist?
David Bull: Yes, we do. In relation to the plan, and using Longbridge as an example, we have an Area Action Plan that has gone through an examination in public with an agreement between the developer and all of the public sector parties. What is holding it up is the fact that we were going to get funding for infrastructure from the Regional Development Agency, which is no longer available. Therefore, we will be making the private sector-led bid with St Modwen who own the site, and we will be going forward for Regional Growth funding. However, the Regional Growth Fund funding will be over-committed in the short term because there's such a strong need for infrastructure. But it is not just available from that area; there are other funds as well.

Q171 Chair: But on the information we have, the Regional Growth Fund investment is going to be about a third of what existed before, maybe less than that. Is that not a problem?
David Bull: Yes, it will be competitive.

Q172 Chair: It's competitive, so it's rather different?
David Bull: Yes.

Q173 Julian Sturdy: Just to come in on the point about the private and public sector: you said earlier on that you were working closely with the private sector and I think we saw one of the examples of that when we came in, which was the new National Express bus station. Could you go into some more details about private sector-led schemes that you are trying to encourage, and how the private sector is trying to come into this?
Councillor Timothy Huxtable: I think the one I wanted to emphasise very clearly was the Evergreen 3 project which is happening right now. This is the upgrade to the Chiltern line between London Marylebone and Birmingham Moor Street, a £240 million of private-sector investment designed to speed up train journeys between London Marylebone and Birmingham Moor Street. This includes the reopening of the historic platforms at Birmingham Moor Street. I think you visited the Birmingham Moor Street area. It is absolutely crucial, because on one side you have the whole of the East side development and the proposed HS2 station, and on the other side you have the Bull Ring Shopping Centre with the Selfridges building. Allied to that we are progressing a seamless pedestrian link between Moor Street Station and New Street Station because the connectivity and integration within the city centre is vital. We are working very closely with Chiltern Railways in order to deliver this. It is an example of something happening right now which is absolutely influencing economic regeneration in an area of Birmingham that really needs it.
I wanted also to emphasise Paradise Circus and our work with private developers and the Business Improvement District, one of whom who has been referred to already by Geoff, in terms of transforming that whole site in Birmingham City Centre. This has been made possible by moving the Library of Birmingham. It is a £189.6 million regeneration project and has the crucial transport links that we will need, including walking and cycling as well as getting people into the city centre through heavy rail or Metro, in order to make that whole development scheme work and to place less emphasis on the road network. If you ask the Business Improvement District, the only reason that their bid got renewed with a huge majority was the fact that they concentrated on the necessity of increased transport links to that whole area of Birmingham focusing on the economic redevelopment plans at Paradise Circus.
Geoff Inskip: I will just mention a couple of further examples. The first is the Wolverhampton Interchange, which is being built now and is very much private sector-led with Wolverhampton City Council. They are trying to get a mixed-use development off the ground, and key to that was the building of the new bus and rail interchange, which Centro have been leading on. It was very much a partnership between

the public and private sectors. From the private sector-led side, they wanted to see this mixed-use development take place, but they needed the investment coming in from ourselves to enable that to happen, so we made that happen in that way.
The other example I would give you is again related to the Black Country, where we very much require a Wednesbury to Stourbridge Rapid Transit Link as a part of the AAP as well. Westfield, who are the developers, are committed to putting in £36 million to a Rapid Transit Link between Wednesbury and Stourbridge. I think that is a big commitment on behalf of a developer in recognising the importance of public transport links in their development.

Q174 Paul Maynard: Clearly you have a large range of infrastructural projects, some of which are under way and some of which are on a very lengthy wish-list. Do you believe there is a case for assessing your wish-list and prioritising some projects over others, given that overall funding is likely to decrease? If there is a case for that, how do you think that process should occur? At what level, what organisational body and what structure?
Chair: Mr Bull, what is most important and how should it be decided?
David Bull: In the current climate, where there are scarce resources and lots of concurrent priorities, it will be important to choose major priorities. We believe that these priorities for infrastructure that will lead to development should be made locally. We are creating Local Enterprise Partnerships within Birmingham; for example, Birmingham and Solihull partnership covers the travel-to-work area. We are certainly capable of setting our own priorities, as are the other LEPs within the West Midlands as well. I think how those priorities are set is important to local people, and what we don't want to have to do is spend a great deal of funding on undoing Green Book-style business cases for proposals that won't be prioritised in the longer term. I think that we want central Government to take more notice of local needs and notice of where there are private sector partners supporting these priorities, so that the public and private sector can work together and be successful in job creation in the short term. That links into the point about viability.

Q175 Chair: Mr Bull, can I stop you there? When you say that the Government should support schemes that have private sector support, do you mean private sector financial support or verbal support?
David Bull: I think that it's not out of the question that there is private sector financial support in taking proposals forward. So for example, at Longbridge, it is proposed that there would be joint funding between public and private sector in the long term for all the infrastructure that is required. But what is important to remember in the short term when we need to create jobs quickly is that the private sector, especially if they have bought land at higher prices, finds it difficult to make its developments viable. Therefore, public sector infrastructure on highways, and sustainable transport to give connectivity and accessibility to their developments is a way of getting jobs faster than you'd otherwise get. So, that public sector-led infrastructure is important and certainly the private sector is saying that it wants to work with us on that issue.

Q176 Chair: How are assessments going to be made of projects that go outside the existing or proposed LEP area, because the structures for regional assessments are going? How is that going to happen?
Geoff Inskip: I think the first thing to say is that the previous RFA system was never really regional. It was all very controlled by central Government. The evaluations, the appraisal networks and the appraisal process were very, very heavy handed and very much controlled by central Government. While the allocations of cash appeared to be in a place that was okay, when we prioritised you then still had to jump over hurdles and hurdles and hurdles to get and release that funding. We can give you a great case study in terms of New Street Gateway, if the Committee would like to hear it.

Q177 Chair: We'll take that as an example about the detail.
Geoff Inskip: Just to talk about the future, which is about how we prioritise projects now and across LEPs areas as well. We have a Local Transport Plan, and that Local Transport Plan sets out very clearly through LTP3 what our priorities are in terms of regeneration, jobs, climate change etc. We will prioritise by the projects that best fit against that on a pragmatic basis with developers coming in. We'll prioritise when we know when we can put the package of money together with the private sector. Giving that decision making back to us locally will actually enable us to speed up the way that the transport developments can be delivered. So, it is very much about locally determined schemes. Having allocated the cash through, for example, a single pot which we would like to see going forward, then we could actually make sure that regeneration, housing and transport are all taken forward on a basis that best fits us here locally.
Councillor Jon Hunt: I think Geoff Inskip has taken us some of the way there. The Local Transport Plan is in fact about to go up for consultation, and that will set out a clear programme for the next five years within the funding envelope that's available. We think that's probably an agreed plan. Beyond that, it's likely that the LEPs will then have the ability to develop further schemes within their own priorities, between business and Local Authorities, and put in bids for the Growth Funds and Sustainability Funds, etc. They may then be able to expand on what is in the Local Transport Plan.

Q178 Paul Maynard: This is specifically a question to Mr Inskip. Centro is the only ITA not in the North of England; therefore you haven't participated in the Northern Way consortium. Has there been any difference in your view between your trajectory in terms of policy development and those of the other ITAs that did participate in the Northern Way?
Geoff Inskip: I'm not sure there has really, because obviously we've been very much part of a live debate

here. We are at the heart of the road and the rail networks, and as a consequence of that, a lot of the through traffic, for example, is very much around national traffic movement as well. As you know, the Access to Birmingham Study[1], for example, identified a whole raft of issues which I think we knew about before through the Transport Innovation Fund work we did. So the Government did another study to indicate what these issues were, really just reinforcing the messages that we know about anyway. It is about Government listening very carefully to what the local issues are and what we want locally to be delivered; because, rest assured, we do know what's needed and we can prioritise.

Q179 Kwasi Kwarteng: I'm very interested in your general approach, but I want to ask a very specific question about the obstacles to economic growth in the region, from a transport point of view. This is addressed to the Panel: in the next 10 years, for example, you have a pathway to economic growth. From a transport point of view, what are the obstacles in that path?

David Bull: The biggest issue is the certainty of what capital we can bid for, when we might get it and how we could work with the private sector in implementing that infrastructure so that the private sector can plan ahead as well.

Q180 Kwasi Kwarteng: So you think it's mainly a funding issue?

David Bull: It's a funding issue on infrastructure, regarding when the funding might come through, so that the timing of development and construction can be coordinated with the private sector.

Q181 Kwasi Kwarteng: But that doesn't tell me anything about what the actual problems are. Essentially, what you said is, "We want money and when is it coming?"

David Bull: I'll give you an example.

Q182 Chair: Where do you think the problems may lie at the moment in current circumstances in dealing with the issue?

David Bull: I'll give you an example. The City Council is working with the private sector at Paradise Forum in the heart of the city centre on a major development, which can only take place if we put in new transport infrastructure. We have to close one road and put new junctions in. To bid for that funding we could, for example, use TIF. If we did that and we knew whether we were successful, when that funding would come forward, we would be able to put in that highway up front and the development could be planned. But at the moment, because we don't know exactly when TIF will be coming forward and what hoops we will have to jump through to be successful, I can't say to the private sector when that construction can take place. Therefore, it's difficult to plan what could be up to 2 million square feet of development. The important thing is that uncertainty causes problems.

Geoff Inskip: Inevitably, most of the obstacle is funding. If you have the funding and you have certainty of funding, then you can actually work through a prioritisation exercise to deliver locally. The remaining obstacles that might be in place tend to be all around the timing of, for example, when private sector developments would take place—clearly you don't want to be putting in your transport and investment too quickly in advance of that. There is a balance to be made. I'm not saying necessarily that's an obstacle, but we do need to get the timing right between the investment that comes in from the private sector and the timing of the investment that goes into transport to enable that to happen carefully. Certainly, I think from our point of view that if we could have certainty of funding and we could get back to a situation whereby we believe that we can actually have an allocation of funding—let's just say to the metropolitan area, "Here"—we could actually take that, we could prioritise, and then we believe that we could speed up the regeneration and growth agenda for ourselves.

Q183 Kwasi Kwarteng: Clearly, funding is a very general issue. In Hull and Cornwall they would say the same thing about funding. What are the specific obstacles here in this region, in terms of problems? We know about the Eddington Transport Study which said that we should be focusing on particular problems within a locality. I just want to get a feel for that from your point of view.

Geoff Inskip: I think the biggest challenge we have currently is to expand the airport runway. We have got an airport runway extension, which is a fairly large project. We believe that enabling that to come forward and ensuring that we can pull together a funding package for that—we come back to funding again, I'm afraid—is vital. The biggest challenge for us is that the airport is not really punching its weight in the way that we believe it can in terms of reaching its full potential. Therefore, there is a real issue there for us. I think the other big challenge for us at the moment is the congestion on the rail network. In the main that is caused by a lot of congestion in relation to the West Coast Main Line. This is one of the reasons why one of the biggest benefits for us locally from High Speed 2 coming into Birmingham Airport and then into the city centre will be the release of capacity on the heavy rail network. We can then use this release of capacity for better local connections. For example, we worked out that High Speed 2 and that local connectivity will generate something like 22,000 jobs and bring in about £1.5 billion of GDP[2]. Looking at the transport issues and how we want to unblock them is, I think, quite a complicated picture. It is about making sure that the very large transport investment goes in for High Speed 2, for example, but actually the local release of capacity on the rail system will bring in big levels of connectivity, which generates about half of

[1] Department for Transport (2010) National Networks—Access to Birmingham. Mott MacDonald, Colin Buchanan and Transport & Travel Research Ltd (Unpublished)

[2] High Speed Rail and supporting investments in the West Midlands: Consequences for employment and economic growth, June 2010. KPMG on behalf of Centro. http://centro.org.uk/rail/HighSpeed2.aspx

that GDP increase I mentioned before. Then we have the airport runway extension.

So, we are full of ambitious plans, but inevitably you arrive at a situation where you say, "If we can unlock the funding." We are not saying to Government that we want a big allocation of transporting funding. What we are saying is: "Bearing in mind our growth potential here in the West Midlands, what you ought to be doing is giving us a single pot of money and we can sort it out from there."

Councillor Jon Hunt: I suppose one of the issues from the point of view of the passenger is just joining everything up. Certainly in Birmingham City Centre in the coming years, one of the challenges is to join everything up. Those challenges are being taken on board as a result of the development of New Street and City Centre Metro. Birmingham City Centre is not necessarily large compared with the size of the city as a whole, but it is still largeish and it is growing and developing. Passengers who come into the city need to be able to find their way around. People coming from around the conurbation and the West Midlands region need to have confidence that they can use this developing city centre transport hub effectively and move from one mode to another confidently. Those are current obstacles to passengers. These challenges are not necessarily expensive to deal with, but they are ones that we have to respond to.

Councillor Timothy Huxtable: The key word that Geoff used was "capacity". We've all seen the figures that show that commuter travel is going to grow exponentially in the next few years. As Geoff said, we have ambitious plans. The priority has been shared and agreed among Birmingham City Council and Centro to reopen some of our disused railway lines that are used currently for freight but not for commuters. For example, the building of one particular chord at a key location could rapidly expand the capacity of the rail network and make life easier for a lot of people. It could also connect areas of significant economic growth at both ends of these commuter lines; in the city centre, but also on the outer fringes of Birmingham where there still are manufacturing bases. So "capacity" is absolutely the key word and that is an obstacle.

Q184 Kelvin Hopkins: I remember in my youth that Birmingham went hell for leather for a car-based community; for me, representing a car-producing town like Luton, there was a prejudice in favour of the car. Is it not the case that you have turned completely around now and are going for public transport?

David Bull: No, we have a very balanced approach in moving forward within the city. The car is important and there are lots of people employed in the car industry. We still have 56,000 car parking spaces in the city centre as evidence of taking forward that balanced approach. What the developers were saying to us last week at the launch of our Vision for Movement—which we've taken forward together with the Business Improvement Districts—was that the quality of the public rail with new development, particularly in the heart of the city centre, is very important. Therefore, the connectivity and improving the lot of pedestrians and cyclists and of the general environment is very important; as is bringing forward Bus Rapid Transit. It's the Business Improvement Districts that have been talking to Geoff and myself and saying that they want us to bring forward Bus Rapid Transit. We are accepting that in the short term Metro is expensive and we can't expand Metro, but they are saying, "Let's work with the private bus operators and bring in Bus Rapid Transit that is high quality and reliable public transport; that brings that same benefits as Metro but at a lower cost."

Geoff Inskip: Just to mention a couple of points that I think are probably helpful as well. One is that the modal shift is in favour of public transport in Birmingham now. That is quite good, because there is an ever-increasing modal shift towards public transport. I think there is an acceptance that in the long term we need to be less car-dependent. That is all cities really, Birmingham included. We do need to have a good integrated transport network to make that happen and that investment needs to take place. If there's one message that came out of businesses and people through the Transport Innovation Fund work we did here, it was exactly that: we have to have the investment in the public transport network to encourage people to get out of their cars.

Councillor Timothy Huxtable: I was going to make a similar point. People choose to use their cars because there is no viable public transport link. We know that if we increase the capacity, as I have referred to previously, people have said to us that they will use public transport because then it becomes a viable option. But we need upfront investment in that public transport infrastructure to actually encourage people to choose to move out of their cars and on to a far more viable transport system.

I will give you a very clear example. I live in Birmingham myself. My local train station is five minutes walk away. It takes me 12 minutes to get from my local station into the heart of the city centre and the train service runs every 10 minutes. We can replicate that through some of our disused railway lines. If you try to do that same journey at peak hours, it can take you up to three quarters of an hour. I'm very lucky because I do live five minutes walk from a railway station; that's not the case for a lot of people in Birmingham.

Q185 Kelvin Hopkins: In a sense, you've made my point for me. Many cities across Europe of a similar size to Birmingham, including its environs, have elaborate Metro systems and much more investment in public transport. It seems to be that, as you say, using all these former railway lines and getting more access to public transport systems, one could see a situation where car use for commuting diminishes substantially. You don't need to invest so much in roads, and the whole town centre becomes much more pleasant. London has car exclusion policies, as do other cities in the country. Nottingham, for example, has really gone heavily for car exclusion. Isn't that a direction to go in?

David Bull: In fact, that is the direction in which the commuter is moving. As Geoff says, we're moving towards public transport. In recent years there's been

a 1% reduction in car use coming into the city centre in the peak period. Rail use in the past five years has increased by 40%. But that gives us opportunities from the trip generation, particularly in relation to the economy and new development, of reconfiguring the ring road in order to get high quality floor space and mixed-use development to create jobs. Birmingham needs that infrastructure investment in order to support not just Birmingham, but the region as well, as we are the regional capital.

Geoff Inskip: I just want to say that the core cities generate 27% of the GDP of this country, and London generates 22%. London has an investment per capita of over £800 per person, and yet in the core cities we invest less than £300 per person. The need is for that investment to get up to the London levels, and then I think we can start really tackling the problem you're talking about.

Q186 Chair: Yes, the Committee have noticed that point before.

Q187 Kelvin Hopkins: My final question is, if this was the continent of Europe, this investment would have to come from the public sector. The reality is that a lot of this investment does not have a very immediate or a very high return. Sometimes it might even be permanent subsidy, loss making, whatever; it has other economic benefits, but not direct commercial benefits. Is it not the case that we need much more public investment in these areas to make it all work?

Geoff Inskip: Of course.

Chair: I think we're probably with you on that.

Q188 Julian Sturdy: The point I was going to make was actually going to follow on from that. Listening to what you say about funding, I understand that certainty and timescales of funding is very important, but we also know that funding is going to be very difficult going forward. So it's probably not about the amount, but it's the certainty and the timescales that are going to be crucial. But, Mr Inskip, you touched on the decision-making process and you said that the decision-making process is now being made at a more local level and moving away from central Government influence, shall we say. Do you think that process is helping, or will help, to drive up public sector finance within the potential schemes that you want to deliver because there is more local influence over it rather than central Government influence?

Geoff Inskip: I think we hope so. Clearly at the moment the Coalition has set its stall out pretty clearly for the next three to four years in terms of major scheme funding, etc. We all know now what we have got to get on and deliver during that period of time. I think the opportunity now is looking at the way in which we have other priorities, and how we actually develop those through the Regional Growth Fund. For me, I think the Regional Growth Fund is effectively a single pot, but it's a national single pot. As David quite rightly said, it's going to be competitive at this stage. What we want to see in the longer term is that single pot driven down to the more local level, so it is about us delivering locally. I think the clever thing will be how individual LEP areas actually lever in the private-sector funding as additional funding into the public-sector funding that is there as well. I think that we know that if we can actually start saying to developers that we have our share of the funding available if they bring forward their development, then you will get that merging and quicker delivery on the ground as a result of that. At the moment, what holds back the private sector is the fact that we don't have our money; when we have our money, their money has gone away. If we can actually pull it back together again, we can actually focus it and get it done on the ground quickly.

Q189 Julian Sturdy: And that goes back to the timescales and the certainty of the funding going forwards?

Geoff Inskip: It does, yes.

David Bull: If I can add to that, the other word that we need to put in there is that word "confidence". If we have confidence on the timescales, in terms of what funding for infrastructure is coming forward and when, that builds confidence in the private sector and their funders because they too know what is happening and when.

Q190 Chair: So, you're looking at timing as well as the process?

David Bull: It's timing that gives confidence for the developers' lenders to lend to them and then you can be successful. If I could give you one example, there is an area of the A45 which is by the airport and the NEC. The cost benefit for improvements to highways in that area is 8 to 1. For every pound spent, there's £8 of benefit. The only way we can get the certainty so that the private sector can invest in the airport and get the runway extension, is for Centro and Birmingham City Council to say, "We will fund that from our own funding."

Q191 Iain Stewart: That actually quite neatly anticipated my question. I just wanted to probe a bit more on the balance between shorter and longer-term projects. To what extent are you comfortable that the projects you are looking at, say within the five-year window that Councillor Hunt mentioned, are going to be consistent with the projects that will be needed to complement High Speed 2 if it comes and the airport expansion? Is there a danger that you will do these short-term projects and then say, "Ah, but now we need to change to complement the longer term ones."?

David Bull: I think the art of transportation planning is to plan for the medium and the long term. In relation to High Speed 2, we've been talking to the High Speed Two Company, we know that we can work together and we're actually saying that potentially the High Speed Two Company have £750 million worth of development money over the next four years. We have a lot of local knowledge in Centro and the City Council, so let's work out the improvements in accessibility for that station together. We know it is long term, but working to get the benefits to Birmingham and the wider city region are major economic benefits that we desperately need in this region for the longer term. Therefore, working

together and getting the timing right is the key issue again.

Councillor Jon Hunt: There are some further examples to talk about. There has to be a balance between creating the major transport infrastructure, and often that is about taking people through the region as much as around it, and making sure that the transport infrastructure works around the region. But I can tell you that the first major scheme that's being looked at within the LTP3 process will support the development of the airport. That is down to consultation, as I say, so it is not confirmed, but that is what is currently being looked at in the draft.

The implementation of the City Centre Metro extension again supports that joining up in bringing the Metro across the city centre and laying the way to link High Speed to the Metro when we have a timescale for High Speed. So joining up the small schemes as far as possible sometimes seems hard to do because, from a public point of view, the £120 million spent on the City Centre Metro sometimes seems hard to justify. Your ordinary bus traveller out there wonders what it is going to deliver for them. Sometimes it is very hard to make the case, but the case is there and it is essential because it does join things up. So we have to get that balance in what we do.

Q192 Iain Stewart: Maybe I will just ask the question the other way around. If High Speed 2 didn't happen, would all the projects you are looking at still make sense and be complementary?

Geoff Inskip: The answer to that question is that we are planning for High Speed 2 to happen. The benefit of having a transport strategy allows us to do that. However, the theoretical point you make is that things can change and things do change. Therefore, it's very relevant that you actually review that strategy on an ongoing basis to make sure that you are doing the right things in the right order. If I turn it the other way around, three years ago we didn't have High Speed 2 on our agenda, and now we clearly do; we've actually amended and changed both our short-term and longer term plans to encompass that new challenge.

Councillor Timothy Huxtable: The other key point to make is that when we are planning in terms of regeneration projects like Area Action Plans and like the Big City Plan, transport is an integral part of that planning process. This is so that it happens in conjunction with regeneration as well as assisting further regeneration in years to come, and ensures that they work complementarily.

Q193 Gavin Shuker: To characterise the position currently, in order to get any public funding you need to prove that there is a clear economic benefit to the local economy and to the regional economy. I was wondering what capacity you have among yourselves to prove that when applying for funding.

Geoff Inskip: The starting point is economic value, jobs, regeneration, GVA, etc. Something that we've consistently looked at in the four years I've been here is to identify, together with transport projects, not just the usual transport benefit to cost ratios and appraisal methods but actually to really lift the debate above that to the question: what are these transport projects doing for our cities? Where is the economic regeneration? A lot of that we do because when something happens on the ground we know what will happen around it. We have transport economists who look at that now and make sure that that assessment is made. We also make sure that we then understand what the connectivity benefits are for bringing forward transport projects and ensuring that that development can take place. So, we do have the internal capacity to ensure that is the case, because it's part of exactly what we do. It's part of our transport appraisal; we would like to see it more as a part of Government's transport appraisal too.

Q194 Gavin Shuker: What pressures do you face to put those benefits forward in the most positive manner that you can? In other words, is there any pressure on you to look at the more optimistic perspectives of what the benefits might be in terms of public funding?

Geoff Inskip: I don't think so, no. The idea behind this is we have to take a very professional approach. We look at things in the round and we make sure that we have an objective assessment as to what we think transport projects will bring. At the end of the day, there's no point over-promising something and under-delivering. The benefit is almost the other way around: let us show that it will generate this and then it is better to come back and say, "Actually, it did a lot better than that." Then that gives Government confidence and I hope allows us to have some more money.

David Bull: In fact, adding on to that, we obviously do put the business cases forward. The DfT go through them with a fine-tooth comb and we do make adjustments. However, quite often, what aren't taken into account by the DfT are the wider regeneration benefits of that investment. It is a bit narrow, and there is a debate going on about demonstrating that the wider regeneration benefits should be given more weight, just as environmental benefits are considered as well.

Q195 Gavin Shuker: So you're saying that there's a tension between yourselves and the DfT when it comes to characterising what the benefits would be?

David Bull: We get on wonderfully with the DfT.

Q196 Chair: But within that there might be slight areas of creative tension?

Geoff Inskip: If I can point to the fact that some of the arguments we would make, for example, are about jobs being generated or created in a particular area. The Treasury might take a view that those particular jobs would be created nationally and it is effectively a redistribution impact rather than anything else. So there are no net new jobs to the economy, but they will accept the net new jobs to the West Midlands. We believe that that's actually quite an important part of the discussions we have to have in terms of rebalancing the economy anyway. We have an overheated South-East and we'd like to see more jobs come up here into the West Midlands. If I could just give you an example: we think that High Speed 2

could generate 60,000 to 70,000 jobs in the West Midlands.

Q197 Chair: So you're saying that nationally we should look at local impacts and not just UK?
Geoff Inskip: The local impact could well be 60,000 to 70,000 additional jobs in the West Midlands. Of that, we think about 20,000 are new jobs to the economy. But we think that both matters are relevant and we do not think it is relevant to have an argument about one versus the other.

Q198 Kwasi Kwarteng: I just want to talk about the airport, because it seems that it has an important role to play in terms of economic development. I just want to know what your vision is for it, and how you think it would help the local economy.
Councillor Timothy Huxtable: I think it's our number one regional priority. That is agreed by everyone, coming back to the shared priorities and working together, not just the public sector but also the private sector. That 400 metres of airport extension delivers far more than 400 metres of concrete. It allows point-to-point city-to-city travel. There are seven major global growth points in the world; from Birmingham you can only fly to one of those seven. We know that travelling point to point, rather than interchanging elsewhere, would give a significant boost to the Birmingham economy. It would also create more jobs at the airport, but we need to have an effective travel system—a Rapid Transit System in all likelihood—to get people from those jobs created along the Birmingham Eastern Corridor, which is one of the most deprived communities in the country with some of the highest rates of worklessness. As mentioned in the Big City Plan, which I believe you have copies of, that Eastern Corridor links the airport with the city centre, so that Rapid Transit System would be of double benefit.

Q199 Chair: We are running out of time, does anybody disagree with that? I don't want anyone to repeat themselves and I will assume you all agree.

Q200 Paul Maynard: This is a question specifically for the Council, in advance of the arrival of HS2: what economic development planning are you engaged in, separate to infrastructural planning?
David Bull: In terms of economic planning, the Big City Plan is about the economy of the city. We are working through the Birmingham Economic Development Partnership with all the agents, both private and public sector. We are looking at research and innovation that comes out of universities.

Q201 Paul Maynard: Is that all because of High Speed 2?
David Bull: Not just because of High Speed 2.

Q202 Paul Maynard: So there's nothing specifically related to High Speed 2's arrival?
David Bull: In relation to High Speed 2's arrival, we have looked at the agglomeration affects of that, in terms of the relocation and the potential development in the city of office space. The potential gainers specifically related to High Speed 2 are the finance industry, the legal industry and commerce. There will be major benefits in those particular areas because getting between London and Birmingham in less than an hour means that there can be major commerce and floor space development both in London and in Birmingham.

Q203 Paul Maynard: As a result of that planning, are you taking any concrete steps as a result of those findings?
David Bull: Yes, the most concrete step is that we are strongly encouraging the Government, and working with the High Speed Two Company, to look at accessibility in the area, but also to take part in the public consultation, which will be a four or five-month period from February next year.

Q204 Chair: Finally, I just have one question I want to put to Centro. I'd just like a brief answer please. You have an interesting proposal in your written evidence for setting up a Commission for Integrated Transport. Now, the Government's just abolished the National Institute for Integrated Transport; is this going to happen?
Geoff Inskip: The point that we were making in terms of the Commission for Integrated Transport, which is not the same as the National Commission for Integrated Transport despite the name, is basically how we can pull together transport priorities across the LEP areas.

Q205 Chair: Yes, you've set out very clearly what it is. Is it actually going to happen? I'm not clear from the submission how far it's developed. Is it a hope or an aspiration?
Geoff Inskip: This is all part of strengthening the role of the ITA.

Q206 Chair: Is it going to happen? My question to you is: is this actually going to happen?
Geoff Inskip: We haven't yet made that decision.

Q207 Chair: Thank you. Right, well on that note, thank you very much for coming and answering so many questions for us. Thank you very much.

Examination of Witnesses

Witnesses: **Martin Dyer**, Deputy Chair, West Midlands Transport Group, **Lindsay Durham**, Head of Rail Strategy, Freightliner, **John Morris**, Head of Government and Industry Affairs, Birmingham International Airport, and **Richard Winfield**, Principal Consultant, Brefi Group, Birmingham Forward, gave evidence.

Q208 Chair: Welcome to this session of the Transport Select Committee. We've come to Birmingham today to hear directly from you about what's happening here and how you see priorities. Could I ask first for you please to identify yourselves for our record? If you would give your name and the organisation you're representing.
John Morris: My name's John Morris, I'm from Birmingham International Airport Ltd.
Lindsay Durham: Lindsay Durham from Freightliner.
Martin Dyer: Martin Dyer. I work for WSP, but I'm here representing the Birmingham Chamber of Commerce.
Richard Winfield: Richard Winfield and I represent Birmingham Forward.

Q209 Chair: What's the most important transport investment needed to support the economy in this area?
John Morris: Well, I would say this wouldn't I? Birmingham Airport.

Q210 Chair: Why is it so important?
John Morris: Because of the job and economic generation that I believe it will bring and because it is not just a regional asset; it's a strategic national asset. If we understand what's happening in the South-East with aviation constraints, Birmingham gives you a solution to aviation capacity now. We have an airport infrastructure in place today that can take 18 million passengers a year. At the moment we're only taking 9 million. If we could divert some of that demand from the South-East to Birmingham, for every million passengers that we got through Birmingham Airport, we would create up to 1,000 jobs in the region, and that's just for starters.
Richard Winfield: I would support what John says. We had three priorities: the airport runway extension, New Street Station and London Rail. At least they are knocking New Street Station down if they are not building it, so that we assume it is going ahead. The potential for the runway extension seems to be getting gradually closer. We have had several questions, I am pleased to hear, about what would happen without High Speed 2. Our third priority is really serious, because the others are to do with economic generation; London Rail is almost the opposite. If we don't have High Speed 2, we will have to have Low Speed 3 because the London to Birmingham rail system is desperately crowded and is soon to run out of capacity. I've been lobbying, even before High Speed 2 was on the horizon, that we do need another railway, in fact. So, effectively, our highest priority is to protect London-to-Birmingham rail services, and I think you can only do that by building a third railway.
Lindsay Durham: In terms of moving more freight on the railway, it's really about connectivity with our ports as more and more goods are being imported and exported. It's not so much about local investment; it's about investment from those core routes from the ports, particularly out of Felixstowe. The upgrade of the Felixstowe to Nuneaton route has started and is made up of three phases. The first two phases are funded, but the final phase, which is to increase capacity, is yet to be funded. Also, there are schemes to enable a diversionary route from the major port in Southampton so trains can run reliably, seven days a week, and schemes to increase train lengths so we can make the best use of our rail network.

Q211 Chair: Mr Dyer, what's the most important transport improvement?
Martin Dyer: The Chamber, like a lot of good business people, has adopted a balanced portfolio. We've been strong advocates and supporters of the airport extension and have lobbied hard on that, as we have with Gateway. They have been very important for us. However, we could essentially say that they are now ticks in the box because the progress is such that we are nearly there. We've also been keen to increase the capacity on the Midlands motorway system, as a part of the national network but also as a fundamental part of the local network. Many of our members are totally reliant upon good road networks for their operations. In addition, we've supported a balanced approach to cars and freight in conjunction with the rail system. Then at a very local level, we worked hard with Centro on quick wins to deliver small, localised, good value schemes to deliver local improvements. So we don't have one big prize that we've been after; we've been after this balanced portfolio.

Q212 Chair: So you look at a number of different things?
Martin Dyer: Absolutely. Now, in terms of progress, a lot of those are done and at our next meeting next week we are going to revisit where we need to be going.

Q213 Kwasi Kwarteng: I'm very interested in what you said about HS2. I'm going to ask you a question that was asked earlier. If HS2 didn't happen, what would your main source of growth be? HS2 has only been on the table for the last three years, what were you thinking three years ago? What did you think the problems were?
Richard Winfield: If you go back five years, I was going to meetings and saying, "We need the equivalent of a motorway system." When I was young we had roads and I used to go to London following lorries with 20 mile an hour signs and big trees hanging over. We were poor in the 1950s and 1960s and we are wealthy now, and we built a complete network of motorways in 30 years. What I was saying then, and what I think applies now, is that we need to do the same thing for railways. We've been rescued by Adrian Shooter and Chiltern Trains, and they're

about to rescue us again next year by adding some more capacity. However, I've been to Network Rail presentations—because they consult with us—at least two years running, where they've shown us graphs of their forecasts: low, medium, high and outturn. They were unable to see that they were incapable of forecasting the rate of growth and that's without the legal requirements we will have in the future to reduce carbon.

We have two problems with the railways, I think. One is that we have an inability to plan properly 30 years ahead and that's in the context of the Treasury; but the second is that we have an institutional problem in the railway industry in that they don't actually believe in railways. We need to change that. Hopefully it's changing, and I think High Speed 2 might have helped to change that. But the evidence of the number of people on the trains has been beyond the ability of the railway industry to forecast. It's desperate. They were talking about running out of capacity in 2020; it's looking more like 2014.

Q214 Kwasi Kwarteng: Eddington is mode neutral; what's your view about that? It seems like you're going very hard for rail.

Richard Winfield: I represent the business people and the professional people and clearly, we move people; we don't move freight. We have a very strong relationship with London and also places like Brussels and so on. To a certain extent we can claim to be a back office of London, so for us, that relationship with London is really important in terms of moving professionals back and forth.

Q215 Kwasi Kwarteng: But in terms of mode neutrality, are you backing rail?

Richard Winfield: Rail. It is rail plus Wi-Fi; that seems to be the big issue. That is significant because you can't deal with computer work while you are driving a car. So rail is the chosen mode.

Q216 Paul Maynard: Our previous witnesses clearly had great confidence in the Local Enterprise Partnerships to act as the forge for transport investment and structural change. Do you share their confidence in the Local Enterprise Partnerships to adequately fulfil that role?

Lindsay Durham: I think, as a transport company that moves goods nationally around the company, we have quite a lot of concerns about localism. In terms of developing new rail terminals, which are essential to allow growth in rail freight, there has already been a major terminal at Radlett that has been turned down, subject to appeal. This was because of a lot of local opposition. I think that when the decisions are made locally, it's very difficult for local politicians and Councils to make decisions when there is a lot of local opposition, even though there may be a lot of regional and national benefit. I think we're very concerned that national benefits and regional benefits won't be properly taken into account in terms of things like building new rail freight terminals and also in terms of investment. We have had a lot of support from Advantage West Midlands and SEEDA in getting the gauge clearance work from Southampton to the West Midlands, which is now under way and due to be finished in the Spring. We're concerned that there won't be the understanding of freight. People tend to understand passenger transport because everyone uses it, but most people don't understand freight transport. Therefore, because there's a lot of understanding, it will mean that there aren't the investment recommendations coming forward.

Richard Winfield: If I may apologise, we're sitting on the fence. The feedback we have is that the business community is not convinced either that the LEPs will really do anything, or that this LEP will really do anything. What I would like to say though, is that through the Business Improvement Districts, we've proved how business can invest. You heard earlier about the bus rapid transit, which is entirely a Business Improvement District and business-led initiative, which is now integrated with the local authorities and so on. So, business can deliver, but we're not yet sufficiently convinced that the LEPs will work.

Q217 Paul Maynard: Perhaps specifically, therefore, to Mr Winfield and/or Mr Dyer, what involvement have you had, if any, in economic development planning which has been specifically linked to the arrival of High Speed 2?

Martin Dyer: In my former role, I worked very closely with the airport to make the case for High Speed 2, in particular the case at the airport and NEC. We relied heavily on a piece of work that was commissioned with AWM on the M42 growth corridor. Now, the M42 is just a geographical location rather than a transport entitlement, but that was a very heavily predicated piece of economic planning which we used to support the case that was made by the airport and by the NEC at the time.

Q218 Paul Maynard: That was to argue the case, but since you have known it's coming, has there been anything?

Martin Dyer: No.

Q219 Iain Stewart: A question to Mr Morris, if I may, regarding your comments about the expansion of the airport and adding to the airport capacity in the South-East. To what extent would you be working in partnership with airports in the South-East to accommodate future growth in air travel? Or is it a more competitive bid to take away traffic that currently goes to Heathrow or the other South-East airports?

John Morris: We work in a competitive environment so we're obviously willing to work in partnership with anyone, but you can understand that there are certain commercial issues between airports. I think it is a fact of life that airports in the South-East are going to fill up, and where are you going to put that traffic? With HS2 coming along, that puts you within 31 minutes of London to Birmingham Airport and puts you in the equivalent of zone four of the Underground map. While I will sit here and make the case for Birmingham, there are other regional airports that can help satisfy that demand. Certainly, we've been talking to other regional airports because, as you

might imagine, there's a bit of a lobby in the South-East. We've been talking to other regional airports to discuss whether or not they're of like mind. Obviously, they'll speak for themselves, but I'm not speaking alone in this matter.

Q220 Iain Stewart: I'm presuming that HS2 is critical to the plan. Are you concerned that it may not connect directly with Heathrow?

John Morris: I think that it's not right to say that HS2 is critical to the plan. As I outlined, we have spare capacity now. Now, if we say it's going to be 10 or 15 years until High Speed 2 comes along, I think Mr Winfield's already pointed out some of the issues there are on the London to Birmingham railway and there are some strong issues over capacity. There are also some strong issues over journey time. If the journey time between London and Birmingham Airport can be reduced to a slightly more acceptable level, say, just under an hour—59 minutes—rather than an hour and 10 minutes, we believe that starts to break psychological barriers in terms of putting Birmingham into people's mindset, for want of a better description. The challenge we believe within the next franchise period, which starts in 2012, is to improve the journey times. While the current franchise can tick the box for improving journey times, journey times are only five to eight minutes faster between London and Birmingham than they were in 1968. There have been some tremendous journey time improvements between London and the North-West, but Birmingham has really sat by the wayside for a number of reasons that you may have heard about earlier. We have an anomalous situation now where you can get from London to Warrington 10 minutes faster than you can get from London to Wolverhampton.

So we believe that there is a lot that can be done between now and High Speed 2, but looking further out, we are making preparations for High Speed 2. During the last Parliament, Lord Adonis came to see us, and we did actually say that we were quite interested in siting a future third terminal over the High Speed Rail Station. This is because we believe that public transport should be integrated and we do believe that aviation is public transport, even though it receives no subsidy from the taxpayer. So, we don't want to paint this picture where everything in predicated on HS2, but actually HS2 will bring about a sea change in the way things are done. The fact that the first part of HS2 comes from London to Birmingham is excellent, but as you start to build up a network that possibly links other airports, you start to get the true network affect that we saw with the creation of the motorways.

Q221 Kelvin Hopkins: First of all, I very much welcome what Richard Winfield said about looking at railways the way that we looked at motorways in the last 30 or 40 years, and investing seriously in railways. He talked about having a new railway line, but is it not as important to have new, dedicated freight railway lines as well as passenger railway lines?

Richard Winfield: It's all part of the same thing, isn't it? There's a lot of argument about High Speed 2, but the great thing that people tend to forget is that the London to Birmingham line will still be there. It currently has lots of constraints in terms of passengers and in terms of places where it can stop. I assume that exactly the same applies to freight: if we can take some people off the traditional railway line, we can release space, and it's the same with roads. If you can take people out of cars then it releases space for lorries.

Kelvin Hopkins: Lindsay and I have known each other many years and we've had these conversations many times in private before. Would it not make life much easier for the freight industry if there were dedicated freight lines which were of a gauge to take full-sized containers wherever you want to go, and also, not for your company in particular, but for others, to take lorry trailers on trains with roll on/roll off systems between the conurbations in Britain, notably Birmingham and the West Midlands, but also through the Channel Tunnel to Europe?

Q222 Chair: I will just add on to the end of Mr Hopkins' question there, which is about new freight lines. How do you see the current situation in terms of supporting more rail on freight if we didn't get those new lines?

Lindsay Durham: Starting with Kelvin's questions, we certainly support a rail network that has gauge clearance that allows us to move transport. I know in Europe there have been trials of moving lorries by rail, but the key issue for rail is that you must be able to compete on price with road. I think we are concerned that if you were able to take lorries on trains in the UK, you've got the whole lorry sitting there and not actually earning any money. I'm not sure that that would be economically viable. However, we know that there is a lot of opportunity for unaccompanied boxes and freight. The key really is capacity. I think it's not actually about a freight-only network; it's about a network with the right capability that allows us to take the standard containers by rail, enables us to run long trains and enables us to get good journey times that compete with road. Overall, it really is about the overall economics to compete with road.

Q223 Chair: You've expressed a concern about the Modal Shift Revenue Support grant?

Lindsay Durham: Yes we have. A budget was set by the previous Government for three years starting from next April, and we know that next year's funding is confirmed. We're still waiting for confirmation for the following two years. I think it's particularly important in the West Midlands area where there's £12 million worth of funding that funds about 400,000 containers that currently move by rail into the West Midlands that would otherwise move by road. So, it's critical, particularly for this region. Ironically, it's where you have the shorter journeys from the ports and the Channel Tunnel to Birmingham that you most need the grant. However, the environmental benefits that calculate the grant are lower because the road journeys are shorter than the North-West or Scotland, for example. It is critical. In the long term we would like to be free of any such revenue support. Overall,

we see it as being about the long-term economics of road and rail. Things like Lorry Road Charging, for example, could make the difference between the economics of rail versus road that would enable us in the future to be grant free.

Q224 Kelvin Hopkins: As Richard Winfield has said, the pressure on our existing railway networks is going to be higher and higher and is going to be filled up with fast passenger trains which don't mix very well with slower freight trains. Indeed, the existing rail networks have tunnels that cannot be gauge-modified as it would just be prohibitively expensive. A cheap, economical, dedicated rail freight network, capable of taking lorry trailers, not lorries, on trains long distances as operates in American and Canada is desirable so that Birmingham could export its products to Dortmund overnight by a lorry trailer on a train, or indeed by a full-sized trailer or a Double Stack Container, which can get through the Channel Tunnel. Isn't that bold approach much more sensible?

Q225 Chair: Ms Durham, would you like a bold approach?
Lindsay Durham: Yes, build our own network. Ideally it is, but I think we're concerned about the affordability of it. Is it realistic to expect such a network? I think we think there is a lot that can be done to the existing network to upgrade it. If there are lines with four tracks then freight and the stopping passenger services actually mix very well in terms of capacity. I think if there was a dedicated rail line, we are just concerned about the affordability; not just of building it, but also of running it. Who pays for it long term?

Q226 Chair: So you're for improvements without building a completely new line?
Lindsay Durham: Yes.

Q227 Kwasi Kwarteng: We are the Transport Select Committee and obviously in issues of transport we get into the habit of drawing up a wish-list in terms of things we want and the amount of money we want. However, in terms of getting a feel for how the locality works, I'd like to ask, what are you happy with now? What do you think are the great successes in terms of transport in Birmingham and the surrounding area? What are you happy with? What works for you?

Q228 Chair: What's good about what there is?
Richard Winfield: What is good is what the Victorians did.

Q229 Chair: Nothing since then?
Richard Winfield: We have got to undo some of what's been done since then. It was mentioned by the previous speakers, but we are fortunate that we have actually got a very good local railway system. We would definitely support what they were saying earlier in terms of the campaign calls to bring some of the other lines back. So what is good is that we have a good passenger railway system, and as they were mentioning earlier, that is heavily used. Again, as was mentioned earlier, in fact it is public transport use that is driving the modal shift, rather than the restriction on car usage, but that is something that we inherited. The other thing that is good is the proposal for our bus rapid transit system, which is a short-term or medium-term proposal that came from the business community.
John Morris: I think that there is willingness for people to work together. I think perhaps planning is more joined up than it was even five or 10 years ago. We have these redundant railways that can be brought back into use; at least they haven't been built over. There is now a willingness to look at all modes of transport and not just look at them in isolation, in order to see what the best solution is.
Richard Winfield: The three males among us all work together on the same Committee, which comes out of the business community.

Q230 Chair: Well, in that case I'm going to ask Ms Durham what she wants to say.
Richard Winfield: It proves that we are prepared to cooperate.

Q231 Chair: Well, it might prove a number of things but we won't go into that just now.
Lindsay Durham: I think the upgrade of the West Coast Mainline has resulted in a very good, reliable line.

Q232 Kwasi Kwarteng: It is excellent.
Lindsay Durham: There is a lot of capacity that has been built for both freight and for passengers. I think there are three passenger trains an hour from London, which is excellent service. I think although there was a lot of pain during the building—and it is very hard to upgrade a line while you're still trying to run people and freight on it—I think now the result is very good. We do need to start looking forward though, because it's estimated that by about 2020 the capacity will all be used up. I think we are concerned about the gap between 2020 and HS2.

Q233 Kwasi Kwarteng: You like this West Coast Line, then?
Lindsay Durham: Yes. It's the core route for freight. It connects our major ports and the Channel Tunnel to the conurbations. The West Midlands is the key area for distribution in the country.
Martin Dyer: I'd like to add that. The West Coast Mainline upgrade has been a significant improvement with the additional capacity. We should also be quite proud of the work the Chilterns have done in the West Midlands, and particularly with the amount of investment that they put in. The long franchise has been very, very beneficial, and with the work they are doing now, I think that is quite exceptional. To specifically answer the question, I think we have a few gems. We have a lot of okay transport infrastructure and a lot of it that's creaking on the edge. I think the worry and the concern is the lack of a plan going forward and the lack of a long-term plan and the funding that goes with it in some areas. To pick up on that with one very brief example, we had a question earlier about, "What do you do if HS2

doesn't happen?" We have a problem if HS2 does happen. We have a problem with rail capacity from 2020 until the time that the first High Speed 2 train runs. So, in the Chamber we are worried about that gap.

Q234 Chair: So you're looking at rail capacity as the key problem?
Martin Dyer: It's one area.

Q235 Chair: How important is tourism to the regional economy?
Richard Winfield: It's very important, but not to us. You're speaking to the wrong person, in my case.

Q236 Chair: Well, what about Mr Morris. Is tourism important?
John Morris: Yes, it's part of the mix we have through the airport. I think perhaps when we talk to colleagues from tourism one of the things that galls us more than anything is that you have your stereotypical American that flies into London, stays in London, but actually goes to visit Chester, York and Stratford. They are all coming in through Heathrow. Our argument is actually that we want to try to rebalance the regional economy. We want to fly them in to Birmingham, base them in Birmingham and then it's hopefully an hour to London and an hour or so to York and Chester. This is again one of the ways that the economy can be rebalanced by taking those blinkers off.

Q237 Chair: It's interesting to hear you say that. Most of our witnesses talk about London connections exclusively, but there is another part of the world as well.
Richard Winfield: Can I reframe the question to say "conferences"? Because in that case, conferences are the equivalent of tourism and they are very important for the business they bring, which is huge, and also for the public relations and the profile that they build for us.

Q238 Chair: So, the conference trade is important, Mr Dyer?
Richard Winfield: That's for our main city centre business.
Martin Dyer: Yes, as a former employee of the NEC group, I would say that. I guess most of you have either been to the city centre in your conference sojourns, or will be coming. It is a major part of our economy that we ignore at our peril. Manufacturing is key; but tourism and business tourism is fundamental to that. I also talk as a resident of Stratford-upon-Avon, so I would say that, wouldn't I?

Q239 Paul Maynard: To Mr Morris, the most frequent criticism I read of your airport is what they call the "tourism deficit", whereby you have so many more passengers leaving the West Midlands and taking their money out than you have arriving in the West Midlands bringing their foreign currency in. How do you defend that criticism?
John Morris: I think that you have to look at these things in the round, and Aviation produced something called the Oxera Report[3], which you may or may not have studied, which goes into some of the economic benefits of aviation. I can certainly reference that to you later. I think that the point that I'd make is that aviation is but one part of the economy; we'd love to have more visitors here. One of the things that we're trying to do with our runway extension is have those global links that will attract more people, more business and more business tourism in through Birmingham Airport, because we want to be another global gateway. That will benefit things such as tourism and business tourism in the Midlands; room nights, bed nights and that kind of thing. Again, it's another reason why the service to London, even before High Speed 2, needs to be so much better. Yes, it's a good service, but frankly, it's not good enough. The journey time between Birmingham and London as I say, is only between five and eight minutes faster than it was in the 1960s. What has been done on other parts of the West Coast Mainline is absolutely phenomenally good. Birmingham must try harder. What we want to do is give people the option of coming in through Birmingham, go to London by rail in one seamless journey and vice versa. There will be some rub-off there, because it means that people will spend one or two nights in Birmingham, and this will start to benefit the tourism economy.

Q240 Gavin Shuker: Obviously, we've touched on the localism agenda so far. It seems to me that many of you are talking about national benefits as well as local benefits, but it occurs to me that there may be some local opposition to some of the things that you're talking about. Could you perhaps talk about how the localism agenda conflicts with your own agenda in some ways?
John Morris: Clearly not everyone wants an airport in their back garden. We went through a process of planning and planning application to extend that runway and we have that permission. We are the only airport with significant permission to expand. We do hold our CSR and our community values very closely. You might say, "He would say that wouldn't he?" But the way in which I can demonstrate that is that we actually got the planning consent for that development without a public inquiry, which I think is quite a credit to those that made the planning decision; that on balance we were going to be for the good and not the bad. We never underestimate the relationships that we have with our local people. We recognise that there are some very positive things in terms of the importance to the economy, but we have to mitigate the negative affects. Certainly when you talk about HS2, we are very strong supporters of HS2, but we are clear on the fact that we expect the mitigation for HS2 to be as good and as thorough as the mitigation we went through with our airport process.

Q241 Chair: Any other examples of potential clashes between local interests and regional or national need?
Richard Winfield: Not specifically, but part of our responsibility is to lobby, and on the back of that is

[3] What is the contribution of aviation to the UK economy? Final report prepared for the Airport Operators Association/ November 2009.

our responsibility to educate. Very often, you find that opposition is actually based on prejudice and ignorance. So, part of our active role is to constantly have speeches from various people who are involved in things like HS2, the railway station, the airport and so on, so that the business community that we represent actually understands what the issues are. I think when people understand the issues, very often a lot of objection disappears.

Q242 Chair: Are there any strong views about the current appraisal process for deciding major schemes and whether the criteria are right or wrong?

Lindsay Durham: I think we have some concerns. I understand from Norman Baker there is likely to be a review out for consultation fairly soon. I think we are concerned that the value of carbon is rather outdated and not based on future predictions of fuel prices or the future likely traded value of carbon, so that's one thing. One key area that particularly impacts on rail schemes is that currently, if you create modal shift by your investment, the lost fuel duty income is actually knocked off the benefits of the investment scheme. That actually rather encourages carbon positive schemes which use more fuel than carbon negative schemes. If we're serious about reducing carbon, I do think that's very important.

I think the other key thing is how you actually value congestion, which has a big knock-on effect on the economy and is a very vital part of creating value.

Martin Dyer: The community I represent are very concerned about the extended planning cycles that one goes through when one's running through the appraisal process. It puts unacceptable costs into schemes. We've seen it significantly in this area with the widening of the M6 up to Manchester, the numerous appraisals that it went through, the massive costs associated with that and at the end of the day, it's not going ahead within the foreseeable future. So, it is the unacceptable costs that come from those planning cycles, and I actually just precluded altogether the uncertainty and the delays that go along with this. Those are the concerns we have that affect our national competitiveness.

Richard Winfield: One addition. Throughout the 40 years I've been involved in transport, there's been this problem about land value capture and how to deal with it. The City Council was pushing for ADZs and now we have the concept of the TIFs. That does seem to be a way that we can actually get the private sector to contribute to public sector investments, and we would be very much in favour of bringing those in actively.

Q243 Chair: Thank you very much for coming in and answering so many questions. Thank you very much.

Examination of Witnesses

Witnesses: **Nicola Moss**, Head of Franchise Management, London Midland, **Martin Hancock**, Marketing Development Director, Business, National Express, **Tim Walley**, Board Member of the Retail Bid and General Manager, Bullring Birmingham, and **Gerald Kells**, West Midlands Regional Sustainability Forum, gave evidence.

Q244 Chair: Good afternoon, and welcome to this session of the Transport Select Committee here in Birmingham. Could I ask you please to give your name and the organisation that you representing?

Gerald Kells: Gerald Kells. I'm representing the West Midlands Regional Sustainability Forum, which covers all the major non-governmental, environmental and amenity organisations.

Martin Hancock: Martin Hancock, National Express. I'm here in the context of the largest bus operator in the West Midlands.

Tim Walley: Tim Walley, I'm representing the Retail Bid District.

Nicola Moss: Nicola Moss, representing London Midland.

Q245 Chair: What's the most important transport investment that's required in this region at the moment in terms of helping the economy?

Martin Hancock: I've had the advantage of listening to everyone else, but from my perspective, one of the key obstacles and challenges we face is the fact that we actually haven't mentioned the bus system in the West Midlands. 90% of all public transport use within the West Midlands is actually carried by buses, which amounts to 300 million passengers a year. Rail is important, but it carries about 30 million. Therefore, in this context, buses are very important. For us, the most important investment is actually in making sure the bus can fulfil its function in meeting the needs of a large number of people in getting around the conurbation easily, quickly and reliably. It's a theme that Councillor Hunt was actually picking up on. The city centre of Birmingham is key to bus passengers, not only in bringing people in to the city centre, but actually allowing them to connect and move on and get access to jobs. Often we've heard discussions today about large projects. We're not against large projects and long-term investments, but we need short-term measures to actually ease the flow of the buses, benefit bus passengers and give people access to jobs. That is key for us.

Gerald Kells: I think we need a balance of public transport investment across the conurbation. I noticed in listening that you've heard a lot about Birmingham. I was involved in the Black Country Study and all the work that ran up to the Black Country Study, and I think it's very important that we acknowledge that the Black Country is very much the drain on the economy in terms of the economics of the conurbation. It has by far the weakest economic output. Everything that you've heard has concentrated on transport in

Birmingham. There was a statistic that shocked me when I was engaged in that study and that I had not previously realised. I actually live in the Black Country, but when I moved into the Black Country in the 1970s, the retail spend there was equivalent to the retail spend in Birmingham. When we did the study, the retail spend throughout the Black Country—and that's including Merry Hill—was a quarter of what it is in Birmingham. This is related directly to what is happening in transport terms.

Walsall, which has a population of 320,000, is a major Black Country centre and has a rail link to Birmingham and out to Rugeley, had its rail link to Wolverhampton closed because there weren't sufficient people using it between the two major centres of the Black Country. It would take me virtually as long from Walsall to get to Stafford as it would to get to London, by train. The links between Walsall and Lichfield are a one hourly bus service. Now, clearly, this relates to the economic problems, but this has happened over a long period and it's related to the transport infrastructure. As we have concentrated transport infrastructure on Birmingham, so the retail and the housing investment has decreased in the Black Country. These were the things that we discussed when we were doing the Black Country Study and through the Regional Spatial Strategy Part 1 that dealt with the Black Country. I would balance it. I'm not saying that we shouldn't be investing in many of the things that you've heard, but it's a very Birmingham-centric approach. If we're to balance it and have a more sustainable approach we need people to support their local centres where we have a more balanced population; at the moment, the Black Country particularly, and some of the districts at the edge of Birmingham, do not have the aspirational high-earning people within them to create a balanced community. So there is a definite need to look at it more widely.

This is the last point I will make, but I know that HS2 has the potential to make that worse. About half of Centro's benefits rely on additional infrastructure from HS2 into the conurbation. Now, from the point of view of places like the Black Country, if you don't have that, then they will be the sufferers from HS2, and all the concentration will be on benefits either around the airport, or in the city centre.

Tim Walley: Certainly, I would support investment into public transport. In terms of retailing: retailing is all about people's choices. Birmingham, over the last seven years, has developed a retail district that is second only to the West End of London, which is probably one of the reasons why people don't shop in Walsall. It's all about choice and it's all about selection. Incidentally, we employ about 30,000 people within the sector within Birmingham. The Bull Ring itself attracts about 40 million customers a year, so we are very reliant on public transport. I would say that there is need for public investment, certainly on the railways and buses, to ensure that our customers travel into the city safely and cheaply.

We need those timetables to actually match what retail is doing, because there has been a sea change in terms of hours that we operate and days that we operate. Our second biggest retailing day is now Boxing Day, and there are no trains that run on Boxing Day. In this current climate that cannot be right. Buses on Boxing Day will have a Sunday timetable, which really is not that supportive of the retail district. So there is a lot that is happening in Birmingham. The major thing that is happening as far as public transport is concerned in the retail district is the investment going into New Street station, because that, as the gateway into this city, will lift people's expectations.

Nicola Moss: I'd like to build on what Mr Hancock said. The whole public transport mix is vital for the economy of the West Midlands and the wider area, but rail also has a vital part to play in that. Over the past 10 years there has been something like a 60% demand increase for passenger rail across the West Midlands and the Chiltern area. Currently, London Midland covers from Liverpool into the West Midlands and then down the West coast into serving Euston, providing that mix of inter-regional and within-region transport. We carry 53 million passengers a year and the recently published West Midlands Route Utilisation Strategy, which is now up for consultation, forecasts 32% growth over the next 10 years in passenger demand. That really shows the strength of it. We've seen that ourselves with the new timetables that were introduced in December 2008 at the end of the West Coast upgrade. That provided a brand new start for service for passengers on the Trent Valley, serving stations that hadn't had long-distance connections for a very long time. We've seen phenomenal growth and that has not yet capped out. You are looking at 20% plus growth on passenger journeys year on year. So the potential for rail to fulfil that need and move people around, be it for spending in the economy or participating in employment in the economy, is very important.

Q246 Paul Maynard: To what extent do you think the separate Local Enterprise Partnerships for Birmingham and Solihull and the Black Country will be an improvement on what existed before the transport functions of the RDA? And to what extent are they more likely to deliver local improvement than say, a city region, could have done? To what extent do you think those structures will actually be fit for purpose and achieved?

Chair: Do you know the current situation in relation to LEPs? I don't think the Black Country one has been accepted, has it?

Q247 Paul Maynard: It hasn't yet been approved, no. If it were approved?

Gerald Kells: We have a difficulty with LEPs. They are in an emerging situation. I sit on the Third Sector Transport Forum for this region, and the third sector, and more specifically the environmental sector, has had very limited engagement with the development. If you look at the LEP bids across this region, you will find virtually no reference to environment or any of the social issues that concern us. We think there is a long way to go to get LEPs right. I was directly involved in the Regional Transport Partnership, I was the Vice-Chairman of that, so we had a very great stake in ensuring that we had mature discussions. Ignorance was mentioned earlier; my experience is

that ignorance goes all kinds of ways in the transport debate. Certainly when I was working on the M6 Expressway it was the objectors who really understood it rather better than most of the other people as it turns out. But we were engaged. There is no clear engagement with the third sector. That does worry me. I think it's important that they are engaged. They have been the people who have generally been promoting the smaller-scales schemes and have been challenging and bringing out ways, through scrutiny and all the other things that we did, of improving what's happening in transport.

If I could mention one example of somewhere slightly further out in the region. If you were to look at Hereford—which is just going through its core strategy process and is promoting very heavily its Hereford Bypass which has no funding from anywhere—it is skewing all its housing and economic development towards promoting a bypass—which would be our argument anyway—and I would question whether the LEP in that area will be challenging that and saying, "Actually, there are simpler, cheaper things that we can do in Hereford." You could say the same of some of our other towns. The challenge over those issues has come from the engagement of the third sector. So I do worry about whether the LEPs are yet fit for purpose, whether they will have the engagement and whether they will carry the support beyond the very narrow economic groupings that are supporting them at the moment.

Nicola Moss: It's very much an emerging position for us at the moment. We will be working closely with the new system. On a positive side, the LEPs will bring about a really close working relationship between a range of public and private sector organisations, which will be the strength and success of the organisations. There is a risk with the smaller geographic sphere of interest of the organisations, but that being said, different ranges of investment schemes deliver big benefits. Investment in targeted small areas on a local agenda can deliver huge benefits and unlock growth in public transport, so we wait to see how it pans out.

Q248 Paul Maynard: To Mr Hancock specifically: clearly buses have a role in economic policy, but they also have a role in social policy, do they not, in terms of the people who use buses? Where do you think the balance lies between the two?

Martin Hancock: I think it's very important that wherever the discussions about longer-term transport policy are developed, we don't actually forget the whole social issue. Large numbers of people need access to bus services just simply to move around and function on a daily basis. I don't think it necessarily matters how people are represented, as long as all those parties in the debate remember the key facts about the how the city actually works and the conurbation actually works on a day-to-day basis. That is perhaps why I am not so worried about the actual structures and the responsibilities. There can be a tendency to talk about the major projects but then to forget that, while High Speed 2 is very good, it doesn't really impact on the 100,000 people that come into Birmingham City Centre by bus every day. It's important in terms of the long-term development of the city centre, which will obviously generate jobs etc, but for the next 10 years probably, these people actually have to be able to access jobs and access a thriving retail centre. I am worried that we may take our eye of the ball. Birmingham City Centre has done very well, but 10 years is a long time and other city centres can develop. We could see a situation where it's not attractive to come to Birmingham City Centre, or it's more attractive to go to other city centres. That would be very bad news for the West Midlands.

Q249 Julian Sturdy: We've heard a lot about how important High Speed 2 is to Birmingham from a lot of people, and I am not going to dispute that at all. Do you fear that, as you've touched on already, the hinterland and some of the more rural areas around the city might end up suffering in the longer term due to lack of road improvements because there is not going to be much there, a lack of rail improvements in the new rail halts or lack of bus services, potentially, because there's not going to be much money there? If that's the case, do you think that then that's where the Local Enterprise Partnerships are going to have to pick up, or try and pick up, the slack?

Martin Hancock: I think the particular challenge that Gerald has indicated is actually in the Black Country. Yes, moving around, operating buses, operating any vehicles, including freight vehicles, hasn't really developed much in 30 years. It is still very slow. It does take a long time to run a bus service in from Dudley to Birmingham. You wouldn't think it's only eight miles. The distance is very, very short but you are talking about journey times of an hour, which are obviously simply not attractive to anybody. It's those types of scheme about speeding up relatively short journey lengths that would benefit the whole of the conurbation, and particularly the Black Country conurbation, and that may get lost. Certainly we are keen that there is LEP for the Black Country and that it can focus on this type of measure to improve the conditions in the Black Country.

Q250 Kelvin Hopkins: One has to appreciate the importance of buses, as Mr Hancock has said, and also the necessity of bus priority schemes for them to work properly. I liked the comparison with rail, because they're not all perfect substitutes as buses are much more flexible and so on, but also I'd like to see the comparison of passenger miles as well as passenger numbers. You might see a slightly higher proportion going by train in terms of passenger miles, because I suspect people do longer journeys by train rather than by bus.

Martin Hancock: I think that's the case, but there might also be a different social mix. I don't have the figures and I don't know if London Midland do, but obviously the role of the local rail network is to bring commuters into Birmingham City Centre, which is very important. The tendency is that they tend to bring the better-off commuters into the city centre, the professional side. Given the demographic mix, the demographic distribution—where people live within the West Midlands—those who tend to be

unemployed and more socially deprived are actually not generally served by local railway services.

Q251 Kelvin Hopkins: It's the case in Britain that we certainly have much higher rail fares and significantly higher bus fares compared to the continent of Europe. This must act as a suppressant on demand for the services, and for people to use cars instead. How much do you think that is a factor, both of you?
Tim Walley: Within our catchment, we have 7.5 million potential customers, within an hour's drive time of Birmingham. We know that we actually drag people in from way outside of that one-hour drive time. In terms of our latest customer research, 46% of our customers come by car. That's not a bad thing, because they actually spend far more money than those who come by train and bus, but the train has actually gone down: 20% of our customers come by train and 29% come by bus.
Nicola Moss: In terms of value for money, there is great public attention on rail fares, but there is a range on value for money. Certainly in the West Midlands, the average fare is under £2, which does represent a good value-for-money offering for passengers.

Q252 Kelvin Hopkins: I've been a rail commuter for 41 years and a lover of railways, but I used to work in an organisation where the lower-paid manual workers would come by car and the professional workers would come by train, simply because of the cost, and yet we have built lots of motorways; we have congestion; all of which causes economic difficulty. Is there not a case to be made for Government to think seriously about what they do about fares?
Chair: What should be done about fares?
Tim Walley: From personal experience, I commute from Leicestershire into Birmingham every day. I used to come on the train. My problem then was that the local council took over the car parking, so instead of having free car parking at the station of departure, I suddenly was paying £5 a day. Getting a train home in the evening, there was only one an hour and every train at night I was standing.

Q253 Chair: Looking at the current position, are fare structures a disincentive to people using trains?
Tim Walley: From outside of the region—I can't qualify the £2—certainly coming in from Leicestershire was not a cheap experience, and it actually pays me to come by car.

Q254 Kwasi Kwarteng: I want to ask a specific question to Mr Walley. Clearly retail has been a big success in terms of the offering that you give people, and you mentioned in an earlier answer that fewer people are coming by rail. In terms of the growth of your developments, things like the Mailbox and all the rest of it, what transport improvements would you like to see?
Chair: What improvements would you like to see?
Tim Walley: Certainly, it's into public transport. It's having more trains or longer trains, so that the experience is far more comfortable to consumers. You only have to go into New Street Station every night at peak times to see the overcrowding that's on trains. That can't be a great finish to the day for somebody who's spent hours in Birmingham shopping. Similarly for buses, they need to look at the timetable to make it more in keeping with trading hours of a city centre.
Gerald Kells: Coming back on the point about prices, we did go around this circle in terms of car parking, workplace parking levy. At one point, a substantial amount of the business community, both in Birmingham and the Black Country, were supporting it, and then it unravelled. Clearly, there is a huge difference between those people who have access to a free car parking space and those people who don't, in terms of the mix. Equally, there is a very great distinction between those people who have access to a free car parking space within the Centro area at a railway station, and those people who are out in the hinterland and, therefore, don't have a free car parking space if they want to commute into the conurbation. Those issues of the price on the other side of fares, which is the comparative price, particularly for commuting, are very important, but whether there is the political will to go back over that or other means of charging to get into the conurbation is uncertain. Clearly that was, and it was seen as, a way of actually funding much of the investment that we wanted then in what was called the Regional Funding Allocation, and the whole long list of schemes, most of which we supported, a few we didn't. That has gone away. Given the fiscal situation, one has to ask whether those debates need to return to some of our cities, about how you actually fund it, and whether that economic asset of free car parking spaces, whether at retail or at business locations, can be justified in the long term. It's a skewing of the value of the land and everything else.

Q255 Kelvin Hopkins: The reality is, and this won't be something that everyone will agree with, that we have our public transport systems now run by private companies. They're driven by profit, inevitably. Running fewer trains with more people at higher fares you make more profit than running more trains at lower fares with lower passenger usages. Buses are no doubt the same.
Martin Hancock: It reflects the operating costs of the company. I think the Committee is just about to start an inquiry in terms of the impact of the different funding changes affecting the bus inquiry.
Chair: Yes, we're going to have an inquiry on buses.
Martin Hancock: Going back to the cost benefits and the transport appraisal issue, we estimate that something like 5% to 10% of our operating costs are due to congestion in key centres—Birmingham city centre and running around some of the Black Country—the costs are there because of congestion. If we could actually keep the buses moving quickly, we could run the same timetable, expand the timetable in terms of the number of services, with fewer vehicles, if we can save the vehicles. The problem is that, on a major corridor coming into Birmingham, which could have 20 or 30 vehicles on it, two or three of those will actually be stuck in the city centre, at any one time, doing nothing. They're not helping the customer, because the customer either wants to get to the shops

or wants to get home, after the end of the week. Keeping the key centres moving, avoiding these periods of gridlock—we are actually approaching periods of gridlock in the city centre.
Chair: Perhaps you'll contribute to our next inquiry, then.

Q256 Gavin Shuker: Very briefly on buses, on the railways in the last 10 years we've seen a real renaissance, large numbers of passengers. It's causing us problems in other areas. On buses, it seems not to be the same story. I just wondered what you're doing as an industry to challenge perceptions that would enable people to use buses more efficiently.
Martin Hancock: We are very keen. You've heard about the bus rapid transit proposals, and we're certainly very keen to pursue those with the city council. Actually, we were heavily involved in developing the current concepts. We do believe that getting the bus closer to a train in terms of its speed allows us to provide the quality.

Q257 Chair: What specific proposals are there to enable you to do that at the moment?
Martin Hancock: The specific proposals currently are the bus rapid transit.
Chair: That's the key area.
Martin Hancock: The key for us is that those benefits spill out not just in terms of a traditional rapid transit route, but the rapid transit proposals will include bus priority measures that will benefit all bus passengers, so all buses, not just rapid transit.

Q258 Iain Stewart: A question to Nicola Moss if I may: we've heard a number of witnesses make the point that one of the benefits of High Speed 2 will be the freeing-up of capacity on the classic rail lines. I'd be grateful if you could give me some idea, looking within the Birmingham/Black Country/Coventry conurbation, what sort of growth do you think you could achieve in rail usage if the capacity was freed up with HS2?
Nicola Moss: It is clear that that capacity freeing-up will occur, but the nature of operations at the moment being that, as a franchised operator, our franchise ends in 2015, which is well inside the HS2 horizon. It's certainly something that the rail industry as a whole is looking at, and will be making plans for, but it's not something specifically that is within London Midlands' current horizon.

Q259 Iain Stewart: If you were granted your wish and you had the franchise running indefinitely, could we see a step change in rail usage into the centre of Birmingham from surrounding areas?
Nicola Moss: Absolutely. There will be clear capacity created, because there are a number of distinct passenger journeys that are made. There is a clear demand, which underpins the HS2 business case, for the inter-city straight London to Birmingham and onwards market. Equally, that intermediate market of Coventry, the Trent Valley, Rugby, Northampton, those locations, the more capacity there is to serve those locations, the better that is for wide passenger growth, and bringing people to encourage that modal shift on to rail as part of the public transport proposition. Certainly as an interim, the end of moderation of competition on the west coast in 2012 does open up opportunities for a variety of operators, both franchised and open access.

Q260 Julian Sturdy: A question to Mr Walley, if I can: the Birmingham Retail BID has been channelling additional contributions from city centre retailers into infrastructure schemes, potentially including transport. Could you outline this a little bit further? Has this worked? What sort of schemes has it helped?
Tim Walley: To date, I don't think there's been any money put into any transport schemes. It's been very much a case of looking at the retail area, in terms of very basic stuff like cleanliness, security. They've been the major challenges. The Bullring really stands on its own as this new glossy empire. What we're attempting to do is to bring the rest of the city centre retail district up to the same standard as the Bullring. A lot of the Retail BID money is basically looking at the infrastructure outside, the streetscapes, decluttering—really basic stuff in terms of just lifting the whole profile of the area.

Q261 Julian Sturdy: Do you work with the local authority on that quite closely?
Tim Walley: Very much so, yes.

Q262 Julian Sturdy: Do you see there's any scope for that expanding into the local transport infrastructure?
Tim Walley: Very much so, yes. We have been involved with Martin—not myself personally from the Retail BID; it was our BID Chairman, Alan Chatham, who was more involved, so far, in the discussions on the Birmingham Sprint or whatever we want to call it. If that helps get people around the city, to us it's very much the glue. We want to bring people into the city and then, once we've got them in the city, we want to take them around the city.

Q263 Julian Sturdy: It's that whole experience you're trying to create.
Tim Walley: It is very much so, yes.

Q264 Chair: Do any of you have any strong views on the current system for appraising and approving transport schemes? Are there any strong views on that?
Gerald Kells: Can I just mention one thing in terms of HS2 and capacity? All the capacity released by HS2 is south of Birmingham. I think that's important; that would be where the release was, not north.
In terms of the appraisal, the dependence on traffic time saving is something that has concerned us. I know in some of the submissions you've had from our organisations nationally, they've raised this point. When we looked at the access to the western side, there were proposals to bring motorways up the western side and we looked at the benefits. You have a mass of tiny, almost insignificant, benefits, which were undetectable and then mounted up. When you actually tried to link into the west side of the conurbation, some of those benefits became

completely questionable, because actually they depended on link roads that you didn't know could actually carry any more traffic if they were given extra. The time savings depended on a traffic saving that a link road simply hadn't the capacity to take over. There is a dependence on small amounts of time savings that mount up, I know there are examples given like Bexhill near Hastings, where it's been assessed in detail. If you look at what I would call the big mistake of the M6 toll and the time that took, that was all predicated on these time savings that were allegedly going to happen.

Q265 Chair: It's the time-saving element that you query?

Gerald Kells: We would like to see much more emphasis on both the local regeneration benefit and on the social impacts. I think you were giving some examples earlier; if you have a development and you can't get to the door, you clearly need to build a road to get to the door and that has a real economic benefit. If you're saying, particularly with roads, "We'll put this infrastructure in and it will help with overall congestion," you're almost certainly going to immediately be undermined. That's the great lesson of the M6 toll, because all the benefits have disappeared and we are exactly where we were.

The thing I'd just add to that, which relates to Hereford and to some of these others, is that it isn't just the money. I've spent 10 years of my life on the M6 toll, and a lot of the schemes that you've talked about being developed—Metro in the Black Country, Metro to the airport—all these things didn't get done because of the amount of institutional and debating time between myself and the business community, which was spent on the M6 toll. It literally dragged all our time. It's not just about spending a lot of time on these big schemes. There is an effect on whether there is the institutional capacity to develop the much-needed small schemes.

Chair: Thank you very much for coming and for answering all our questions.

Tuesday 30 November 2010

Members present:

Mrs Louise Ellman (Chair)

Steve Baker	Paul Maynard
Julie Hilling	Gavin Shuker
Kwasi Kwarteng	Iain Stewart
Mr John Leech	Julian Sturdy

Examination of Witnesses

Witnesses: **Matthew Farrow**, Head of Energy, Transport and Planning, CBI, **Matthew Jaffa**, Deputy Head of Policy, Federation of Small Businesses, **David Bishop**, Head of Tourism Affairs, VisitBritain, and **Mr Graham Stevenson**, National Organiser for Transport, Unite the Union, gave evidence.

Q266 Chair: Good morning, gentlemen, and welcome to this meeting of the Transport Select Committee. I would like to declare that I am a member of Unite and I would ask any other members if there is anything they wish to declare in relation to this meeting.
Julie Hilling: Chair, I am also a member of Unite.

Q267 Chair: Thank you very much. I ask our witnesses, please, could you give your name and the organisation you represent? That is for our records. I will start at the end here.
Matthew Farrow: Matthew Farrow from the CBI.
Matthew Jaffa: Matthew Jaffa from the Federation of Small Businesses.
David Bishop: David Bishop from VisitBritain.
Graham Stevenson: Graham Stevenson from Unite the Union.

Q268 Chair: Thank you. Would you like to tell us what you think the Government's spending priorities in transport should be to give the maximum economic benefit? Who would like to start the ball rolling then?
Graham Stevenson: Obviously we do not sympathise with the idea of cutting anyway but, if there must be an element of cuts, we would at least plead for a consideration of the needs of both infrastructure and operations in public transport. One of the problems about Governments is that they have very short-term memories and our constant criticism for decades now has been that transport is so integral to the economy. What is integral to transport is infrastructure; it needs good effective infrastructure in all its modes. There is really only the state—yes, certainly, working in partnership with the private sector, but the state has an enormous ability to be able to influence this, as we have constantly pointed out in reference to other countries of a similar character and size to Britain.

Q269 Chair: So it is infrastructure that you want to see investment in?
Graham Stevenson: I was about to say that the second side of the coin is also investment in keeping the infrastructure moving. The most important thing, from our perspective, is passenger transport. That means, certainly as far as rail is concerned, not pressing the passenger to fund the costs of what is, after all, a very environmentally friendly form of transport and, in buses, ensuring that there is a wide range of availability. But reliability and availability are uppermost. I am afraid that the present privately dominated regime with a Government subsidy in buses has shown it just doesn't work; it's just not functioning. At a time when we hope to get the economy moving, how crazy is it that subsidies are going to companies whilst unemployed workers find it difficult to chase jobs across the big cities of this country? It is just not right, and rural communities are losing their services all the time. It is getting the right balance that, I think, is our appeal.

Q270 Chair: Can I have any other contributions, please? What do you see as the most important areas for transport at the moment? Mr Farrow?
Matthew Farrow: I think transport as a whole is a core priority for the economy. Certainly, in our surveys of our members, things like infrastructure and access to markets are key factors for making the UK a good place to invest and do business in. Within transport, the messages of the Eddington review are still highly relevant: that is the focus on strategic corridors and addressing bottlenecks in those corridors; urban congestion, areas like London and so on particularly; and, I think, projects with a good benefit cost ratio. Those I would see as some of the core priorities.

Q271 Chair: Do you think that the current way of appraising benefits is correct?
Matthew Farrow: I would not want to knock the current system unduly. I think it is a pretty sophisticated model of its type. There is an ongoing debate, as I am sure members are aware, about whether there can be an approach to bring in some of the wider impacts of transport. We are quite interested in the work which KPMG has done in Manchester where they feel they have a good model which looks at the impacts of transport investment on land use, change in economy—economic change, as opposed to simply time savings—and benefits to passengers. We think it is worth exploring that model and perhaps seeing if it can be used alongside traditional models. But what I would not want, I think, is a complete hiatus in decision making, with people saying, "The current appraisal system has no value. We should wait until we have got a new system in place."
David Bishop: While it is obviously hugely important to make sure that we invest properly in our domestic

transport infrastructure, we absolutely should not overlook our international gateways and our international connectivity. The tourism industry is worth £115 billion to the UK economy and provides 2.3 million jobs, so it is about 10% of the economy on either account. We are at the centre of a hugely important international network. We currently have 1,435 international connections to and from the UK. That is a hugely important asset, as it were, to the country. It enables us to look and predict something like 3.5% growth of tourism in the next years to 2020. We are in a hugely fortunate position where a lot of that infrastructure is actually privately provided. What that means for Government investment is that very small investments are potentially needed in things like immigration controls at UK airports in order to make sure we remove some of those bottlenecks, make it easier for people to travel to and through those kind of gateways and help us realise some of those benefits.

Q272 Chair: In your written evidence you stress very heavily the importance of aviation and access by air and, particularly, a hub airport. Is that what you think is most important in terms of tourism, or are there other types of infrastructure investment you would like to see?
David Bishop: Absolutely, other types of infrastructure investment are important. The reason we stress aviation is quite simple: 74% of international visitors to the UK arrive by air, a further 14% by sea and 11% by Channel Tunnel. So airports and aviation are clearly very important. A hub airport in the UK is a huge asset in terms of our ability to market ourselves as a successful tourism destination internationally.

Q273 Chair: What about regional airports?
David Bishop: Regional airports are absolutely an important part of that as well, particularly, as we see it, as the Heathrow hub is becoming more and more focused on international long-haul destinations. The ability of regional airports to provide short-haul point-to-point connections, particularly with key markets for inbound tourism such as Western Europe—France and Germany being two of the major sources of tourism to the UK—is hugely important in doing that. To summarise, though, domestic transport is again a hugely important area for investment simply because we need to encourage people to get beyond the south-east, get beyond London and actually see more of what this country has to offer.

Q274 Chair: Mr Jaffa, where do you think the priorities should be at the moment?
Matthew Jaffa: From the small business community perspective—about 99% of all businesses across the UK are defined as small, with less than 50 employees—the overwhelming call is for the road network to be invested in. Basically, the majority of actual travel journeys are taken by road, within 20 miles of the base of the workforce or up to 50 miles. Small businesses are keen to see investment in the road network. It is not to say they want that at the expense of things like rail and high speed rail, but an actual argument between rail and road needs to be fairly balanced. I would agree with Matthew's point regarding the Eddington review and there is a need to consider pinch points, particularly in urban areas. But the road network is vital to the rural communities as well, which is why the investment, we feel, needs to be prioritised mainly on the roads but also of course to rail users at the same time.

Q275 Chair: Do you think the decision making on major schemes is correct?
Matthew Jaffa: From our members' perspective it is slightly complex. We thought that there is probably gearing a bit too much to the issue of high speed rail. We are in the midst of doing mapping of our members, and from our 33 regions not one particular region stressed that high speed rail was a critical concern to them. Rail was in parts of the country, but the road network is predominantly the area. A balancing act needs to be done, particularly when we are looking at how, for instance, LEPs are going to be used across the country and how much power they are going to get at the same time.

Q276 Chair: Does anyone else have a view on decision making on major projects and if you think it is done correctly or not? Mr Farrow?
Matthew Farrow: We have to recognise transport and big transport projects are always going to be political decisions to some extent. There is a history in the UK of big decisions on transport being taken, or being delayed, for political reasons. I guess what business would like to see is as much openness and transparency as possible in terms of the analysis, the cost benefit figures and so forth, and then an explicit recognition that if a political judgment is being made that adds in extra factors. I don't think it's possible to get away from the political dimensions of some big transport projects.

Q277 Chair: How important are exports and tourism to revitalising the economy? What is the CBI view?
Matthew Farrow: Again, if I might kick off, I think both are extremely important. There is a lot of talk at the moment about the need to focus on an export-led recovery, given that consumer spending is going to come back slowly and public spending, of course, is being cut. Our feeling, based on our surveys and analysis, is that exports are an important part of the recovery. A lot of UK manufacturers are in a pretty strong position in terms of productivity and efficiency and certainly non-EU export markets are growing quite strongly. So we see that as a big part of economic recovery. Of course, transport and access to ports and airports is a big part of that.
Matthew Jaffa: It is vital for small businesses to be a part of the export-driven recovery, but it is also vital that network links at port level are good enough to be able to see the actual growth in the BRIC economies—Brazil, Russia, India and China—because we are going to see an influx of exports going to those but also coming inward as well. We do need to make sure that the networks coming from there are of good enough use and also, at the same time, with us hopefully winning a potential World Cup bid this week, with the London Olympics and also things like

the nuptials of William and Kate, we do need to have the network available to deal with the fact that we are a country that people want to visit.

David Bishop: Just to jump on the export bandwagon, it is worth pointing out that tourism is an export. We are the third biggest foreign exchange earner for the UK economy, currently. Absolutely, growth of the tourism industry is, we would argue, hugely significant in terms of our economic recovery: one, because we are already predicting above trend growth in the year to 2020, so 3.5% versus about 2.5% through the wider economy, and secondly, because it is growth that can be realised relatively quickly due to the nature of the tourism industry. To illustrate that, a 0.5% increase in our share of Chinese tourists would result in £2.5 billion more for the UK economy and about 50,000 more jobs. There are some quite significant gains that can be got there. That means it's important to make sure that, one, we hold down the cost of getting to and from the UK—that means visa costs and things like air passenger duty, which make the UK a relatively expensive destination—and secondly, that it is possible for people to get access to the UK, that we have the international air routes and the transport network to and within the UK that enables tourists to get here and realise and spend their money here.

Q278 Chair: Mr Stevenson, did you want to comment on our exports and tourism?

Graham Stevenson: Yes. From the experience of our members who are dockers, it would seem the most important export from Britain is empty containers, because the vast majority of goods that we enjoy are imported into this country. I am old enough to remember the great crises that used to exist where we had dock strikes and people moaned about exports. Of course, the key feature here is the way in which business has changed in the last 25 years, with the development of so-called logistics, which people very often think means just putting things in lorries. It doesn't. In fact, such a thing as a dock worker, a road haulage worker or whatever, is increasingly out of date. Increasingly, transport workers are logistics workers. They are a part of a long chain of transport and this chain of transport is outwith anyone's control. It seems to me that the whole point of reports such as Eddington and many, many, many others is that there is a general drift towards that kind of logistics operation dominating our lives, and there is a need for us to get a handle on it.

Q279 Chair: What should be done? What specific sort of investment is required to facilitate that?

Graham Stevenson: I think the problem here is that the individual logistics operator offering a service to a manufacturer is most interested to maximise, as they would be, their profit situation. They create the fastest, cheapest and easiest possible route, which is not necessarily that which is most beneficial to society, good for communities or good for the environment.

Q280 Chair: In terms of supporting business and the economy, what kind of investment is required to facilitate it? What are the logistics needed?

Graham Stevenson: It really does need to be good quality investment; as we have heard, High Speed 2—

Q281 Chair: In which areas?

Graham Stevenson: All over. The problem that we have heard from my colleague for the small businesses is all the regions are dominated by activity.

Chair: So it is not one specific thing. It is general.

Q282 Kwasi Kwarteng: I think we have had had a very general discussion, ranging from the royal wedding and how we should be spending all sorts of money on all sorts of things, but I think we really ought to button things down. Let me put the question another way. What are the big risks—specific projects—that you think are being undertaken now that should not be undertaken? Are there one or two things that you can point to and say, "This is the wrong way", or, "Maybe we should be looking at something else"? I am just very keen to get something specific because we have had a general discussion.

Graham Stevenson: "Well, I can't see how closing the M4 adds to boosting our economy".

Q283 Kwasi Kwarteng: That is at least a specific project that you feel is going to militate against our prospects. I was just wondering what the panel specifically had in mind in terms of things that we could be doing or should be doing and are not at the moment.

Chair: Does anyone have any specific proposals? Mr Farrow?

Matthew Farrow: Just one. Overall, I feel the transport settlement did pick out most of the right projects. I mentioned strategic corridors and bottlenecks, and I think the Highways Agency motorways schemes that have gone forward are, broadly speaking, the right ones. A lot of our members in the east of England were disappointed that the A14 did not get through. I think it is noticeable that, although rail is very important, rail seems to do perhaps a little bit better out of the spending review than roads. So the HSR settlement was pretty much unscathed, and we are pleased about that, whereas the Highways Agency budget has been cut. The A14 I would give as a specific example.

Matthew Jaffa: I would agree with that. We have not done a full mapping yet, but we are seeing that there are parts of the country that want to see active traffic management, as shown by the M42, which has worked well and should be extended, particularly in the West Midlands. But in the east of England there is still concern regarding the A14 and the dualling of certain roads. I cannot necessarily give you actual roads blow by blow.

Kwasi Kwarteng: In terms of a general—

Matthew Jaffa: From our perspective, before a sign-off completely of high speed rail is undertaken we need to have conviction and certainties that the actual need for that counterweighs the need for investment in the road network in certain pinch points. That is our main stance.

Q284 Kwasi Kwarteng: You are both saying that you feel the CSR and the settlement has privileged rail above road?
Matthew Jaffa: From the FSB point of view, yes.

Q285 Paul Maynard: Clearly, Mr Bishop, you have already done a very good job of communicating VisitBritain's priorities policy-wise. Do you feel that the Department for Transport considers the needs of tourism specifically when it is formulating policy? For example, were you involved in the South East Airports Task Force—just as one example?
David Bishop: No, we are not involved in the South East Airports Task Force, although people from VisitBritain, people from the Department of Culture Media and Sport, our parent department, have had meetings with DfT officials on that subject.
We are hugely fortunate that the new Government is currently taking forward work in a tourism strategy which is expected to be published in January, according to the departmental business plan. That is something that we are working very closely with DCMS on, because we are effectively the national tourism agency and thus their expert adviser on what is good for tourism. Transport features very heavily in that, and we are fairly hopeful that what emerges in January will be a good document and will help DfT take into account the needs of the tourism industry when they move forward in terms of planning transport priorities.

Q286 Paul Maynard: But does the DfT consult with you directly at all or do you have any direct involvement with the DfT?
David Bishop: Only on an informal level. As you will appreciate, we are a non-departmental public body and there are very clear limits in terms of the kind of contacts that we can and it is appropriate for us to have across Government.

Q287 Paul Maynard: I also noted from your briefing, and you raised it yourself, the issue of potential for tourism from China improving our economic situation. This is an inquiry into transport and the economy. Clearly, one of the rate limiting steps will be the seat capacity on flights to and from China. If we were looking at increasing seat capacity, is that something you think the market should be leading on or the Government should be leading on and, if it is Government, what should they be doing?
David Bishop: I think it is difficult to unpack those two things. In terms of seat capacity, I don't have the specific figures to hand, off the top of my head, for China, unfortunately, but for the UK as a whole, between 2006 and 2010, seat capacity—the availability of airline seats to come here—has increased by 2.9%. For France, for argument's sake, it has increased by 6.3%; and Germany has gone up by 5%. We are clearly falling behind in terms of increasing the capacity, the ability, of people to travel here by air.
Does Government lead or does the private sector lead? Effectively, it is a little bit more complicated than that. Clearly, both organisations play a role. Airports are, by and large, privately owned. Airlines are private entities and it is for them to do the things that make commercial sense for them. That does not get us away from the fact that we need to make sure that we are stimulating as much demand as possible, particularly from China, given the potential for growth in that market.

Q288 Paul Maynard: How, therefore?
David Bishop: How, therefore? I think there are a couple of things to bear in mind. One, which is outwith the issue of transport, is the cost of a visa. It currently costs £68 for a UK visa versus £50 for a Schengen visa, but that is a cost on top of air passenger duty, which has increased at the start of this month to something like £85 for a band D journey from the UK. Effectively, we are already charging somebody who is travelling from China and back again about £140 just to come to this country, before they have even paid for their airline ticket, for their hotel stay, for everything else they are going to be doing when they are here. It is supply and demand. We are imposing a cost already, and that is potentially where the Government has a role.

Q289 Paul Maynard: My final question is this. If the Department for Transport can't speak to you because you are DCMS's baby, as it were, how do we get tourism heard within the Department for Transport better? Who should they be talking to? Are they talking to anyone at all?
David Bishop: This is where it is hugely welcome that John Penrose, the Tourism Minister, is taking forward work in this strategy. Clearly, it is still under discussion across Whitehall. We have fed into the draft and we look forward to what is going to be emerging in January. But, very properly, we have a Tourism Minister who is able to champion the needs of the tourism sector with other Government Departments and I think that is the appropriate mechanism.

Q290 Chair: You feel that your needs are being championed; you have got someone to talk to?
David Bishop: Absolutely.

Q291 Iain Stewart: This is also a question for Mr Bishop. Have you as VisitBritain done any studies or are you aware of studies conducted by other organisations into how Britain's transport links are viewed by overseas tourists? What I am trying to get at is, is our transport system a barrier to tourists potentially coming here or making repeat visits?
David Bishop: In terms of the research that we have carried out, there is an interesting bit of work by something called the World Economic Forum. I know that it is referenced in CBI's evidence. The World Economic Forum believe that we are currently 11th in terms of the global competitiveness of our tourism industry. That is down from sixth in 2008. One of the things that has changed is, to an extent, perceptions of the transport sector. It is not actually so much perceptions of the infrastructure itself; it is actually much more the perception of the experience of travelling through that infrastructure.

One thing that is a particular concern for tourists is the quality of welcome, which is a fairly nebulous term but effectively means the experience of applying for a visa when you are overseas, getting through an airport once you arrive in the UK, and then getting from that airport to your destination and having a good time while you are there. We currently run something called the Welcome to Britain Project. It oversees those three areas—in-country, at the airport, and overseas. As far as we are concerned, the key stumbling block is people's perceptions when they arrive at a UK airport. If you arrive at Heathrow Terminal 3 or any other airport and you experience a wait of up to 45 minutes or an hour—and that is your first taste of actually being in this country—you are probably going to go away with a slightly jaded opinion of Britain. It's going to colour those opinions. That isn't necessarily a perception of the infrastructure; it's more the way that that infrastructure is operated. It's an operational question. That is overwhelmingly what the consumer research that we have carried out, other research that we dip into and use, is pointing us towards. That is why we have this stand-alone project focused on that particular area of concern.

Q292 Iain Stewart: Is there anything specifically, once they have arrived in the United Kingdom, on the perceptions of wanting to travel onwards to other destinations?

David Bishop: I think the only other thing in that area is just making it easier for people to do that. At VisitBritain we have an online presence which allows us to sell Oyster cards and something called a BritRail pass, which is effectively a travel card for the entire UK rail network, effectively to make it easier for people to travel around the country. We need to encourage more things like through-ticketing: the ability for somebody who is buying an airline ticket to pay for and buy their onward travel, as it were, from the airport to their destination, to make it easier for people to understand how to get around the UK once they arrive here. We all know that it's quite difficult ourselves for us to understand how to navigate the UK rail network and buy the cheapest ticket and do all those things. It is much more difficult for a tourist to be able to do that. We need to make sure that we understand those needs, we communicate those needs and we make it easier for people to use the infrastructure that we have in place rather than necessarily just providing new infrastructure for them.

Q293 Julian Sturdy: We have skirted around HS2 already in the opening remarks from everyone on the panel. How do you think it will affect the national economy—but also, do you think it will have an impact on the north-south divide and the regional economies? We went to Birmingham a few weeks ago and they were very enthused by it and they emphasised how much of an impact they feel it would have on their local economy and the creation of jobs. I just wondered what your views were on this and, as I say, more on the north-south divide of the country as well.

Chair: Mr Farrow, could you tell us what the CBI's views are on this?

Matthew Farrow: I am happy to do that, Chairman. I think the CBI members are fairly pragmatic when it comes to the value of HS2. I think the most important reason why we are supportive of it is to overcome the constraints on the West Coast Main Line. It seems pretty clear, based on the projections that HS2 Ltd have done—and that is a strategic artery both for rail freight and for the economy as a whole—that that is going to become pretty overcrowded. We think we need to address that. That is very much in line with Eddington, talking about overcoming bottlenecks. The figures to say that doing a classic extension or extra capacity would not cost much less than the high speed extra capacity are pretty convincing. I think that is the main reason why we are supportive of it.

I think, as you say, if you then extend the network particularly further north, you should get some pretty important connectivity benefits—the sort of north-south divide. The modelling of all that is difficult and subject to lots of technical variations. I am not an expert on that sort of modelling but I think our members as a whole do recognise those benefits. When we do surveys of our members on their transport priorities, HS2 scores pretty well. I think the caveats I would add, though, are two. One is that it is important, if HS2 goes forward, that it doesn't suck up the vast majority of the transport budget. It is important we have a transport programme, which is something we have all alluded to, which is picking up a number of priorities and a number of modes. I think if HS2 became all the DfT could afford in five to 10 years' time that would be a major concern.

The second caveat I would have is the impact on rail freight. HS2 has been sold very much in terms of the value to the passenger, the citizen. It should help rail freight, because it should free up some capacity on the London to Birmingham rail freight route, but I think there is an issue, if it is a phased project, as I guess it would be, which will have high speed trains coming back on to the classic network north of Birmingham, and the rail freight industry would say they feel they always tend to get pushed out to make sure that the passenger trains can get through. I don't think that is an insuperable problem, but I think it's important that issues like that are addressed when HS2 goes forward.

Q294 Chair: Does anyone else on the panel want to add anything?

Graham Stevenson: I would quite like to make a very brief comment, not so much in my capacity as an expert from a trade union but in my capacity as an expert as a commuter for the last 25 years from Birmingham to London.

When I first became a national official I used to find the travel service really quite good. In fact, I would like to think I am wearing a badge, "Bring back British Rail". We really do have quite severe problems in terms of here is the second city currently with a major problem with employment and the connectivity with the capital is really quite poor. As far as reliability is concerned, when it's good, it's good "but there have been big problems".

We are very much, as a union I should say, in favour of HS2 but with some caveats, in particular about the beginning and end bits. I am still not entirely convinced about the interconnectivity that would arise from the new interchange posited for Solihull into Curzon Street in the centre and how that would connect with onward travel north. There are some unanswered questions and perhaps some savings that might even be made, but, in general, I would echo the comments about the importance of such a project for the economy.

Chair: I would like to keep, for the moment, to HS2 questions. Mr Baker, is yours on that or was it on something else?

Q295 Steve Baker: It was not on HS2 as it happens, but I can soon find one, though. One of the points that has been put to me by campaigners, particularly in Buckinghamshire, is that conventional economic theory suggests that, if you improve a transportation link between a higher productivity centre and one which has lower productivity, it usually benefits the more productive centre. Do we believe that this regenerative effect will actually work with high speed rail or do we think it will disproportionately benefit London?

Matthew Farrow: Yes, certainly at the CBI we do believe that. There are a couple of reasons, I suppose, behind that. One is that the economic or business communities in the northern part of the country that would receive HS2 in due course do tend to be very supportive and see the benefits as two-way. I think the Eddington report, which is to my mind still the most detailed search through all the evidence around how transport and economy does interact, again felt that the agglomeration and the connectivity benefits tended to work both ways. We would feel that, on balance, there would be benefits to both parts.

Q296 Mr Leech: I think we would all accept that the benefits of HS2 are very medium to long-term, rather than short to medium-term, and we are talking about £30 billion worth of investment. If you were asked how you would spend £30 billion on improving the transport network, would HS2 be your first call on that money, or what big infrastructure projects would you choose instead of an HS2 project?

Matthew Jaffa: I would just like to go on my first point, which was that High Speed Rail 2 would not be the first choice for small businesses, which is 99% of businesses, due to the fact that from our survey work, of journeys carried out over 200 miles, 54% are carried out by the car and 31% by rail. You are going to see journeys move to rail, but not enough in terms of magnitude to influence small businesses and journeys to be taken away from their car journeys.

Q297 Chair: Are you saying that you would be looking to road investment?

Matthew Jaffa: Exactly, from the £30 billion pot. When you consider the fact of the £46 billion that is going to the Exchequer through road users, only approximately £94 billion goes back to the road network. That is quite an incredible disproportion. In effect, we would be saying that that actual £30 billion does need to reflect the road compared to other modes of transport.

Q298 Mr Leech: How much of that is more a short to medium-term benefit rather than a medium to long-term benefit though, as far as the Federation of Small Businesses is concerned?

Matthew Jaffa: From the FSB perspective, investment in the road network is the medium to long-term investment that is needed in this country. It needs to be a clear strategy, because small businesses are constantly talking about the cost of using the road in terms of fuel duty and the cost of burdens on them regarding employment legislation. Transport is another critical area that they are being burdened by. It is unfortunate to say it, but many may not be in business come five to 10 years down the line. Transport and the road network does need to be a priority for this Government.

Q299 Mr Leech: But has not significant road building in the last 20 years just caused more congestion and more problems for your members?

Matthew Jaffa: I don't think so. When you consider the London congestion charge scheme, that was brought in to curb congestion, but in fact we are now up to the congestion levels that we started with before that scheme came into operation. We do need to see a much more targeted strategy for businesses and what they need in terms of their pinch points. I know the Chambers of Commerce have put together their infrastructure plan, and we will be doing so shortly, but I suppose it is bringing the argument back from the rail to the roads, basically. It is having that equal argument.

Q300 Mr Leech: Is there any dissent on the rest of the panel? I expect there would to be from Mr Stevenson.

Graham Stevenson: We represent a huge number of road transport workers, but our argument is that you can't just tinker with one little bit. If push comes to shove and somebody said, "Look, you've got £x million. What would you do with it?", I would probably say rail infrastructure. That would probably be the most immediate, beneficial and useful thing to do, but you can't tinker with the rail without looking at what there is on the roads, and the problem is we use the roads wrongly. You can't look at road transport, motorway transport, without looking at the ludicrous position where lorry drivers are pressed to work up to 13 hours a day. This is ludicrous. The lack of control over the drivers' hours rules is out of kilter. We just imagine we can continue to fill the roads until they get bigger and bigger and bigger, and then what do we do? Oh, we just widen them. That's not the answer. What we need to do is to look at the entire moving Britain scenario and find resources and regulatory approaches that affect all of the integrated approaches, because, as I said, now it is all about integrated logistics, just in time.

Matthew Farrow: The question was about HS2 and is the money to be spent in that the priority? In the short to medium term, no it isn't, and of course the HS2 spending wouldn't occur for some years. Upgrading a

strategic road network, the bottlenecks and the Managed Motorway projects are more important in the short term. I think completion of Crossrail is also more important.

To go back to what I picked up earlier, in the medium to long term I think we are persuaded of the view that, if the West Coast Main Line does become completely clogged up and there is a major capacity problem on that, that is so significant for both rail freight and for the economy as a whole that that would have to be addressed, so that would become a priority.

As I say, we are persuaded of the HS2 argument that, if you are going to put in new rail capacity on the West Coast Main Line, high speed rail, you don't get much of a price increment for that and therefore that is probably the right way to do it. At the moment, no, the priority is road upgrades and Crossrail, and perhaps Thameslink as well. But, as I say, in the medium to long term I think one can see the West Coast Main Line becoming such a problem for the economy that the HS2 solution to it becomes the right choice for the country.

Q301 Iain Stewart: This is a very simple question. How significant do you think it is for High Speed 2 to connect directly with High Speed 1 to allow direct services, say from Birmingham to Paris?

Matthew Farrow: Pretty important, I would say. When I talk to members about this, not surprisingly, they think it is very counterintuitive to have these two high speed lines getting very close to each other but not connecting. There is a strong business wish to see them connect. Having said that, we have not looked into the technical detail. I know the HS2 report and the Mawhinney report looked at this and there are a lot of technical engineering issues about the cost of the final half mile or whatever it is. I guess one would have to make a fairly careful judgment based on the cost of that connection, but certainly in principle, CBI members would see that connection as particularly important, for all the obvious reasons.

Q302 Gavin Shuker: My apologies for joining the proceedings late. We are talking about high speed rail and there was nothing high speed about my journey this morning. Just to declare an interest, I am a member of Unite the Union.

On High Speed 2, one of the advantages that are talked about is the reputational one in terms of international business. What credence do you give to that argument, as the panel?

Matthew Farrow: I think it is a factor. When we do surveys of companies asking them what they see as important in terms of making the UK a good place to invest, infrastructure in general tends to score fairly highly; access to markets tends to score fairly highly. As one of the other witnesses said, the UK has scored pretty poorly in infrastructure. Our spending has been pretty low in recent years. If you look at the World Economic Forum analysis, which is very much in that field of international business people and what they think, the UK is always being marked down on its infrastructure. Infrastructure in general in the UK needs an upgrade and is fundamental to attracting overseas business. I am not sure that HS2 is the silver bullet or is the key part of that equation, but it would improve the attractiveness of the UK as one of many factors that influence international businesses.

Just a very brief point to finish. David was talking about international connectivity and tourism and how Heathrow and other airports and so on are also very important for business travellers. I hear anecdotal evidence of Chinese companies looking for European headquarters—you would think they would naturally come to the UK for the various other reasons that we have advantages in—and choosing Frankfurt, because Frankfurt has better connections to China than Heathrow does. That is anecdotal but it does concern us.

David Bishop: To add to that very quickly, we are supportive of High Speed 2. We think there is a very strong case for it going further north, all the way to Scotland. We think that will provide benefits in terms of helping tourists get beyond the south-east, which is something they don't particularly do. We don't want to overstate the fact that, absolutely, aviation is still the key way that people get to and from this country. France gets eight times more visitors from China than the UK does. Germany gets six times more visitors. France also attracts 50% more visitors from India, somewhere with which we have a very strong historical relationship, which is a surprising statistic. So High Speed 2 is absolutely important and other areas of infrastructure are equally important, if not more so.

Q303 Paul Maynard: Mr Farrow and Mr Jaffa, do you have any evidence, statistical or indeed anecdotal, from your members in the north of England over their views on the relative importance and problems of connectivity with London and, separately, connectivity within the north of England? How do they view the two, and which concerns them more at the moment?

Matthew Farrow: Statistical evidence—I am not sure we do. I can certainly check and see if we have done any surveys around that. I think connectivity is an issue for them. This will sound a bit like fudging the question, but I think that both elements of it are important to them: the connectivity to the south and the south-east and London, but also across the north. There are the Northern Way proposals in the Northern Hub and so on, which are trying to address some of those issues.

Matthew Jaffa: Unfortunately, I don't have any statistical analysis to hand. What our members do say, particularly in the north area, is that regional airports, and in particular Durham and Tees Valley, are concerned about BMI pulling out of that area. From anecdotal information, members have told us that they want to see a much greater emphasis on regional airports and maybe not so much of a hub at Heathrow. That is the only statistical stuff from the north that I can give you.

Chair: Mr Sturdy, was it on this?

Julian Sturdy: It was actually. It was following on.

Chair: Can it be a quick one on this, so that we can move on to other topics?

Q304 Julian Sturdy: It is following on from what Mr Jaffa has just said, actually. The question is to Mr Bishop. Do you not feel that the opportunities with HS2 will open up greater connectivity for regional airports to potentially take some of the pressure away from the south-east problems that we are seeing, like Birmingham and potentially Manchester and maybe Leeds and Yorkshire?

David Bishop: I think these opportunities are absolutely there, but we need to be honest and say it is not a zero-sum game. Just because we are improving the connectivity of regional airports, allowing them to take some pressure off the south-east doesn't mean that the south-east reduces in any kind of relative importance or that the importance of having a hub airport in the UK goes away. The huge advantage of a hub airport is that, effectively, it is serving a global hinterland, with much larger passenger numbers going through it. Consequently, it has critical mass to sustain a much larger route network. The vast bulk of the 1,435 international routes that the UK has—more than most other countries across the globe—stem from the fact that we have the Heathrow hub. That number of routes is dwindling and has been doing so for the last 10 years. It is a major asset for the UK as a tourism destination because it enables people to get here relatively quickly, easily, and more cost-effectively than they would do if they were hubbing via another airport. So both things are desirable. It is not a question of either/or.

Q305 Julie Hilling: I would like to ask a question about perhaps the less glamorous end of transport: buses. It seems to me that we waste millions each year with people stuck in traffic jams, stuck in those bottlenecks. How do you see buses as part of the transport infrastructure and what do you think you should do, because people are using buses to make short journeys to work, to school, or to go and catch their train? What do we need to do about bus transport?

Graham Stevenson: This is my main area of interest, so I would like to comment on it. We very much favour Government intervention in assisting the passenger with regard to fares rather than the operator. We also very much favour local state involvement in the form of the quality contracts legislation that was passed in the last stages of the previous Government. We very much would like to see local authorities take this up since we are convinced that the operation of a bus network in any given community is effectively a natural monopoly, and that the cross-subsidy that exists from one route to another within that network enables maximum efficiency if the operator has control over the entire area. Of course, the problem is, if you allow that natural monopoly to take place without any democratic control, you have abuse. That is why we are very much in favour of the quality contracts system. The plain truth is that a huge number of journeys are taken by bus every day.

We had expected that the recession would have a really serious impact upon jobs in the industry since there would be less people travelling, but that has not yet come about; that has not yet been the case. We wait with bated breath to see whether the effect of slashing BSOG or, probably more significantly, reducing local authority expenditure on socially necessary bus networks, is going to have an impact, because it's going to be hidden. Local authorities will trim their budgets and some will view buses as an unimportant part of the work that they do. It's quite likely that those estates and communities that are serviced on Sundays, evenings and weekends are going to find their services much, much reduced. So it's an ailing sector anyway, and the last thing it needs are further severe cuts, as may well be the case.

Matthew Farrow: I have two specific points on that. As a parent who spends a lot of their time stuck in traffic doing the school run, I think the work which the Yellow Bus Commission has done is particularly interesting in this area, looking at whether we could have a more nationwide programme of school buses based on the American model which has a lot of safety and security and therefore is more attractive to parents to use. I think about 20% of car journeys during term time in the rush hour, in the morning peak, are the school run. I think that is worth exploring.

Also, I am conscious that we touched a couple of times on the long-term issues about road traffic congestion and whether more roads create more traffic. It is probably too big a topic to get into today, but I think we in the CBI feel that road pricing in some form is almost certainly part of the long-term solution to that. I understand the political challenges around that, but as I say, we think in the long term it doesn't mean you don't need road investment: you do. You need to invest in bottlenecks, you need lane widening, etcetera, etcetera. But some form of road pricing on part of the network, at least, I think, is going to play a role in the future.

Q306 Steve Baker: I would just like to check that I have understood Mr Stevenson's criticism of logistics correctly. If I understand you properly, you have said that the logistics chain is too free and as a result there is a drive to logistics being easier, cheaper and faster. Are you saying that what we should have in the logistics chain is more intervention because it would be better for society if logistics was more difficult, more expensive and slower?

Graham Stevenson: If you will forgive me, it sounds very much like a propaganda line, almost like a *Daily Mail* headline, what you have just quoted back at me. My recollection of what I said was that—

Q307 Chair: Can you perhaps tell us what it is that you said?

Graham Stevenson: What I said was that I thought there was a need for society's interests to be taken into account. That may or may not collide with some of those epithets which you threw back at me. Sometimes they are good; sometimes they are not. But what is needed is judgment.

Chair: I don't want to have another debate with—

Q308 Steve Baker: I am genuinely very interested to know how you would identify and qualify those social goods, because we are all in this game because we

want to improve society. So what are those social goods?
Graham Stevenson: I think you have a responsibility.
Chair: Mr Stevenson, is there anything you can say very quickly, because I don't want to start a very long running debate?
Graham Stevenson: No, I've just said it.
Chair: We have people waiting, but I am sure there will another time.
Graham Stevenson: It is the function of democracy.
Chair: Okay. I think that is the answer for today, Mr Baker. Thank you very much for coming, everybody, and answering our questions. Thank you.

Examination of Witnesses

Witnesses: **Steve Allen**, Managing Director, Finance, Transport for London, **John Jarvis**, Transport Director, The Northern Way, **Sir Robin Wales**, Mayor, London Borough of Newham, and **Alison Munro**, Chief Executive, HS2 Ltd, gave evidence.

Q309 Chair: Good morning. Would our witnesses please give their names and the organisations they represent, for our records? I will start at this end, please.
Steve Allen: Steve Allen from Transport for London.
Sir Robin Wales: Robin Wales, Mayor of Newham.
Alison Munro: Alison Munro, High Speed 2 Ltd.
John Jarvis: John Jarvis, Northern Way.

Q310 Chair: Thank you. Mr Allen, in the written evidence that we have from you, at paragraph 3.5 you quote London First as saying that the capital's infrastructure schemes generate four times as many wider benefits for a given level of investment than schemes elsewhere. That sounds to me a bit like a recommendation to shut the rest of the country down. Am I misunderstanding that?
Steve Allen: It is very much a theme consistent with the Eddington report, as some previous witnesses were saying. What we are saying is that, if you look at the productivity of London and big urban centres, they are more productive than the rest of the country. If we are going to focus on how transport can help economic growth, then one of the things is to help those more productive centres grow, because lack of transport capacity is currently going to be a constraint on the growth of those highly productive centres.

Q311 Chair: Mr Jarvis, do you agree with that statement—that investment should be presumably all in London or similar areas because it has more benefit than anywhere else?
John Jarvis: We have taken close account of the work that London First undertook and we have reviewed that ourselves. While we would agree that large productive centres generate strong benefits from transport investment, our findings in relation to the London First work is that there are some issues that we would dispute in there in terms of the benefits that they suggest are generated. Our review of the work suggests that benefits outside London, on a per-pound invested basis, are equally strong outside London, in the north, as in London. As part of that work we have also reviewed the emerging work on GVA benefits. This is work by Professor Peter Mackie in Leeds University. That, again, suggests that, in terms of GVA benefits, benefits per pound invested outside London in terms of GVA were as strong if not better than in London and the south-east. We think that the London First work needs closely looking at. The work that we have produced is on our website.

Q312 Chair: What type of transport investment should we encourage for economic success?
John Jarvis: We agree with the prescription that Eddington produced—that it is about links within and between city regions, links with international gateways and, also, links with London. That is because those links produce a range of benefits. Links within city regions are about growing the functional economies of those city regions. Links between city regions are about business-to-business connectivity and movement of goods; links to London are about links with the world city functions; and links to international gateways are about international trade, as we heard in the previous session.

Q313 Chair: Outside the south-east, should priorities be to invest in more connectivity to London or more connectivity with other areas outside of London?
John Jarvis: I think, again, it is about getting the right balance and planning over short, medium and long terms. We know what the short-term plans are of Government; we are less clear about the medium and longer term. But over the medium and longer term we are certainly looking for more attention to Managed Motorways, the Northern Hub, further electrification in the north and, as part of that process, long-term planning for high speed rail and getting an investment plan that meshes those priorities together.

Q314 Chair: Would any other members of the panel like to suggest what priority investment should be?
Sir Robin Wales: Naturally, I would want to talk about investment in Newham, having come here from Newham.
I can solve your problem between the north and the south; I really can. If you join High Speed 2 to High Speed 1 and put a station at Stratford, it will do two things: it will generate more wealth in the south-east and more jobs in the poorest area of the country, but it will also connect to the north. I sometimes love listening to the numbers that people give, but I thought Lord Heseltine summed it up when he came to a meeting we had, which was that he doesn't believe a word of the numbers; he just thinks, if you build a railway and put a station in, things will happen—it's what the Victorians did.

Now, we have managed to put a station at Stratford which we are not going to stop trains at, which is kind of daft—£210m on a station at Stratford—but if you join that up with High Speed 1 and High Speed 2 and bring it through, you will benefit the north. Of course we should invest in transport in the north. It is madness to have a country that is all based on London, but equally, London is an economic powerhouse so you are trying to balance the two things up. For me, the solution is one small step, which the whole of business in the east of London supports. It is to stop international trains at Stratford and then linking High Speed 2 to High Speed 1. It's just obvious then that you stop at Stratford on the way.

The one thing I am really keen to get across is that Stratford is not in the east of London. Stratford is slap-bang in the centre of London now, because London is rapidly moving to the north. Having spent £9 billion on the Olympics, it would be madness not to stop international trains at a station on which we have already spent £200m. At least, that's how we see it in Newham.

Chair: So you've got a solution for us. Mr Maynard?

Q315 Paul Maynard: Sir Robin, it is a pleasure to question you because I tried three times to get elected to Newham Council and failed, so—

Sir Robin Wales: Not for Labour, I take it then.

Paul Maynard: No, not for Labour. We spent £210 million on Stratford International. Clearly, that is an awful lot of public money. Do you regard it therefore as an example of transport policy failure that we have built a station? We have built it, and nobody has come.

Sir Robin Wales: No, no, no, no; no, no, no, no. People are coming; no, no.

Q316 Paul Maynard: Not the people you built it for.

Sir Robin Wales: The issue is, do you stop at the station? Interestingly, the difference between the French and the British was that the French said, "You are going to stop your train there. That is what you are going to do. You are going to stop your train there." We said, "We'll let the market decide." That was a mistake. If you build it and stop a train, they will come. It may be a few years since you were in Newham, but we have the largest urban shopping mall in Europe being built in Stratford. London is marching eastwards rapidly. The Mayor of London said Newham is where the regeneration will be for the next 20 years, and of course now there is the Thames Gateway, which is a massive development. It is obvious that that is where people are coming. It is obvious what will happen. If you stop a train there, it will take 51,000 passengers on the service and it will relieve some of the pressure in central London. So I would argue not that it was a mistake to build it but that we really need to use it. We need to stop trains there.

Q317 Paul Maynard: So the policy failure was the planning of what to do with the asset once we had it?

Sir Robin Wales: I would support the principle that we should say, "We built the thing so we are going to stop the trains there." I struggle in this. I am not a transport expert; I am really not. I have to—

Q318 Chair: Can we have quite short answers that get straight to the point, please, because we've got lots of things to talk about?

Sir Robin Wales: You obviously don't know me, then. I'll do my best.

Chair: Not that you are not doing that, but it might be helpful.

Sir Robin Wales: I will do my very best. We built it; we should use it. If we use it, people will come. International business will be attracted there. That will be really good for development, it will be good for international trade and it will link to the north. Building transport networks to the north has got to be something this country does. I say that as somebody who lives in London.

Q319 Steve Baker: I have a question on high speed rail, if I may, and the entrepreneurial risk associated with it. Are there uncertainties around the business case for high speed rail? It seems to me there probably are. If so, who will actually bear the entrepreneurial risk of going ahead with the project and finally carrying either the benefits or the costs of whether or not it works and regenerates the north?

Alison Munro: Clearly, the business case for high speed rail depends on, for example, how future demand will grow. It will depend on what the actual costs of delivering the scheme will be. There are some uncertainties there, undoubtedly. In terms of how those will be shared in the future, that is something that has not been decided at this stage. We have done some preliminary work on how the scheme might be funded, but that really will be a decision for the future on just how those risks should be shared out and borne.

Q320 Steve Baker: So it does seem to me then, in your answer, that there is substantial scope for the taxpayer to bear the entrepreneurial risk of high speed rail failing?

Alison Munro: We did some initial work on how the scheme could be funded and our conclusion was, in terms of the construction, that it would be best if that was largely funded by the public sector. That would be the best way of dealing with the risks. Certainly, the public sector would bear some of the risks. That is not to say there would not be scope to get some risks transferred to the private sector but, as I say, those details have not been decided at this stage.

Q321 Steve Baker: But the starting point is that the taxpayer bears the risk?

Alison Munro: Not necessarily. The taxpayer would bear a large proportion of the cost. Through a public sector procurement you can still transfer some of the risk to the private sector, but, as I say, those details are yet to be decided.

Q322 Iain Stewart: On High Speed 2 and the benefits to the economy generally, we have been given a figure of a cost benefit ratio of 2.4 for High Speed 2, and specifically the London to Birmingham line. But my concern is that we look at that as an isolated project without considering the potential other benefits, one of which is potentially linking up to High

Speed 1 and, also, the knock-on benefits from freeing up capacity on the classic rail network for rail freight and fast services for intermediate stations. To what extent are you looking at these other possible models so that they can compare different options—just London to Birmingham, London to Manchester and Leeds—against having High Speed 2 as part of a broader economic plan?

Alison Munro: The benefit costs ratio you quote is the figure that we produced for the London to Birmingham stage, which was our initial remit.

Q323 Iain Stewart: Is that, specifically on that line, the knock-on benefits?

Alison Munro: That was specifically for the benefits of providing a high speed line between London and the West Midlands, but it did include the benefits of releasing capacity on the West Coast Main Line; so those were already incorporated. We tried to capture as much in terms of the benefit cost ratio of the actual benefits that would occur. The current appraisal does not allow you to capture absolutely everything, but we tried to do as full a job as possible. Obviously, since we did that work, the Government has announced that it does intend to take the network, in the second phase, to Leeds and Manchester. We are currently working on that. We would expect the business case for that to be higher than just the London to West Midlands stage.

Q324 Iain Stewart: Adding connecting to High Speed 1, Stratford International?

Alison Munro: We have done an additional piece of work that the current Secretary of State asked us to do on the options for linking to High Speed 1. Some of those benefits are rather difficult to quantify in monetary terms. There are more strategic arguments about the links to High Speed 1 which I would expect to affect the final decision on that, but we have looked at what the quantified benefits of that would be as well.

Q325 Iain Stewart: Is that a published review yet, or is it still in progress?

Alison Munro: No. We have provided that advice to the Secretary of State and he has said that he will announce his decision by the end of the year on what to do about that.

Q326 Julian Sturdy: Just following on from the points just raised, this is really a question to Ms Munro and Mr Jarvis. What do you think the impact to the midlands and the northern economies might be if HS2 weren't to go ahead and do you feel that potential improvements in the West Coast Main Line could go any way to offset that at all?

Alison Munro: This is if High Speed 2 were not built?

Julian Sturdy: Yes, just hypothetically.

Alison Munro: If you look at the longer-term projections of what demand is likely to be, over the long term there is expected to be a very significant increase in demand. Although in the short term there may be other improvements that you could make to the West Coast Main Line, it does not look as though those sorts of improvements will be sufficient to provide the additional capacity that is needed in the longer term. Without High Speed 2, the expectation of the longer term would be that there would a constraint on intercity travel in that corridor and that would have an impact on the economy.

Q327 Julian Sturdy: You feel that would have a constraint on economic growth in cities like Birmingham, Manchester and Leeds, and places like that?

Alison Munro: Yes, I would expect that. That would be consistent with Eddington's conclusions—that transport constraints can constrain economies, yes.

John Jarvis: We undertook some early work looking at the wider economic impacts of a high speed network serving both sides of the Pennines, using the Department's methodology for calculating wider impacts including agglomeration benefits. That indicated that a high speed rail network could generate £13 billion of wider economic impacts nationally, of which about £5 billion would be in the north of England. On a per capita basis, or in relation to the size of the north of England economy, the impact would be greater than in the rest of the country. We see that as very important evidence in terms of indicating how the north can take benefit out of high speed rail.

Other areas, clearly, where further work needs to be demonstrated is how the north takes benefit by through-running, both in terms of a route to Birmingham and then onwards by through-running to Manchester and potentially on the east side, if there were a link to the Midland Mainline in the north so you could access Sheffield or the north-east via HS2, and then, also, through-running once you have got the Y-shaped network to the north-east again; and, also, how it can be better demonstrated what the benefits are of releasing the capacity for freight and more local and regional services on the existing main lines. I think that work needs to be further demonstrated in support of the case for high speed rail.

Q328 Mr Leech: I didn't quite catch part of what Mr Jarvis said there. You said that there would be £5 billion of benefit to the north, out of £13 billion?

John Jarvis: Yes.

Q329 Mr Leech: Where do you see the other £8 billion of benefit?

John Jarvis: A significant amount in London and significant parts in the rest of the country, into Scotland. I think the point to note in there is that, in terms of the £5 billion, as I recall, our figures are about £5 billion in the north, roughly a similar sort of proportion in the London and a similar amount in the rest of the country; so it is slightly more in the north.

Q330 Mr Leech: I think you have answered my follow-on question about whether or not it was actually the north or London that was going to be the biggest beneficiary.

John Jarvis: There would be significant benefits for London, but I think the point we are making in terms of the £5 billion is that it is a bigger figure in relation to the size of the north's economy; so it has greater

impact in terms of the relative size of the economy. High speed rail is certainly the most transformational investment that we have found in seeking to attack the north-south productivity gap.

Q331 Mr Leech: Are there any other transport projects that could create the same level of benefit to the north as HS2?

John Jarvis: There are significant benefits from Northern Hub. Northern Hub is appraised at the moment as generating £4 billion of benefit for a £500 million capital investment. That is four to one, once you include operating costs. I think this is where you need to get to a long-term plan that has short, medium and long-term components, because if you are saying, "What is our next priority?", the key one is Northern Hub for the next control period, but that is not to say that the country should not be planning for high speed rail delivery over a 20-year or so time frame.

Q332 Mr Leech: But would you agree that HS2 is absolutely vital for the long-term benefit of the northern economy?

John Jarvis: High speed rail is vital in terms of the increasing capacity constraints of the West Coast, East Coast, and also Midland Mainline. We need that capacity relief. Once you are into relieving capacity you are into new lines and high speed lines.

Q333 Mr Leech: To other members of the panel, how vital is HS2 to the economy of London, and would there be a better way of spending £30 billion?

Chair: Sir Robin, do you have a view on that?

Sir Robin Wales: I have a view on most things, but yes on that one. If the productivity of Thames Gateway went up to the same as London and the south-east, it would be £13 billion to the economy. Opening up high speed rail, opening up the rail network, opening up the opportunities for international trade and all the rest of it clearly will help to drive up the economic benefits in the south-east of England, particularly in areas that are very depressed and very poor. As long as it's linked and it will stop at Stratford, it takes the pressure off central London; it allows a straight run through. I come back again to the point that it will benefit the north enormously, but it will also benefit that area. All the numbers add up to some very substantial benefits for everybody. For me, if you are doing High Speed 2, linking it up and stopping at Stratford makes extraordinary economic sense, and the sooner the better.

Steve Allen: Clearly, I would agree that high speed rail will bring benefits to London as well. I wouldn't necessarily say it would be our top priority if you were to spend £30 billion across the country.

Q334 Chair: What would your top priority be?

Steve Allen: I think the top priority would be to spend money on congested networks within cities, so not just London but Manchester, Leeds, Birmingham and so forth. I think you would get more bangs for your buck if you did that than the inter-urban networks. The other thing about High Speed 2 that we are particularly concerned about is how you manage the passengers who arrive in London on an already congested transport network. You've got to plan for where it's coming in. Coming to Stratford is a very good answer to that, but that needs to be considered as part of the planning of the route where the passengers are going to distribute once they arrive in London.

Q335 Kwasi Kwarteng: I wanted to ask a question about high speed rail. It seems to me that some people are saying—certainly the last witnesses we had—that money would be better spent on other projects. You are suggesting the same thing, I think, Mr Allen. I just wanted to ask Ms Munro and Mr Jarvis what you would say to critics who say, actually, it is a complete waste of money and we should be trying to look at roads.

Alison Munro: As I have indicated to the Committee, I can't comment on the relative priorities, but certainly the work that we have done suggests there is a good business case for high speed rail and there are wider benefits to the economy through the connectivity and the additional capacity that it will provide. That is what I would say to the critics.

Q336 Kwasi Kwarteng: What I want to tease out is this whole idea of mode neutrality to which Eddington referred. I want to test that as a proposition, because it seems to me that some people are saying it makes more sense to invest in roads, whereas you are saying to the Committee that you don't have a view.

Alison Munro: I am saying I can't comment on high speed rail versus other transport. What I can say is that, clearly, Eddington identified that intercity travel is one of the priorities for supporting the economy. In terms of intercity travel, road isn't the main alternative for city centre to city centre travel. High speed rail is a very effective way of addressing that market.

John Jarvis: Connectivity is fundamental to the future economic well-being, in the short, medium and long term. But there is not a silver bullet solution. It is about getting the right balance between modes and between long distance and shorter distance travel. That is the issue that we need to resolve. High speed rail has to be a fundamental part of that, but so has improved connectivity within the north—

Q337 Kwasi Kwarteng: You are sticking to this idea of mode neutrality. You are saying that both are important—

John Jarvis: There needs to be a balance. We agree and welcome the priority that the Government has given to Managed Motorways in the immediate future. There has been a significant set of Managed Motorways projects in the north of England, and we recognise motorway congestion as one of the biggest threats to the north's economy. We have some of the most congested sections of motorway in the country. At the same time, rail is growing the economies of places like Manchester and Leeds more strongly than road. It has been rail that has taken the growth in terms of labour supply into Manchester and Leeds. Those rail services are now overcrowded and we need investment in rolling stock and that capital investment to unlock the Northern Hub. It is getting to that

balance of investment and prioritising transport in recognition of its importance to the future economic growth.

Q338 Kwasi Kwarteng: So it is both, you are saying?
John Jarvis: There has got to be that balance, yes. I come back to that point: there is not a silver bullet. You can't say you will solve the north's problems by sorting out the motorways, or you'll sort the north's problems by sorting out Northern Hub. You have got to get the balance between those investment priorities.

Q339 Chair: The Northern Way has called for a national plan. Is that the same as a national infrastructure plan?
John Jarvis: We agree very strongly that there needs to be a long-term plan that has short, medium and long-term components and there is clarity about how investments are brought forward. One point we would make very strongly is that the Committee needs to consider why a project with such a value as the Northern Hub has not been brought forward earlier. The reason around that is it is only since The Northern Way came into existence that we began to look at the impacts beyond the immediate impacts of Manchester and the north-west and recognised how the rail network in and around Manchester impacts across the north. You need that input in to actually bringing some crucial projects forward. We have strong appraisal processes but the issues of how things have been brought forward is an important consideration.

Q340 Paul Maynard: Clearly, Mr Jarvis, The Northern Way has managed so far to develop the short, medium and long-term plans you just referred to, working with the three northern RDAs. The Government has now announced the abolition of the RDAs. They are replaced by a patchwork of Local Economic Partnerships. How confident are you that the LEPs will be able to replicate the role of the RDAs in supporting the development of transport strategy that you have been overseeing?
John Jarvis: I think it is a very relevant question at this current time. The funding from the RDAs for The Northern Way runs out at the end of this financial year and there is no certainty about how that will be carried forward. I think the Secretary of State is right in remarks that he has made that LEPs aren't fully in place actually to have that conversation with them at this point of time. We are discussing how The Northern Way might be taken forward with the major cities in the north, pending the establishment of LEPs, but those discussions are not fully concluded yet.

Q341 Chair: At the moment what is your view about the likelihood of being able to continue as successfully as—
John Jarvis: There is a likelihood at a low level we may be able to continue, but to continue at the level of investment in considering how transport impacts on the economy of the north is going to be difficult to sustain. Our costs of evidence-based work have been averaging about £650,000 a year. That includes staffing and business case development. We have been expending that over about the last five years. In terms of the benefits that we have achieved through that expenditure, there is independent evaluation that suggests we have brought forward Northern Hub investment by around five to 10 years. In terms of the value to the economy, that is worth around £600 million to £1.6 billion. In terms of the small scale of investment that we have been making, we have been achieving strong value for money. But it is going to be difficult to replicate investment of £500,000 to £650,000 a year on this work in future, given the abolition of the RDAs and the reductions on local authority budgets that are anticipated. But, like I say, we are in discussion about how we might take it forward.

Q342 Gavin Shuker: Just picking up on capacity, which is an issue that a number of the witnesses mentioned before, to what extent do you believe that the Department for Transport's current plans for capacity on rail and on road go far enough to address the concerns of growth in your own individual regions? Perhaps we could start with Mr Allen.
Steve Allen: We were obviously pleased in the recent spending review that our plans for continuing to invest in the capacity of, particularly, the tube network and Crossrail, were protected through the spending review, and the important place that developing the transport infrastructure has for economic growth was recognised. Broadly speaking, over the next four years, yes, I think the plans are there for London. Obviously we need to see that they are sustained over the longer term.

Q343 Gavin Shuker: Just on that, Thameslink obviously has slipped by a couple of years now. Will that have a significant knock-on effect to, say, the Northern Line overcapacity?
Steve Allen: Yes. The thing about transport is that it's all about networks. You can't look at any project individually; you have to see how it fits in with the networks. Clearly, delays in delivering any part of the upgrade to the capacity will have a consequent strain on the rest of the network. But, again, I think the main point is that Thameslink is going ahead and that is good, even if it is on a slightly longer time scale than is ideal.
Sir Robin Wales: I have a real concern now in the east of London. Crossrail is coming; that will be very important. If we get a station at Stratford then it completes quite a powerful transport hub in Stratford, in the west of my borough, but the reality is that London is the critically important driver for economic success in the country, and I would question whether we have it right at the Thames Gateway and whether we have the right transport infrastructure there to enable us to expand into areas that everybody recognises we need to expand to. So I would have a real concern.
One of the difficulties is always, in London, trying to explain the significance of the east, the developments in the east and the expansion in the east which is available, against sometimes the perceptions in the west and centre and so on. I think, yes, in the next few years, if we get these things right, we will be able

to see some expansion, but I do question the Thames Gateway and whether or not we have really got our heads around the transport infrastructure that we need down there in order to continue development in, say, 10 or 15 years' time. We got the Olympics because we have an international station and we have developed Stratford over 20 years. Who is doing the 20-year thinking out of the rest of east London? I have a real concern about that.

John Jarvis: We welcome the focus on rail investment but I think, as has just been indicated, there is a strong prioritisation at the moment in rail in the south-east. Nonetheless, I think that the electrification in the north-west, the line speed improvements between Liverpool and Leeds, and tucked away in Network Rail's plans some investment on rail gauge as well, which would benefit northern ports, are all important issues for the north. But in terms of one major investment, it is coming on to Northern Hub and actually ensuring that project is agreed as part of the 2012 HLOS. On the previous conversation about the uncertainty about forward planning and Northern Way, I suppose there is a risk of hiatus in terms of what is happening and getting rid of regional apparatus.

Q344 Gavin Shuker: You would say there is a real emphasis on capacity over, maybe, the longer term planning of where the economy and transport needs to be in the next 20 or 30 years?

John Jarvis: That is a big issue for the north of England rail network in terms of the medium and long-term plans, getting that right and getting that investment into rail. It is going to be rail that will support the growth of the big cities in the north of England.

Q345 Chair: There has been a lot of criticism from certain groups about the appraisal on High Speed 2 and it has been alleged that passenger demand forecasts are inflated and the estimate of benefits is unrealistic. Just how sensitive is the case that has been put forward to changes in, say, the rate of growth of journeys in the scheme?

Alison Munro: The business case is clearly sensitive to future demand. In forecasting future demand, we have followed guidance from the Department for Transport and methods that are used by the industry which are based on past evidence of growth and relationships between GDP and transport growth, and we projected those into the future. We consider that those are reasonable estimates of future demand, but there obviously is uncertainty when you are looking into the future. We did some sensitivity tests when we did our work last year. We have talked about the fact that we found a benefit cost ratio of 2.4 in that work for the London to West Midlands route. We did tests for sensitivity if demand were 20% lower. That reduced the BCR to 1.5, so clearly it is sensitive. What we are projecting for the future is comparable with what has been seen in the past in terms of rail demand growth. We have assumed that there is a point in the future where demand doesn't continue to grow, so we haven't taken the most optimistic possible assumptions.

Q346 Chair: Is it comparable to previous assessments looking at similar time scales, because this is a big time scale, is it not, a long time scale?

Alison Munro: We are looking further ahead than most other schemes. Clearly, because of the nature of this, it will take a long time to develop and to build. So we are looking further ahead than most other schemes have done in the past, but the general methodology that we are using is the standard methodology.

Q347 Julie Hilling: I want to ask a similar question to the one that I asked the last witnesses, about other forms of transport—buses in particular, but also other forms of transport and their importance in terms of economic well-being. I wonder if you could talk to me about what the Government should be doing in terms of investment into those sectors.

Steve Allen: The bus system in London is very different from the bus system outside London and I think has benefited hugely as a result. It is worth remembering that the bus carries more than six million people a day in London, more than twice the number of people who travel on the tube. It is a huge proportion of transport within London by bus. The system that we have of the transport authority setting the routes and the Mayor setting the fares and the service levels, and then having the private sector operate those under franchise, has been an extremely successful one, and the reason for the continued success of the bus and the importance of those journeys to the London economy.

John Jarvis: We haven't focused on bus because we have largely focused on the links between the north rather than the links within individual cities in the north; bus is more the territory of the PTEs. But the comment I would make is that we don't benefit from a similar system as in London and the whole issue of how more effective relationships can be developed between the local authority sector and the bus operators becomes much more important in the north, whether that is by way of effective quality partnerships or quality contracts.

Q348 Mr Leech: I just wanted to ask Mr Allen what he thought the economic impact of a London style bus system would be on other major conurbations in the rest of the country.

Steve Allen: I clearly think it would be beneficial if other cities were able to plan their bus network in the way that London can. You can have better use of capacity so that you are not having inefficient competition, which I think you get in some bus routes outside London, and you can have the competition through bidding for the franchises once the level of service has been specified.

Q349 Mr Leech: With regard to the additional cost, because everyone accepts the London bus system costs a lot more than it does outside of London, would it be cost-effective in terms of the economic growth that it would bring?

Steve Allen: I think you can separate out those two questions. You can run a system of the city determining what bus services it wants and asking

people to pay for that, separate from the question of how much subsidy you want to put into it. There are benefits in the system that are not necessarily reliant on the subsidy.

Q350 Iain Stewart: I wonder if I might return to the question on estimating passenger usage of HS2. One of the criticisms that is made by the group opposing High Speed 2 is that High Speed 1 had a much higher estimate of passenger numbers than has actually turned out to be the case. The initial forecast was 25 million, and the reality is 9.2 million. To what extent have you revised the methodology for forecasting passenger usage in light of the experience of HS1?
Alison Munro: HS1 was clearly predicting a different market to the one that we are predicting, in that it was predicting international rail travel. In the field that we are looking at, domestic rail travel, there is more to go on in terms of past experience. The forecasts that we are using are based on past data of actual usage in terms of the rail network in the UK. In that sense, they are based on an existing pattern of travel and existing relationships. I would say that we are not facing the same problem as there was with forecasting the demand for High Speed 1.

Q351 Iain Stewart: I have one additional question, if I may. If I am correct, your report ruled out the option of intermediate stops at certain points on the line. With the experience of the TGV system in France, where they have modelled in intermediate stops, should you not revisit that in terms of boosting the overall usage of the system?
Alison Munro: Our general approach is that you need to look at it on a case-by-case basis. We did look at whether there should be an intermediate station between London and the West Midlands, and we concluded that there was not a strong case for it for that part of the line. That is not to say that there might not be a case for an intermediate station when we are going northwards to Manchester and to Leeds. We will look at that again on a case-by-case basis to see whether there is a case. We have not ruled it out.
Chair: Dr Kwarteng, is it on this issue?
Kwasi Kwarteng: It is on a general issue about HS2.
Chair: I will take Mr Baker and then I will come back to you.

Q352 Steve Baker: Following up Mr Stewart's question about forecasting passenger numbers, I am afraid I have in mind the old adage about economists. The only purpose of economic forecasting is to make astrologers look good. I am just nervous and sceptical about these models. I hear what you are saying about having much more historical data, but could I just ask you to comment on the validity of historical data in respect of forward projections, and also to come back to the issue you raised about sensitivity? With all of that in mind, how have you quantified the risks?
Alison Munro: I think there are two questions there. Dealing, first, with the historical data, we have looked at the historical data but you can also look at the variation in rail travel between different income groups. For example, the top quintile travel twice as much by rail as the average person. It is not just historical trends. There does seem to be a lot of scope, as incomes grow, for people to travel more by rail. Rail is also a relatively small market. It is only about 2% of trips. So, again, there potentially is scope for rail to increase quite significantly.
In terms of the risks, we have not tried to attach probabilities to different outcomes. As I said, what we have tried to do is to look at sensitivity testing. If demand were so much lower or so much higher, what would the impact be on the business case? That is the way we have approached it.

Q353 Steve Baker: You mentioned the top quintile being—sorry, how many times more likely?
Alison Munro: Twice.
Steve Baker: I bear in mind the nation's income distribution and it just seems to me immediately that means that poorer people will end up subsidising the rail travel of better-off people. I just wonder if you could comment on the social justice of that.
Alison Munro: I think that is outside my remit.

Q354 Kwasi Kwarteng: I would like to ask a simple question to each member of our panel here. It refers to what has been discussed about HS2 and the road network. You are not allowed to fudge the answer. It has to be one thing or the other. What is more important? Is it more important to have connectivity between our cities or to improve the actual local transport systems within the cities themselves? A lot of this HS2 debate seems to revolve around which stance you take on this question, and I wanted to ask you all individually which is more important: connectivity between cities or improving regional transport in those cities?
John Jarvis: I am very happy to try to answer that, and I hope this won't be seen as trying to fudge it. We have looked very carefully at the issue of connectivity within and between city regions in the north of England. There have been a number of pieces of work around this that all come to the same conclusion. If you improve connectivity within two city regions but don't improve the connectivity between those city regions, the strongest economy will improve at the expense of the weaker. If you improve the links between the city regions without improving the links within the city regions, it helps to spread the benefit and you get a better overall return. That is not to say that, again, you do one or the other, but it is getting to the balance of the two. Our experience of improving links between city regions is that the evidence suggests it helps to spread the benefits by connecting weaker economies to the stronger economies. We have looked at that in relation to both a Leeds and Sheffield pairing and a Leeds and Manchester pairing. If you look at Leeds and Sheffield, improving links within the Leeds city region and within the Sheffield city region, it benefits the Leeds city region. If you do the links between, it helps to spread benefits to Sheffield. If you do Leeds and Manchester, as Manchester is the stronger economy, improving links within Manchester and within Leeds, it benefits Manchester rather than Leeds. If you improve the links between, it helps Leeds rather more and helps to spread the benefits.

Alison Munro: We have not addressed the question of which is better, but I would say that high speed rail is not just about one or the other. Although a high speed rail line would benefit intercity travel, the capacity it would release on the West Coast Main Line or the other lines with a larger network, the Midland Mainline or the East Coast Main Line, would allow better local services, commuter services.

Q355 Kwasi Kwarteng: So, again, you are not taking a view as to which.
Alison Munro: You need both. Obviously, it is about end-to-end journeys. You need the supporting network in the cities as well so that you can distribute people.
Sir Robin Wales: I take a broader view. I think there is a real concern that, if I look round the country, the reality of the current economic situation is that in London there are jobs, people can access them, it is quite difficult and we need to invest in people, whereas outside in other parts it is much more difficult. If we are going to spread economic benefit across the country, the first thing we have to have is good infrastructure and that means transport infrastructure. I look around Europe and other people seem to think high speed trains are quite a good idea. Certainly, from where I sit, high speed rail is very important. Once we have done high speed rail I would like to improve links within Newham of course, but do high speed rail first.

Q356 Kwasi Kwarteng: You are saying connectivity is the important thing?
Sir Robin Wales: I think connectivity is absolutely essential for the north if we are going to try to stop the movement of people down into London and spreading London out. But, equally, London is a powerhouse and we need to make sure the economics of London are developing as well; so I think that is important. I then think about issues like bus. If you are talking about social justice, buses—
Chair: Can you just answer the question, please? Social justice is very important, but that wasn't the question.
Sir Robin Wales: If you are looking at internal movement, bus is extremely important in London and you wouldn't just talk about rail; you'd look at bus as well. They are all important, but I have to say that I think if I was taking a view nationally I would say, without those links to the north and without those things working, we will put the north under more pressure, and that makes no sense.

Q357 Kwasi Kwarteng: In terms of Britain in 2010, at the end of November—
Sir Robin Wales: And Newham 2010—they come together.
Kwasi Kwarteng:—the connectivity is important to you?
Sir Robin Wales: I think that is right.
Steve Allen: If you look purely at the question of where you get the most economic growth for your investment—recognising that transport infrastructure is not purely about delivering economic growth—you get the most growth by enabling the highly productive industries to grow into larger clusters. All the evidence is that these industries work better in clusters in particular places, and that means that improving the investment and the infrastructure within the city is going to give more economic growth.
Kwasi Kwarteng: As opposed to the connectivity. So it is a different answer to the other three.
Chair: But you are speaking from a London base. Thank you very much for answering all our questions and coming here today. Thank you.

Examination of Witnesses

Witnesses: **Stephen Joseph OBE**, Chief Executive Officer, Campaign for Better Transport, **Keith Buchan**, Board Member—Policy Lead, Transport Planning Society, **Dr Adrian Davis**, Public Health support to City Development Bristol City Council, Directors of Public Health for the West of England Partnership Area, and **Joe Rukin**, Convenor, Stop HS2, gave evidence.

Q358 Chair: Good morning, gentlemen. Can I ask you, please, to give your name and organisation for our records? I will start at the end here.
Stephen Joseph: Stephen Joseph from the Campaign for Better Transport.
Joe Rukin: Joe Rukin from Stop HS2.
Keith Buchan: Keith Buchan from the Transport Planning Society.
Dr Davis: Adrian Davis representing four Directors of Public Health in the West of England.

Q359 Chair: Thank you. How should spending on transport be prioritised to bring the greatest economic benefits? Who would like to try? Mr Joseph?
Keith Buchan: I will start by identifying the problems, I suppose, first, which you are trying to tackle because you won't have economic efficiency unless you have got good problem definition. Returning to Eddington, I suppose that takes us straight back to congestion and city regional networks, which, for us, in terms of major investment, would be the priority area that the Society certainly, when we surveyed our members, looked for. So it links back to the end of the last session. We would see the movement within the great city regions outside London as being a key priority or investment.
On investment, you can get a tremendous amount by investing in management, and hi-tech techniques and approaches. It is surprising how much money you can save by doing proper tele-presence video conferencing, for example, as many companies are already doing, so "Don't overlook the small investments when you're looking at the big ones" would be my summary.
Stephen Joseph: I would very much agree with that. I think there is a danger of "big projectitis" taking over generally in transport and that the small scale and local investments tend to get overlooked, as do

non-transport investments. I noticed that the members of the Federation of Small Businesses, whose representative earlier suggested that the big priority would be roads rather than rail, were not asked whether they would prioritise those over, say, high speed broadband, but there is good evidence that high speed broadband would have the biggest impact, particularly for some more rural areas and regions like the south-west in terms of actually producing economic development.

Q360 Chair: There are a large number of carbon reduction schemes. Do you think those have any economic benefits as well as being important in their own right?

Stephen Joseph: I think there is a fatal tendency to try and put carbon reduction and climate change issues in a separate box from the economy. Ultimately, we have to move, as the present Government and indeed the previous one talked about, towards a low carbon economy. That means, as Nicholas Stern's report said—which came out at the same time as Eddington—we have to prioritise investment in low carbon transport infrastructure and in measures that will reduce dependence on cars, motor vehicles and aviation rather than on infrastructure that will entrench that dependence.

Q361 Chair: What kind of investments would you like to see in transport at the moment, given the current financial situation? What would you like to see happen?

Stephen Joseph: At the moment? We have been supportive of some of the priorities that the spending review has produced for transport, particularly the local sustainable transport plan, which we argued for in the past and which we think will be very helpful in giving priority to local, small scale, and indeed low carbon investment. But we can't just look at transport in isolation. We need to look at transport combined with planning of land use and development, to invest in developments that will overall make it less necessary for people to have to use cars and to rely on road transport.

Dr Davis: From a public health perspective I hope we would all agree that we want prosperity and we want health; combined for the good health of the population. Picking up on Mr Joseph's point, I think we are concerned about this "big projectitis" effect, when there is strong evidence for very high benefit to cost ratios from small scale schemes. That, of course, was picked up in the Eddington report, but it seems to be underplayed. When I talk about small scale schemes, I am particularly talking about those in-city, in-town schemes and short trips into towns.

Q362 Chair: Which types of things? Could you give us some examples?

Dr Davis: Yes, I am talking particularly about walking and cycling interventions that help people to lead more physically active lives. It is extremely important because most of the population do not achieve a minimum amount of physical activity to achieve a health benefit and that has a negative effect on the economy in terms of cost to the National Health Service. So we can achieve a number of major benefits by enabling people to meet their access needs, which is after all what transport is about, while helping them to maintain their health and not be a burden on the economy.

Q363 Chair: Are you satisfied with the way appraisals are made for major transport schemes?

Keith Buchan: Shall I start by saying, simply, no? There is a difficulty because appraisal is only part of the decision-making process and possibly the first formal part, and that has been changed and developed over many years to the extent that it has perhaps lost sight of the overall objectives of an appraisal system, which is how we can best spend the money we have to address the problems we have identified. I think that cost-effectiveness is a very important weapon here. In transport, we have tended to get involved in some very, very elaborate modelling, forecasting and cost benefit analysis in which we have to monetise all sorts of things that we don't really know the true value of, to import a lot of assumptions that are quite difficult to justify, in an attempt to make a robust process. Of course, at the end of the day, the decision is influenced by a lot more than that.

Stephen Joseph: In our written evidence to the Committee we drew attention to a number of problems with current appraisal techniques that are used by the Department. I think we can summarise these as saying that they give rather too much emphasis to small time savings over 60 years and rather too little to other factors such as the importance of reducing carbon emissions, and, as the Transport for London written evidence suggested as well, the importance of helping promote public transport based development on brownfield sites.

Q364 Chair: Is High Speed 2 a good investment for transport? Would it be? There's an easy question.

Joe Rukin: Where do I start with answering that question? Just tagging on from the appraisal process, I think Alison Munro actually highlighted one of the major problems with the appraisal process from the DfT in that the DfT figures for increasing rail usage for 2030 come up with 73%, but when you put these figures into the appraisal process you come up with a figure of 267%. Obviously, from our point of view, we don't think HS2 is value for money whatsoever. It is exceptionally sensitive as, again, was just demonstrated. The fact of the matter is that, if your starting point is these passenger figures, then it is very much a situation of garbage in, garbage out. It seems very much like the value of time has been over-egged; wider economic benefits have as well; there is a greater optimism used than normally; finance costs have been left out; and operator profits have been left out as well.

Adding all this together, you find that HS2 has a great benefit, but, when you look at the figures more rationally, you find that this benefit doesn't really exist. The problem is that it is a massive gamble and, basically, what we are here to say in terms of how things have moved on from Eddington is that everything Eddington predicted regarding HS2, or high speed rail, as he called it, has come to pass in

that it has not been properly assessed against other items that could have been taken forward and it is potentially a costly mistake. It represents a massive gamble—a £34 billion gamble. Obviously, that is not taking in the finance costs, but it is £34 billion on paper, which, upgrading the current infrastructure, is not such a gamble in that respect.

Q365 Chair: You have made some very, very major statements there without very much to back it up, haven't you? We have just taken evidence from the High Speed 2 company, who have told us that they have made a number of appraisals, it has been based on existing patterns, it is sensitive and that they have looked at different options. How closely have you really looked at that?
Joe Rukin: Very closely over the last few months. I suppose the most significant way of demonstrating that they are not satisfied about the business case is that a revised business case will be presented to the consultation, which I think is a clear admission that they realise that the business case is not sound and doesn't stand up to scrutiny at this point.

Q366 Chair: But wouldn't you expect a business case to be considerably revised in a project of this scale and over such a time scale? Would it not be a weakness if there was never a reappraisal?
Joe Rukin: I would say it was potentially a greater weakness to be presenting a business case in two months' time that has not been completed at this point, to go out to public consultation on which people will have the chance to respond to a business case which has not been thoroughly tested at that point.

Q367 Chair: You said finance costs were not taken into account. What does that mean?
Joe Rukin: Basically, all the costings for HS2 are based on 2009 figures.

Q368 Chair: They are based on 2009 figures without any assessment of what those costs might be in future years?
Joe Rukin: When they are actually paid, yes.

Q369 Chair: You are absolutely sure of that?
Joe Rukin: Yes.

Q370 Kwasi Kwarteng: I have a question for Mr Rukin in terms of the Stop HS2 campaign. You say it is a national campaign, but do you find that a lot of your supporters are concentrated presumably along the routes of the railway?
Joe Rukin: Obviously, you find that to start off with. Our core message is that there is no business case, that there is no environmental case and, of course, that there is no money to pay for it. We work on behalf of approaching now 60 action groups around the country, but we have found that that support has widened out in the country at large. Obviously, opposition is focused where people have taken an interest in something that is going through their areas, taking on from the big society, I suppose, in that respect, but it means that we have spent more time paying attention to the plans as they stand.

Q371 Kwasi Kwarteng: You are saying that you are getting increased support. What is your main objection to the proposal? Is it that it will destroy nice countryside or is it that it is a waste of money? What is your top line sell on this?
Joe Rukin: As I said, our core message is that there is no business case, no environmental case and no money to pay for it. Obviously, people are concerned about the local environment as well. There are a whole raft of concerns. That is the thing. We find that the more we find out about HS2 the worse it seems to get on all aspects.

Q372 Kwasi Kwarteng: I asked a question about this in the earlier session. What do you think about the argument about connectivity between different cities? Is that something that your campaign is interested in?
Joe Rukin: Yes. The thing that we found is that there is evidence and research going back all the way to the 1960s, and it has been highlighted again, in that if you join a stronger economy to a weaker economy, the weaker economy is disbenefited and the stronger economy benefits. The most recent study on that was a Barcelona report looking into high speed rail in Spain, which found that the stronger economies benefited. This will be exacerbated in a country like the UK where London is so much of a primate city. You will just suck more things towards the capital. Also, in terms of—

Q373 Chair: Mr Rukin, can I just stop you? That actually is not what we have heard in evidence this morning. We have heard evidence this morning about a number of studies done in the north of England which don't show that at all. There is always a proviso about having proper links and infrastructure in local areas and across regions as well. What you are saying in fact has not been shown to be the case in the UK.
Joe Rukin: If you look at studies that have taken place like the Barcelona report—

Q374 Chair: But not in the UK. The evidence we had this morning did not show that at all.
Joe Rukin: Fair enough.

Q375 Kwasi Kwarteng: Clearly, there is a massive range of opinion. In point of fact, what you are saying is exactly the opposite of what some of our witnesses said earlier. It is not my job to say who is right, but it is interesting that what you are saying is completely opposite to the case that was made in which it was said that connectivity between cities is a better way of raising the standard of both cities than an improved network within two different cities without connecting them. That was what was said.
Joe Rukin: I would say that the academic studies that have been produced back up the case that I am putting. Where the studies have been put forward by groups like in Birmingham, for example, Centro, who have a vested interest and would go with that statement—
Kwasi Kwarteng: I just wanted to make sure that's on the record. I am not making any comment about that.

Q376 Julian Sturdy: I would like to follow on from what Dr Kwarteng has been talking about, about the connectivity, which we have heard a lot about in the debate so far. This is a question to all the panel, if I could. What do you see as the key transport investments across the board to achieve the connectivity if you believe that that's the way we should be going to balance the regional economies and bridge the north-south divide?

I have a more specific question to Mr Rukin. Regarding HS2, if that does not go ahead, where would you see the alternative in transport investment, specifically to try and bridge the link between Birmingham, Manchester and Leeds, if we don't go with HS2?

Joe Rukin: In that respect we are looking at Rail Package 2 and other rail packages which would free up capacity. There are also things that can be done immediately. For example, there are practices in place which restrict capacity due to the effects of privatisation and the franchises. For example, Wrexham and Shropshire currently run five trains a day to Marylebone, which go through Wolverhampton, Birmingham and Coventry. They are not allowed to stop there because of the franchise agreement with Virgin. As Kelvin Hopkins asked Philip Hammond about on Wednesday last, there are carriages that are sat in sidings from the upgrade of the West Coast Main Line which could be taken into service today. These are things that need to be looked at as well.

Stephen Joseph: First, I do think that we do need to give a lot more priority to local transport, to answer Dr Kwarteng's question earlier, particularly outside London and the south-east. That has not been a feature of the recent spending review where, for example, rail spending has been very south-east based. You have already heard from The Northern Way about the importance of the Manchester Hub, but there are lots of smaller scale investments and, also, the opening or reopening of stations and lines to serve areas that were in decline when Beeching shut them but are now growing places. Mr Sturdy will know about places around York where there has been a lot of talk about new stations being needed to serve growing housing development. That kind of investment is very strongly needed to support local intraregional connectivity and to help economic growth.

I just make one comment in answer to some points you heard earlier which highlighted the idea of widening the A14 as a key route. We have looked at this in some detail. All the assessment we have done of this said that that was a very, very expensive scheme. It was £1.3 billion before anybody had got near contract for 21 miles of road. Our view is that there are plenty of cheaper ways of dealing with the problems on that corridor that do not involve £1.3 billion but that would deal with both the safety and congestion issues on somewhere like the A14. That, I think, is an example of what we might call a legacy scheme. People have been planning that scheme for years and years and years; nobody has re-examined it. We need to go back and have another look at that corridor as, in fact, the Government has, very welcomely, said should happen now. I mention that simply because you had a lot of very strong evidence in the other direction.

Chair: Mr Shuker, is it on that point?

Q377 Gavin Shuker: Yes, absolutely. I asked the Secretary of State about the A14 in our last session with him. He suggested that local authorities were looking at road pricing measures that might be possible to alleviate the congestion on the A14 stretch. Would you welcome that?

Stephen Joseph: We have done a report recently on the experience of the M6 toll, which I think is the sort of scheme that the Secretary of State and the local authorities have been talking about where you price a new piece of capacity. The evidence from what we looked at is that the M6 toll hasn't worked for almost anybody except possibly some bankers, who seem to have done some very interesting debt swaps with the holding company. But it hasn't improved journey times on the existing M6. It hasn't helped the economy; in some ways it has actually added to congestion on either side of the tolled section and, indeed, on the local road network. Our concern is that, if you just build and toll a new bit of the A14 and leave everything else unchanged, you will worsen the problems in the area and you will have diversion impacts from other traffic through the surrounding villages. It will worsen the problem rather than solve it. If you were to talk about more general road pricing and tolling that is another matter, but that is not what is being talked about there.

Q378 Paul Maynard: This is aimed at Mr Joseph and Mr Buchan. Clearly, you are both in the business of improving the planning of transport policy in the future. I noted the Transport Planning Society's evidence about the compromised lists of local schemes in terms of thinking strategically. I am wondering whether you can give me any concrete examples of small scale transport projects that have had a clear impact on the economy and to explain how they impacted on the economy.

Keith Buchan: I can, I suppose, instantly think of a lot of green travel plans and individual companies, for example, hi-tech companies getting employees to cycle to work, in which this becomes a selling point for the company. It becomes part of the image. In a sense a green travel plan attracts the sorts of employees that they wish to have, so that works at a very, very small local scale. At the company level, assisted by local authorities, there are lots of examples of that. I can think of bus networks, for example, put in place—very, local bus networks—feeding into industrial estates. I can think of some in outer London where that has been done. The difficulty is putting all the many examples into a basket that looks like something where you can say, "Well, this is a very big attractive project. Let's do it." I think that is why, for example, our membership in the survey said, "This is the sort of thing that we want to see. Can we have it rolled up in a national programme?" It is also why I think the Society's immediate reaction to the sustainable transport fund, similar to Mr Joseph, is a very positive one because that is seen as revenue-funding. It is seen as something that can have an effect

at local level and, for that reason, it is very strongly supported.

In terms of the economy generally—and perhaps I can just bounce back and come back to the issue of connectivity—transport is seen as part of a transport, communications and land use tripartite planning block that needs to be done much, much better. Broadband has been mentioned; I mentioned video conferencing. We need to see this connectivity. We need to define that in as broad a way as possible.

Stephen Joseph: Can I add to that? First, a number of what are generally termed "public realm improvements", improving the quality of streets in places, has been undoubtedly economically beneficial. If you want to go down to the real detail, there is some work that was done for, I think, Transport for London which started to put money values on putting seats in public places and things like that. But, more generally, there was a piece of work which looked at where you had had investment in high quality public realm improvements, for example, in removing guardrails, changing the way streets looked and so on, and found that rental values in those places were greater—this is in parts of London—than in places that had not had that. So there is some hard economic data.

More generally, as Mr Buchan said, the evidence from companies like BT, GlaxoSmithKline and others that have invested in small scale green travel plan initiatives, in car sharing, in bus links and so on is that those companies have been able to make better use of the sites that they occupy, of the car parking that they have and have been able to attract people to work in those places. Companies like those rely on attracting high quality, high-skilled workers, and places like the Cambridge Science Park, where something like 45% of workers cycle to work, is one of the countries leading hi-tech hubs. That is the result of local authority investment. It is those kinds of investments that make a difference. Again, going back to a point I made earlier, it is not the case that you have to choose between investing in sustainable transport and economy. You can get a low carbon economy with low carbon transport investment.

Q379 Paul Maynard: Under the previous Government we had a number of what were called demonstration towns, many of them linked to cycling. I am just wondering what you thought that they demonstrated in the end and what you feel the policy implications of those projects were for the current Government.

Stephen Joseph: I think Mr Davis may want to come in on this one because he is an expert on some of the evidence on this. Broadly, what it showed is that you can change travel behaviour significantly beyond what is in the Government's national traffic forecasts, which tend to start from one end and move inextricably up to the level where we are all driving as much as people do in Los Angeles. Instead, what it showed is that you can change behaviour. In the sustainable travel towns, for example—Peterborough, Worcester and Darlington—car use was reduced by residents in those towns by about 10%, and there were significant increases particularly in cycling, and particularly in Worcester and Peterborough in bus use, something like 22% in those towns. The result, overall, was some reduction in congestion as well. That was with relatively small amounts of money. In fact, what has happened from that and from the cycling demonstration towns has been that the present Government has taken a view that there is now a strong evidence base that those kinds of small scale interventions do work.

Q380 Chair: Are you saying, Mr Joseph, that we should do more of that type of small scale intervention?

Stephen Joseph: Yes. What has happened, I think, is that that has fed into the local sustainable transport fund, which is going to have a significant—

Q381 Chair: Are you confident that there will be sufficient funding in that fund to enable this to happen on a big scale?

Stephen Joseph: We hope so. It entirely depends on what bids come forward from local authorities and others to make those work. I think it is worth saying that what we are concerned about is the transition from, say, some of the Cycling England funding for the cycling demonstration towns and cities into the new fund. We are concerned about whether a lot of local authorities will simply make all their school travel plan officers and their cycling officers redundant and then have to re-employ them again when they get the bids. That does not work on almost any level in terms of delivery of sensible transport projects.

Q382 Julie Hilling: I wanted to go back to High Speed 2. Is that okay?

Chair: Yes.

Julie Hilling: I am sorry about that because I think we were just developing a very interesting conversation there about other areas, but I did just want to go back in terms of the issue about the north. First, how many members in your organisation are from north of Birmingham and is this very much about a southern group saying, "We don't want this railway through our back yards when the benefit for this railway is going to be from the north particularly"?

Joe Rukin: There are various people who have obviously been involved in terms of things like signing the petition and so on, from the north. There are a lot of people further north who have significant concerns about this. It is fair to say that most of the people are from the southern part of the route. However, the problem with this is that simply because people live in the locality of where the line is going does not mean to say that the position they have come to, after paying attention to the plans, isn't valid. The fact is that we would say the transformational benefits are, at best, unproven.

Q383 Julie Hilling: Can I ask you then about the capacity, particularly on the West Coast Line, which is the one that I know most about? There is a reality that you can only have so many trains on a piece of line at any one time and, of course, you then have to

have your periods where you are actually inspecting and repairing the line and in terms of swelling the assets. What is your suggestion then for increasing capacity to the north if we do not have an additional railway line that takes people there?
Joe Rukin: For a start, obviously, there is the increase in capacity generated by the long carriages, which hopefully will come about in the future, but it is questionable whether or not that gets transferred from Thameslink or wherever they are coming from. The reality is that, yes, there is a capacity problem. However, that capacity problem can be addressed in many ways. The other thing you have to add into that is, of course, will people need to travel as much in the future? That is a serious question which seems to have been completely ignored at this stage in that, for example, when the canals were built, people didn't see the railways coming. When the railways were built, the internal combustion engine wasn't seen coming. With high speed rail, what you are finding is that the future, the alternative, is already here and there will be increasing use—

Q384 Chair: But, Mr Rukin, if it is already here, how does that explain more and more people on the trains?
Joe Rukin: It is already here but it is not fully developed.

Q385 Chair: It doesn't make any sense, does it, to say that in that way?
Joe Rukin: Sorry?
Chair: It doesn't make any sense, does it? If you look at what's happening now, more and more people are travelling on the trains, and that's why we have the overcrowding problem.
Joe Rukin: More and more people have been travelling on the trains in the last six or seven years. Whether that growth is sustainable or not is another matter. The reality is that the businessmen, the business travellers of the future, are going to be the people who are teenagers today, the younger generation today, and for them high speed is instantaneous. The fact of the matter is, as communications progress, is there going to be such a greater demand for travel as there is now? Is it going to continue to grow? These are questions which are, quite frankly, unanswered at this stage.

Q386 Julie Hilling: It seems that there is evidence that it is continuing to grow and I guess what you are saying is, "We don't need to travel anyway."
Joe Rukin: But is it going to continue at the same rate or at an increased rate?

Q387 Julie Hilling: If you look now, people don't fly from Manchester to London any more because the West Coast Line is much faster. What are we doing about preventing people flying from further places? We are a small island but we still need that connectivity. It seems to me that what you are saying is that we won't bother to travel any more; we'll just talk to each other through the internet. But you are not addressing how people may then travel when already we are at capacity on the west coast.
Joe Rukin: No. I am saying that there are other ways of increasing capacity, such as increasing the number of carriages on West Coast Main Line trains. They can go up to 12 carriages.

Q388 Julie Hilling: That is happening, but it still doesn't solve north of Manchester.
Joe Rukin: Other options have to be looked into: it's that simple. The fact of the matter is that high speed rail is a massive, massive gamble and the question is, is it going to provide the benefits that are stated? Is the money that is going to be put into it worth it? That is a question that has to be asked. The problem is that a solution has been generated for the problem without necessarily understanding the problem first.

Q389 Chair: Are you suggesting that there is not a problem of overcapacity on the rail and the predictions that the West Coast Main Line, for example, will be full in a few years' time is wrong?
Joe Rukin: I am not saying that is wrong at all. I am saying there are other ways of increasing capacity.
Chair: And you don't know what they are.
Is the question on this point?

Q390 Kwasi Kwarteng: It is exactly on this point. You are all saying that the current appraisal or the current drive for big projects is wrong. You all seem to be joined up on that in terms of your views. Am I right in characterising you in this way?
Keith Buchan: Broadly.

Q391 Kwasi Kwarteng: Bear with me. If that is the case, what do you think is going wrong with the Department for Transport in terms of its decision-making process, because, clearly, they have a very different view in terms of our needs and in terms of capital projects and all that sort of thing than your view? I was just thinking, from your point of view what would you change about the Department? Why is it consistently going for these big projects when, as you say, small projects are the way forward?
Joe Rukin: Quite simply, in the case of HS2 it does seem that momentum has built up behind a project and it has come simply from that point of view. The assessment has been done. "Basically, we would like to do this." It has not been assessed against other projects as robustly as it could have been and, quite frankly, it does seem that high intensity lobbying has gone. You will find that a lot of countries are all focusing on the idea of taking high speed rail on, all at the same time. It comes back to a period in the 1990s where there was a lobby going around effectively touting for business. You found that America—

Q392 Kwasi Kwarteng: So you don't believe that they have any objective criteria at all. You think they are being swayed by lobbyists, essentially.
Joe Rukin: That is exactly in line with what Sir Rod Eddington said and we believe that.

Q393 Chair: What do you believe?

Joe Rukin: I completely agree with that because it does seem that these projects are coming to pass round about the same level of progression in a lot of countries, all at the same time. It goes back to a period in the 1990s when this lobbying for high speed rail started. Obviously, China is far progressed at that, but planning in China is a slightly different matter. However, it is fair to say that in China they are revisiting some of the planned lines, questioning the need for them and questioning whether they will ever pay for themselves.

Chair: We are not talking about that here.

Q394 Iain Stewart: I would like to pick up this point about the balance between smaller projects in the short to medium term and larger scale strategic projects in the medium to long term. It is a wider question than HS2 but that illustrates the point well. My view is that it is a false choice between the two. In terms of the West Coast Main Line, yes, there are small scale adjustments and improvements that can be made: lengthening trains, adjusting the franchise model, having different configurations in their use, for example. That will buy you time, but you are still then going to reach a point where the line is physically at capacity and cannot carry any more traffic. High Speed 2 is not due to come in, with the first trains running, until 2025. My concern is that, if we only focus on the small scale projects and ignore the longer term strategic ones, we are only going to buy ourselves a little time. Something we have got traditionally wrong in this country is that we have not taken that longer term perspective. It is not just HS2 but I use that as an example to illustrate the point.

Stephen Joseph: Can I come in on that and refer to Dr Kwarteng's question as well?

Kwasi Kwarteng: The question was addressed to all of you.

Stephen Joseph: "What would you change about the Department for Transport?" I would integrate them much more with planning in the way that almost every other developed country does so that you actually put planning and transport together. I would also move them away from reliance on single forecasts towards scenario planning in the way that most private sector businesses do so that instead of looking at one possible future you look at a range. To disagree slightly with my colleague on the left, I think there is a perfectly good case you could make for some kind of high speed rail or, certainly, large scale increase in rail capacity simply because you are going to deal with scenarios that he has not mentioned yet around peak oil and climate change or in fact, to take another crisis that Dr Davis would probably want to highlight, about growing obesity. These require a move away from the private car and also from a heavy reliance on internal aviation and short distance aviation.

That means that you might still have an overall reduction in travel but you might have much more increase in rail for both freight and passenger. You need to plan for that and plan not just for the rail itself but for the planning around it. That seems to me to be something that we have not really done. In our evidence we pointed out where one of the madnesses of forecast-led planning took you, which was to project—because there is a uniform view on car ownership—30% increases in car ownership in London in the next 20 years, which nobody believes is real or likely to happen and certainly not something that Transport for London is planning for. We need to move away from that kind of forecast-led modelling and planning towards a much better scenario basis. But if you did that you would still need to think about some big as well as small scale transport projects to deal with these wider issues the Government is dealing with rather than just with today's transport problems.

Dr Davis: Could I just make a point about what would you do to change the Department for Transport? One of the things over many years we have seen is a failure to link up with other Departments across Whitehall, and I obviously mention the Department of Health, as I would do. Transport could become much more part of the answer to many of our health problems, including obesity, because a lack of physical activity is a driving determinant of adult obesity. If we could raise population physical activity by the way that we choose to travel a lot more, by walking and cycling integrated with public transport, we could save ourselves a lot of money. I would just remind people that the CBI's figure for annual absenteeism is £17.4 billion each year, of which about 40% is due to illness related to physical inactivity, including the common cold, which is the number one reason why people phone up and say, "I'm not coming in today." So we have we have an opportunity to link transport and health in a much better way than we currently do.

Today is actually a fairly auspicious day because it is the launch of the public health White Paper, which announces the return of public health to local government. We hope, at a local level, that will allow us to do a lot more to address the determinants of ill health than by sitting inside a separate organisation where we always run the risk of silo mentality. But that silo mentality is there in Whitehall, between the Department for Transport and other Departments and, particularly, there is a lack of really strong engagement on the health agenda.

Keith Buchan: Can I just say I think there is a governance issue here to be discussed about planning for the future and planning for large projects and having a vision, in a sense, of where transport is going? And I would agree. I would be very nervous about being put in the box of being anti-big projects altogether. I think healthy scepticism is the position of the Transport Planning Society and we wish to employ our members studying these proposals to see if they really hold water. It is important that we do unpick, for example, in a major project, exactly what we are trying to do. Are we trying to increase capacity, because there is certainly a consensus that there is a capacity issue over the railways, or are we trying to create a new form of intercity travel which will rival domestic aviation? In my view, that is another separate box. The important thing is not to conflate them together. Some very interesting discussions happened when we held a seminar about this. The society organised a seminar with speakers for and against, and indeed a regional speaker on HS2 who I believe you have interviewed—David Bull from

Birmingham. What is clear is that there is tremendous support for HS2, but then, when you drill down into that support, you start finding all sorts of different interests in why that should come about. Certainly—and I heard it again earlier in the evidence you have taken today—the capacity issue is a key issue, a critical issue, for some of our big cities outside London. It needs to be addressed. If HS2 is an externally funded way of getting that capacity, then people of course are going to sign up to it. We are not against HS2. We want it properly examined and we want the issues unpicked so that we understand what they are.

Could I finish on the governance issue because I think this is important and was raised by Mr Maynard as well? Our membership was pretty clear in its view of the previous regional planning arrangements in that, in transport at least, they had failed to deliver a true regional sense and that was because, of course, if you look at the schemes they produced to be funded—and this is going to come back to the point about the Department—if you look at the schemes they asked the Department to fund, they were a ragbag of horse-traded individual schemes. They were not a coherent set. In fact, some of the analysis that the regions got in themselves from external consultants said exactly that. We do not sign up to the view that the existing arrangements were good, but we do sign up to the view that something might be needed to provide that level between the national and the local.

This is my final comment on the Department, because of course one of the things that they had to do was receive bids. They received, in the case of the regional funding allocation, an astonishing ragbag of incoherent bids, with a few honourable exceptions, which is why perhaps our membership was so cynical about the previous arrangements, although clear that something was needed between the national and the very local level.

Q395 Mr Leech: Can I ask Mr Buchan whether he thinks there is a model that would deliver regional priorities for transport and, if there is, what is it?

Keith Buchan: I think I would start from the bottom up on this one. When we surveyed our members, incidentally, we did do some sub-analysis regions versus London and the south-east, which was quite interesting. Look at the great city regions of the UK. I live and work in London but we are not a city state. We are supposed to be a polycentric United Kingdom.

Q396 Chair: What would the scheme be that would deliver regional schemes?

Keith Buchan: I would start with the city regions and I would say that, at present, we need a broader view. We need champions in those city regions, for example, for local rail schemes. If you look at PTEs, they used to co-sign franchises; they don't even do that any more. You need to have sort of impetus—that impetus for integrating the bus network, the walking and cycling scheme. We have people trying to make do with way suboptimal arrangements in place.

Q397 Chair: But what about strategic schemes that go across local authority areas? You said that you did not agree that what existed delivered things; you are unhappy about the current proposals. Mr Leech is asking you what scheme will deliver good regional programmes—not local ones but regional ones.

Keith Buchan: For example, in the context of a national infrastructure plan, what we will see come forward are some of the things that Eddington started to talk about—the key corridors in the country.

Q398 Chair: No, but what mechanism would do this? Mr Leech is asking you what mechanism should there be to deliver good regional schemes? You said the previous scheme, in your view, did not deliver the right schemes. You have expressed concerns about the current proposed arrangements and whether they will deliver them. What mechanism will deliver good strategic regional schemes?

Keith Buchan: I think we have to approach it from both ends: the LEP end, which is the grass roots end, which is being formed at the moment and is quite plainly insufficient to do that. From the national end, we have the idea of the national infrastructure plan coming downwards. In the middle of that, the Government has to sponsor co-operative working between the major city regions within those corridors which it identifies. If it does not do that, then I am not quite sure that there is a mechanism in place which will do it. Well, there is not, in fact.

Chair: Right. We were just trying to see if there was an answer to it. Does anyone else have any other questions? No. Then thank you very much, gentlemen, for coming and answering our questions.

Tuesday 7 December 2010

Members present:

Mrs Louise Ellman (Chair)

Steve Baker	Paul Maynard
Julie Hilling	Gavin Shuker
Kelvin Hopkins	Iain Stewart
Mr John Leech	Julian Sturdy

Examination of Witnesses

Witnesses: **Simon Buck**, British Air Transport Association, **Michael Roberts**, Association of Train Operating Companies, **Richard Bird**, UK Major Ports Group, and **Nick Gazzard**, Chartered Institute of Logistics and Transport, gave evidence.

Q399 Chair: Welcome to the meeting of the Transport Select Committee. Could you identify yourselves for our records with your name and the organisation you are representing?
Nick Gazzard: Nick Gazzard, Chartered Institute of Logistics and Transport.
Richard Bird: Richard Bird, Executive Director, UK Major Ports Group.
Michael Roberts: Michael Roberts, Chief Executive, the Association of Train Operating Companies.
Simon Buck: Simon Buck, Chief Executive of the British Air Transport Association.

Q400 Chair: You all represent different transport modes and I want to ask each of you what you think is the highest priority in your area. Mr Roberts, would you like to begin? What is the most important thing to be done in rail?
Michael Roberts: Our starting point would be to support what was mentioned in the Eddington report about the three priorities, which are around supporting growing and congested cities, serving inter-urban corridors between our main cities, and serving international gateways. We think rail has a major role to play in serving each of those markets. The critical priority is to make sure that the existing network is at a high level of quality. Following that, the most important priority is to enhance that network to serve what, in our view, is a growing market that will see passenger demand in particular doubling over the next 25 to 30 years.

Q401 Chair: Who would like to give us their thoughts next? Mr Bird?
Richard Bird: Of course, ports are privately financed so we don't depend upon Government money for port development. But it is very important that there are good high quality links, both road and rail, to and from ports, bearing in mind, of course, that 95% of our international trade uses UK ports. We are very clear that the Eddington emphasis on good links to international gateways must continue to be a priority. We would very much want to see the strategic corridors which the previous Government developed under the *Developing a Sustainable Transport System* White Paper maintained and taken forward. We would want to have an effective link between port development and the relevant rail and road links to those ports.

Q402 Chair: Mr Gazzard, can you give us a view? What is the most important thing to do?
Nick Gazzard: First, could I say we are not a trade association? We are a membership professional body.
Chair: Yes, I know.
Nick Gazzard: Without reiterating the points that have already been made, we think that road is also important in the sense that a huge amount of goods travel on it. Therefore, not losing investment in, particularly, local bottlenecks would be very important. Also, freight is global. You have to think about airport capacity as well: 41% of goods by value internationally are going via airports. There is a growth in a lot of that because of international trade; so we need to ensure that the network is fit for that. Again, from the perspective that freight is global, we are competing with everybody else. Having regard to the growth in the BRIC countries, we need to be sure that we are an attractive place to do business, so we need to make sure that the balance of being able to move capacity around the network and move goods is there. With the growth that is going on in container traffic and things like port capacity, it is very critical that we have enough to move the goods that are going to be coming to the country around.

Q403 Chair: Mr Buck, in your written evidence you talk about problems with international aviation deterring investment and tourism. Is that the most important area on which you want to focus?
Simon Buck: We would be very happy if the Government were to have a proper aviation policy, but at the moment we don't have that. We know the Government has made an announcement saying that it will be working towards that, but we feel it could be another two or three years before we do have a proper aviation policy. As has already been hinted, aviation does not receive any public funding for its infrastructure provision and is all virtually privately funded, but we do believe that a prosperous aviation sector is critical to the future prosperity of the United Kingdom. Indeed, with 75% of tourists who visit the UK flying here by air, we need to make sure that we have the capacity to accommodate those tourists if we are to compete with our near European rivals who are mopping up that tourist capacity to our great expense. Certainly, we need to have a proper, positive approach to aviation and less of a perception in Government circles that somehow aviation is a public bad and

needs to be taxed more. That is very detrimental to the growth of aviation and the benefits that it can bring to the British economy.

Q404 Chair: What would you like to be done to encourage that growth?
Simon Buck: Certainly, a recognition on two fronts: first, on domestic aviation, that domestic aviation is not something that can be always substituted—and I don't mean to upset any of my colleagues here today—by some other form of transport, be it rail or road.

Q405 Chair: What would you like to be done?
Simon Buck: We would like the Government to have a recognition that this is something that is important for the UK economy. We would like a proper aviation policy. That is the main thing that we would like.

Q406 Chair: It isn't a specific thing that you want to happen. It's having a policy.
Simon Buck: We would like the Government to stop saying "no" to aviation development. Particularly in the south-east where we have capacity constraints, we would like the Government to be more open-minded. The aviation policy paper that is being prepared by the Government has so many preconditions and so many decisions that are already made that we feel they almost have closed their minds to what is going to be in this paper in the end. We would like them to be a little bit more open-minded and perhaps say yes occasionally rather than no.

Q407 Chair: What are the constraints on regional airports? Why can't they expand?
Simon Buck: They can expand.

Q408 Chair: Or expand the service?
Simon Buck: Absolutely. Regional airports have a vital role to play. Indeed, as I've said, huge numbers of people fly to and from regional airports because it's not practicable to get there any other way. In fact, if you look at airports in places like Northern Ireland, the Western Isles, the Channel Islands, it would be impossible to replace those sorts of services by high speed rail at any time in the future. It is vital that we see the Government take a more positive approach to regional airports.

Q409 Chair: Are you involved in the work of the South East Airports Task Force?
Simon Buck: No. We protested loudly about that to the Department but they have not invited the British Air Transport Association to be a member of that group, which is a great shame because we do feel we have something considerable to offer to the deliberations there.

Q410 Chair: Mr Roberts, you spoke about expansion on the railways. How confident are you that passenger numbers are going to double within 25 years?
Michael Roberts: If we look back at the period since privatisation, since the mid-1990s, passenger journeys have grown by 60%. Looking forward, we are very confident that the forecast doubling the demand in the next 25 or 30 years is likely to happen, and not just on the back of the increase in patronage that we have seen in recent years. Incidentally, that increase has been stronger than historically was the case prior to privatisation. If I reflect on what we have seen happening during the recession, if you think of it as being divided into three types of market—the London south-east commuter market, the regional market and the intercity market—there has been growth in at least one of those sectors in every quarter of the recession. We now see growth across all three sectors. The combination of growth in all three sectors means that we've seen a return to growth in the last quarter for which we have figures at the highest level since the beginning of 2007. There has been a 9% growth year on year in the last quarter in passenger journeys. To see that sort of growth in the current economic climate is a sign of the strength of the rail product—one that we can always improve on—and I think that underlies our confidence that, looking to the future, rail passenger journeys are going to grow as rail seeks to meet the demands of the transport needs of the economy.

Q411 Chair: Is that despite the substantial increase in fares that is planned?
Michael Roberts: Yes. One would expect the recent decisions announced by the Government that the regulated fares will go up more than is currently the case to have some impact on demand. But the net effect would still be an increase in passenger journeys, not just over the next three to four years but, as I said, over the next 25 to 30 years.

Q412 Mr Leech: Rail has done relatively well out of the comprehensive spending review, certainly in comparison with other Departments but also within the Transport Department rail has done very well. There is cross-party political support for High Speed 2. Obviously, billions of pounds will be spent on High Speed 2. If you had that money and the Association of Train Operating Companies had the choice about how you would spend those billions of pounds, would High Speed 2 be your first priority or would you choose to spend that money differently?
Michael Roberts: The first priority is to improve the existing network. Of course, for the next five years at least, there are significant plans to invest not only to maintain that network but to enhance it. We have seen a very welcome shift of emphasis towards more of the overall capital spend for rail going on to enhancement than has been the case in the past, which is good, given what I said earlier about the likely growth in demand for passenger journeys. But, in a sense, trying to treat the existing network and potential new lines, particularly high speed lines, as two different things, is slightly false because part of the challenge and promise of improving the existing network is to provide additional new capacity through new lines, to relieve congestion which we already see on some parts of the network and which we are likely to see, given the sorts of demand forecasts that I mentioned. In fact, the two dimensions are part of the same picture. We will need new capacity if we are going to meet the sorts of demand forecasts that I mentioned

before. High speed is not just about providing genuinely new high speed trains; it is about providing capacity to relieve the existing network. So I see them as two parts of the same picture.

Q413 Mr Leech: In terms of the timescale for the delivery of High Speed 2, is it being delivered quick enough to fulfil the expansion needs of the rail network but also to support economic growth?

Michael Roberts: The sort of timescales talked about up to now are satisfactory. What is uncertain is the extent to which the planning process will deliver on the sort of timescales that have been talked about, not just by this Administration but by the previous Administration. The other challenge is about affordability. I mentioned that from our point of view the first priority is improving the existing network—the so-called classic network. The ability of the nation to afford the development of high speed, both through the public and the private purse combined, rather depends on the extent to which the public sector is willing to sustain the sort of levels of investment that we currently have at the moment and which fundamentally go towards improving the existing network. That is an assumption that I don't think we can take for granted.

You mentioned, rightly, that rail has done very well in the existing spending review. It's not obvious that that level of expenditure from the public purse can be taken for granted for future years. There, it seems to me that if we are going to be able to afford not just to invest in the existing network but also to invest in new lines, high speed or otherwise, the industry has to improve value for money that it delivers. We have to get our unit costs down, for example, which is very much the focus of the McNulty review. I think you need to see these things almost as a jigsaw. Existing network and high speed network, or new lines more generally, are part of the same picture. Our ability to afford both depends on the extent to which we not only complete the investment programme on the existing network which is currently committed but the extent to which we can improve our value for money so that we can invest in additional capacity in the future.

Q414 Iain Stewart: Mr Bird, in your statement you mentioned the importance not only of enhancing the actual capacity of ports but of rail and road links to them for efficient movement of passengers and freight. To what extent do you think we've got it right in co-ordinating the priorities of all the different transport sectors? If you get an enhancement of a particular port, looking at the rail network as a whole, are you comfortable that we are planning sufficiently well in advance to allow for this? What I am trying to get at is that the extra rail freight is not going to clog up the passenger movement. Do you think we've got it right or is there more we could be doing?

Richard Bird: There is an overall issue of transport planning and that has been a big challenge over the years, particularly where you have to marry private sector activities with publicly funded activities. The structure is coming together rather better than it has done and some good work was set up post-Eddington on that. In theory, the national policy statements for ports and road and rail should help to take that process forward. We were concerned that the port statement was brought forward before the road and rail statements, which did rather suggest that there was still a degree of isolationism in terms of planning, but it may be now that the two statements will be prepared rather more together, which will be good.

On the specific question of the impact of developing rail freight on rail passenger services, clearly the proposals have to be taken forward through Network Rail, which has the responsibility for ensuring the infrastructure is being used as appropriately as possible. Again, there has been considerable progress there in recognising the very important role of freight. To its credit, I think Network Rail takes freight much more into account now and the Transport Innovation Fund and Strategic Rail Freight Network concepts have helped to give that a positive nudge. But there is still more to do here. There are, obviously, difficult issues. The more pressure there is on the passenger network, obviously, the more difficulty there can be about finding freight paths. To that extent of, course, anything which relieves capacity on the existing passenger rail network could have benefits for rail freight.

Q415 Iain Stewart: Do you believe High Speed 2 is critical for freeing up that capacity long term?

Richard Bird: I am no expert on the pressure on the rail network but, clearly, if the passenger railway is going to expand in response to the demand increases that have been discussed, then there is no doubt that some further increase in capacity will be necessary. Clearly, there is a very strong push internationally to develop high speed rail and so on, so it does seem a reasonably logical development. On the other hand, there are concerns about the amount of resource involved and whether that will get in the way of making other perhaps smaller scale improvements that could help. That is the area where I really couldn't comment.

Q416 Steve Baker: Mr Buck, you mentioned domestic air and the relative proportion of public and private investment in your area. To what extent does domestic air compete with road and rail in the UK, and could you particularly refer to capacity, speed, price and flexibility in air in contrast to the other modes?

Simon Buck: First of all, 85% of domestic aviation routes are either over water or are to locations that will not be served by High Speed Rail, so there is no competition, effectively. But you have to look at the routes. The routes of up to about 2.5 hours by train are probably those that you could reasonably think are substitutable by air, and, indeed, there is competition there. If you look at Manchester to London, for example, you have a choice of going by air or by rail. It is really a personal choice for individuals as to whether their meetings are more convenient in the centre of a city or if they have another meeting elsewhere. But I think it's important that we do offer choice to people. It is particularly hard for aviation to accept at least the perception we have that somehow

we should be the last choice and the lower choice, if you like. If you look at what's happened with the Government's spending decisions, it defies logic that 90% of UK domestic transport emissions are from road transport but we have seen approval for a large number of road schemes, yet somehow the perception is that because aviation is environmentally damaging, there would not be the same support for aviation. To answer your question, there is competition. It's in a structure that I think is perhaps not as fair as it should be because of the difference between rail transport and air transport. For example, air passengers pay a significant amount of tax in the form of air passenger duty. I'm not saying that other passengers should pay that, but it is important to highlight the fact that passengers pay a tax on aviation that they don't pay on ferries or on rail, for example. There is a distorting effect against aviation there already.

Q417 Steve Baker: You talked there about substitutability. I have in mind the investment in high speed rail, which seems to be very sensitive to projections on passenger numbers. Could you explain how sensitive investment in air transport is to demand?

Simon Buck: Certainly, up until a few years ago—I think these figures still stand—the Government was talking about a doubling of air passengers flying to and from UK airports in the next 20 years. I haven't seen any figures yet that contradict or amend that. The Government may well be looking at new passenger projections, but it is important to highlight there that we're talking about an intention of the Government to meet the requirements that demand makes on rail capacity, but if you look at aviation, they are not doing that. In many ways, because we are talking about, perhaps, the importance of inbound tourism to the UK—as I said, 75% of tourists come to the UK by air and the Prime Minister himself highlighted the importance of tourism to the UK—it does seem a shame that we're not seeing a similar sort of perception that aviation is something that should be encouraged. We have a particular problem with capacity in the south-east. While, of course, it's important that we see domestic regional airports expand and grow as demand requires, we can't get away from the fact that 75% to 80% of people fly into the south-east of England because their journeys end there, that is where they want to visit or they live there. One third of people who live in London now, for example, were not born in London—not born in the UK—so they have a particular interest in having international links and connectivity. We do feel sometimes a little like the Cinderella of the Government's transport strategy.

Q418 Paul Maynard: This is aimed at Mr Bird principally but I would welcome some other thoughts. In your evidence, you talk about politically attractive schemes that are economically less worthwhile. Do you have any examples of that, and, conversely, any examples of schemes which are economically worthwhile but politically unattractive? I'm trying to work out what the concept of a politically attractive transport scheme looks like. How do you define "politically attractive"? What would attract me? What would get my ardour racing?

Nick Gazzard: I have one that is politically unattractive. Road pricing would probably have a huge impact on people's behaviour and enable road to buy access to that network, but, politically, it has been avoided many many times in the past. I can't give you one that's attractive; I'm sure somebody could. But, in our view, road pricing is something that would enable the strategic road network to have a pricing mechanism that would actually work and discourage and encourage, and it's not particularly politically attractive.

Q419 Chair: The Government have a very clear view that there's not going to be road pricing in this Parliament. Therefore, if road pricing isn't going to happen, in the absence of that, what should we have?

Nick Gazzard: We need a focus. To go back for a moment, I don't see it quite as an either/or with high speed rail. There is a price tag to some of these infrastructure projects: you have to pay if you want them. There is an argument between freight and passenger in terms of investment. Smaller investments in freight tend to bring enormous changes. You can transform the rail freight network for £200 million. But the other side of it is that there's a tendency not to focus on behaviours and changing the way the supply chain works. Even if people wanted to get goods, which they do, on to rail, sea or, indeed, into the air, the complexity of the way the supply chain works means that you have to have the connections to handle goods efficiently to get them on to those modes. For example, on average only 17% of the goods come out of ports on rail. If you want to get goods out of ports on rail, you've got to be able to do what people do, to an extent, on road. So you need to change the way it works.

These aren't necessarily massively expensive projects—things like transformation in the way you handle concrete in London for £1.3 million. There are things you can do in terms of behaviour. The average vehicle on the road is probably only about 50% or 60% full by weight; it is 60% to 70% full by cube. Consolidation centres again could remove a lot of road traffic. There is not a huge amount of money involved in putting up a warehouse. But it's stuff that the private sector finds difficult, the current economic environment has cost everybody a fortune, the third party logistics providers have had a very difficult time in the last two years, and so getting investment and taking those risks is difficult. One of the things we can do is to start looking at a lot more local investment in bottlenecks. We can start looking at behavioural change much more seriously. You can start sitting there saying, as long as we get the balance right in investment between big, prestigious and transformational things versus ensuring that we still invest in the smaller important connectivity and enablers, then I think you will do well. There is a lot that can be done without just spending money.

Q420 Paul Maynard: I may need to rephrase my question a little better. What role is there for evidence-based policy in the decision making of

politicians when it comes to transport? You used the example of road pricing. Would it be more attractive to a politician with a stronger evidence base that would make them make feel more confident about introducing it?

Nick Gazzard: If you look at Transport for London's experience in congestion charging, there was a definite drop in use of the roads. If you look at the expansion of the low emission zones, behaviour did certainly change. The other thing you have to look at is that as the oil price starts going up and up and up—we've gone from $37 a year ago to $80 odd a barrel now—the cost of road transport, the physics of moving goods by water or rail is actually better. You'll start seeing a situation where not only is there evidence that it does work but also, of course, the cost of moving things on road is going to get higher and higher. There will be huge pressure in fact, if you're not careful, to remain competitive and the UK will have to get goods on to rail and water.

Q421 Paul Maynard: Could I just ask Mr Bird to explain his evidence to me because I am still interested?

Richard Bird: I have been very impressed with everything my colleague Mr Gazzard has been saying, so I don't have a huge amount to add to that. In terms of evidence-based policy, the Department has quite a well-developed appraisal tool with the New Approach to Appraisals—the NATA approach—which has been around for some time and has been refined. I am very pleased to see that the Secretary of State has announced that it is going to be looked at again because it needs some updating. There is general agreement that the carbon aspects are not sufficiently taken into account at the moment. We think that international export traffic should be given a rather higher weighting in terms of appraisal. I guess this is the essence of your question because it would be wonderful if it could all be put into the appraisal approach so you could put in all your calculations, forecasts and so on, come out with a ranking for projects, and decisions were then taken on that basis. Of course, the world is not like that. There must always be a considerable area of uncertainty. My comment was really in favour of trying to be as dispassionate as possible, where that can be done. Let the appraisal tools speak for themselves and produce rankings, but recognise that at the end of the process, there must be an element of political discretion. If we can move it a little more in the direction of economic objective appraisal that would be of overall benefit to the sector.

Q422 Julie Hilling: My question very much follows on from that. It is about integration. A person has to get from their house to their place of work or to their holiday destination or they have to get goods from the factory abroad or wherever else. Looking at that integration, what are the things that you think most need to be done to enable your bit to work as well? It is not so much about your bit but, with regard to that integration, what else needs to be done as a priority?

Chair: Mr Roberts, it is about rail. How do you see integration of transport in relation to rail?

Michael Roberts: There are a number of fairly obvious dimensions to how we improve integration. Part of it is physical. It is trying to make sure, more than we currently do, that for individuals using different modes for an end-to-end journey—if they are travelling by car to the station and at the other end taking a bus or another form of public transport—physically, those different modes can co-locate: making sure the car parks are in the right places for the stations at the other end and the bus stop is close to the station. There are obvious things around the physical links which need to be integrated. Secondly, we need to make sure that the quality of information is such that people can plan to have multi-mode journeys by those different modes where they know that at the end of their bus journey there is going to be a train to take them to their onward destination and so forth. Quality of information is the second critical area. The third and potentially perhaps one of the more interesting areas at the moment is the opportunity to look at joint products—which is a term of art, I suppose. It is looking at the extent to which ticketing can enable people to pay in one place for transport across different modes. The rail industry, together with bus operators, has been operating a scheme called PLUSBUS, which I think now operates in 280 towns across the country whereby, effectively, you can book a combined bus and rail ticket. This isn't something which just applies to London and Greater London but something which is live in other areas as well. There's probably scope to do a lot more, particularly with smart ticketing, which gives us the opportunity as providers of public transport to offer different products and a range of prices. But it's that combination of physical integration, quality of information and looking at the extent to which we can offer jointly priced products which is an important part of the mix for improving integrated transport.

Q423 Chair: Mr Bird, do you have any thoughts about how integrated transport could help ports?

Richard Bird: This is an absolutely crucial area for ports of course because, apart from people making short specific ferry journeys and roll-on roll-off freight journeys, ports are used as part of integrated journeys. So it's crucial that ports are seen as part of a total logistics operation. Clearly, the development of containers has given that a very significant boost and it is now essential to view the operation as a whole rather than in individual parts. In terms of how this might be further developed, further developments in IT could certainly help here. It may be possible, for example, to be clearer about destinations of containers at an earlier stage in their journey. The destination is clear but the way in which they get from the port to their final destination may be less clear. It's important there should be a degree of flexibility. On the other hand, where decisions can be taken early, that can be an advantage for ports in terms of using their space more effectively and improving productivity in that way. That probably is one area where things could improve further.

Another area is developing the use of coastal shipping. We've already had Cinderella mentioned once; I think this is another one. We've had two Cinderellas in one

morning. It does have considerable potential to relieve pressure on road and rail for longer movements, particularly those to and from our deep-sea ports, where journeys have to make use of heavily used road and rail networks. That, certainly, is an area where there could be further improvement. At the moment, some coastal shipping is not perhaps as well integrated into total freight forwarding planning as it might be. This is an area where I think both the Government and industry have a role to play.

Simon Buck: For airports, of course, it is absolutely critical that we have a properly integrated transport infrastructure. It is most surprising that the UK's international hub, which is Heathrow airport, is probably not going to be linked directly to the new high speed line which effectively will go to Old Oak Common rather than to Heathrow. It is quite remarkable for many of us to contemplate that that could be a possibility. Similarly, we see at Gatwick airport almost a downgrading of the direct rail line that serves Victoria from Gatwick. It's almost going against what we have believed in the past: that we should be seeing properly integrated transport strategy where we see road, rail and airports all linked together in a way that makes sense and makes ease of choice, ease of access to everybody, and it is easy to understand how to get from A to B.

Q424 Mr Leech: Mr Bird, we did a report in the last Parliament on ports and it was pretty clear from our discussions that if we just left ports to the market, there would be a big expansion of ports in the south-east to the detriment of ports around the rest of the country. In terms of the health of the economy of the whole of Great Britain and Northern Ireland, is it not more important that there is a more hands-on approach from the Government to try and expand the ports around the whole of Britain rather than allowing the market to just expand the ports in the south-east, because the knock-on effect of expansion of the ports in the south-east is all the additional problems, with the need for extra capacity moving all the produce from the south-east to the north of Birmingham? Do we not need to take a more strategic approach, as a Government, to try and encourage you to be using your ports better around Britain?

Chair: Mr Bird, you said that we needed a strategy. Is that what you meant?

Richard Bird: Not entirely. Ultimately, we have to recognise that ports are privately financed. In order to get the investment in, there has to be a strongly established market for those movements. I don't think it would be possible for Government sensibly to try and come forward with a policy that bucked the market without there being very significant financial consequences of that. Having said that, I think there are sectors where the Government can play a role. Clearly, one is the energy sector where, in developing new capacity and so on, on offshore renewables, biomass and so on, the Government has a role to play in terms of encouragement and planning and, occasionally, financial assistance, which can obviously have an impact on development of those particular trades at particular ports. I suppose, going back in time, Aberdeen has benefited enormously from the North Sea oil development and there are obviously other possibilities of that sort on the east coast. There are aspects of Government policy which can impact on ports but I think we would not want to see any interference fundamentally with ports being able to respond to market needs.

Q425 Julian Sturdy: To follow on, we all seem to be saying—and I agree with this—that connectivity and an integrated transport system is the key. Could I ask Mr Buck a question on this specifically? You talked about airports potentially being Cinderella services. Within regional airports—and this also applies to ports as well—if we get that integrated transport system into the regional airports and make them more connected, how do you believe that will help the regional economies? If we get better infrastructure into regional airports and better connections, will that also help take the pressure off Heathrow and the south-east as well?

Simon Buck: Certainly, I couldn't agree with you more. I think it is absolutely right that where we have a properly integrated system it is far more attractive for business to locate in the regions. Many, many organisations across the country say that they locate in particular places because of the connectivity from their local airport, for example; so that is an enormous boost to regional economies where you have that. Where the airport has direct links to rail and road services and very good connections, that is an enormous help to regional development and to emerge from the problems that we have at the moment. Does that help?

Q426 Julian Sturdy: That's fine on that section, but, if we can get that into the regional airports and get the regional airports expanded, do you think that will take the pressure off of the south-east airports at Heathrow and so on?

Simon Buck: It may do to an extent but the fact is, according to the Civil Aviation Authority's own passenger survey, 75% or 80% of people are flying into the south-east because that's where they want to be or they live there already. There is a limit to which you can actually alleviate pressure in the south-east by developing capacity elsewhere if that's not where people either live or want to visit.

Q427 Julian Sturdy: So it will have an impact but you don't feel—

Simon Buck: It's not a substitute to having new capacity in the south-east, no.

Q428 Steve Baker: We've had a fascinating morning. A couple of the things that have come out for me have been the call for objective economic analysis and we also mentioned earlier about people's individuals choices. I am very aware that the Institute for Logistics will also be looking at how to choose rationally between transport options. To what extent, in the current environment is it possible to perform rational economic calculation? The current environment, for me, includes price controls, subsidies, indirect pricing like fuel duty instead of road pricing, and political interventions. Within that

environment, to what extent is economic calculation objective and rational?

Nick Gazzard: "Objective and rational" is an interesting one. Investment in analysing this market research is probably only about £2.9 to £3 million a year which, relative to the size of it, is not a huge amount of money to understand the economics. If you think about what is invested in econometrics in the economy as a total, it's nothing. There's an argument in my mind which is that a lot of the schemes that are actually considered are so blatantly obviously either good or bad that it's not very difficult to appraise them; it really isn't. They shine out or they definitely don't.

When it comes to larger projects it is exceptionally difficult to judge the impacts. Take high speed rail. You know that it will free up capacity, you know it will impact the economy, but exactly how much you don't know because it has not been done here in that way. We probably do under-invest in understanding a lot of the detail of those econometrics. There is a lot of advanced study going on in the academic world on the impacts of all these different demand patterns and whether you create and stimulate by investing or the other way round. I suspect we ought to understand that if we are going to start spending the sort of money we are spending. Certainly, the institute's feeling would be that we ought to invest more in researching these things thoroughly. Indeed, we should differentiate between those schemes that are self-evidently okay and those that really require that.

I would probably also argue very rapidly that, when you look at the investment in certain things like bottlenecks or road links into ports and stuff like that, there are certain things in which the Government can have a role because there are market failures. There are things where the private sector finds it very difficult to invest because the participation is differential and that would have a disproportionate effect on freeing freight, and, again, studying those specifics. So you don't get to a stage where there is an argument about whether we should be investing in this, that or the other thing on the basis of one view or another. You have a whole bunch of constraints, problems and issues that are very obvious and seem to be very clear. There is a question mark, "Okay, how much money do we need to solve all of these in a joined-up way?"

The final thing I would say is that we've just changed over to LEPs now. I think it's great and the institute thinks it's good that more local power will be devolved. The only issue is making sure that they can both club together to get bigger schemes. For example, if you want a Lower Thames Crossing, one LEP is going to struggle, whereas two or three individual ones might get it. The other thing is joined-up thinking and joined-up planning. If we go too local, the danger is you'll never get any of the big schemes through. So, again, we need research into that and, again, take the heat out. What's the rational argument behind it?

Michael Roberts: I think Mr Baker's comments are extremely well made. This is a point we made in our written submission, which is that it's not obvious at the moment how all the different components which go together to form transport policy cohere as a rational product. We expressed the view that the Eddington report was extremely good and I think many in the transport world would say that what the Eddington report said back in 2006 remains extremely relevant and apposite. Yet there are at least three big things that featured in Eddington which are being dealt with or taken forward in a rather different way than was suggested was appropriate by Eddington.

Specifically, first of all, the Eddington report was relatively cool on high speed rail as the right proposition for the UK, yet we all know that, if anything, there's an arms race between the three main Westminster parties in support of high speed rail, with each trying to outdo the other in terms of support. The second is that Eddington was quite clear about the economic rationale for the use of road pricing—paying for road use at the point of use—as a way of relieving one of the big economic challenges, which is congestion. Yet, as we have heard today, road pricing is not something that the coalition Government regards as a priority. Thirdly, Eddington identified the planning system as a hurdle, as a barrier, to delivering the transport links which the economy will need in the future. It's probably best to say that there is a degree of uncertainty about the extent to which the sum total of the recent changes in planning policy—that is, the introduction of the IPC for example, the removal of regional planning groups and RDAs and replacing them with LEPs instead—is going to lead to a better planning system. Eddington identified a number of the things which were important in different ways to the way that they are currently viewed. If nothing else, that seems to me to be a good case for Government—maybe not right now but perhaps in the course of next year—restating what is transport strategy in the UK now and in the future in a way that actually joins these things up more rationally.

Q429 Chair: Mr Bird, there isn't a final national policy statement on ports. Could you just tell me, very briefly, does that matter?

Richard Bird: It doesn't matter hugely at the moment as far as very large projects which might go to the Infrastructure Planning Commision are concerned, because there aren't any in immediate prospect. However, we do think it is important we get clarity quickly because of the role that the new Marine Management Organisation is playing now on port planning, because all but the very largest port development proposals will now go to the MMO in Newcastle and we do feel that they are somewhat light in terms of the guidance that they currently have. We see the ports NPS ideally linked in with road and rail national planning statements as providing the necessary basis for their decisions.

Chair: We do have a national infrastructure plan. Does anybody think that has added anything to the issues that you are concerned about? Speak up now or for ever hold your peace. No one thinks it does. Okay, thank you very much for coming.

Examination of Witnesses

Witnesses: **Professor Stephen Glaister**, RAC Foundation, **George Batten**, President ADEPT, and **Les Warneford**, Stagecoach, gave evidence.

Q430 Chair: Welcome to the Committee. Could you identify yourselves with your name and the organisation you are representing for our records?
Professor Glaister: My name is Stephen Glaister. I am Professor Emeritus in Transport and Infrastructure at Imperial College London and Director of the RAC Foundation, which is an independent endowed charitable trust.
Les Warneford: I am Les Warneford. I am the Managing Director of Stagecoach UK Bus Division.
George Batten: I am George Batten, Wiltshire Council. I am President of the Association of Directors of Environment, Economy, Planning and Transport—ADEPT.

Q431 Chair: Mr Batten, what is the top priority for local highways and transport authorities?
George Batten: At the moment, it is maintaining the transport assets that we have. That's not just a road maintenance and potholes issue. Local authorities increasingly have very sophisticated electronic equipment and so on, urban traffic control systems and all these sorts of things. Maintaining the transport assets that we have, in the current downturn, would be our key priority.

Q432 Chair: Mr Glaister, what is the top priority for you?
Professor Glaister: The top priority for me is stepping back and forming a coherent view about what the problem we are trying to solve is and then assessing the proposals that are on the table against those objectives.

Q433 Chair: So there is no one thing that, at the moment, you would identify as being a top priority?
Professor Glaister: I think it's premature to do that. Until you have done the exercise of saying, "What is the problem you are trying to solve?", in the new world, as it were, with the economic situation and our understanding of economic growth and population movements to come, until you have done that, you don't know what are the right particular solutions.

Q434 Chair: Mr Warneford, what's the top priority for the bus industry at the moment?
Les Warneford: In the current short term, to protect revenue expenditure which has been cut and to stop cuts in services, fare increases and job losses.

Q435 Chair: What is the impact of the comprehensive spending review on transport in the areas of which you have particular knowledge?
Professor Glaister: All of us in the transport business welcomed the Government's achievement in protecting capital in transport. That was something many of us were looking for. There is a wide measure of agreement that, not only in transport investment in infrastructure is an important part of the future and that we do need to provide for growth in the economy and infrastructure is an important part of that. The Government were fair to claim that capital spending was not entirely but largely protected. Looking below that, it was not quite so clear that there had been a success in that there is a very marked pattern in the spending review within transport that railways have done very well. I have set out in a supplementary memorandum the figures but they are on the public record; there is a 20% increase in capital spending in railways. Highways and local public transport have probably done extremely badly. Highways Agency capital budgets are to be cut by over 40% in real terms over the four years. Local authority roads have been severely cut, local authority and Highways Agency maintenance will be severely cut, and others will speak about what is happening to local bus services. It's a success in the round but within that it is actually quite a marked difference between railways and other forms of transport. That, I think, needs to be justified, as I was saying earlier, against what the Government is trying to achieve.

Q436 Chair: Mr Batten, do you agree with that analysis?
George Batten: Yes. Coming back to my original point that maintaining the transport assets is important to us, at the moment, local authorities will be experiencing a 28% cut in their revenue budgets, a large proportion of which will feed through to cuts at local transport level. Those decisions will be made by individual councils. There will be an 11% cut in the capital programmes, much of which will feed its way through to reductions in planned structural maintenance of our highway assets. The biggest casualty probably at a local authority level will be a combination of cuts around public transport, bus services, particularly rural bus services, where a combination of the revenue cuts, the adjustments to the bus operators' grant and the rolling-up of the rural bus subsidy into un-ring-fenced grants will mean probably a very significant impact on rural bus services in the future.

Q437 Chair: Mr Warneford, in your written evidence you seem to play down the significance of cuts in subsidies for buses. Have I misread that evidence?
Les Warneford: I hope we didn't play it down. We didn't want to be pleading a special case when everybody was more or less in the same boat. But, having said that, perhaps we should have played it up rather more having seen that we have suffered rather badly. Remember, our evidence was before the review. We weren't in the game of special treatment.

Q438 Chair: That explains it then. I was just a little mystified by some of the statements. Now we are speaking post-review. What you would like to say on the record then about the impact of the cuts?
Les Warneford: Post-review for the local bus industry, from next April there will be a very significant cut in

the payment we receive for carrying concession passengers. The Department for Transport's consultation document suggests that that will be in the order of £100 million a year in England. We, in the industry, think it may be as much as double that. The formula that they have produced to justify the alleged rational cut is extremely complicated and I can't actually work out what my income will be next April at the moment—and I'm not stupid. On top of that, from April 2012, we have a cut of 20% in the bus service operators' grant, which I think again is something in the order, for the whole industry, of about £80 million a year. So it is pretty significant both next April and the April following—two bites of the cherry.

Q439 Chair: Professor Glaister, the Chartered Institute of Logistics and Transportation say that car use is declining. Does that suggest that there is a weaker case for investment on roads than there has been?

Professor Glaister: The history of traffic over the decades, which is set out in our initial submission to you, is that total traffic has grown in a quite remarkable way since the 1950s, I would suggest, more or less a straight line, with deviations from a straight line depending on the current economic circumstances. You can see in the history that in the early 1970s it went below the line, in the late 1980s it went above the line and so forth. Recently, it is true that car traffic has flattened off and perhaps slightly reduced, but that has been more than compensated by the growth in vans and commercial traffic. Total traffic has been growing quite strongly until the last two or three years. In the last two or three years total traffic has indeed fallen a bit. It's what you would expect to happen in view of the history and the fact we have quite a severe economic recession. There is a very strong direct relationship between transport movement of all kinds and the level of economic activity.

What that says to me is that you must expect that, when the economy recovers, the demand for the road network will recover as well. There may be a slightly different mix. In other words, we may have more commercial traffic and a bit less private traffic than we are expecting because of the phenomena I mentioned, but, basically, unless somebody has a theory as to why something fundamentally has changed, when the economy recovers, the demand on the road network will return to its growth. That is the official expectation. If you look at the official traffic forecasts it says that. They take into account the additional factor that in many parts of the country the population is expected to go up by 20% over the next couple of decades. It's people living longer and it's an inward migration from other parts of the nation. Nobody is addressing what's going to be the consequence of a growing population putting demands on the road and rail network, hospitals and schools and the rest of it, because that will increase congestion on the networks. So I believe the case for investment in all transport infrastructure remains very strong if we expect the economy to recover.

Q440 Chair: Is the current appraisal method correct in assessing which transport scheme should go ahead and what the benefits of different proposals are? Professor Glaister, what is your view?

Professor Glaister: The word "correct" is not one I would use; that's not the game we are in. We are in the game of trying to form the best professional view we can of the forecasts of things like population and location of industry and the demands that will make on the infrastructure over a period of 50 or 60 years. It is difficult, but you do your best. You relate the estimates you have to the evidence available on willingness to pay for the benefits of relieving congestion on the different modes, on roads and railways. You try and estimate the performance of the different networks in relieving congestion and you then do your best to calculate the benefits in terms of time saved and accidents saved on the different modes of particular proposals. Whether they are correct or not is not quite the right question, if I may say so. It is whether you have done your best, made your best estimate and whether that information then is useful and used. My opinion is that Eddington went through all of this and came to the view that it is useful but it is not entirely used.

Q441 Chair: Is enough attention given to the impact of transport on the economy when appraisals are made?

Professor Glaister: The basic philosophy of the appraisal method is to try to estimate how much time would be saved at different kinds of time, by proposal, over the years; to ascribe a value to that time in terms of working time, commuting time and leisure time; and the value of the accidents saved in the same way. That is carefully constructed but limited. Everybody recognises there are other things you might want to include and, indeed, we do include the environmental effects and the carbon effects as best we can. There are other things, like the broader economy, inward investment, and competitiveness. The issue is whether the traditional techniques do or do not reflect that adequately. We know that there are some things on which we could do better: things like reliability of the system, which we are not very good at estimating but we are doing work on that; things that are called the wider economic benefits, agglomeration benefits, where there has been recent work by colleagues at Imperial College and other places to try and pin down whether there are additional effects that have not in the past been included to do with making the economy closer together and improving access. That subject is improving. We are making progress and we are revising the techniques to reflect that. I wouldn't claim everything is included; the subject improves as we go along. But at the same time I would claim that what is done is useful.

Q442 Chair: Are there any other views on current appraisal approaches and, in particular, the relevance to economic benefit of transport schemes?

George Batten: Yes. This reinforces Stephen's point that the wider economic benefits aren't properly taken into account in the current appraisal, but I think that is recognised and work is ongoing and the Department

for Transport are looking to refresh the current appraisal model. But also, at the end of the day, these are political decisions. It is a tool, isn't it? The testing of any project, having been through an appraisal process, through public inquiry and so on, is a very valuable mechanism also to tease out those wider benefits or disbenefits of a particular project. Then, ultimately, it is a political decision to proceed—a local political decision or a national political decision.

Q443 Chair: Mr Warneford, do you want to comment on this?
Les Warneford: I will offer a comment. I am not an economist. On cost benefit appraisal first, I think the question you originally asked was, "Is it correct?" My understanding is that it's best seen as a means of ranking schemes in order of preference rather than being mathematically precise. We funded an independent appraisal of the cost benefit appraisal system through some of our colleagues outside the industry. They raised two particular points that are relevant to our business—local bus services—that bus passengers' time is valued at less than car drivers' time, although I fail to see why it should be. The other aspect that was raised was that Stephen Glaister said it brought in the environmental equation. I don't think it really does bring in the current concern about the growth in carbon.

Q444 Mr Leech: In terms of economic benefit, has the Government made the right decision to prioritise investment in rail rather than in buses or roads?
Professor Glaister: To answer that question you would need to ask the Government what their estimates of the economic benefits of railways versus roads are.

Q445 Chair: What is your view?
Professor Glaister: I am not up to date because I don't have the kind of up-to-date information that the current Government would have had when they were doing the spending review. What I do know is what's on the public record. The high speed rail proposal from London to Birmingham had a benefit in relation to cost of 2.4 to 1 if you do not include the wider economic benefits as estimated then, or 2.7 to 1, I believe, if you do include them. That is the publicly available figure for high speed rail from London to Birmingham.
There are also on the public record a very large number of road schemes where we have benefit cost ratios. If you care to go to our website, there is a paper by John Dodgson which simply documents what the Government has said. There is a very, very long list of road schemes where benefits in relation to costs are well over 5 to 1. The Secretary of State, when he announced the spending review, announced 14 major road schemes and said, in terms, that the benefits of those particular schemes estimated by the Government were 6 to 1 on average and some of them were over 10 to 1 on average.
I repeat, I am not up to date, but, taking those numbers at face value, you have to wonder why the Government is not investing on many road schemes where the rates of return are really quite high, not investing in public transport schemes where the rates of return are probably quite high but I don't know the detail, but meanwhile spending £750 million preparing for high speed rail over the next four years and £12 billion in time on that particular scheme, when the benefits are estimated to be very much lower. That's a political decision but it doesn't match the Government's own estimate of the economic benefits.

Q446 Mr Leech: Mr Warneford, you carry more passengers than local trains services. Should the bus industry have got more money?
Les Warneford: We don't go asking for more money. We would quite like to have kept what we have got and kept the services running but, unfortunately, it's not to be. Should we have more money? You would have to decide what public benefit you would get from more public expenditure. I don't think I'm the person—

Q447 Chair: As a bus operator, do you think there is a public benefit in more public funding being made available for bus services?
Les Warneford: The money that is available now produces a huge public benefit. For example, the bus service operators' grant, which is effectively a rebate of some part of the fuel duty, very simply keeps fares down. The Government acknowledges that and, yet, it's going to be reduced and fares will go up. That means less people will travel, more will be inclined to go by car, and some will not be able to afford to travel.

Q448 Mr Leech: But in terms of economic benefit of investment in public transport do you believe that there would have been more economic benefit to invest in bus services rather than rail services?
Les Warneford: I will say it again: I don't think, in these economic circumstances, I should be asking for more money from the public purse.

Q449 Chair: You seem very coy this morning, Mr Warneford, I must say.
Les Warneford: I am not at all coy. We are not an industry—

Q450 Chair: Mr Batten, what is your view from the local authority's side?
George Batten: To make significant reductions in the amount of money available to maintain the current transport is the wrong decision, if that decision has been made to fund large expensive projects at the expense of maintaining the transport infrastructure that we have. It does seem sort of mad to be worrying about shaving a minute or two off a journey time with a major project whilst we can lose minutes and minutes of journey time with unplanned, uncoordinated ad hoc repairs and failures to our local transport network.
In terms of whether they have got the right priorities, certainly I think Stephen has touched upon the rates of returns of schemes. Certainly small scale local schemes can produce staggering returns: 15 to 1 ratio of cost to benefits and so on. Small scale interventions which benefit the bus services benefit 93% of the

travelling public who travel on things other than rail. There should have been greater emphasis on small scale investment rather than large scale and there should have been greater emphasis on maintaining the transport assets that we have. We know that with every pound spent on maintenance more jobs are created in the economy than every pound spent on new construction. It does seem that the warning of Eddington about large projects hasn't perhaps been heeded in the comprehensive spending review.

Q451 Steve Baker: Professor Glaister, if I have understood correctly, you have argued that long-term correctness is very difficult in transport forecasting. If I have understood, you have said that that is less important than short-term utility. Is that the right understanding and, if so, what disadvantages might such an approach have?

Professor Glaister: No, I don't think that is the correct interpretation of what I was trying to say. Like other bits of public service such as health and education, we have a mixture of short-term things to spend money on and very, very long-term things to spend money on. It's a fundamental problem. It is nobody's fault; it's just a problem. There is highways maintenance filling the potholes, which is a big issue for a lot of the general public and local authorities, which is obviously a fairly short-term thing. There is investing in massive road schemes and massive rail schemes where the horizon has to be 60 years because it takes 10 years to build the thing and plan it—probably more, 15 years—and then it starts delivering. So you can't get away from that very long-term need to think about what the world might look like in 20, 30, 40 years. It is no different, I guess, from investing in aircraft which last for those kinds of periods. Lots of infrastructure industries struggle with this.

What I am trying to say is that it's a mistake to only concentrate on the immediate present because you forget about the really important long-term consequences for the nation. Good government must be about looking long term as well as short term and vice versa. You can't just throw all your money into something which is enormously long term and won't produce any return at all for 20 or 30 years and ignore what is happening on a day-to-day basis outside people's houses. That is why, if I may say, the formal appraisal methods struggle so hard to deal with what we call discounting—how you trade future costs and benefits against present costs and benefits—because you cannot avoid that choice; you have to face up to it, as in nuclear power and many other things. It is difficult but you have to do your best to try and get it right.

Q452 Steve Baker: It seems to me that the possibility of entrepreneurial error in these investments is very high, given everything you have said. This is a bit of a leading question, but who should bear that entrepreneurial error? Should it be private investors or should it be the taxpayer?

Professor Glaister: I heard the end of your previous session where the National Infrastructure Plan was mentioned, a publication by Infrastructure UK and the Treasury. I regard that as an extremely important development relevant to your question because what that is trying to do—and I very much welcome it—is to step back and say, "In respect of all our infrastructure—power, water, telecoms, road and rail—what are the long-term liabilities that we have? How much infrastructure have we got? What condition is it in? How much are we going to need to spend to put it in reasonable condition? How much are we going to have to spend to meet the growing demands in the future?" That is, as it were, a Janet and John audit of the situation we are in.

The next question is, "How is it going to be paid for?" That question has to be addressed. Fundamentally—and I agree with them—I think they say it is either the taxpayer or it is the user. There is nowhere else it is going to come from at the end of the day. If it is the taxpayer, then that's fine but we all know the difficulties. If it is going to be the user, then I think that it's a perfectly sensible thing to say: the user should pay for what they get at the end of the day. But then how is that going to be provided—by the state or by the private sector? In other words, in answer to your question, who is going to bear the risks? The risks are enormous. Arguably, as one of your previous witnesses said, the risks are of a nature where you cannot expect the private sector to bear all of those costs because if you do they just won't supply what you need.

The issue for Government is where does the Government need to step in to mitigate the risks, to spread the risks, to pool the risks, in a sensible way to allow the private sector to do what you want it to do to deliver all of this infrastructure? That is the issue this infrastructure plan is trying to address and, in my view, very sensibly. What it says is that the position in the other utilities of a regulated asset base with an independent regular to adjudicate on what is reasonable is a good place to start, and I agree. But there are things which Government is going to have to worry about in the regulatory regime to make sure that the risks about climate change and interdependency of different utilities are dealt with in a sensible way. I would put roads in that same box because roads are kept quite separate. There is no regulated asset base; there is no regulator. They are left on their own to be planned in a completely separate system by central Government. Railways are in the box, roads are outside the box, and I think that's a big issue.

Q453 Julie Hilling: I wanted to come back to the bus issue and that sort of integration. We waste a huge amount of money with people sitting in traffic jams. How can we then ease some of that? Some of that is about road network but some of it is about bus. We have been given information that the effect of the cuts will be very limited in terms of cuts in service, but you don't seem to be saying that. I am interested to know what your feeling is in terms of what reduction in service and increase in fares there will be. London is wonderful, it is all integrated, but you go out of London and it is much harder and much more expensive, etcetera.

Chair: Mr Batten, do you have any comment on that?

George Batten: I think the belief, certainly in the Department for Transport, is that the cut in bus service operators' grant isn't going to have a huge impact on fares: a couple of per cent, I think, has been mentioned. Underlying that, though, is the belief that it may not have a huge impact on fares but there will be significant service withdrawals and reductions as a result of the cumulative effect of that and other cuts in public transport support, particularly from local authorities.

Q454 Julie Hilling: Do you have an idea of the percentage of those?
George Batten: It would not surprise me at all if in a year's time up to 50% of rural bus networks no longer exist.

Q455 Chair: Mr Warneford, do you want to add anything there?
Les Warneford: Yes, there were a lot of questions in that. First, you touched on this issue of London, which always comes up. London has a wonderful system and, if the rest of the country had the same spend per head of population as London has, we would all have a wonderful system. But that's not the case. Transport for London buses take the bulk of the public transport subsidy for the bus industry—something like 60% of it—and your metropolitan areas do rather badly out of it. I've lost track of the other questions.

Q456 Chair: Given the system we've got, what is the likely impact on fares and effects on services as well?
Les Warneford: First, you need to accept that the impacts of the spending review are compounded on top of the effects of recession. We are still in recession. For about five years our company had some very modest passenger growth year on year, but in the last two years we haven't. So that has been a problem in itself.
We also have some other external factors. There are extremely volatile fuel prices and, whilst we have hedging in place, my fuel bill will go up quite dramatically next year. Add to that the cut in concessionary reimbursement next year, whatever level that might be, and cutting BSOG the year after, I think the compound effect of those things, outwith the effects of normal price inflation, could be up to maybe a 5% fare increase and a 5% service cut, but with a big proviso: that service cut will not be spread uniformly. Those services that carry very high proportions of the elderly and disabled will become unprofitable and be reduced or cut. There are already many, many services at different times of the day which are only marginal. The Monday evening service will probably go. It will be patchy. The main daytime frequent services maybe will be okay; they'll just make a bit less than they did before. But those things that are on the margin, and particularly the rural stuff, are very vulnerable.
Professor Glaister: It may be helpful to clarify that in the bus industry there are essentially two sectors. There is the commercial sector and there is the tendered sector. Both have difficulties but for different reasons. The commercial sector, as Mr Warneford mentioned, has rising costs, reducing fuel duty rebate and so forth. But the tendered sector is where local authorities put out to tender unremunerative services, which are the classic deep rural, night services, that kind of thing. I suspect—I don't know if colleagues will agree—that the financial pressure on local authorities will make it much harder than it was to keep those tendered services going. I suspect they will be hurt quite badly by this. The public transport industry does take a lot of public money and there is nothing wrong with that. It is assessed on the same basis as roads and railways in the official methods. You can look on the public record and see that quite a lot of bus services do show a reasonably good rate of return for public money, compared with some road schemes and, indeed, some rail schemes. It's not a completely blank sheet of paper. We do know that bus subsidy put in the right places produces good benefits for that public money.

Q457 Paul Maynard: I have a question to Mr Warneford. I realise that you are unwilling to compare yourself too closely to other modes of transport. If we could look at your specific business, obviously BSOG is being reduced by 20% for your bus services. In terms of the coach services that Stagecoach provides, you are having an abolition of BSOG and the loss of the 50% concessionary fares. In terms of those two types of service, which of those reductions will have the greatest impact on those particular services in terms of economic disbenefits?
Chair: Mr Warneford, can you give us an assessment?
Les Warneford: Our coach services fall into two categories. Some are eligible for BSOG and concession fares support because, although they are run with coaches and express services, they are still stopping services. They carry local passengers. Those will be affected in just the same way as our normal local bus services. The only main two services we operate which are outwith the traditional local bus market is our Megabus national express coach service and our Oxford to London service. We get no support whatsoever on the Megabus service so it won't have any effect whatsoever, although I believe it does affect the National Express service. I can't tell you what that effect might be, but they do have quite an amount of concessionary fare support. Our Oxford to London express coach service does benefit from what is called CSOG—coach service operators' grant—and some concessionary revenue support. But it will not materially affect the service. We shall just have to adjust our pricing to cope with it.
George Batten: From a local authority perspective, there are two kinds of bus services we procure. One is the school bus service and the other is publicly supporting the bus services that otherwise wouldn't be there from a commercial operator. The balance between the two has got terribly out of kilter in recent years. The school bus service typically for an upper tier authority might cost £10 million or £12 million a year procuring buses to get children back and forth to school. Whilst you try and integrate as much as you can school bus services with public bus services, it is extraordinarily difficult to have a complete overlap. That means that, as cuts come in local government expenditure, the school bus service has to be

protected. The cuts are compounded then in terms of the money that's available to support the non-commercial bus services, which is why I leap to the conclusion that there are going to be significant reductions in public bus services. The irony is that you may be able to wave your concessionary fare card but you may not have a bus to ride on with it. Perhaps the Committee might wish to look at the relevance of the 1948 Education Act and the requirement that it still provides for local authorities to provide buses in its future work.

Chair: We will be looking more closely at buses quite soon.

Q458 Julian Sturdy: To follow on from that question to Mr Batten, you have touched on it already but you talked at the beginning about the removal of the ring fencing on local authorities' transport budget. You said you believed that would have more impact on the local bus services—the rural bus services—which are usually the subsidised services because they don't have the passenger demand to warrant a commercial service. Do you not feel that local authorities, within the new system, will be able to prioritise where they feel they want to spend their transport money? Some local authorities might say, "We want to protect our rural bus services", and they will prioritise that, rather than deciding that cycleways or something like that might actually fall by the wayside rather than the rural bus services. It will be ultimately down to them.
George Batten: It's "Be careful what you ask for", isn't it, in local government? We have asked for flexibility and we have asked for relaxation of the rules, and we've now got it, but that puts the monkey on the local authority's back. The problem here is that, typically, revenue expenditure is the sort of money we are talking about—supporting bus services. Revenue expenditure to a local authority is going to be cut in the order of 28%. Within that, you then protect education. You then have to deal with a growing elderly population in adult social care. Therefore the bit that you can get down to playing with in the local authority might be about a quarter of its revenue budget. That gets you down into the transport field. You then have to protect your education school transport commitment. So the bit that's left for you to play with is very small and will come under extraordinary pressure. I think you are right: the local authority does have the option to protect its services but, in reality, given the other pressures on a local authority, I don't think that is what will happen.

Q459 Julian Sturdy: Following on from that, in your role what sort of feedback are you getting from local authorities? Do you know where their position might lie on prioritising rural bus services compared to new cycleways or crossings and things like that?
George Batten: Generally speaking, local authorities will prioritise maintaining what they currently have, which then will rattle back, I am afraid, to a hard choice and it will be the bus services that will bear the brunt. A straw poll around my colleagues in local authorities would suggest that it's not outrageous to suggest that up to 50% of rural bus services could be the casualty of all this.

Q460 Iain Stewart: To follow on from that, we have talked primarily about existing bus services, but I would like to ask a question on additional services in areas of the country where you have significant housing development and population growth. One initiative the Government has introduced is the new homes bonus, which will provide for six years a matched council tax revenue which can be, as I understand, for both revenue and capital spending. Do you think that will be helpful in providing public transport links to new housing areas and, in particular, buses?
George Batten: Increasingly, in recent years, local authorities have been getting commuted payment sums and so on from developers to support revenue services into the future in the hope, I suppose, that after a few years of public subsidy these services will become self-sustaining as developer contributions dry up. It's an area that local authorities have been active in and there is no doubt that, if we are going to deliver what we want, we have to be much smarter at tapping up the new sources of money of which the new homes bonus will be one. So I think, yes, given that the rates of return on small scale projects at a local authority level will be the main beneficiaries, and public transport will take a fair share of that.
Chair: Thank you very much for coming and answering so many questions.

Examination of Witnesses

Witnesses: **Professor Roger Vickerman**, University of Kent, **Richard Summers**, Royal Town Planning Institute, and **Councillor Peter Box CBE**, Local Government Association, gave evidence.

Q461 Chair: Good morning, gentlemen. Could you give your name and the organisation you represent for our records?
Councillor Box: Peter Box. I am Chair of the LGA Economy and Transport Board.
Richard Summers: I am Richard Summers, Senior Vice-President of the Royal Town Planning Institute.
Professor Vickerman: I am Roger Vickerman. I am Professor of Economics at the University of Kent.

Q462 Chair: Councillor Box, in the written evidence from the LGA you say: "All capital investment for infrastructure should be devolved to the local level". Does that mean you don't think there should be any limit at all on the size of schemes that local authorities decide?
Councillor Box: I think, when you look at the new structures that we have in place at sub-regional level, the nature of investment has changed anyway and that

groups of authorities working through city region LEPs will be able to take on the kind of schemes to which you have referred.

Q463 Chair: So absolutely everything, including major strategic schemes that go through large numbers of authorities?
Councillor Box: There clearly will be a national framework for investment, but within that national framework, yes.

Q464 Chair: The Secretary of State said to us that it could be not until the end of this Parliament that alternative structures to the current system to look at strategic schemes are going to be established. Is that something that gives you some concern, if we are going to have to wait until the end of the Parliament before there is an appropriate sub-national system established?
Councillor Box: Apart from being Chair of LGA Economy and Transport, I am also the leader of Wakefield council as the day job, as it were, and I work with the Leeds city region and the evolving LEP that is being created. My view is that the Leeds city region, of which I have personal knowledge, is ready and willing to take on that task now. I feel certain that other LEPs throughout the country will be in a similar position.

Q465 Chair: I am just repeating to you what has been said to us by the Secretary of State. You are seeking new powers to raise funds for infrastructure investment. Do you have any further ideas of what those powers should be and what sort of investment you would like to raise?
Councillor Box: There is tax incremental funding of course, the power to charge more, and business rates. I know there is some clear debate about that but that is the LGA's position—that business rates should remain local.

Q466 Chair: Do any of our other witnesses have ideas about how additional funds could be raised for infrastructure investment?
Professor Vickerman: There are two points to make, one following on from what Councillor Box said. The difficulty of defining the area which is appropriate to any particular scheme is one of these areas where you have to be aware of all the simple rules when you are dealing with transport because there isn't a simple way that you can deal with everything, and defining the area which is relevant to a scheme is difficult. That feeds on to where the money comes from in that, because in some cases it's clear that from the point of view of public money a great proportion needs to come from the national level; in others it can come quite easily from the local level. But, also, the often rather naïve belief that the private sector can step in to do this and certainly accept the risk of doing that when there are public decisions being taken is also something that seems, now we have much more examples of these private partnerships and PFI schemes, not always to be the solution that it was thought to be. So I think you have to be very, very careful about defining exactly the area in which you are dealing with these things and it is going to be different for each different scheme.
Richard Summers: We need to distinguish between the funding that comes from central Government for major national infrastructure projects and the funding that is required for local transport projects. I am not convinced that the new homes bonus will be able to make a significant impact on that, but we should also bring into consideration the proposals for the community infrastructure levy and the continuation of section 106 planning agreements which will generate funding out of new development, particularly major new development, where associated transport and other services are required.

Q467 Paul Maynard: Professor Vickerman, from what I understand, you have had a great deal of experience in studying the impact of high speed rail in Spain, China and so on. We heard last week from The Northern Way that improved productivity between two centres tended to benefit the centre that was the most economically performing but that improvement within urban centres would benefit the converse. Have you studied the experience of Spain where I know that the link from Madrid to Seville with the AVE was designed to transform the economy of Seville, which suffered from very high unemployment, was economically deprived and so on? Did that achieve its goal and, if so, how did it achieve its goal?
Professor Vickerman: The first thing I would say is to repeat what I said before: beware of simple answers with transport because each case is different. On your specific example of Madrid to Seville, no, it didn't achieve the goal if the goal was to achieve the development of Seville. However, it has done some quite interesting things in Spain. It has actually changed patterns of urban development in and around Madrid. If the line had not been there, there are intermediate places, and particularly the one I am thinking of, where I have been doing some work with a colleague, is Ciudad Real, which is 200 km or one hour from Madrid. Commuting patterns have developed, but what is very interesting is that they are two-way commuting patterns. People are moving out of Madrid to work in Ciudad Real and people are moving out from Madrid to live in Ciudad Real but to work in Madrid.
That also is the experience, I would say, of the French examples—the early lines in France. If you look at Paris to Lyon, for example, where there was a fear that this would have this sucking-in effect of activities to Paris, generally the experience is that it didn't. The same thing is true of Paris to Lille. There wasn't a particular movement into Paris; there was a movement in both directions. What you do identify, however, is that there is a movement into those regional centres so that parts of Nord Pas-de-Calais and parts of the Rhône-Alpes region have suffered relative to the major metropolitan centres.
From the point of view of The Northern Way, what they need to think about is not particularly the balance between London and parts in the north, but it's the effect that it's going to have on the relative performance of the better performing centres, the

Manchesters, the Leeds and so on, relative to those more peripheral areas around, where activities get sucked in to where you have much improved accessibility. Those are just two examples but I could find others if we had loads of time.

Q468 Paul Maynard: I am sure. A second point has been made to me that, whenever investment is made in infrastructure, you can build a new road, a railway, an airport or whatever, but it will only actually make a difference if there is adequate and effective economically relevant planning that occurs alongside it. Is that your finding from your studies?

Professor Vickerman: Absolutely; that's very, very clear. You can see that very much in the French cases where there are large numbers of places where, for example, stations on high speed lines were put in and nothing really has happened. There are other cases where associated planning went in and supported that. If you want a British example of that, it is the lack of development at Ashford relative to what was expected. Just putting in transport does not cause development to happen; you have to do other things as well. This, in a sense, is the problem with the most peripheral regions. Just putting transport in does not create development.

In the larger centres where you do something, it creates two things. One is connectivity with the local transport system and the other is developing activities which sit right on top of the interchange point. Lyon-Part-Dieu, for example, and Lille-Europe, though it's not quite such a good example, are examples are where you do get that activity. You get the office block on top of the station, as it were. That sort of thing is important to see how it becomes integrated into the urban infrastructure.

Richard Summers: I would like to broaden the question that Mr Maynard has raised and Professor Vickerman has been answering because one of the main points that the RTPI would like to make to the Committee today is that we need to look at investment in major transport projects in a broader context than just the transport project itself. We need to see how the transport project can be used to help promote the economic development and regeneration that Paul Maynard is talking about, as well as providing improvements to transport movement and reducing congestion through the scheme itself. When you come to talking about transport appraisal, Chair, I would like to add some further points in that direction. But it's central to what you are saying in your terms of reference that a good transport system is a precondition of the long-term economic growth required to drive the UK's economic recovery that needs to be borne in mind here. Roads, rail, airports, ports and all major transport investments provide a catalyst for economic growth and that needs, in some areas, support from positive economic development policies.

Councillor Box: I think the question gets at the heart of the matter really. Too often in the past economic development has been seen separately from investment in transport. I think the point you are making—and I agree with my two colleagues as well—is that the LGA position and local government's position is that we need far better integration between economic development and transport. The point you make about HS2, for example, is that if it goes through Wakefield that's fine. I hope it does, if that is a national decision. I take the smiles as perhaps I can tell people back in Wakefield it will. The real issue is then, within the city region, how do we make sure that areas like York or Barnsley aren't disproportionately affected by HS2, say, going through Wakefield and that the whole of the city region benefits?

Q469 Paul Maynard: Are you saying that the economic development has to take place at the Leeds city region level rather than for example, say, the Wakefield MBC level?

Councillor Box: In terms of transport, yes. We have taken the decision in my own authority that we will be heavily involved in the city region and I think I can say quite confidently that all the local authority partners in the city region feel exactly the same way.

Q470 Paul Maynard: Just for clarity, Wakefield is part of a Leeds city region LEP.

Councillor Box: It is.

Q471 Paul Maynard: Are you forming a single coherent LEP?

Councillor Box: Yes, and we have done.

Q472 Paul Maynard: What do you think would therefore happen where the city region was not coterminous with the LEP? How would that contradiction be resolved?

Chair: In many places there isn't a solution in the way that you have found one, that the LEPs don't necessarily relate to the city regions; there are gaps, there are disputes. Where that is the case, how is the city region going to—

Councillor Box: But the LEPs have come together based on markets. It doesn't matter whether it is a city region or not. As long as those local authorities have come together based on a market economy, then it can work and I am sure it will work. I think we have seen that there is a great willingness on the part of local government to be involved in LEPs, because I think the point was made earlier about local government working alongside business to make some of these long-term investment decisions about the economy and about transport. We believe in Leeds—and, as I say, I know Leeds is not unique—that this is the way forward.

Q473 Iain Stewart: Could I return to Professor Vickerman's evidence from France and Spain about areas on the periphery of a terminus for a high speed rail link? They have suffered because of that, but have there been retrospective attempts to try and create a better connectivity there and is that a lesson we can perhaps take on board for planning for high speed in this country?

Professor Vickerman: The way that has happened in Spain is probably not a good example to follow because what they decided that the important thing was to make the network bigger, aided by, of course, a lot of European Cohesion Fund money to do that.

Therefore, they have probably taken more decisions. In fact, I was just two weeks ago in Barcelona and they are very concerned about the amount of money that has been spent on that. That may be a local difficulty between Spain and Catalonia, but there is a bit of a backlash going on about the amount of money that has been spent in creating huge networks. I think that would also be true of France, that there has been a tendency for regions to say, "Everybody wants one. They've got one so we would like one, please", without going through the activity of seeing whether that is the solution to their problems.

A point that has come up so many times in the evidence I have heard this morning, Chair, is that it's a problem of deciding what is the problem and what is the right solution to that problem. If you go blinkered into high speed rail as the solution, then you won't necessarily get the right set of problems. Spain went very fast into it. They built the first line in five years from the idea to having it operational, which is much faster than you would ever contemplate that it could be. Then it snowballed as an effect of that and now they are starting to see that it has different sorts of effects. It happened a little bit in the same way in France, but fortunately they have come back from it. But there are some peripheral bits of the network that have been built that really don't make any sense at all in economic terms or probably in transport terms either. It's, again, avoiding this snowballing effect of a simple solution to it that is always applicable everywhere.

Q474 Chair: Are you saying then that the High Speed 2 proposals have been applied a different way in different places and it is a concept that is applied differently?

Professor Vickerman: High speed rail certainly in the French context was originally done for exactly the same reason that HS2 is being proposed. It is about providing increased capacity, essentially. That is the first and foremost issue. There is a capacity problem. If we are solving the capacity problem, we may as well go for the high speed with it because it will bring certain additional benefits. It's quantifying precisely what those benefits are that is often the difficulty. The French didn't do that with the first one. Because it made a lot of sense in its own terms, the social benefits were a simple add-on, as they have been in so many cases with this. They found that in that particular case there were huge benefits to it, but those benefits have tended to be not replicated in the other examples to the same extent as they were in that first Paris to Lyon. Joining your first city and your second city by high speed rail is almost a no-brainer in those terms. That is the one that really makes sense, though, as far as I understand it, the rates of return on HS2 actually go up when you add the extra bits on, when you start getting the greater benefits of the more high speed from that. China is a different question. We won't go there.

Q475 Chair: We will leave China.

Councillor Box: The real question is at what level decisions should be made. Whilst HS2 is clearly a national decision that will be made by Government, it's making sure that what then will happen at a sub-regional level is taken into consideration and allowing the sub-region, through the new LEPs, the ability and having the powers to be able to then deal with some of those city region issues that will arise from investment through HS2. I referred to what would happen to those quite major conurbations, say, in West Yorkshire, that did not have HS2 passing through them, to make sure that everybody is included in the economic growth that HS2 can bring.

Q476 Chair: Let me ask you about appraisals more generally. Are you satisfied with the method of appraisal for transport schemes?

Richard Summers: They are helpful as far as they go, but, as I touched on earlier in the discussion, they deal principally with the transport investment project itself. They don't set it sufficiently in the context of the wider planning and development and, particularly, regeneration objectives for the area as a whole. I've worked on a series of economic impact studies of major road projects in the south-west and the south-east in recent years where we have used a multifaceted approach to appraisal. We have looked at the development potential that would be enabled by the construction of the road scheme in this case in a particular area, for employment uses, for retail uses, for housing uses, and assessed the scale of employment that might be generated from each of those and put that into a re-run of an econometric forecast for the area as a whole. Out of that we have been able to bring an estimate of net additional employment impact that can then be reconciled with the methodology of what at that time was the economic impact report method.

Professor Vickerman: I'm an academic economist. I'm never satisfied with things; they can always be better. But I think we have the basis for that. We do what we do in a current appraisal well and very rigorously. That doesn't mean that it solves all the answers to it and there are ways continually of trying to improve it, both as basic research helps to clarify some of the issues but also as these other issues come up. But at the end of the day it has to be a decision that is taken on the basis of a very wide range of evidence, some of which is very technical, involving economics and econometrics; some of which involves very, very detailed forecasts of how a new system will affect traffic patterns; and another which is going to depend on judgment as to where effects will be beneficial.

If a scheme, for example, unlocks a piece of land or an area that is constrained by transport, then you will get a different effect from one which is just ameliorating the transport situation that exists there. You have to use judgment in terms of being able to do that. So I don't think there is anything that is going to replace that. I would be appalled if everything could be programmed into a computer and you just pressed a button and it came out because I think there has got to be that judgment, both by professionals and by decision-makers, politicians at the end, to take those decisions.

Q477 Chair: Mr Summers, in your written evidence you say that the way the appraisal system now works has led to more investment in roads and less in public transport. How has that happened?

Richard Summers: Because the tendency with the appraisal methodology used at the moment is that larger schemes generate higher levels of time savings for drivers. In fact, somebody in the previous session was saying that the time savings for car drivers are valued higher than the time savings for bus passengers, which I think helps to reinforce this point. But we have got to go beyond measuring time savings alone. They are having perhaps a disproportionate influence on the way that decisions are informed at the moment and we need to look at the way in which a transport investment project will contribute to the planning development and regeneration objectives of the area, which goes beyond the transport economics to which Professor Vickerman has been referring and it allows also for the judgment that you were talking about.

Q478 Chair: Councillor Box, did you want to comment on that?

Councillor Box: I totally agree with that last point about transport having to be integrated into the wider economic development that takes place at a sub-regional level. But again—and I hate to sound like a record—the question is, who does the appraising? Clearly, there has to be a national framework. There clearly has to be a national framework, but, bearing in mind the Government's wish to devolve down to sub-regional level, why can't there be an appraisal that takes place at city region level, at LEP level, where you have business and local government working side by side, who are probably far better placed to carry out some appraisals, some of the schemes that actually mean more in economic terms to a city region than would be the case otherwise?

Q479 Julie Hilling: Looking at appraisal and localism, do you think there is a risk that certain areas are going to lose out very badly? If you live within the Greater Manchester conurbation, grand; if you are within the Leeds conurbation, grand. But if you are Blackpool, if you are in East Lancashire, if you are in other places, do you think there is a big risk, with the system in place in terms of appraisal and then the move to more localism, that big areas are going to lose very badly?

Richard Summers: That is a very interesting question because it gets to the heart of the administrative arrangements that we are looking into. We have heard the proposal for local economic partnerships. We haven't yet seen the chapter and verse of the new Decentralisation and Localism Bill. Those two taken together will give us a clearer idea of the arrangements which will set a framework in which these appraisals and these policies can be developed. If I may say a little more about that, it is important that whatever comes out in the Bill and whatever is then able to be joined up enables the local economic partnerships to look at the strategic planning issues for an area as well as the economic development issues and that that can be connected to the decisions that are made at local level. At the moment we don't know whether those connections will be made. I sincerely hope they will.

Professor Vickerman: Thank you for mentioning Blackpool, which is my home town. It goes back to this issue that I mentioned earlier about defining the appropriate geographical area. There is a scheme of facts. One area where a lot of work has been done more recently is looking at the way that what are technically called "spillovers" between areas exist. If you improve the transport in or to one area, does that stay within that area or under what circumstances does it spill out, or under what circumstances does it suck in? I think we are getting a better handle on this where you can see that improvements of transport in one area have disproportional positive benefits in an area aside from it because it helps to improve and to unlock some of the benefits in that area.

In other examples, the examples I gave earlier with the high speed rail, the tendency to suck in towards the rail heads work. But, again, I can't say, "Right, this is a group of schemes that will work this way and this is a group that will work this way." You have to look at each one individually because they will all interact with the way that the current local economy is set up, the way that the connectivity and labour markets develop, and the extent to which they do or they don't coincide with local authority boundaries or LEP boundaries.

All those things make it very, very difficult to be, in a priori terms, prescriptive about where the effects will be. That is a big difficulty for it, I think, because you have got to look, particularly at big schemes, in that sort of way. But there are some very small schemes that can do that. There are particularly difficult motorway junctions which have disproportional effects way away from those areas and improving those could make a huge difference to businesses over a very wide area.

Q480 Chair: So it comes back to judgment and whether a localism agenda can actually relate to a wider strategic interest?

Professor Vickerman: If I may, it is not purely judgment. It means that you have to have a protocol for looking very carefully at schemes to make that judgment, but, also, to see what sort of advance research you need to do in order to inform the decision as to what sort of area is taken into account.

Councillor Box: There is a lot of talk about rebalancing the economy and I would take it to mean that the economic gap between the north and the south is reduced. The point that has been made is well made because, if you look at West Yorkshire, it accounts for 50% of Yorkshire and Humber's GDP and population as well. If we've got a LEP, how do we make sure that the Leeds city region doesn't grow at the expense of those areas of Yorkshire and Humber that don't have a LEP? It seems to me that is a real issue—to make sure, if we have strong LEPs that are effective working with business and local government, that we don't create an even greater imbalance in the economy. It seems to me that is a real issue that we need to address.

Richard Summers: The situation that we face at the moment is that we've only seen the first round of approvals of local economic partnerships and the map at this stage is incomplete across the country. When we see the second round, which hopefully will give us complete coverage of LEPs, then we will have the benefit of being able to undertake economic development in the areas that may feel the draught of things that happen in the city regions. Equally, we hopefully will then have the structure I was referring to just now that will provide the strategic context for decisions that need to be made at the local level.

Q481 Paul Maynard: Can I just go back to Professor Vickerman and probably the other two witnesses too? You have outlined the potential architecture that exists in terms of local government, city regions and national Governments. We could also have travel-to-work areas. We could have any number of what I think you called jurisdictions, which are all competing with each other to have some sort of final dynamic say over transport policy. How do we resolve those contradictions? How do you solve what I call the Skelmersdale question whereby Skelmersdale is not part of either Merseyside or Greater Manchester?
Chair: I have to use Chair's prerogative here: it is part of Lancashire, having represented Skelmersdale on Lancashire county council for many years.
Paul Maynard: It is in the travel-to-work area for both Liverpool and Manchester. It is not yet in a LEP; we hope it will be at some point. How do you solve those questions that, as connectivity becomes ever wider across a larger distance, more and more stakeholders want to have a say?
Councillor Box: I was going to say that I have some experience in this regard in that I was chair of the regional assembly, and I am sorry to mention the words "regional assembly". We had regional chambers at first, then we had regional assemblies and the RDA. So the region assemblies were scrapped. We have now got a new Government, they have scrapped the RDA, and we've got LEPs. The real issue is that we need to have some certainty for a period of time. If LEPs are felt to be the way to deal with some of the economic issues, then we've got to make sure that they work and there is no duplication.
One of the problems in the past, in my experience, was that there was uncertainty. You had the Government Office, for example, then you had an RDA and you had the regional assembly. We need to make sure, if we are going to be effective as local government working with business, that we've got clarity and we don't have that duplication to which you have referred. So the LGA's position is strongly in support of LEPs that have adequate powers, and finance-raising powers as well, to be able to make a difference.

Q482 Chair: Is there any final comment on that?
Professor Vickerman: Could I just perhaps answer Mr Maynard's question, as he did sort of pick it up from me in the first place. I think you have raised a very difficult point there, but I think the problem is that the constant changing of the map is not helpful. I think we need to get that stability that has been referred to into the decision-making process so that we can see that. In my view we need to be perhaps a little less touchy about historical jurisdictions—and I say this again as a Lancastrian—and look very closely at the economics. Your particular example, of course, is a difficult one because somebody decided to put Skelmersdale where they did and it falls right in the trough between two major employment areas. There will be lots of other examples of that sort of type, not least in the south-east where, of course, we had this terrible problem with an RDA that went in a curious banana from Oxford to Dover and the whole thing that was driving it was London. So it was very difficult to take regional transport decisions in an RDA of that sort of type and it may be better to get back to the localism that can identify what the particular areas are—not little localism but big localism in particular sorts of areas, like Essex and Kent for example.

Q483 Chair: Thank you. I think your answers really re-emphasised the need to resolve this question and I won't have anything bad said about Skelmersdale. Mr Summers, a final comment then, briefly.
Richard Summers: I don't think there is any perfect final answer to the delineation of boundaries. We have boundaries for particular purposes, be they economic, social, cultural, transport or travel-to-work or whatever, and they don't always settle conveniently into the same pattern. I am not involved in the Lancashire and Yorkshire discussion here. I speak more widely I hope. But what is important is that the mechanisms and the administrative arrangements that we have for making decisions about investment priorities for transport and relating that to planning and regeneration and development can operate across those overlapping spheres of influence so that we can determine, on a balanced view, what needs to be done.
Chair: That is the big question. Thank you very much for coming, gentlemen, and answering our questions.

Tuesday 14 December 2010

Members present:

Mrs Louise Ellman (Chair)

Steve Baker	Paul Maynard
Mr Tom Harris	Gavin Shuker
Julie Hilling	Iain Stewart
Kelvin Hopkins	Julian Sturdy
Mr John Leech	

Examination of Witnesses

Witnesses: **Rt Hon Theresa Villiers MP**, Minister of State, **Tera Allas**, Director and Chief Economist of the Transport Analysis and Economics Directorate, and **Tracey Waltho**, Director of Finance Strategy, Department for Transport, gave evidence.

Q484 Chair: Good morning, Minister. I would like to congratulate you on your appointment and your first visit to the Select Committee. I hope it will be the first of many. Could you tell us what are the specific economic problems we are facing that you feel transport investment has a part to play in resolving?
Mrs Villiers: First of all, can I say it is a great honour to be able to address the Committee for the first time? I too hope that I will be a frequent visitor in the months to come. I have a huge respect for the work that is done by the Committee, so I welcome this opportunity to take part in your deliberations today.
The CSR made it plain that we see investment in transport infrastructure as a key part of our efforts to re-energise the economy, to create growth and jobs. We believe that public investment in transport can yield significant advantages in terms of economic benefits and regeneration by connecting companies to their customers and by widening labour markets. I think there is a significant amount of empirical analysis which indicates very clearly the benefits of upgrading our transport network as a means to ensure that we become more competitive in the global economy and start to address the problems that have arisen as a result of the very significant recession that the country has been through over recent years.

Q485 Chair: When you say that transport investment can contribute to economic growth and jobs, how do you think that can actually take place? Is it specific investment that will have an automatic result, or is it something more general? Is it national or is it more local? Could you be a bit more specific?
Mrs Villiers: We have a programme which is multi-faceted: we have transformational change, which we are contemplating in terms of high-speed rail; we have some very significant upgrades to the existing railway network; we are also undertaking a targeted programme to address some of the worst road bottlenecks. Within the constraints of a very difficult fiscal situation and the pressing need to address the deficit, we are also making funding available for transport investment at a local level as well. At all levels we believe that these can enhance economic competitiveness and stimulate growth and jobs. A classic example is provided by Canary Wharf. I can't believe for a moment that we would have created that huge financial centre in Canary Wharf without the upgrades to the DLR and the Jubilee Line. That kind of connectivity can have a dramatic impact on economic activity in a particular location. There are many other examples around. For example, in Europe, if you look at the experience in Lille, when it was connected to the TGV network, unemployment plummeted. So that connectivity can produce significant economic benefits in a regional and national sense, and also locally.

Q486 Chair: Can you give any example of an investment proposal for connectivity which will improve the situation outside of London and the south-east? You have given the example of Canary Wharf. Is there anything equivalent in any other part of the country?
Mrs Villiers: There are a whole range of issues. Electrification in the north-west, on the railways, will be very important. The improvements to the East Coast Main Line on the railways will be very significant. I believe that dualling the A11 at Thetford will have a significant benefit for Norwich and Norfolk. Of course, high-speed rail I believe will provide a major boost to our efforts to address the long-standing prosperity gap between north and south.

Q487 Chair: Is the Eddington study still relevant? One of its proposals was road pricing, and you seem to have ruled that out.
Mrs Villiers: Certainly some of the work that was produced in the Eddington study is still useful and still valuable. This Government does not share the report's conclusions on a national road pricing scheme. We believe that a lorry road user charging scheme is feasible and could have significant benefits, but we have ruled out a national charging scheme for cars because of its practical implications. We don't believe it is necessary, which is why we have ruled it out and we are not doing any preparatory work on it either.

Q488 Chair: Are the other suggestions in Eddington, of improvements to existing networks, expansion of airport capacity in the south-east and mode-neutrality in investment decisions still part of your policy?
Mrs Villiers: Certainly improvements to existing networks are very important. I have outlined some of them, but it is particularly worth highlighting rail where the £18 billion that the CSR sets aside for rail

investment embraces one of the biggest improvement programmes to our rail network that has been witnessed in living memory, I think. As I have said also, Rod Eddington focuses on the economic importance of our urban centres and inter-urban corridors. The focus we have put on high-speed rail is designed at addressing those and maximising the economic benefits that we can gain through high-quality, high-speed connections between our urban centres, which can be such significant generators of economic growth. The importance of our urban areas came across very clearly from the Eddington study.

Q489 Iain Stewart: Could I just turn briefly to the road user charging point? I appreciate you have ruled out a general road user charging scheme, but do you see a role for specific projects like the M6 toll, which levy a charge? Do you see that as a way of levering in more investment?

Mrs Villiers: Certainly we are happy to consider proposals from the private sector if they want to bring forward proposals for toll roads to generate additional capacity. We feel that there are differences of substance and differences of principle when you are talking about charging for existing capacity as opposed to something which is new and additional. It seems to me that there aren't people banging at the door in order to do that. I think I would be overplaying it if I said that this was going to be a major part of fixing road bottlenecks around the country. I think there is always going to be a substantial role for investing public sector capital where that is affordable, which is why, despite the crisis in the public finances, the Chancellor has provided funds for some major improvements on the road network.

Q490 Iain Stewart: There are no specific projects under review at the minute that would be of that nature?

Mrs Villiers: Not that I can think of. I know it has been talked about in relation to what we do about the Ellington to Fen Ditton A14 problem. I wouldn't be able to tell you how serious those ideas are, although we, as a Department, have commissioned some research on possible solutions in relation to that problem. That might be something that is being considered in the community. I am not aware of concrete proposals on the table to start building new toll roads to address bottlenecks on the road network, but there may be some out there.

Q491 Kelvin Hopkins: Can we return to Eddington? He was sceptical about HS2, as indeed I am myself. One simple point is that there are enormous opportunity costs in such an expensive project—money which could be invested in other ways, as he would put it, to unblock transport constraints elsewhere. You have mentioned city areas, inter-urban corridors and so on. Should there not be a bigger emphasis on dealing with the more detailed schemes which would solve some of the problems that Eddington identified rather than a big prestige scheme which might be of limited benefit if we could upgrade existing rail?

Mrs Villiers: I don't think we have to have an either/or situation. I really do think it's vital that we continue to invest in our existing transport networks and upgrade them in exactly the way that you are talking about. That is why, despite dire predictions about how transport would come out of the comprehensive spending review, we have maintained pretty much all the rail projects we inherited from the previous Government and we are committed to a very substantial upgrade programme with the existing network over the coming years. The reality is that the major spending on high-speed rail won't begin until future years after we expect the public finances to be back in shape. The average annual cost of investing in something like high-speed rail is not substantially bigger than perhaps the annual cost of investing in something like Crossrail. These projects inevitably are expensive but the overall benefits are going to be substantial. You need to do both. One of the significant benefits of high-speed rail is that it will release capacity on the existing network. I know that you have a long-standing interest in freight. If we sought to solve the problem we have in terms of the inter-urban corridor between London, Birmingham and Manchester by trying to squeeze more traffic into the West Coast Main Line, that wouldn't release the paths for freight that you would get with high-speed rail. There are significant benefits for the existing network in relieving the pressure by building high-speed rail because you create more space for freight, more space for commuter services and more space for stopping services.

Q492 Kelvin Hopkins: I will come on to freight later on perhaps, if I may. Eddington estimates that by 2025 annual costs of congestion will be £22 billion—an enormous sum of money—and dealing with congestion would be beneficial in terms of both cost and carbon emissions. Vast numbers of cars sitting in traffic jams, and indeed lorries as well, pouring out carbon dioxide doesn't help. Shouldn't dealing with that congestion be the number one priority?

Chair: Minister, how are your proposals going to deal with congestion, in particular, because there has been a sharp reduction in proposals for investment in roads?

Mrs Villiers: The planned investment in roads is not as substantial as had been pencilled in previously by the previous Government. The reality is that we are facing one of the worst crises in our public finances in our peacetime history. I would very much defend the approach taken by the Chancellor in relation to transport. The recurrent pattern of spending squeezes in the past has always been, if there is a sudden crisis in the public finances, and you need to get things back in order, what is the first thing that gets axed? It's a whole range of transport capital projects, with roads and rail the first to suffer. As an unprotected Department, I think the predictions were that transport would be decimated. I don't believe that has happened. We have had to take some difficult decisions on rail fares, but overall we still have a substantial amount of investment in the railways and a substantial amount of investment in targeting the worst bottlenecks on the road network.

But the reality is that we need to look at a range of issues. For example, we have a project under way about how we speed up clear-up times after an incident on the national road network. We are working on the introduction of lane rental schemes to mitigate the congestion caused by irresponsible use of road works. We are looking to increase fines for overrunning road works. We are looking to give local authorities more freedom about how they run the roads so that they can help smooth traffic flow. On top of that, we are introducing a local sustainable transport fund to help local authorities look at ways to encourage the use of other modes, lower carbon modes, to improve the public transport system, to provide an attractive alternative to some of the millions of car journeys that currently take place on our roads every year.

Q493 Mr Harris: Which of Eddington's conclusions will the Government actually be implementing?
Mrs Villiers: Certainly, we appreciate the pressing need to invest in our transport infrastructure. As I have said, the comprehensive spending review gives a commitment to do that. That includes the sorts of upgrades in capacity that Eddington called for on the existing network.

Q494 Mr Harris: Forgive me, Minister, but investing in the transport infrastructure is something that all Governments do. Eddington recommended road pricing, and the expansion of airport capacity in the south-east.
Mrs Villiers: We are not doing either.
Mr Harris: Exactly.
Mrs Villiers: We are not investing in road pricing. We have made our position very clear on airports in the south-east. We will be opposing new runways at Heathrow, Gatwick and Stansted, in accordance with the commitments that both coalition partners made very clear in their manifestos.

Q495 Mr Harris: Granted it was commissioned by the previous Government, but isn't it the fact that, if the Eddington report had never been published and if Rod Eddington hadn't been asked to take the step of producing this report, not a single current Government policy would be different?
Mrs Villiers: I wouldn't say that one should junk every piece of analysis in the Eddington report. There is work that we can draw on, but we have made a very clear commitment on road pricing, which I have explained to the Committee, and we have made our position clear on airport expansion in the south-east. We recognise the importance of aviation to the economy and to people's quality of life, but we believe that those new runways would have imposed an unacceptable cost in terms of our environments and our quality of life, and we have an electoral travel mandate to oppose those three new runways.

Q496 Mr Harris: I think you are, perhaps, Minister, deliberately misinterpreting my question. Isn't it the case that the Government intends to proceed with its current transport policies without any reference to Eddington?
Mrs Villiers: I think that is a misinterpretation. We are certainly happy to draw on some of the work that he did. Our conclusions on a number of key issues that you have mentioned happen to be different from those of Rod Eddington. My understanding is that even he has slightly changed his view on high-speed rail. So the fact that we don't agree with the Eddington report on a new runway at Heathrow and on road pricing doesn't mean that we are not prepared to take on board his analysis and use it where we think it is going to be appropriate.

Q497 Mr Harris: I have one last question. Apart from analysis, what recommendations of Eddington will be implemented by the Government?
Mrs Villiers: Eddington emphasised the importance of modal connections between our ports, for example. We are very focused on that in some of our road programmes. The strategic freight network, as well, also emphasises the connections with international gateways.

Q498 Mr Harris: It is only because of Eddington that you are putting emphasis on that, then? If Eddington hadn't been published you wouldn't be doing that?
Mrs Villiers: I am not quite sure why you are so hung up on this point. Perhaps I am not really getting what you are trying to say. In a lot of what Eddington said, a number of his ideas and his analysis are consistent with facts which are self-evident. Connections between international gateways are important.

Q499 Mr Harris: What I am trying to establish is that what the Government seems to be doing with Eddington is cherry picking those bits that the Government already agreed with and rejecting everything else. Is that not the case? I am not saying that is necessarily wrong from a political point of view.
Chair: Is that a fair representation?
Mrs Villiers: We are a new Government. This was a report produced by the previous Government. We will draw on it where we feel its conclusions are useful and its analysis is helpful. On other points, where we don't agree with it, no, we won't be adopting Eddington's approach.

Q500 Mr Leech: I think all Governments cherry pick what they want to cherry pick. Anyway, your area of responsibility in heavy rail has obviously been one of the biggest winners, if there can be any winners in the comprehensive spending review, but a large amount of that rail investment is for projects like Thameslink and Crossrail, and, obviously, ultimately, a commitment to High Speed 2. But, looking in the longer term, there are some big rail investments needed in the north as well, particularly the Northern Hub. How committed is the Government to supporting the Northern Hub as we move on in the future?
Mrs Villiers: There is some very good work being done on the Northern Hub by Network Rail and the affected local authorities. I was up in Manchester just a few months ago to talk through the proposals with those who are sponsoring them. It is certainly going

to be something that we will be considering very seriously for the next Network Rail control period. You will appreciate that it is a very formalised process and I cannot at this stage prejudge which of the projects will emerge at the end of the HLOS process are the ones that we will support, particularly of course because, ultimately, decisions are influenced by the ORR. It is not simply a question of the Minister signing at the bottom of a piece of paper. But I am very impressed by the work that has been done on the Northern Hub. I know that it could generate significant benefits and it is a project that I will be following closely. It must be a really strong contender for support in the next railway funding settlement control period.

Q501 Mr Leech: One of the fair criticisms of the previous Government was the imbalance between the amount of money spent in the south-east per head and the rest of the country. I don't think anyone would expect there to be absolute parity, but I think there was general consensus from MPs from all political parties that the north had fared particularly badly over the last few years in terms of transport spending per capita. Would it be your intention to try and redress that balance over the next few years?
Mrs Villiers: We certainly want to be fair between different regions. We also have an overarching policy, as I mentioned already this morning, to try and close the prosperity gap between north and south. One of the ways in which we could do that is by targeting our transport spending on projects which will generate growth in different regions. In the comprehensive spending review process the concerns of different areas of the country were certainly taken on board. There is a tension here in that, very often, the transport projects in London and the south-east can generate bigger benefits. We have to trade that off against the need to try and achieve our ambitions in terms of regeneration of the rest of the country. So we balance those factors to take on board not only the value for money and the economic generation of a particular project, but also balancing different regional interests and being as fair as we can be to different parts of the country. Indeed, there is a significant amount of investment going on in both road and rail which will benefit areas outside of the south-east. In particular, I think eight of the 14 major highways projects schemes are in the north of England. It's not an easy balance always to get right, but I think, also, we do need to acknowledge that investment in the south-east and London can generate benefits for the economy as a whole, which are felt right across the country.

Q502 Julian Sturdy: When we took evidence for the economic impact of transport in Birmingham, we were told that there had been a modal shift from road to public transport up there. Do you feel that as a Department you are seeing a slowdown in the use of road and more movement towards public transport, or do you think this is a slight blip, and that as economic growth comes back that will shift back to road?
Mrs Villiers: It is not easy to say there is a distinctive pattern or a single picture across the whole of the country. Obviously, a very severe recession has an impact on car journeys; it relieves congestion pressures on the roads. In some of our cities over recent years—Birmingham, but particularly I think in Manchester and Leeds—one has seen an increase in rail use as working patterns have changed. As the economy, say, in Manchester, has become more service-based, you get more rail commuting, on a similar basis to what we have seen in London over the last century or so. That does have an impact on modal shift, but I would not say that there is a set pattern which is occurring everywhere. As we have already heard this morning, road congestion continues to be an economic drag and so we continue to need to improve the public transport offer as an incentive for people to switch from road to rail. We also need to give local authorities the opportunity to invest in their local transport systems to try and help that goal.

Q503 Gavin Shuker: Minister, what would be the specific impact in terms of passenger numbers on the number of people using railways after RPI plus 3% is applied?
Mrs Villiers: We are very confident that rail passenger numbers will continue to grow strongly over future years, even with the additional rises. An estimate is that growth might be 4% less than it would otherwise have been if the RPI plus 1% formula had been continued. The situation we inherited, of a Government borrowing 25% of the money it spent every day, was simply not sustainable. Difficult decisions had to be made. Unfortunately, some of those difficult decisions have impacted on rail fares, but, as I say, I have every confidence that rail passenger numbers will continue to grow and the increase in fares will help us deliver vitally important capacity improvements which will improve conditions for passengers and generate economic benefits.

Q504 Gavin Shuker: Do you believe that the impact of that reduced growth will be equally spread across all socio-economic groups, men and women, or do you think it will disproportionately affect some people?
Mrs Villiers: In terms of the socio-economic impact of analysis of rail users, obviously in the south-east a lot of high-income groups use the railways. In terms of the overall decisions we took on the spending review, obviously we took on board the equalities impact and the social impact in the decisions we had to make, but the reality was that there were going to be some hard choices because of the deficit we inherited from the previous Government.

Q505 Gavin Shuker: So you did carry out an equalities assessment?
Mrs Villiers: We considered the equalities consequences and some of the social consequences of the decisions we made in the comprehensive spending review.

Q506 Gavin Shuker: Just specific to that decision on RPI plus 3%, you are saying that you did or you did not carry out an equality impact assessment?
Mrs Villiers: I don't believe that we carried out a full equality impact assessment, but my understanding of

the position is that we did look at issues around equalities and we did consider the impact it would have on different communities.

Q507 Gavin Shuker: Finally, in terms of your assessment of which groups it will disproportionally affect, are you able to illuminate us as a Committee?
Mrs Villiers: I don't think I can illuminate. I think probably I will have to write to the Committee to give you further detail on the work that has been done on that. I'm afraid it is not something that I have at my fingertips. *[Interruption.]* I am prompted that we do have impact assessments for the spending review.
Chair: We would like to have some information on that, please.[1]

Q508 Iain Stewart: Could I ask about the integration of strategic projects between different modes of transport? As an example, I cite the evidence we found in Birmingham when we visited the airport. There, they believe that, for a relatively modest capital outlay to lengthen the runway and the connection with High Speed 2, which will bring the journey time to central London to less than 40 minutes, they can effectively become an additional south-east airport, in addition to servicing the traditional Midlands market. Is that sort of consequential benefit factored into the planning of projects like High Speed 2?
Mrs Villiers: I am very much aware of the ideas that they have at Birmingham Airport for capitalising on a potential new connection to HS2 and the preferred route that has been put forward by HS2 Ltd. I think they are absolutely right. There could be tremendous opportunities for Birmingham Airport if the proposals for a HS2 stop at Birmingham International go ahead. Regional airports can play a crucially important role in supporting regional economies, but also, if we get the right connections, I hope they can play an increasing role in helping relieve overcrowding in airports in the south-east. So I welcome Birmingham Airport's enthusiasm for a high-speed rail connection. I think it could be very positive for them.

Q509 Iain Stewart: I use that just as an example. In the Department are you thinking strategically across all modes of transport in benefiting the economy, or do you look in isolation at rail projects, road projects and aviation projects?
Mrs Villiers: No. Obviously we want to focus across modes. That is one of the reasons why we have repeatedly talked about the significance of integrating airports like Heathrow into the new high-speed rail network. Just another example: in terms of the Felixstowe to Nuneaton connections between ports, we are looking at both the strategic freight rail network and road issues as well. There are all sorts of ways in which one can improve the performance of the transport system by focusing on different modes to get the right mode for the right solution. So, yes, of course, that is an important priority for us, to look in the round at how you can integrate different modes and use them most effectively.

[1] See ev 252

Q510 Steve Baker: Minister, we have talked a lot about growth and, for me, growth is about the accumulation of capital goods. Could you just explain how these transport investments will promote the accumulation of capital goods?
Mrs Villiers: I am not quite sure exactly what you mean by "accumulation of capital goods". Crossrail, for example, is arguably going to generate about £50 billion worth of economic benefits for the UK as a whole. The proportion of that which might be capital goods is not something of which I've seen a breakdown, but overall I think there is no doubt experience shows that if you upgrade your transport system you can connect labour markets and businesses to their customers, and you can improve productivity because people don't have to spend so much time stuck in a traffic jam. There are all sorts of ways in which improving transport generates economic prosperity.

Q511 Steve Baker: I am trying to think about how to follow up without delivering a short speech on it. What I am concerned about is that we have talked about rebalancing the economy so that the north is regenerated, and it seems to me that we have this tragedy that the north was our industrial heartland and yet it has degenerated and our growth now comes out of banking in the south and the south-east. You have described high-speed rail as being transformational. I am trying to understand how journeys that are a few minutes shorter between the south and the north will transform the north back into our industrial heartland or some other kind of economic heartland, because it just feels to me as if there might be some potential agglomeration benefits, some shorter journey times for salesmen, but I am not really clear how we get capital investment back into the north through shorter journey times.
Mrs Villiers: I believe that journey times with high-speed rail will be significantly shorter than they are at present. That will generate major benefits. Part of the proof of that is, if you go to the northern cities such as Manchester and Leeds, they are crying out for a high-speed rail connection. There is very significant support. They see that as a vote of confidence in the region. That kind of connectivity to markets in the south-east will be tremendously beneficial to those economies. It could provide a real step change and help us tackle an economic problem in this country which has defied Governments for the past 50 years. Again, looking at experience, say, in Japan, connections via high-speed rail have had tremendously beneficial impacts on regional economies by connecting them to economic powerhouses in other parts of the country.

Q512 Chair: Is there any economic development plan to go together with the plans for High Speed 2 to the north?
Mrs Villiers: Certainly, to get the maximum benefit out of high-speed rail we will need to be looking at integrating it with the local transport systems to spread the benefits. Looking overall at our regeneration plans, we think it's not just for high-speed rail but across the board. To tie in your

investment in transport in your transport policy with your ideas for planning and regeneration is tremendously positive. So, in all our programmes for transport and investment, we will be taking on board our goals in terms of regeneration and planning and the general economic situation.

Q513 Chair: On current plans, when would High Speed 2 actually get to the north?
Mrs Villiers: I don't have the dates in front of me. Have we set a date for Leeds and Manchester? No date has been set for the completion of the Y-shaped network, so we don't have a date for that at the moment.

Q514 Steve Baker: Earlier on you mentioned Lille and Canary Wharf. Thinking about the short and medium-term benefits for a particular group due to an investment and comparing that to the unseen costs on everybody else as a result of that investment, could you comment on the unseen costs of some of these major infrastructure projects? It may well be that Leeds is regenerated by a high-speed link, but to what extent do you feel we have completely covered the unseen costs on everybody else of implementing that piece of infrastructure?
Mrs Villiers: We have already started an exceptional hardship scheme to try and mitigate the costs to people who may already be affected by proposals for high-speed routes. Assuming we make progress on our plans, the statutory blight schemes will also address the problems caused by local environmental impact. Of course, projects of this magnitude do have a local environmental impact. That is partly offset by schemes like the EHS and the blight schemes under statute. The Secretary of State has made it clear that he wants to see a more generous scheme than the statutory minimum, but, also, in the process on which we are about to embark—a consultation followed by a Hybrid Bill—a tremendous amount of work is going to go into mitigating the local environmental impact and the effect of high-speed rail on the communities who live closest to it.

Q515 Steve Baker: May I just follow up on that, because my concern is slightly broader than that? As you know, people in Buckinghamshire have a particular concern, but more broadly than that, it seems to me the debate is polarising, particularly on high-speed rail, into those at each end who expect a benefit and those along the route who will see the direct impact. It strikes me that the whole country will end up paying for high-speed rail in particular. It is just an example, actually. People in Cornwall will contribute to high-speed rail but I am not sure how they will see a benefit.
Mrs Villiers: I think the whole country will benefit from the economic boost that comes with high-speed rail. I think much of the country is benefiting from the 68 miles of high-speed rail track that we have with HS1. Also, I think it is always worth remembering that the Chancellor has committed a significant amount of funding for investment in transport infrastructure projects right across the country. There will be benefits generated by high-speed rail which I think will impact on the economy as a whole and the competitiveness of UK PLC, but our programme for high-speed rail is accompanied by an extensive investment programme in our rail network and, to an extent, in our road network as well.

Q516 Mr Harris: I was going to return to RPI plus 3% for a second, but something you said on Crossrail intrigued me. Eddington said that the returns from projects designed to transform the economy are speculative. When the Crossrail Bill went through Parliament in 2008, the figure for its economic benefits was £18 billion. Actually, even at the time, I couldn't get from officials what time scale that was over. You have just said it is £50 billion, which is great, but that's quite an increase over two years. I don't expect you to answer at the moment but would you be able to drop us a note explaining why that figure has gone up such a lot in two years?
Mrs Villiers: I can certainly give you some more information on that £50 billion figure.[2] Possibly the difference here is that it would include some wider economic impacts which weren't perhaps assessed in the £18 billion figure that was in the Bill.

Q517 Mr Harris: I am sure that is what it is. I would be interested to see what that is. Heading back to RPI plus 3%, what discussions in the Department were there on the logic that, since rail passengers are so much wealthier than bus passengers or people who drive cars, they can bear the brunt of such an increase? Was that part of the thinking?
Mrs Villiers: No. I think that mischaracterises the discussions. We had to find a way to ensure that we could continue to deliver vital investments in the rail network, to address overcrowding and to support economic growth. We felt that it was just impossible to do that without asking customers to contribute more. I fully appreciate the concern about the level of rail fares, and that's why this Government is determined that the costs of running the railways will come down. I very much welcome the fact that Andrew Adonis set up the McNulty review. It is now vital that the work that comes out of that review gets costs down on the railways and explains to us why our railways in this country cost so much more to run, in order that we can deliver lower costs and better value for money. We have had to take the decision on rail fares but, absolutely, we know that there is a pressing need to get costs down on the railway to respond to the concerns of passengers.

Q518 Mr Harris: I only asked you because the Secretary of State said as much at a meeting of the All-Party Rail Group that I chaired in October. I think you may have been present when he said that because of the socio-economic balances of rail passengers they could actually bear the brunt of RPI plus 3%, more than other local transport users. But given that is the policy we now have, and given you have admitted that growth in passenger numbers will now as a direct consequence of that be less than what it otherwise would have been, how can you suggest that

[2] See ev 252

congestion on our roads will do anything except get worse as a direct result of RPI plus 3%?

Mrs Villiers: As I have said, there is a possibility that the growth figures would be less than they would otherwise be. It is no guarantee, but what I am absolutely convinced of is that passenger numbers will continue to grow, and they will continue to grow strongly. In terms of addressing congestion on the roads, we need to continue to have a wide-ranging strategy to try and deal with that, which includes road improvements, making better use of the road capacity that we have, improving reliability on our public transport system and making public transport as attractive as we can within the constraints of the crisis in the public finances with which the Government of which you were a member left us to grapple.

Mr Harris: I do remember. I remember your party supporting our spending plans up until November 2008 as well. But those are all the questions I have, Chair.

Q519 Chair: Is motor traffic going to increase? What are your predictions?

Mrs Villiers: In the past, car journeys have always increased and have tended to increase with the growth in the economy. There are arguments to say that you start to get to a point when the growth tails off, but we believe that car journeys are probably going to continue to increase. That is why it is absolutely urgent that we promote the uptake of ultra low carbon vehicles if we are going to decarbonise car transport and mobility. But also, we need to do what we can to improve our road network and ensure that the capacity we have is used in the most efficient way possible.

Q520 Chair: What are the Department's assumptions about the rate of increase? We have received evidence, some of it saying that the rate of increase of motor traffic is stalling and isn't going to recover.

Mrs Villiers: I would have to write to you on the detail on that, because I don't have it memorised, but I am certain that the Department could provide you with some more information about our expectations in terms of car traffic over the coming years.[3]

Q521 Kelvin Hopkins: Can I return to rail freight? Sir Nicholas Stern is rightly concerned to see what contribution transport could make to the climate change agenda and the Secretary of State mentioned the Government's climate change agenda when he came to see us. The fact is that, for heavy freight, road produces 12 times more CO_2 per tonne mile than rail, and even for lighter freight there is still an enormous difference. Yet—and I say this from experience—the Government and the Department do not take rail freight seriously. A lot of warm words are said, but actual investment in rail freight is very, very small compared with other forms of investment. Is the Department not looking now seriously at proper investment in rail freight so that we can get full-sized road trailers and containers on trains from one end of the country to the other, between conurbations and indeed through the Channel Tunnel? Isn't that what we need to make a real difference?

Mrs Villiers: One of my personal priorities in the discussions on the spending review was to safeguard the funding and support for the Strategic Freight Network. That project, from the previous Government, was a very positive piece of work. They engaged very well with industry in identifying some of the most important upgrades to the rail freight network. I was delighted when we were able to confirm funding for it in the CSR. Yes, of course, there is more that could be done with a move to European gauge. The reality is that a number of those upgrades would be expensive, but programmes such as improving connections between Southampton, the West Coast Main Line between Felixstowe and Nuneaton, and the Barking and Dagenham work are all important projects which will make freight more attractive as a mode for business. I think we have a positive outcome from the CSR on rail freight and I will certainly continue to press to maintain our priority for these kinds of projects in the future as well. Also, we have secured a budget for the mode shift grants as well.

Q522 Kelvin Hopkins: What is being done is obviously welcome, but the reality is that the amounts involved are so small by comparison with, say, the upgrade of the West Coast Main Line or whatever, and less than is going to be spent on upgrading Birmingham New Street and Reading stations, for the whole of the rail freight network. Is it not the case that we need dedicated freight capacity which can take Continental trains, which can't get through our platforms or our tunnels or under our bridges, and whatever you do with most of the main lines you are not going to get that? They will not be able to take road trailers on trains, which is what road haulage would need to make it worthwhile putting their stuff on trains, and it will not be able to take the full-sized containers—the 9 ft 6 containers—which are becoming standard for most of the network. Isn't the reality that we need a much more serious approach, with a dedicated rail network or rail line indeed from the Channel Tunnel to Glasgow, linking all the main conurbations? Would that not be more helpful in regenerating the north and making a real economic link between the north, those big conurbations and the continent of Europe?

Mrs Villiers: I can't agree that a dedicated freight network would generate more benefits than a high-speed rail network. As I've already said, I think there will be benefits for freight by building a high-speed rail network because it would release more paths on the existing network. There are many upgrades to our railways that could generate real opportunities for freight and, as a result, real economic and environmental benefits. It just depends what is affordable in the current climate; there is a limit to what we can afford. But I certainly take your points on board and I will continue to press to ensure that rail freight is given a significant weighting in the decisions that we make on policy, spending and budgets this year.

Q523 Kelvin Hopkins: The cost of such a route would be a tiny fraction of what is going to be spent

[3] See ev 252

on High Speed 2, but in my meeting with a previous Secretary of State with a team on this very subject I detected a degree of hostility by officials to such an investment. Have you any idea why officials are so hostile to major investment in rail freight?

Mrs Villiers: To be honest, that has not been my experience. Obviously, if you are talking about a specific scheme for a specific route, then inevitably that can sometimes cause anxiety because that might have an impact on local communities and speculation about what that might be. We know, given the lively debate we are having for high-speed rail, that one needs to be cautious when one starts talking about building new railway lines. But your experience of officials doesn't reflect mine. I can quite often have differences of views with my officials but I haven't noticed them being particularly anti-rail freight at all.

Q524 Chair: If we are looking not at a specific route but at the general principle of supporting freight on rail, are you supportive of that policy of encouraging freight to use rail and to make it more practicable for them to do so?

Mrs Villiers: Absolutely. We are very supportive of a switch from road to rail freight. We recognise that has economic benefits in terms of relieving congestion on the roads. It has environmental benefits, not just in terms of carbon but in terms of nitrogen dioxide. It also has benefits in terms of road safety because taking HGVs off the roads can help improve road safety. So there are all sorts of reasons why we are prepared and supportive of efforts to shift from road to rail where this is practical and environmentally sustainable. That is why we are investing in the Strategic Freight Network and that is why we have safeguarded the modal shift grants.

Q525 Iain Stewart: I would like to return to forecasting passenger numbers in the future, by any mode. All the assumptions and modelling is that we are all going to be moving around more in the future, for business, leisure, freight, for everything. When you are assessing the cost-benefit ratio for specific projects, do you factor in a "what if" scenario? Say the cost of energy goes up significantly or technological change means that we don't need to move around as much, commuting from home to work. Do you factor in those scenarios when assessing the cost-benefit ratios of specific projects?

Mrs Villiers: I might refer to Tera on that, as our expert on the economic analysis, if that is okay, Chair.

Tera Allas: I am the Chief Economist for the Department for Transport. Specifically in answer to your question, we use the DECC oil price forecasts and derive from that petrol and diesel prices; and we use all of the different scenarios they provide to do sensitivities around the impacts of those costs, both on demand and people's cost of driving. That gets incorporated into the sensitivity analysis of cost benefits. In terms of passenger numbers, similarly, depending slightly on the situation, it's a very big driver, of course, of the overall benefits of any particular scheme. But in our guidance we ask people to do very precise sensitivity analysis around that as well and very much encourage people to look for the break points, as it were, in terms of what you would have to have for this scheme to be a positive or a negative.

Q526 Iain Stewart: In all the projects that you assess, you assess the CBR and it is not always just taking the best case scenario. You will take the main point of the likelihood of—

Tera Allas: Absolutely not. The formal guidance that we provide in NATA is very carefully judged to be the kind of central scenario based on all the evidence we can get from other Departments but also from external academic stakeholders and others who have expert opinions in the field. It absolutely is trying to get to the best possible central scenario. That doesn't mean that those numbers will be correct, because there is huge uncertainty about even just economic growth rates on a per annum basis, and obviously about oil prices. That is why sensitivity analysis is so important in judging the quality of the outputs of the modelling and the cost-benefit analysis.

Q527 Chair: Can such modelling incorporate vision and things such as regional policy and wanting to change areas, to create opportunities? Can that be done in that mechanism?

Mrs Villiers: The processes of economic appraisal and NATA are a very useful aid to decision-making. They are very useful, in particular, in ensuring a degree of consistency between looking at different competing projects, but they don't include everything. They are not the last word, and they are just part of the range of factors that a Government has to take into account in the decisions that it makes. On top of the economic appraisal one obviously has to look at broader goals about north-south balance, regional equity and social justice. There are a whole range of things which, no matter how hard you try, you can't capture and turn into a number or even put a qualitative assessment on for an economic appraisal. In terms of the debate on economic appraisal, I think people have misunderstood its role. It's just one part of the decision-making process. It can help Ministers to make decisions, but it is not going to be the be-all and end-all. There are a whole range of issues that we have to look at in addition to an economic appraisal.

Q528 Julian Sturdy: Could we go to bus services? I know we are jumping about a lot at the moment. I do apologise for that, Minister.

Mrs Villiers: No, no.

Julian Sturdy: Rural bus services have been under the spotlight recently for a number of different reasons. Do you believe that community transport groups can play a role in delivering the vital links that the rural communities need and, more importantly, how does the Local Sustainable Transport Fund feed into that?

Mrs Villiers: Community transport is hugely important. Demand-responsive transport can be particularly important in rural areas. I have in mind particularly some great examples. For example, the Little Red Bus Company which operates around Harrogate has done some tremendous work in bringing together different sorts of transport.

Transport operators in different parts of the public sector are bringing them together and dealing with them together to create a network. There are other examples across the country that show the value of involving the voluntary sector in community transport also. We do hope that that kind of project is certainly something that could be supported by our Local Sustainable Transport Fund and this will be driven in part by the bids we get from local authorities. If they are interested in using the fund to support those kinds of projects, then we will happily consider their bids. The way we structure the fund to include revenue and capital funding will make it easier for that kind of project to get support from it.

Q529 Julian Sturdy: Will the bids have to come in through local authorities then? They won't come from outside?
Mrs Villiers: That is my understanding, but we do very much encourage local authorities to engage with the business community and with the voluntary sector as well. We are going to be producing more guidance fairly soon on how the process is going to work, but I am certain that a bid from a local authority will only be strengthened by links with business and links with the voluntary sector.

Q530 Julie Hilling: Staying with buses, I want to ask you this directly. In terms of the cuts to BSOG, what cuts do you think there will be in services related to that?
Mrs Villiers: The bus operators have indicated that they believe they can absorb the cuts to BSOG without fare increases. In terms of the impact on services, we can't tell with complete certainty what the impact on services will be, but we did our very best to minimise the cuts to BSOG. It was something that we discussed at length throughout the spending review. We very much recognise the importance of bus services, particularly in rural areas and for those on low incomes. Again, this was a difficult decision that we had to take in order to address the crisis in the public finances. But we will continue to support local authorities through the Formula Grant and through our Local Sustainable Transport Fund to help them deliver the bus services and any subsidies that they feel are appropriate in their local area.

Q531 Julie Hilling: We also heard some very alarming evidence from a previous witness around the effect of the cuts in support for concessionary fares and the effect that that's going to have on services. What effect do you think the cut in support for concessionary fares will have?
Mrs Villiers: You will appreciate that the Government has confirmed that the Concessionary Fares Scheme itself is being preserved and people's entitlements are not being cut. But, yes, we are seeking to reduce the administrative costs of the scheme and to make sure that it operates fairly. Essentially, a large part of the changes we are seeking to make is to ensure that no bus operator is being overpaid in relation to the scheme. We're continuing to work on that. We believe that it is possible to make significant savings and we believe that there is a case for reform to make those savings, to make sure that the administrative support for the scheme goes to the right people and the right places.

Q532 Julie Hilling: You have referred to cuts in administrative costs, What we were told was that the cuts to the support would have a very bad effect on services. So I am just wondering if you could tell us a little bit more about those cuts, because what you are saying doesn't seem to match up with what the bus operators said.
Mrs Villiers: This is a very live issue. My colleague Norman Baker is very focused on this, working with the local authorities and with the bus operators to try and ensure that we resolve this in a way that's fair. All I can say is that the changes we are seeking to make now are to remedy a situation where it seems in the past that certain operators have been overpaid, but, as I say, in terms of getting the solution right, getting the answer right, we will be working carefully to try and ensure that we minimise any impact on bus services.

Q533 Julie Hilling: Can I just ask one last question, because it does seem that, with an increase in rail fares, the 4% reduction in passengers you are talking about is potentially going to be people who have a lesser income that are being driven off the train service. The alternative that they are most likely to turn to would be bus services and, again, it looks like we are hitting probably the poorest in terms of a reduction in bus services. Have you looked in the modelling at that and whether that's true, because it just seems like the poorest are going to be suffering most with these cuts coming through again?
Mrs Villiers: Certainly, in the considerations throughout the spending review process, we were very aware of the social impact of changes to support for bus services. It was something that we very much took on board, it was the subject of lengthy discussions and that is one of the reasons why we have sought to keep to a minimum the cuts to BSOG. If you will remember, the speculation before was that BSOG was going to go altogether. I wish we hadn't had to make the cuts we've had to make, but they are a lot more moderate than was expected. We felt that it simply was inevitable that that budget—a significant element of our departmental spending—had to play a part in addressing the crisis in the public finances. If we could have found an alternative way we would have done, but it just seemed impossible to make the cuts that we needed to make without some impact on BSOG.

Q534 Chair: Buses can be vital to enable people to get to work. Has that been considered properly in your policies on cutting revenue support for buses?
Mrs Villiers: Certainly the social impact of the changes that are made in the CSR in relation to buses is something of which we have been very aware and on which we have focused. The use of buses by low income groups and the role buses play in connectivity in rural areas and in relation to people seeking work were all factors which we had very much on our

minds in the difficult decisions that we had to take on the CSR.

Q535 Chair: What did the appraisal show in relation to people's ability to get to work when they depend on buses to take them there?
Mrs Villiers: Tracey, here, was very much focused on the analysis that underlay the CSR. I don't know if there is anything that you think you could add on this.

Q536 Chair: Do you have information—if you don't have it now, I think we would like to have it—on what specific appraisal was done in relation to buses in enabling people to get to work and what the conclusions were?
Tracey Waltho: We certainly looked at the impact on the likely level of service provision and fares.

Q537 Chair: Specifically in relation to getting people to work?
Tracey Waltho: No; that was looking more generically. I will have to go back and look at whether there was more detail on getting people to work.
Chair: I think we would like information, please, on what work was done and what the conclusion was, specifically on enabling people to get to work. [4]

Q538 Steve Baker: On buses, in rejecting road charging, did you consider the ability of buses to price cars off the road? It just strikes me that if a bus is fully loaded with people, in an environment of road charging, it would actually price cars off the road and encourage the use of bus transport. Did we consider that situation?
Mrs Villiers: In making an overall decision on road pricing, certainly we considered how it would operate in practice. We decided that that's not the right option to pursue. For example, on the debate on the proposed Manchester congestion charge, I am sure there was a lot of discussion about whether congestion charging there would encourage people to use buses. Of course, a similar debate took place in London in advance of the introduction of the congestion charge, where I believe one of the consequences has been a shift from the car on to buses—that has certainly been the result in London. If there were charging schemes introduced elsewhere maybe that would be the impact, but we are not convinced of the merits of a national road pricing scheme.

Q539 Gavin Shuker: Obviously you have a role as the Minister for Aviation amongst your big portfolio of things that you have to deal with. Aside from cancelling the runways at Heathrow and Stansted, what work have you carried out that will improve passenger experience and our competitiveness with regard to air?
Mrs Villiers: We are focusing on a number of issues. First of all, we have signalled the intention to reform the way airports are regulated to have a much stronger focus on passengers and also to modernise the regulatory system, which at the moment is very focused on a big exercise every five years to set price controls. That is very important but it limits the flexibility of the regulator to react throughout that five-yearly period. By moving to a licence system, the regulator is going to be able to be much nimbler in responding to issues around passenger facilities and queueing times. In addition to that, we have established the South East Airports Task Force to engage with industry on how we improve the operational effectiveness of airports in the south-east and use the capacity that we have in a capacity-constrained environment in the most efficient way possible.
In terms of improving the passenger experience, one of our focuses has been on security. We believe, of course, that passenger security is paramount, but with reform of the system we believe that it's going to be possible to even enhance levels of security but also deliver them in a more efficient and passenger-friendly way. So we have a programme which we are planning to consult on in the new year to move to an outcome risk-based approach to security where the Government continues to set demanding standards and very high standards for security but gives industry more flexibility in how those are delivered. Another issue that we need to grapple with to improve our airports and the experience at them is border queues. This is something that the aviation industry has repeatedly highlighted as a problem. So we are working with the Home Office on that. We are also looking to the future in terms of developing our overall aviation strategy and the means by which we will provide the bigger picture. We will be publishing a scoping document early next year on our overall aviation strategy, and we will be looking for contributions from a wide range of stakeholders from the aviation industry, environmentalists and community groups.

Q540 Gavin Shuker: I have a couple of points to pick out from that comprehensive answer. Which airports do you consider are in the south-east, really simply?
Mrs Villiers: The major airports in the south-east are Heathrow, Gatwick and Stansted. Then, in addition, one has Southend, Manston, Luton and City. I'm not sure if I have the right examples.

Q541 Gavin Shuker: We all breathed a sigh of relief when you said Luton. With regard to the discussions on the South East Airports Task Force, we have had a witness, who said that he had wanted to be part of the discussions there.[5] Are you confident that the South East Airports Task Force is consulting widely enough?
Mrs Villiers: We are encouraging the task force to engage widely. The Department has a lot of other stakeholder groups which are broader than the task force. We had to trade off creating a group which was small enough to be effective against the concerns of everyone who wanted to be involved. It simply wasn't possible to accommodate all the people who wanted to be on the task force and maintain it at a size which is workable, but we invited the Airport Operators Association to take part so we are getting the

[4] See ev 252

[5] Mr Simon Buck, Chief Executive, British Air Transport Association. (Oral evidence, 7 December 2010)

perspective which goes beyond Heathrow, Gatwick and Stansted as well.

Q542 Gavin Shuker: How actively are you, as a Minister, engaging with that task force?
Mrs Villiers: I chair it and I am engaging with the work that is under way on a number of different work streams. So it's an important task for me personally.

Q543 Gavin Shuker: Just briefly, on air passenger duty, what are the Government's plans with regard to APD?
Mrs Villiers: Obviously this is a Treasury matter, so it would be more appropriate for you to talk to Justine Greening about this, who is the lead on this at the Treasury. The Department for Transport has been providing data and analysis to assist the Treasury in assessing the different options.

Q544 Chair: The Department must have a view on the impact of air passenger duty on airports and travel. Are you telling me you don't have any view at all?
Mrs Villiers: Certainly we have a view on air passenger duty generally and it's—

Q545 Chair: What is that view?
Mrs Villiers: The reality is that air passenger duty provides a significant amount of income for the Exchequer and it would be difficult to fill that hole with alternative sources of income. Air passenger duty is a part of the way in which we are continuing to fund schools, hospitals and transport systems.

Q546 Chair: From a transport point of view, what impact does it have on aviation?
Mrs Villiers: Obviously, it will have an impact on the choices people make in terms of their holiday and travel plans, yes. Yes, it has an impact and that sort of analysis—

Q547 Chair: So what are the views that you passed to the Treasury in relation to the impact of air passenger duty on aviation?
Mrs Villiers: Certainly, my understanding is that where the Treasury asked for information on how different scenarios and options would work, then we have supplied analysis of what the impact might be on aviation.

Q548 Chair: Are you saying that your Department does not express a view on the impact of air passenger duty on aviation?
Mrs Villiers: No, I am not saying that at all.

Q549 Chair: So what is the view that you passed to the Treasury—not the analysis, a policy view? What information did you give? What views have you passed?
Mrs Villiers: In terms of the impact, what we have been working on with the Treasury in their options for change is what the impact would be on the aviation industry. That is one of the most important inputs we have had so that the Treasury, when they make their decision on what they do with air passenger duty, will have data and projections that we have provided on the impact on aviation. Absolutely—that is a key role for us in this process. They make the decision.

Q550 Chair: What is the current assessment that you have made?
Mrs Villiers: I don't quite understand the question. Obviously APD has an impact on people.

Q551 Chair: Come on, come on. Minister, you are in charge of this area.
Mrs Villiers: But the—
Chair: Would you let me ask you the question? You might not wish to reply but you cannot tell this Committee that as the Minister responsible you have not made an assessment of the impact of air passenger duty on aviation. We have heard representations, particularly from regional airports, that they believe that air passenger duty is damaging to them. You cannot tell me that you as a Department have not expressed a view to the Treasury on that.
Mrs Villiers: Of course we have a view.

Q552 Chair: So what is the view you have expressed?
Mrs Villiers: The view is that of course air passenger duty has an impact on aviation, but the public finances—

Q553 Chair: No, Minister. That is an issue that Government has to have in its mind when taking overall decisions. I am asking you now, as the Minister responsible for this area, what view have you expressed to the Treasury about the impact of air passenger duty on regional airports?
Mrs Villiers: If you are talking about regional airports specifically, in terms of the analysis of the differential impact of APD on regional airports, certainly that is something I have discussed directly with Justine Greening, and I am sure—

Q554 Chair: What have you said? You've told us you've discussed it. Now, what have you said? Do you consider it damaging or not damaging?
Mrs Villiers: Certainly, APD has an impact on passenger choices. If you tax something, then it has an impact on the industry and passengers who are affected. I personally emphasised to colleagues at the Treasury, in terms of whatever reforms they are going to make to air passenger duty, or indeed decisions they take on levels of air passenger duty, that it is vitally important to take into account the impact on regional airports, because of the pivotal role regional airports can play in their regional economies. It's something I have raised repeatedly.

Q555 Mr Leech: I have just a very quick follow-up on that and then I want to move on to another area. Would you accept that there is a case to look at variable APD in terms of the growth of regional airports and trying to encourage planes to travel to regional airports rather than airports in the south-east?
Mrs Villiers: It's certainly not impossible to envisage a situation where there could be a more significant tax on Heathrow or airports in the south-east. It's not something that is inconceivable, but ultimately that

will be a matter for the Treasury to decide, not the Department for Transport.

Q556 Mr Leech: I thought that might be the case. Moving on to NATA, in opposition, both yourself and Norman Baker were fairly critical of the NATA process and the coalition Government has issued a review of the NATA process. A number of our witnesses, including Manchester Airport, have argued that there should be a greater emphasis on the real economy, the regeneration and wider economic benefits. Do you agree that that needs to have more of a focus in the appraisal system?
Mrs Villiers: Certainly, the broader appraisal system does take into account some wider economic benefits.

Q557 Mr Leech: They were suggesting that it needs more of a focus on that real economy.
Mrs Villiers: I certainly think assessment of wider economic benefits is a very important part of the process and I would happily look at their ideas for enhancing the weight given to those wider economic benefits. I think they are important.

Q558 Mr Leech: In terms of the actual potential changes in the appraisal process, is there any area of the appraisal process to which there should be less attention than there currently is, and what impact would that have on the appraisal process?
Mrs Villiers: Certainly, there is one change that has already been made, which is to downgrade the importance of increases in fuel duty, whereas they were previously deducted from the cost of a project. I think that will give them far too much weight, particularly in an era where we are trying to encourage people to cut down fuel and to cut emissions. That has already started to be used. I can understand a lot of the environmentalists' concerns about the value of small time savings, so that is something that we are considering in relation to the announcement we will be making next year on a reformed NATA. My understanding is that probably the approach we are going to be taking is that those small time savings could still be there as a line but they will be separated out so that Ministers, when they take a decision, can decide how much weight to give them. I think that hopefully should provide some reassurance for some of the environmentalists. There are other factors where I think we can probably upgrade the importance of different factors. For example, we need to get better at measuring the benefits generated by more reliable transport services. That is not something that NATA is currently very good at assessing, and there is real scope for placing more emphasis on that. A lot of those changes might help enhance the business case for public transport projects.

Q559 Mr Leech: Is the real cost of carbon going to have a bigger focus than it currently does?
Mrs Villiers: Certainly, the early change we have made is to use the new higher DECC values for carbon. They informed the decisions that were made on the CSR, so we have already taken steps on that. Also, it is probably worth emphasising on the appraisal process as a whole that we will have the announcement next year about an upgrade, but the systems are continually under assessment. I think, in the future, we will probably find even more and better ways to give greater weight to climate change impacts and other important issues.

Q560 Mr Leech: Finally, do we have a deadline for when the appraisal process will have been changed and when the announcement is going to be made?
Mrs Villiers: I think it is April 2011.
Tera Allas: As the Minister has just explained, it is a continual process. But the specific changes that she has already mentioned have already been made. The other changes we are looking to make by April 2011, but there will continue to be other things that we will want to look at and improve on in terms of monetising and including impacts for several years to come, so it will not ever be fully, fully finalised. We can get you a schedule, if you would be interested in the specifics, and when we are expecting them to be definitively part of the NATA guidance.[6]
Mr Leech: I think that would be helpful, yes. Thank you.

Q561 Chair: What plans do you have for sub-national arrangements in dealing with transport? The Secretary of State has indicated to us before that Local Enterprise Partnerships on their own are not going to be sufficient. Is there any further thinking on that? In fact, he did say to us that he thought a different arrangement would be in place by the end of the Parliament. Can you tell us what you are thinking about and if we have really got to wait until the end of the Parliament to have such arrangements?
Mrs Villiers: I think, as we discussed in the Westminster Hall debate, although it may be the end of the Parliament by the time a formal system is set up, that doesn't mean that in the interim we won't be engaging closely with local authorities and LEPs. The worries the Secretary of State has about LEPs at the moment is that they are relatively small geographic units. This Committee will well appreciate that in getting the right transport solutions often it makes sense to look at a relatively large geographic area. But there is every possibility, with LEPs getting together and co-operating in terms of proposals on transport and transport planning, that we will be able to a develop a process where they can have a really significant input into decisions made on which projects to prioritise. We really do see a valuable role for engagement with LEPs in determining how scarce public sector funding is allocated.

Q562 Chair: The issue of concern is not to do with local roads or local transport issues: it is to do with more strategic schemes. It has been generally acknowledged that the current situation is not adequate—certainly not at the moment. So you are saying that you would look to make arrangements between LEPs and local authorities, and that process would develop?
Mrs Villiers: That seems to be the best way forward. The idea of a completely separate additional structural on top I don't think is what is being contemplated

[6] See ev 252

here. It is in tune with the CLG bottom-up approach. What we want to see though, to get the best decision-making, is LEPs starting to work together so that they can start looking at these bigger strategic issues which can affect a wide-ranging area. I was always particularly interested in travel-to-work areas. LEPs getting together on that kind of basis I think could be very positive in enabling them to take the right transport decisions and help us make decisions about allocation of funding as well.

Chair: Thank you. I know that you are anxious to go to a conference, so I think we will release you now. Thank you very much for coming.

Written evidence

Written evidence from the London Borough of Newham (TE 01)

1. Summary of Key Points

1.1 East London is set to become the capital's economic powerhouse over the next decade. Over time, it will be the key strategic location for trade, commerce, leisure and development in London. It is estimated that at today's prices, raising the productivity of the Thames Gateway to the same level as the Greater South East would contribute around £13 billion to UK GDP.[1] In other words, success here has a national impact.

1.2 Currently, there is no recognised major transport hub in East London. Stratford, which already has the capacity and the connectivity, and is at the centre of London's major development plans for the next twenty five years, is ideally placed to become the UK's newest transport hub serving the Britain of 2025.

1.3 Transport infrastructure is absolutely critical to realising the unparalleled opportunities for growth in this part of the UK. If we fail to develop the necessary conditions for the capital's growth in the next decade, companies will choose to invest in other cities around the world which are more conducive to development. It would be a debilitating mistake to let this happen.

1.4 High speed rail is part of the transport package that East London needs to support its economic development; which also includes ensuring that Crossrail is delivered in full, along with the Thames Gateway bridge and the extension of the Docklands Light Railway (DLR). Delivery of these three major transport projects together will determine the extent to which the regeneration potential of the Royal Docks—a key Opportunity Area in the London Plan and part of the Green Enterprise District vital to supporting a low carbon economy—is realised. Given the cancellation of the Thames Gateway Bridge, it is particularly vital to the regeneration and economic development of the area that the Crossrail South East branch, currently subject to reappraisal, is delivered.

1.5 More information is available on these issues should it be of interest the Committee. However, this submission focuses specifically on the contribution that high speed rail would make as a key driver of the local and national economy, if Stratford were utilised as a high speed rail "hub".

1.6 Over £210 million worth of public money has already been invested making the station fit for its purpose as an international station, yet no international services currently stop at Stratford. It is an international station in name only. One of its roles was intended to be the London stop for international services originating in the UK regions—the Committee will recall that over £350 million was expended on purchasing Regional Eurostar train sets which have never been used for these services. Together with the cost of a link between the West Coast Mainline and the Channel Tunnel Rail Link, well over £600 million has been invested to enable the regions to benefit from links to the European high speed rail network, none of which have been realised.

1.7 However, Stratford has a large catchment of potential users even without supporting regional international services. We believe that there is a commercial case for operators on the current High Speed One line to stop at Stratford and have independent evidence which supports this. In their report (attached as an appendix), Colin Buchanan Associates found that stopping at Stratford is financially viable, would see two million passengers opt to use the station annually and deliver £600 million in user benefits in the evaluation period (based on the Department for Transport's own methodology for valuing journey time savings).

1.8 We are keen to ensure that the UK maximises its investment in new transport infrastructure, specifically in the new high speed rail line (High Speed Two). The new network should generate longer term growth, development and investment in the country.

1.9 The debate around high speed rail has for too long been based on the assumption that the UK's transport needs tomorrow will be the same as our needs today. Yet the new line will not open until the mid-2020s. Planning for how our transport infrastructure, and economic growth, will develop in the next two decades will be critical in ensuring that we maximise the potential of high speed rail for the whole of the UK and gain a return on our investment. Stratford is a key strategic location in the future UK economy, and has a major role to play within this agenda. Yet we are concerned that current plans are not exploiting economic trends or major areas of future growth, such as East London.

1.10 We miss a huge opportunity if the objective of our new high speed rail network is solely to cut journey times within and between UK regions. This is a chance to open up the West Midlands, Northern England and Scotland to European trade and investment and create a real driver for our economic recovery through easier access to European trade and industry.

1.11 Yet current plans remain focused on a line which does not connect High Speed One and High Speed Two. This is despite the fact that both the current Secretary of State for Transport and his predecessor have said they see the strategic argument for linkage; especially in the context of building a railway line for over 100 years of use. There is a distinct risk that a series of discrete high speed lines will be built that fail to join up, rather than a network. Stratford is the location which can facilitate a more joined up approach.

[1] *Return on Capital: a prospectus for the future of the London Thames Gateway,* Thames Gateway London Partnership http://www.thames-gateway.org.uk/

1.12 With the new network, we are presented with a unique opportunity; to join the three major transport projects of our generation together, creating the foundations for future economic growth. Connecting the Crossrail link to Heathrow with High Speed One and High Speed Two—in one strategic location—would transform business in the UK, and act as a catalyst for future investment.

1.13 We would welcome the Committee to Newham for a site visit around Stratford and the station, to see the potential and scale of the development opportunity here, and present in person our case for Stratford as a transport hub, and its relevance as a strategic location for the UK economy.

Main Submission

East London Moving East

2.1 East London is expected to become the economic powerhouse for the capital over the next two decades. Take some simple statistics:

- East London is expected to accommodate up to 249,000 new jobs by 2016—nearly 40% of London's total employment growth. It will be the location of a third of all London's new homes.[2]
- Over 20 years, the GLA predicts a population increase of 260,000 people in the five Olympic host boroughs alone, the equivalent of a whole new borough the size of Newham. These boroughs are already home to one sixth of London's population.[3]
- The Mayor of London's replacement London Plan cited East London as the single most important regeneration priority in the capital for the next 25 years.[4]

2.2 Stratford holds a unique strategic position in the economic development of London and the UK as a whole. Within the next decade, it will have become London's major metropolitan centre outside the City and West End, with the development of a high quality commercial, residential and retail offering, including Westfield Stratford City and the Olympic parklands. Stratford will be a prime visitor attraction; a vibrant area to work and do business; and a fantastic place to live.

- Stratford City will be a new major metropolitan centre within the next decade.
- Stratford is home to the Olympic Park, the biggest new urban park in the country. 10,000 new homes are anticipated on and around the Olympic site alone.
- It already has five million square feet of consented office space.
- Westfield is opening the biggest urban retail development in Europe at Stratford. Westfield's £1.5 billion scheme includes 340 shops opening in September 2011.
- It is the growth hub along with the Royals for the Mayor of London's Green Enterprise District.
- Stratford already enjoys enviable transport connections into west London, the City and Canary Wharf. It currently takes around 12 minutes to travel to Canary Wharf, 20 minutes to Oxford Circus, and 25 minutes to Westminster (all direct services). This connectivity will be further supported by the opening of Crossrail in 2017, which will link Stratford to Heathrow in the West.

London City Airport, the O2 arena, the International Convention Centre and the ExCeL centre, are all a short journey from Stratford. The O2 and Greenwich Peninsula is less than 10 minutes away, and has planning permission for 10,000 new homes and 3.5 million square feet of office space.

2.3 The critical point in our argument is that we look at the *future* economic landscape of London. Stratford is often referred to as being ruled out because it is "too far out" or in "Outer London". This fails to grasp the development trends of the capital over the next decade. It also ignores the current connectivity of Stratford, and the ability for Stratford to be the London stop if the two high speed networks are connected. This would connect us into the European rail network, and eventually open up the regions and Scotland to European trade and business without the need for aviation.

2.4 The advantages for Stratford as a high speed stop are set out in bullet point form below:

- Growth at Stratford and appetite to invest is unparalleled across the rest of London (potentially the UK), but requires transport infrastructure and would be hugely supported by high speed rail.
- This growth also makes Stratford a destination in its own right over the next decade. There is no major transport hub in East London despite its rapid projected development over the next decade.
- Stratford has the connectivity to central London, and a large catchment area which would generate more passenger numbers.
- Stratford International has the capacity to accommodate high speed rail and has already received £210 million of investment to make it an international station. With the addition of a feature called the eastern egress walkway, the capacity of the station for traveller numbers has been doubled. It is vital we "sweat the use" of such a transport asset.

[2] 5 Host Boroughs Strategic Regeneration Framework (2009)
[3] 5 Host Boroughs Strategic Regeneration Framework (2009)
[4] Draft Replacement London Plan, Mayor of London, p.33 (2009)

— Using Stratford is not mutually exclusive from using Euston as a terminus but it can relieve the pressure by dispersing excessive traveller numbers from there, providing a more sustainable solution.

— It can facilitate the joining of High Speed One and High Speed Two which would connect us into the European rail network and make us "open for business" with Europe without the need for extra aviation.

— It supports the economic regeneration in East London, consolidating investment in the Olympic and Paralympic Games, and other urban regeneration in the borough.

2.5 The report by HS2 Ltd on the new network nevertheless indicated Euston as the London terminus, but gave no commitment to direct connection between the High Speed One and High Speed Two lines and no role for Stratford.

2.6 Population growth around Euston has already peaked while it is set for a huge rise in East London. The expansion needed for Euston to be a terminus station is very considerable. Our suggestion is that Stratford takes some of the extra pressure from Euston as a consequence of the two high speed lines being joined together. Passengers using Stratford would include those from the Midlands, the North West and beyond to Europe, with the London stop at Stratford, as well as intercity travellers whose end destination is the rapidly regenerating East London. Our proposal is not mutually exclusive to Euston also being a terminus, but the argument for utilising Stratford as an existing asset in the system is absolutely compelling. It would create a more sustainable solution for the future needs of the capital and promote investment in the East; a powerful symbol that we are "open for business". It would also, critically, facilitate the linking of the two networks.

2.7 Stratford covers one of the widest catchment areas in Greater London and is easier to get to by car, taxi and public transport than St Pancras for everyone, except people coming from West London. It is also more convenient than Ebbsfleet for many people living in the densely populated surrounding area. It has much better links to East Anglia than Kings Cross. And as the planned economic development continues in the East, more passenger numbers will be generated.

2.8 However, the right infrastructure is absolutely vital to capitalising on this potential for growth and regeneration. If we do not provide the right conditions for the private sector to invest over the next decade, it may not happen.

Regeneration and Convergence

3.1 Stratford International has received over £210 million of public money to ensure that it is fit for purpose to have international services stopping there. The High Speed one route was selected with regard to the regeneration benefits to the Thames Gateway and East of London.

3.2 It is estimated that at today's prices, raising the productivity of the Thames Gateway to the same level as the Greater South East would contribute around £13 billion to UK GDP.[5]

3.3 The regeneration benefits seen at existing Eurostar stations have driven at least £6 billion of gross development value.[6] A report for London and Continental Railways on the total regeneration benefits of High Speed one estimated these as £17 billion. In response to the Committee's specific question as to whether the current methods for assessing proposed transport schemes are satisfactory, we remain concerned that regeneration benefits are not fully taken into account in the appraisal of major transport schemes. In many transport schemes (the Thames Gateway Bridge is another local example) regeneration benefits were not fully included in the Benefit to Cost and investment appraisals.

3.4 High speed rail could have a crucial part to play in transforming the local economy and making East London a place where people in the future want to live, work and stay. According to the recent Government command paper authored by High Speed two, the new London-Birmingham line could bring at least six of the major cities of the Midlands and the North to within 80 minutes of London; supporting housing growth and business development around the new route.[7] This will support East London's bid for Convergence with the rest of the capital: closing the gap between East and the rest of London in terms of quality of life and economic value to the UK over the next 20 years. It will also support us becoming a net contributor to the UK economy, rather than a borough which is more reliant on the redistributive finance system.

Business Backing

4.1 We have considerable backing for Stratford as a high speed rail centre, from major companies which are already investing in East London and which want to continue to do so. We attach a list of endorsements for our case.

4.2 These businesses, and others, see the benefit of creating a high speed rail centre in Stratford, and stand ready to invest further in East London. It is for politicians, rail operators and other decision-makers to

[5] *Return on Capital: a prospectus for the future of the London Thames Gateway,* Thames Gateway London Partnership http://www.thames-gateway.org.uk/

[6] Development press releases, Kings Cross Central Limited Partnership, Stratford City development limited.

[7] High Speed Rail Command Paper, p.13 (Mar 2010), p.61

wholeheartedly back Stratford as a high speed rail hub, supporting private sector investment and economic development, and making the most of the investment in a new network by sweating existing assets and understanding economic trends.

August 2010

Written evidence from the Federation of Small Businesses (FSB) (TE 06)

The Federation of Small Businesses (FSB) welcomes the opportunity to respond to the above named consultation.

The FSB is the UK's leading business organisation. It exists to protect and promote the interests of the self-employed and all those who run their own business. The FSB is non-party political, and with 213,000 members, it is also the largest organisation representing small and medium sized businesses in the UK.

Small businesses make up 99.3% of all businesses in the UK, and make a huge contribution to the UK economy. They contribute 51% of the GDP and employ 58% of the private sector workforce.

Many small businesses rely on the road networks to visit customers, distribute finished products or obtain raw materials. An efficient road network with minimal congestion is therefore essential.

We trust that you will find our comments helpful and that they will be taken into consideration.

1. Small businesses are highly dependent on transport. When asked, in a recent survey, what the preferred mode of transport was for journeys over 200 miles, 54 & of respondents said car, 33% said air and 31% said rail.[8]

2. This suggests that when small businesses need to travel they travel by car. The road network is crucial to the survival and more importantly the growth of small businesses. Many small businesses rely on the road networks to visit customers, distribute finished products or obtain raw materials. An efficient road network with minimal congestion is therefore essential. This fact has not changed since the publication of the Eddington Study in 2006 and is unlikely to change in the near future.

3. Funding of road networks is therefore of great importance to small businesses. The FSB has traditionally been opposed to any form of road pricing. In an FSB transport survey carried out in September 2009, 58% said that it is completely unacceptable to introduce a road-pricing scheme. FSB members feel they are putting enough funds towards the transport system through road tax and petrol duty.

4. Typically small businesses trade within their local vicinity and therefore travel to customers and clients by car. 60% of small businesses have said that it is not relevant for their business needs to travel by air, because they never travel that far.[9]

5. Another reason why small businesses prefer to travel by road is that it is considerably cheaper than rail; especially if more than one person is travelling. Small businesses have to pay their own rail fares and as flexibility is not always possible, by booking in advance, small businesses often lose out on potential savings. The cost of rail travel has to be improved if usage is to be increased.

6. Looking at how toll charges affect small businesses only 4% of respondents in an FSB survey said they were affected every day. Just over a quarter of respondents, or 26%, said they were affected every month. More than half, or 60% of respondents, said that they were not affected at all by toll charges in their regular business travels.[10]

7. When asked whether respondents would change route to avoid toll bridges/roads/tunnels, 48% said they would change their route and.[11]

FSB Regions and the Devolved Countries

8. On a regional level matters get more complicated and down to detail due to the considerable regional variation of transport density and congestion. The FSB has not yet collected extensive data from every region but by way of example FSB members in the East of England have said that they are strongly in favour of the campaign to upgrade the A11 by dualling a section of the road.

9. In the South West, FSB members have said that a significant part of the productivity gap stems from the time distance separation from major population centres. Each 100 minutes of travel time reduced productivity by 6 percentage points.

10. The major strategic need for the South West is a second primary route. The M4/5 corridor is increasingly liable to closure as a result of accidents. On such occasions, the absence of alternative routes means the South West is effectively shut off from the rest of the UK. This is not acceptable from a business perspective.

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[8] FSB Airport Survey, December 2009
[9] FSB Airport Survey, December 2009
[10] FSB Transport Survey, September 2009
[11] FSB Transport Survey, September 2009

11. Although transport is a devolved issue, English transport policies and projects are of great significance to small businesses in Scotland, Wales and Northern Ireland.

12. Transport systems are vital as trade routes, and it is important that ports, airports and road networks in particular are as efficient as possible to ensure ease of movement of goods and freight throughout United Kingdom and beyond.

13. Similarly the Rail network—mainly development of High Speed Rail as well as issues around fuel duty is of importance to the devolved countries.

September 2010

Written evidence from Malcolm Griffiths (Bluespace Thinking Ltd) (TE 07)

The Select Committee for Transport (The Select Committee) ask whether conditions have materially changed since The Eddington Transport Study, December 2006 and what the priorities for transport should now be, in order to deliver growth, both nationally and regionally.

The Eddington report, published in 2006, is based predominantly on 1990–2004 studies and data. [1]

1. Summary

1.1 Our principle finding is that the current methods of analysing and prioritising projects are not sound. The processes are over detailed and the guidance is based on very old data both for forecasting demand and evaluating benefits. The methods and assumptions used have a systematic bias towards long term, long distance, high risk, capital projects. The flaws in the analysis are evident by the application of degree level mathematics/statistics.

1.2 Domestic travel growth since 2000 has been less than predicted. The UK is reaching a per person travel saturation point consistent with the experience of other European countries. The impact of the internet, communication technologies and low cost international air fares have reduced the demand for domestic travel/person below that anticipated in the Eddington study.

1.3 The UK economy has grown 16% in real terms since 2000. The growth has been in education, health, property and financial intermediation. These areas of the economy are not significant transportation users and there is little evidence of an economy trickle down effect to or from transportation. Manufacturing and agriculture have declined since 2000 impacting employment and economic growth in the regions.

1.4 The recession has resulted in reduced commuting and leisure travel but has not altered the longer term priorities. The Eddington study and the subsequent 2007 DfT Transport Strategy recommend that transportation spending focus on the improvement of existing networks to reduce congestion. These recommendations remain valid.

1.5 The HS2 High Speed Rail proposal provides a case study that shows the shortcomings in the evaluation and decision making system. Failure to predefine the problem and to develop full strategic alternatives for evaluation are major issues of process. Use of old data and failure to accurately understand and model demand are issues that have fundamentally flawed the analysis of HS2 and possibly other "strategic" projects.

1.6 Intense political lobbying prior to analytical evaluation results in substantial miss-information in the public domain concerning travel demand and environmental impacts. These problems are highlighted in the HS2 proposals.

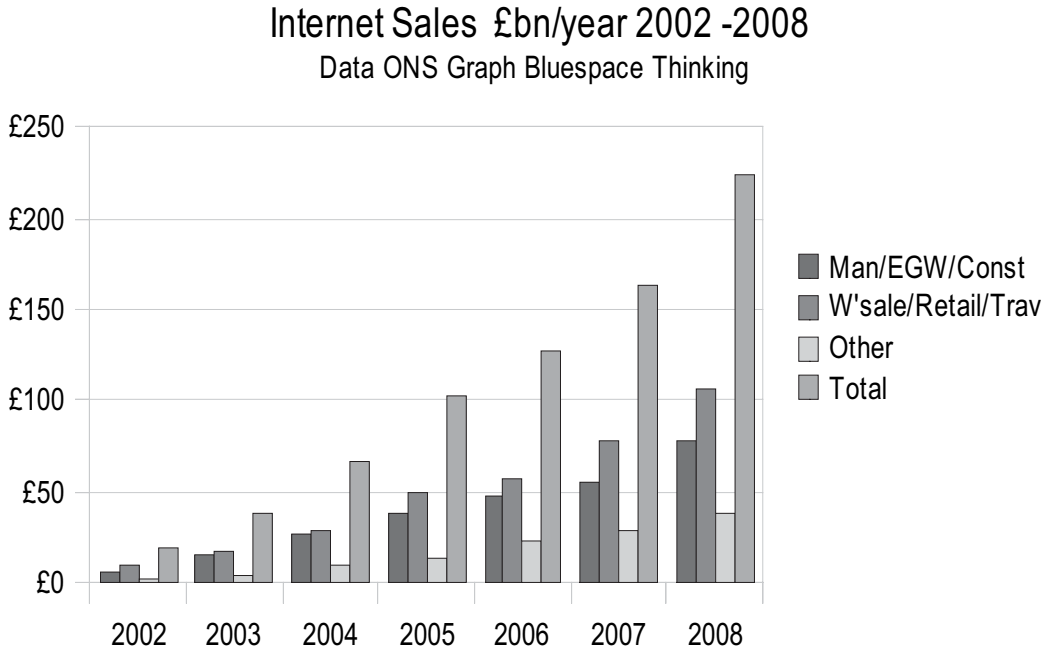
2. The Economy, Employment and Poverty

2.1 From 2000 to 2009 UK GVA (Gross Value Added—the difference between output and consumption for any given industry or sector) had increased by 16% in real terms to £1260 billion. The growth has came from public administration, defence, education and health (£41 billion), construction, property, rents & related activities (£59 billion) and financial intermediation (£47 billion). In the same period manufacturing and agriculture declined by £50 billion. [2]

2.2 Employment over this period increased by 3% to 30.8 million with a peak of 31.7 million in 2008 [3]. The overall economic and employment improvement that had occurred to 2008 hides the fact that the 50% lowest income families had actually reduced after tax spending power in real terms. The wealth gap between the highest 20% and the lowest 20% has widened continuing to leave in poverty approximately 37% of children in the UK. [40].

3. The Internet

3.1 UK sales of none financial goods and services over the internet have increased since 2000 to £223 billion in 2008 or 10% of relevant sales. Total ICT sales were £315 billion. [5]



3.2 As well as sales, the internet and other ICTs (Information and communication technologies) inpact the extent and effectiveness of peoples travel. As examples mobile phones allow routes to be changed immediately in response to changed circumstances and sat navs help travellers avoid congested areas caused by accidents and other events.

3.3 In 1998 the government recognised that "E-commerce has a huge impact on the way we do business". Reduction of travel is a significant part of the improved efficiency predicted, the use of ICT has the potential to further reduce travel. It also changes freight travel patterns, with goods ordered over the internet HGV deliveries to retail shops are reduced in favour of direct van based deliveries from manufacturer or distributor to the customer.

4. Transportation

4.1 Although there has been overall economic growth the impact on transportation demand caused by the the internet and other changes can be seen by the decline in shopping, commuting and business travel/person which have reduced by about 16% /person since 2000 [7].

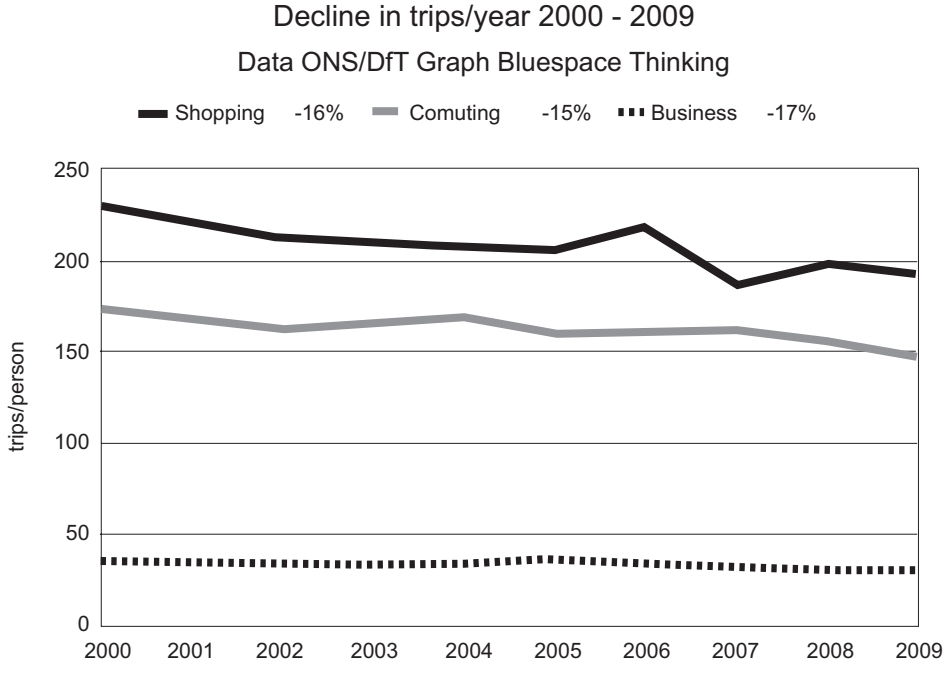


Figure 2

4.2 Leisure travel, (day trips, holidays and entertainment) has increased by 20% since 2000 [7] however the biggest impact of leisure travel is a redistribution of wealth. In 2009 the UK received £16.5 billon from 30 million international visitors but during 69 million UK trips abroad we spent £32 billion, a deficit of £15.5 million [8]. Redistribution also occurs in the UK, based on Transport for London figures the number of domestic overnight visitor to London have reduced from 18.5 to 11 million from 2000 to 2006 but they still spent £2.2 billion in London rather than in their home location or other regions [9].

4.3 Since 1995 there has been a 15% decline in the percentage of driving license holders under 30 [4]. The cost of learning to drive, insurance and car ownership may be prohibitive for those from less wealthy families. For those living in areas without good public transport this is a significant obstacle to gaining employment, perpetuating a downward cycle.

4.4 In the regions, local bus transport has reduced by an average of about 12% since 1995 with greater reductions in rural areas [7]. Generally the cost of public transport has risen at or above RPI so the cost of transport to work is a higher proportion of after tax income for those from less well off households. At the same time rail subsidy has continued to increase for those in the highest 10% income households to be almost five times that received by the lowest 10%.[40]

4.5 The recent budget with the increase in tax and NI thresholds along with a reduction in benefits is an attempt to encourage fuller employment. As well as employment opportunities ease of getting to work is important. Commuting congestion, car sharing/pooling and access to low cost public transport are the transportation aspects that will contribute to reduce the wealth gap and help grow the economy.

5. Travel Forecasting

5.1 Eddington and other mode/project specific DfT studies predict future travel growth by extrapolating from the past using elasticities primarily linked to GDP [10]. These are mis-leading at higher levels of GDP/capita because travel saturation /person occurs. One reason for saturation is the time people have available for travel and the activity at the end of the travel. ONS studies in 2005 show average UK time spent away from home was already 27% [11].

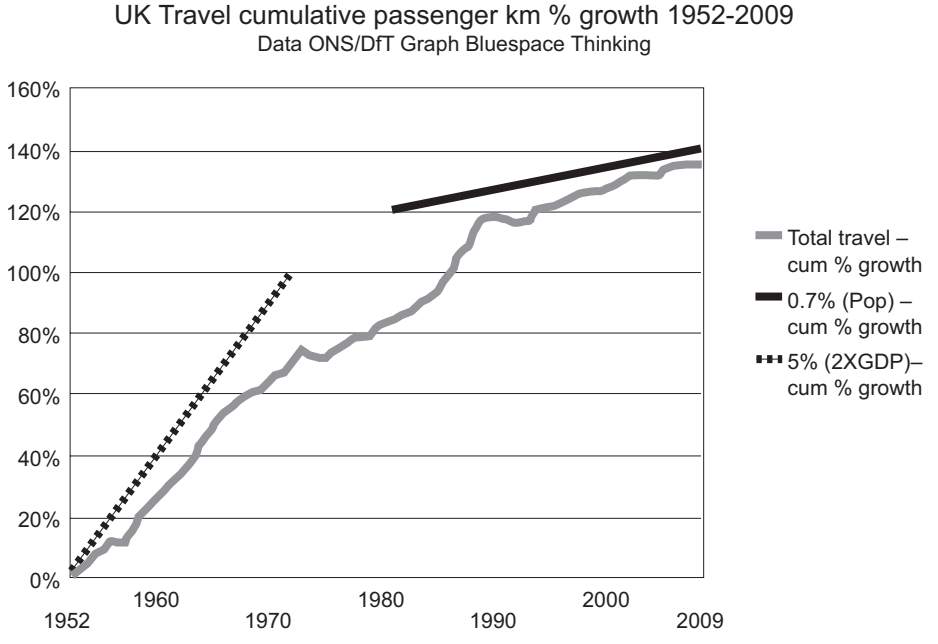


Figure 3

5.2 This saturation eventually limits transportation growth to the level of population increase. The ONS predict that between 2009 and 2030 UK population will increase by 17% however due to ageing profile the working age population will increase by 14% [12]. On average working age individuals travel 8500 miles/year while others travel 4500 miles. [7]

5.3 UK travel saturation can be seen by plotting the rate of increase in total domestic travel distance from 1952. At the start of the period travel increased at twice the rate of GDP but declines to about the rate of population increase in recent years. [13]

5.4 Long distance travel would also appear to have saturated. The 2009 DfT National Travel Survey [7] shows that trips/person over 50 miles (strategic routes) have not increased since 1995, average long distance trips over 100 miles have remained at 7 to 8 /person/year dropping to 6 in 2009.

5.5 This travel saturation along with the internet has resulted in the growth predicted in the Eddington report not being met.

5.6 For cars Eddington predicted 28% growth (2003–25), the actual growth to 2009 has been 0.9% and based on DfT 2007 high level predictions will rise by a further 10% by 2025. The air increase of about 100–120% is also not being met, domestic air travel peaked in 2005 pre recession, it has since started to decline, it is currently 18% below the 2003 level. [1] [16] [17]

5.7 Growth in inter urban trains has exceeded the Eddington forecasts, not as a result of economic growth but as a result of significant improvements in service and passengers switching from long distance coach, car and air. However the growth is mode shift, and annual growth rates will probably revert to increases at or below those predicted by Eddington. [18] [19]

5.8 In 2007 the DfT predicted that total travel growth would be 0.4%/year for the number of journeys and 0.7% /year for distance travelled, these forecasts are consistent with the ONS population growth forecasts and set a reasonable, evidence based, overall boundary within which to plan long term projects and consider the impact of inter modal shift. [20]

6. National and Regional Priorities

6.1 The economic and employment changes since the Eddington report make the recommendations more relevant not less. Transport priorities flow from a view of how to regenerate economic growth. Increasing employment, increasing exports, and reducing imports are the key imperatives.

6.2 The UK has a very good transportation infrastructure network (maybe the best in the world—Eddington refers) [1] the first priority for this network should be to maintain its performance by maintaining roads, rail track, signalling, stations and train stock, airports and air traffic management systems,, (safety, reliability and customer experience).

6.3 The second priority is to enhance the performance of existing systems and networks. As Eddington proposed and as supported by recent data, this means addressing current congestion on road and rail routes primarily commuter routes but also to a limited extent strategic routes and airport and port transport links both road and rail. [1] [21]

6.4 A further priority is to provide new regional public transport options to enable those without access to a car to get to work and to reduce the need for car use by those that do. Given the contribution and decline of manufacturing in the regions if people are unable or unwilling to work because of transport deficiencies this should have a high priority.

6.5 It is important to maintain and enhance the export of high technology services and manufactured goods particularly to international growth areas (eg India and China). £70 billion (60%) of the import/export goods imbalance is attributable to electronic goods, vehicles (cars, buses & aircraft) and food products [22]. Given the amount of expenditure on these items manufacturing repatriation needs to be considered

6.6 To make locations attractive so that businesses locate and develop in the regions, employees have to easily and cheaply get to work and their must be good freight links between the production locations and markets.

6.7 Passenger business transport within the UK is a lower priority as the existing rail network, with the recent enhancement of the WCML, is very good and ICT is a more effective way of improving communications, increasing efficiency and reducing future transport demand. There maybe some cross country routes between the regions where a better service may help the economy.

6.8 Congestion on the 3,850 mile strategic road network has reduced since 2003, however 180 miles (5%) cause 33 million hours (26%) of the total delay time on the network [21]. This congestion is due in large part to long distance traffic wanting to get around London and Birmingham meeting commuters wanting to go to them, travelling shorter distances, but slowing up traffic. Solutions would be to provide more road capacity around major urban areas or provide low cost rail or coach (multi point to multi point) transport for local commuters.

6.9 The major cause of loss of time during travel is in urban commuter travel. Discouraging road travel while providing improved public transport particularly multi point to multi point coach (not just radial flow in to city centres) is possibly the only viable alternative to reduce congestion at reasonable cost.

6.10 Air access to Europe from the regions is good with direct flights saving time, money, and reducing emissions. For long haul the UK continues to channel passengers through Heathrow. More direct flights from Manchester, Leeds/Bradford, Glasgow and/or Edinburgh to the US, Dubai, India, Hong Kong and Singapore (50% of all Heathrow long haul passengers go to just 15 airport locations) would relieve the pressure on Heathrow, reducing cost, time, emissions and provide direct regional access to emerging markets [23].

7. Problems with the Current Forecasting and Analysis Methodology

7.1 While it does not meet the recommendations of the Eddington study, or any other DfT strategy, HS2's High Speed Rail proposals are well documented [27] and provide a good example of how deficiencies in the evaluation system can create flawed decisions . HS2 proposals have not been evaluated by the DfT against worked up alternative options to address the problems that HS2 is considered to address, this is a fundamental requirement to good decision making but at the strategic level seems not to be carried out [28].

7.2 Passenger demand forecasts for HS2 are based on long distance rail elasticities to GDP based on data for the period 1990–1999, [29 30] a period when growth was attributable to modal shift from road to rail as a result of significant service improvement not GDP growth. This is a fundamental error that undermines a large amount of UK transportation planning.

7.3 When combined with over estimates of road and air demand growth, also based on old data analysed by opaque mathematical modelling, significant numbers of road and air passengers are predicted to shift to HSR. As a result HS2 Ltd forecast that by 2033 the current 45,000/day long distance passengers using the WCML to London will increase to 165,000 [32].

7.4 According to HS2 Ltd 220,000 people will travel daily on HSR between the Midlands and further North and London. An additional 220,000 will travel daily between the other principle cities served by HS2. In order to establish this level of rail demand total journeys over 50 miles within and between these regions are predicted to triple and by 2033 to be in excess of 7 million/day [38], raising by 50% the total car distance travelled by the populations involved due solely to increases in journeys over 50 miles [33].

7.5 Common sense suggests this is unrealistic and the forecasts are inconsistent with the DfT high level view of future travel growth and recent evidence provided to the Select Committee, however the DfT say they were carried out in accordance with their guidance [34].

7.6 The predictions represent some extreme outcomes.

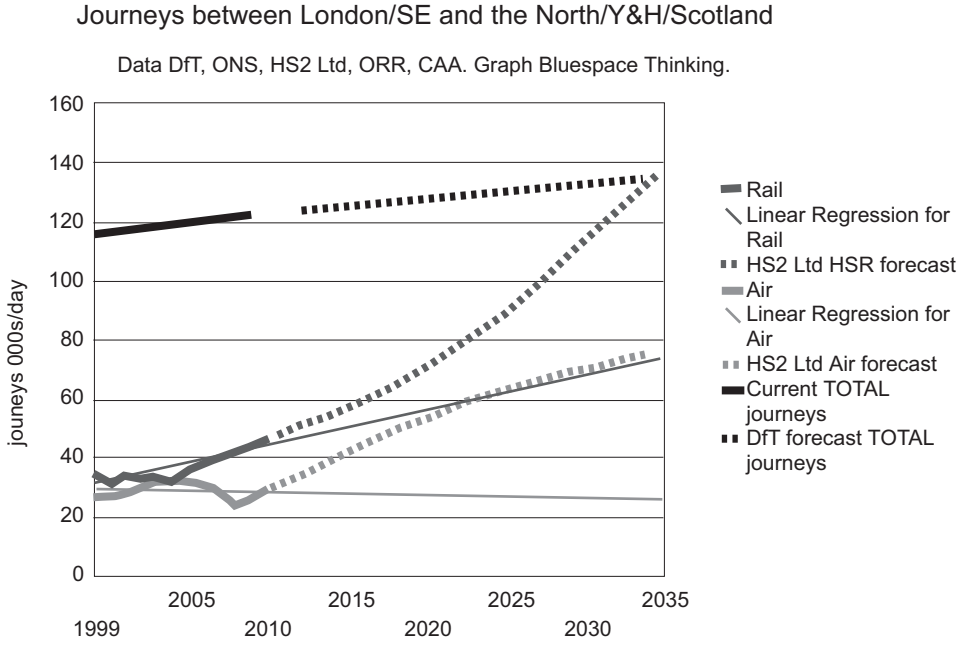


Figure 4

7.7 Based on an analysis of existing travel and DfT projections of growth, the HS2 forecasts predict that all travel between London/South East and beyond the Midlands will be by High Speed Rail, passengers by air, car and holiday coach would all have to switch. The graph shows the HS2 forecast of rail growth reaching 100% of all travel by 2035. The regression projections of rail is an overestimate as it does not take account of travel saturation and ICT and is still based on a period of significant road and air to rail mode switching. [4][17][19][33]

7.8 On average the 24 million population of Scotland and the northern regions are each predicted to make a long distance HSR train journey every 70 days, it is assumed they will spend about 10% of their annual travel budget in this way [35].

7.9 If the assumptions were correct the transfer of wealth from the regions to London due to leisure travel alone would be £2–3 billion/year [9]. The negative impact on Birmingham as higher salaried employees commute to London for higher wages, reducing support role employment opportunities in Birmingham for those less skilled, will be far greater.

7.10 If correct the predicted increase in car travel in the next 23 years across the country would add about 30 million tonnes of CO2 emissions/year making the legal obligation for an 80% total reduction by 2050 even more difficult [36].

7.11 In a recent Network Rail report they present a more balanced picture of future rail demand showing the major areas requiring improvement as commuting and freight with long distance passenger route demand increasing by 65% by 2034. [38] rather than the 267% suggested by HS2 Ltd/DfT. [32]

7.12 HS2 maybe an extreme example of the planning process producing unrealistic results but the methods, assumptions and data are as used in all major evaluations. Over estimating demand forecasts and the benefits of major future schemes means that improvements to current congestion points and commuter services that would free up strategic road routes, encourage employment and promote economic growth do not receive sufficient investment. The Public Accounts Select Committee raised serious questions about the DfTs ability to forecast passenger demand in 2006, [39] since when we understand that the National Audit Office have not carried out a review of this aspect of the DfT's work.

8. References

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[2] Office of National Statistics—Regional GVA Data (1998–2007)

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[4] Department for Transport—National Travel Survey 2008 table 2.3

[5] Office of National Statistics—E-commerce and information and communication technology(ICT) activity, 2008 (Nov 2009

[6] Office of National Statistics—E-commerce survey of business (experimental) 2001 (Full version)

[7] Department for Transport—National Travel Survey 2009

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[9] Transport for London—London Travel Reports, 2007 data table 7.3.2 London visits by purpose.

[10] Department for Transport—Webtag unit 3.15.4 Rail Passenger demand forecasting

[11] Office of National Statistics—The Time Use Survey, 2005: How we spend our time

[12] Office of National Statistics—Population projections interactive pyramids

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[15] Swiss Federal Statistics Office—Mobility and Transport—Pocket Statistics 2010 (Full version)

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[23] Civil Aviation Authority—Aviation trends table 12.1 International analysis

[24] Department for Transport—Webtag 3.15 Forecasting using transport models

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[34] Secretary of State for Transport letters to MPs

[35] Office of National Statistics— Family Spending statistics 2009

[36] Department of Energy & Climate Change—Emissions projections Annex A

[37] Bluespace Thinking Ltd—UK Transportation Policy—A Review of HS2 Proposals

[38] Network Rail—Planning ahead, the long term planning framework. Aug 2010

[39] Select Committee on Public accounts 2006 Thirty-Eighth Annual Report 1 Forecasting of passenger traffic.

[40] Office of National Statistics—The effects of taxes and benefits on Household income 2008–09 data

September 2010

Further written evidence from Malcolm Griffiths (Bluespace Thinking Ltd) (TE 07A)

1. Transport Demand

1.1 The Office of National Statistics predict that over the next 25 years the population of the UK will increase by 17% with the working age population increasing by 14% [1]. If the travel trends of the last 15 years continue average individual travel will remain constant and the required increase in transport provision will be about 16%–17%. [2] This is consistent with 2007 DfT predictions.

Total UK domestic travel - passenger miles/year

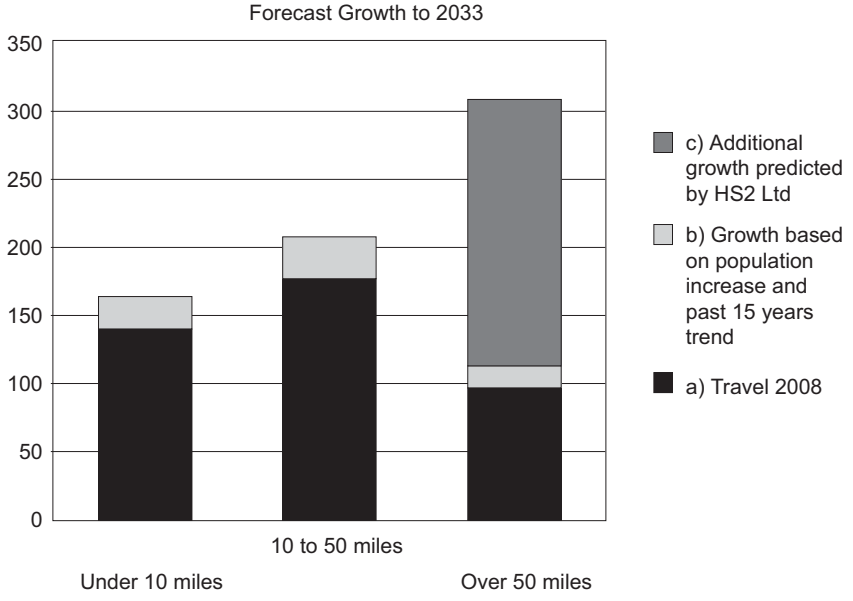

Figure 1

1.2 However paragraph 11.2.10 page 115 of the HS2 Demand and Appraisal report states that "Long distance travel is forecast to triple by 2033: there would be 7 million trips/day over 50 miles across the regions under consideration."[3]

1.3 Figure 1 shows a) the total travel in 2008 in billions of passenger miles/year, b) the predicted growth based on the ONS projections and DfT 2007 forecasts, and c) added growth based on the HS2 forecast increase in journeys over 50 miles.

1.4 The unrealistic HS2 forecasts come from data collected from 1990–98 and methodology developed in 2004. The original economists/ analysts recommended significant technical corrections in 2007. To correct the errors the DfT issued draft changes to their demand forecasting guidance in 2009 however the Secretary(ies) of State have not formally approved these changes to revise the DfT guidance, hence HS2 (and possibly other recent decisions) is based on old and inaccurate analysis.

2. Economic Priorities.

2.1 Journeys up to 50 miles represent 75% of the increase predicted by ONS data and previous forecasts by DfT. These shorter journeys have the most impact on business and wider economic performance.

2.2 Infrastructure and public transport service improvements may be required to accommodate this growth but it would also be enabled by the promotion and support of increased vehicle sharing. If the current average 1.6 passengers/car journey were increased to 2.0 it would accommodate the required growth at virtually no cost and no adverse impact on the environment. Technology has created a global market for the distributed small scale provision of goods and services, (e.g. e-bay) it can help create a market for shared car use if supported by DfT initiatives and incentives. The capacity of local roads can be enhanced by improved traffic management measures and wider use of satellite navigation technologies to improve traffic flow and reduce congestion.

2.3 A reduction in car journeys less than 50 miles would reduce motorway congestion freeing up space for long distance growth. Rail Infrastructure improvements to upgrade existing rail routes to High Speed Rail can accommodate realistic forecasts of long distance growth and can be carried out at reasonable cost to enable further switching from road and air. These improvement projects have been identified by the DfT and can be implemented over the next 25 years as needed and as funds become available. [4]

2.4 Analysis suggests that faster long distance journeys as proposed by HS2 will not provide measurable economic or employment benefit to the UK. There is academic, analytical and anecdotal evidence that suggests HS2 may redistribute wealth from the regions to London further concentrating the UK's future growth in the South East. [5] [6]

Bluespace Thinking Ltd—Additional Submission to the Transport Select Committee Inquiry:-

Transport and the Economy October 2010

References

[1] Office of National Statistics—population projections interactive pyramids

[2] Department for Transport—National Travel Survey 2009

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[4] High Speed Two London to the West Midlands and Beyond—Alternatives Study Report

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[6] Victoria Transport policy Institute—Evaluating Transportation Economic Development Impacts August 2010

October 2010

Further supplementary written evidence from Malcolm Griffiths (Bluespace Thinking Ltd) (TE 07B)

1. Based on our principle finding the Chair of the Transport Select Committee asked how it happens that the current appraisal methods favour major capital projects. Because this question is key to improving UK transportation decisions I would like to amplify for the record the reason we reached these conclusions by evidencing our findings.

2. Our principle finding is that the current methods of analysing and prioritising projects are not sound. The processes are over detailed and the guidance is based on very old data both for forecasting demand and evaluating benefits. The methods and assumptions used have a systematic bias towards long term, long distance, high risk, capital projects. The flaws in the analysis are evident by the application of degree level mathematics/statistics.

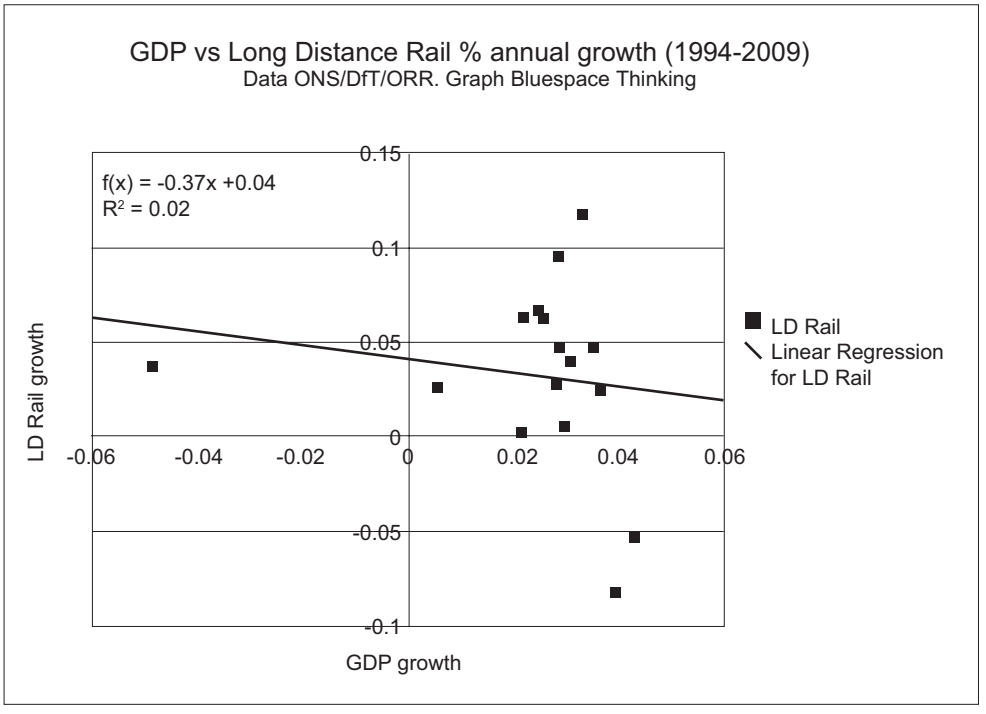
Long Term

3. Project specific webtag guidance for demand forecasting is based predominantly on correlation with GDP. Due to population growth and improved efficiency of physical activity (mechanisation, information technology etc.) it is reasonable to expect that GDP growth will, with good government decisions, continue to increase at about 2%–2.5% /year in real terms.

4. However due to the level of travel saturation in the UK it is much more realistic to start with a premise that overall travel growth will increase at about the rate of population increase nominally 0.7% / year and then assess impacts based on past and future predicted trends that will either reduce or increase travel from this current per person norm . For general forecasts (not project specific) the DfT predictions of travel growth are at about 0.8%/year, the Dept of Energy and Climate Change (DECC) and the independent Climate Change Committee (CCC) both use about 0.8–1%/year in their assessments of travel related emissions

5. Using GDP as the base may produce a reasonable result if an elasticity of about 0.3 is used however this would not be sound analysis.

6. Although dealing with a single travel mode a clear example of this can be seen be looking at the correlation over the last 15 years between long distance train travel growth and GDP growth.



7. The graph and calculation show no statistical correlation, this is obviously a technical detail however assuming a causal correlation when one does not exist produces totally inaccurate forecasts, the errors are exaggerated the longer the time period considered. We would encourage interested economists or mathematician to consider if they can see a structural causal correlation between long distance rail travel and GDP over the last 15 years.

Long Distance

8. The elasticities to GDP specified in webtag refer to the Passenger Demand Forecasting Handbook (PDFH) version 4.1 which, as an example, create elasticities for rail travel originating in London to Glasgow of 2.12 and for Glasgow to London of 3.28.

9. DfT consultants have advised that these and other long distance elasticities are totally unrealistic and the DfT include in their revised guidance the comment "We agree that the PDFH 4.1 recommendations produce unfeasibly large elasticities over long distances".

10. Revised elasticities (which still do not take account of saturation and the lack of any correlation to GDP over the last 15 years) of 0.9 for London originating journeys to Glasgow and 1.9 for Glasgow to London journeys are recommended in the proposed new version five of the PDFH.

11. However although the new version was complete in Aug 2009 issued in Jan 2010 and due to come into use in April 2010 we have been advised that the new guidance can not be used because the Secretary of State has not approved it for use.

12. While it will not be the only project impacted HS2 provides the clearest example of how these sort of errors flow through to project analysis conclusions. HS2 Ltd predict that long distance travel over 50 miles, in the areas under consideration, will triple to over 7 million trips /day.

13. This conclusion, from their computer analysis, means that assuming other travel increases at 0.7%/year, in line with population increase, total travel will increase a minimum of 50%–60% by 2033. This is about twice that predicted by the DfT, DECC and the CCC. The over estimate of demand goes on to produce a Net Benefit Ratio (NBR) for the project above two, when the demand forecasts are corrected the NBR will probably be nearer one.

14. Because of the nature of long term, long distance infrastructure projects and the uncertainty involved, even if the analysis is totally accurate the projects are inherently high risk.

15. I would agree with Professor Goodwin that if the calculations are carried out correctly the overall approach to analysis probably provides an adequate framework. However as analysis becomes more sophisticated and computer dependant it is crucial that both input data and output conclusions are assessed against the criteria of reasonableness, using simple application of logic to establish reasonable boundary conditions for results.

October 2010

Further supplementary written evidence from Malcolm Griffiths (Bluespace Thinking Ltd) (TE 07c)

Reading the 30 November transcript of evidence from John Jarvis and Jo Rukin, it seems the committee were left with the view they were given conflicting evidence about the distribution of benefits associated with HS2. (I attach the relevant transcript).

I think Mr Jarvis evidence comes from Steer Davies Gleave report, North-South Connections, August 2007 and refers to agglomeration benefits.

Table 2.1

ANNUAL PRODUCTIVITY GAIN FROM INCREASED AGGLOMERATION

	Productivity gain (£m)			*% of GDP*
Government Office Region	*West*	*East*	*Network*	*Network*
East Midlands	0.0	24.5	26.4	0.04
East of England	0.0	4.2	7.7	0.01
London	31.1	51.1	82.3	0.04
North East	0.0	13.4	19.9	0.06
North West	27.4	0.0	44.1	0.05
Scotland	0.0	13.7	27.4	0.03
South East	5.4	0.0	16.5	0.01
South West	0.0	0.0	0.0	0.00
Wales	0.0	0.0	0.0	0.00
West Midlands	17.8	0.0	21.2	0.03
Yorkshire & Humber	0.0	24.2	28.6	0.04
UK	81.6	131.3	274.1	0.03

2.22 Not unexpectedly, London receives the largest absolute gains for the full network option, £82 million. The North West benefits by £44 million, whilst Yorkshire and Humberside and the North East get about £30 million and £20 million, respectively.

2.26 These results represent the likely impact of a two-line high speed rail service including the trans-Pennine link. The one line options offer substantially less agglomeration benefits and they are naturally much more concentrated to the parts of the country the lines run.

End of Abstracts

The table refers to estimates of annual (2002 £) agglomeration benefit and are for a 2 line plus Pennine link scheme not the current Y scheme under evaluation by HS2 Ltd. A reasonable estimate for the current scheme based on these figures would be £160 million per year. When adjusted to 2010 £ and discounted (Treasury Green book guidance) they give a PV (2010) of £2.8 billion for the 60 year period. Over the 60 year period London and the South East gain £1.1 billion, the North (East, West, Y&H) gain £1.2 billion, Scotland £0.25 billion and the West Midlands £0.3 billion.

HS2 Ltd have not claimed significant agglomeration benefits and this would seem to be supported by the Northern Way (Steer Davies Gleave) analysis. The HS2 Ltd / Imperial College estimates are significantly lower than the Northern Way predictions.

However it appears that other organisations and MPs have established much higher estimates. At the 23 November HS2 adjournment debate Andrew Gwynne stated that “A boost to the west midlands economy is anticipated to the tune of 5.3 billion a year, and to that of the north-west of £10.6 billion a year at today's rates”. These figures are more than 200 times greater than the Northern Way assessment. I am trying to source the studies that predict these figures via FOI and other requests.

I am not familiar with the Barcelona study Mr Rukin referred to but the main “redistribution” effect of transport schemes is associated with the enabled spending and work patterns of passengers. People are familiar with the impact out of town shopping centres have on town centre commercial communities and it is a similar effect for longer distance travel.

HS2 estimate that about 70% of passengers will be leisure travellers and that travel (based on the data referred to by Ms. Munro) will be greater from the regions to London. HS2 Ltd predict there will be in excess of 70,000 leisure travellers going to/from the regions and London (return trips) every day, assuming that in addition to ticket cost they spend £50 at their destination, (evidence shows that travellers to London spend much more than £50) this will redistribute a about £1 billion annually or about £15 billion PV over the 60 year evaluation period.

The extent to which travel is greater from the low economy to the high economy (the normal pattern) will dictate how much of this PV is distributed to London. DfT assumptions in webtag guidance suggest that the rate of travel growth will be at least 2 times greater from the regions to London than vice versa so the redistribution to London could be in excess of £3 billion about twice the regions PV of the total agglomeration benefits. It appears that the DfT and HS2 Ltd have not calculated this redistribution effect. I suspect the HS2 consultation period will bring forward further academic support for Mr Rukin's view.

I do not know Mr Jarvis or Mr Rukin however it seems to me that they were commenting on different aspects of the appraisal benefit calculations. The Northern Way seem very professional and responsible in their approach—based on their 2007 report even if the UK annual agglomeration benefit were £274 million (two N-S HSR lines and a trans Pennine link), PV (2010—60 year evaluation) would be less than half the £13 billion (at Treasury discount rates) mentioned. It maybe there are other studies that support this higher figure or that benefits in addition to agglomeration benefits were being referred to.

The lack of the inclusion of "redistribution" effects in the current DfT appraisal calculations is further evidence that the DfT appraisal calculations are not adequate to make major investment decisions. Hopefully I will be able to establish whether Mr Gwynnes figures are due to over enthusiasm on the part of the rail industry lobby, in support of encouraging HSR expenditure, a simple mistake or whether HSR is indeed alchemy and they are based on sound academic/economic theory.

Transport Select Committee—Evidence Session 30 November 2010—Abstract

> *Joe Rukin*: Yes. The thing that we found is that there is evidence and research going back all the way to the 1960s, and it has been highlighted again, in that if you join a stronger economy to a weaker economy, the weaker economy is disbenefited and the stronger economy benefits. The most recent study on that was a Barcelona report looking into high speed rail in Spain, which found that the stronger economies benefited. This will be exacerbated in a country like the UK where London is so much of a primate city. You will just suck more things towards the capital. Also, in terms of-
>
> Q373 Chair: Mr Rukin, can I just stop you? That actually is not what we have heard in evidence this morning. We have heard evidence this morning about a number of studies done in the north of England which don't show that at all. There is always a proviso about having proper links and infrastructure in local areas and across regions as well. What you are saying in fact has not been shown to be the case in the UK.
>
> *Joe Rukin*: If you look at studies that have taken place like the Barcelona report-
>
> Q374 Chair: But not in the UK. The evidence we had this morning did not show that at all.

Hansard 23 November Westminster Hall Adjournment Debate—Abstract

> Andrew Gwynne: A boost to the west midlands economy is anticipated to the tune of 5.3 billion a year, and to that of the north-west of 10.6 billion a year at today's rates.
>
> Christopher Pincher: The hon. Gentleman said that there would be a benefit to the west midlands. Is he aware that I asked a parliamentary question of the Department for Transport in order to ascertain what the benefits would be to Staffordshire? The Department responded that it had made no such analysis.
>
> Andrew Gwynne: I was referring to the west midlands metropolitan area, but I am not responsible for the replies given by the Department for Transport.
>
> David Mowat: On that point, the figure cited by the hon. Gentleman of just over 5 billion came from the West Midlands chamber of commerce. The figure was generated in the region, and one would imagine that it is most unlikely that some of the money did not come from Staffordshire.
>
> Andrew Gwynne: I am grateful to the hon. Gentleman for clarifying that point.

December 2010

Written evidence from Transport for London (TE 10)

1. *Introduction*

1.1 Transport for London (TfL) welcomes the opportunity to contribute to the Committee's inquiry into Transport and the Economy.

1.2 Investment in the capital's transport makes a vital contribution to the achievement of the Government's economic growth strategies and reflects the discipline of the Government's new fiscal regime.

1.3 London and the South East together provide more than 40% of all tax revenues in the UK. Continuing planned investment in London's transport network will ensure the UK maintains or improves its global competitiveness and will support the economic recovery.

1.4 The Tube upgrades and Crossrail provide the backbone of TfL's Investment Programme. They are both key elements of national infrastructure and are highly dependent on each other to deliver maximum benefits. Without these projects, London will not be able to cope with population growth by 2031 equivalent to the current population of South Yorkshire. In addition, the Government's commitment to High Speed Rail means that many thousands more passengers will need to be carried by the capital's transport system.

1.5 It is also important to remember the sheer scale of existing public transport use in London with more than 11 million journeys made on an average day. Almost half of all bus journeys in England take place in the city and 60% of all rail journeys in Great Britain start or finish in London.

1.6 There is a very strong long-term economic case for investment in London's transport infrastructure, which is supported by politicians, businesses and other stakeholders in the capital including voluntary and community, and environmental groups. Together, it is estimated that the Tube upgrades and Crossrail will add at least £78 billion to the UK's wealth, so the schemes more than pay for themselves in terms of long-term economic growth and tax revenues.

Our response to the questions in the terms of reference for this inquiry is as follows.

2. *Have the UK's Economic Conditions Materially Changed Since the Eddington Transport Study and, if so, Does this Affect the Relationship Between Transport Spending and UK Economic Growth?*

2.1 While the UK and wider global economy experienced a severe financial crisis beginning in 2007, which was followed by a particularly deep recession, there is no evidence to suggest that the long-term economic prospects of London or the UK have changed. There remains a need to invest in transport infrastructure to support economic growth in the future.

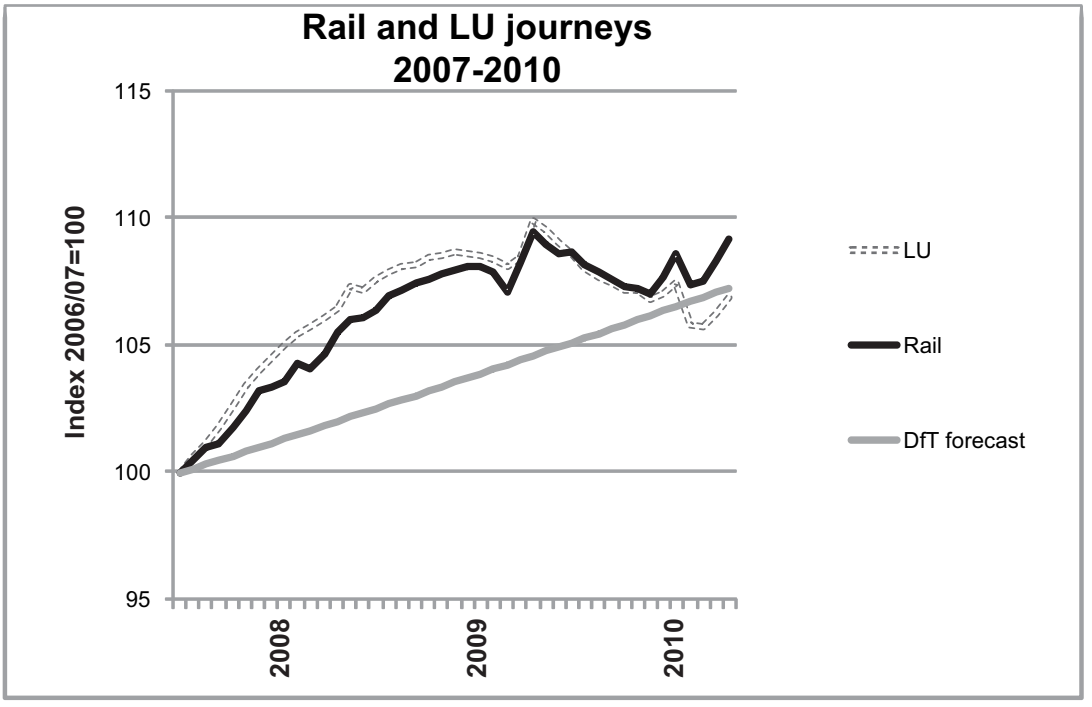
2.2 In his review, Eddington pointed out that the most effective transport investment should target growing areas to ensure that benefits are delivered immediately upon completion. He also noted that the interventions delivering best value for money are likely those that provide relief to congestion. These arguments remain equally valid today.

2.3 Eddington highlighted the relationship between the increase in travel demand over the last twenty years and economic growth. The draft replacement London Plan, published October 2009, and the Mayor's Transport Strategy (MTS), published May 2010, set out the long- term growth that is forecast for London, with population expected to rise by 1.3 million by 2031, and employment by 750,000 over the same period. Growth in travel demand in London can be expected to continue, therefore, as set out by the MTS, by about 15% overall and about 30% for public transport.

2.4 There is evidence of growth in transport demand since the Eddington report was published. Although there has been a pause in growth, the chart below shows that demand growth was so high in 2007–09 that even though there has since been a downturn, demand appears to be close to the level forecast by the Department for Transport (DfT) in *Developing a Sustainable Railway.* Whilst it may still be too early to draw conclusions on the strength of this recovery, it would nevertheless suggest that the economic downturn has not removed the need for Underground or rail capacity expansion to support economic growth in the medium-term.

2.5 London continues to suffer from congestion on its transport network, despite the recession. The region is still in need of more public transport capacity to allow its economy—which did not suffer as much as the national economy from the recession—to grow.

2.6 Transport schemes take much time to plan and implement. Prior experience with recessions suggests that the planned capacity improvements in London are still needed as long-term employment and population trends remain unchanged.



Sources: ATOC ticketing data and TfL Traffic Report

3. *What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?*

3.1 There are advantages from investing in infrastructure that is more likely to be used immediately upon completion and deliver returns from an early stage. In the current environment, public spending can best support national economic growth by targeting infrastructure investment in regions with growing economies, particularly in London, and infrastructure that promotes international business activity so that the benefits of trade can be captured.

3.2 This view is supported by business. A recent survey of companies in the capital found that 98% consider the Tube and Crossrail investment programmes to be important to London's economic competitiveness in the future. If those schemes were not to proceed, 92% of those surveyed thought the long-term effects will be severely damaging for London's business community.

3.3 This is an important consideration as many of the Tube's assets have reached the end of their planned life and need replacement. Some signalling equipment, for example, dates from the 1920s and 1930s. The continued operation of elderly trains and signalling will reduce capacity on the Underground by 30%.[12] As ageing assets further deteriorate, the risk of failure increases and there might have to be lengthy closures. Key interchange stations including Victoria, Bank, Paddington and Tottenham Court Road would close altogether in peak periods due to overcrowding. Increasingly delayed and unreliable journeys will reduce the capital's attractiveness as a location in which to do business.

3.4 Investment in London's infrastructure has also created employment and wealth for other UK regions, such as the orders placed for new London Underground and Overground trains with Bombardier in Derby. This has helped to support the rail sector in that city which in 2007 contributed £2.6 billion to the local economy and directly and indirectly employed 8,500 people.[13]

3.5 London is the most productive region in the UK, with its workforce being about one-third more productive than the national average, and it plays an important role in the global economy. London has historically generated a very significant surplus of tax revenues that is to the benefit of the UK. Together, London and the South East provide 43% of all tax revenues in the UK, while in 2007–08 it is estimated that the capital contributed between £14 billion and £19 billion via a tax export. Investing in London is sure to provide an immediate return to the Exchequer as many of the transport schemes here seek to alleviate congestion/overcrowding on a transport network that is very frequently stretched to the limits. Research by from London First, the business organisation which represents the city's leading employers, found that the

[12] 20 per cent of the 30% reduction derives from a reduction in train fleet availability. This 20 per cent is comprised of: routine minor damage over life of fleet (5%); older trains suffer more equipment failures with harder to replace components (10%); and a combination of occasional serious problems across fleets and the effect of deteriorating signalling equipment (5%). The remaining 10 per cent of the overall capacity reduction comes from a reduction in train speed, largely due to the longer dwell times at stations caused by fewer trains being in service.

[13] *Planes, Trains and Automobiles Research*, commissioned by Derby City Council, East Midlands Development Agency and Derbyshire & Nottinghamshire Chamber of Commerce from URS Corporation Ltd, December 2009

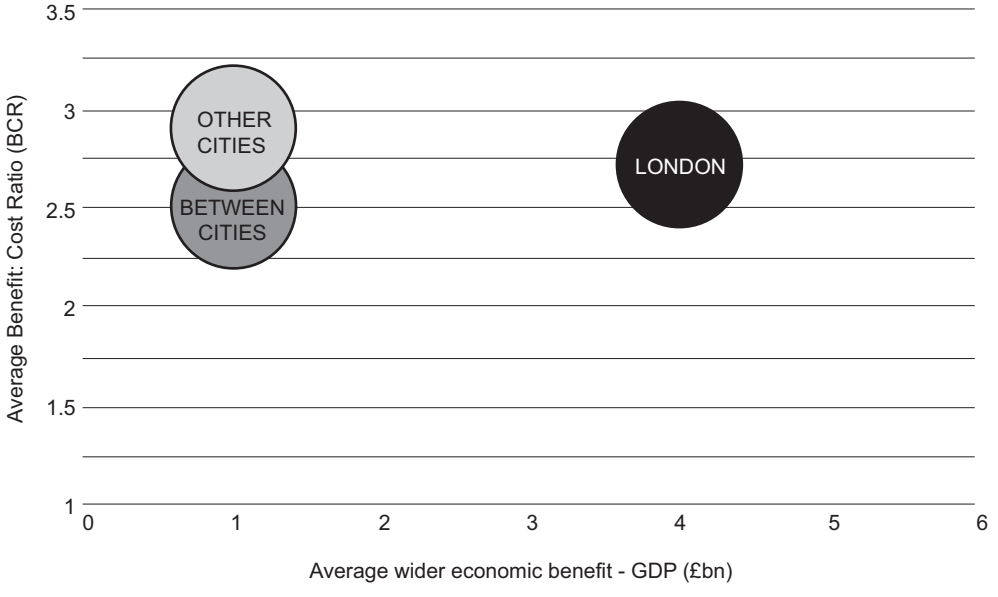
capital's infrastructure schemes generate four times as many wider benefits for a given level of transport investment as schemes elsewhere in the country.[14] The following diagram shows that while transport schemes in London have similar traditional benefit: cost ratios to those in other UK cities (shown on the vertical axis), the wider economic benefits are four times higher (shown on the horizontal axis).

3.6 Investment in London's transport system will maintain and improve London's international competitiveness, which is important for tax revenues: companies not locating in London will more likely choose other world cities rather than elsewhere in the UK.

3.7 International connectivity is vital to sustaining the capital's status as world city. Against a backdrop of long term growth in demand, ensuring easy access to a wide range of destinations via air and high speed rail is needed for business and leisure travellers alike. The South East Airports taskforce is due to report its findings in 2011; however there is broad agreement on the need to improve surface access to airports and their passenger handling facilities. Increasing load factors and plane sizes may make more efficient use of runway capacity; however there remains a debate about making use of alternatives to Heathrow to accommodate future demand.

3.8 In London, the greatest economic benefits will be derived from spending that improves accessibility to Central London by increasing peak capacity. This includes the upgrades to London Underground, Crossrail, Thameslink and other High Level Output Specification rail capacity schemes. The Tube upgrades will bring economic benefits of £36 billion and the benefit-cost ratio of each line upgrade ranges from 6:1 to 10:1. Crossrail will increase rail capacity in London by 10% and deliver economic benefits of at least £42 billion. National Rail schemes like Thameslink are also very important to Central London's future growth as they extend the reach of London's labour market, providing benefits to London businesses but also expanding the opportunities of residents across South East England.

Figure 3
Title: Review of Transport Schemes–
Average Benefit Cost Ratio VS
Wider Economic Benefit



Source: Greater Returns: Transport Priorities for Economic Growth, London First

3.9 Within growing regions, like London, investment intended to regenerate areas is also needed. It is important for transport infrastructure to be put in place to facilitate growth by improving accessibility to existing brown field land and other development sites. This helps alleviate pressure in housing markets and allows the benefits of economic growth to spread across the region. In East London there are barriers to movement, particularly where the River Thames causes severance, that reduce the attractiveness of much brown field land to businesses and households and holds back growth in the region. Investment in improved and new crossings is vital to overcome existing severe congestion and severance problems in the area.

3.10 The bus network will also continue to play a major role in the capital's economic success. The number of people relying on the bus is at its highest level since 1962 and continues to grow. The bus network plays a vital role in outer London, where three-quarters of all bus journeys are made. It provides connectivity and employment opportunities to outer town centres and key interchange stations.

[14] *Greater Returns: Transport Priorities for Economic Growth*, London First, June 2010

3.11 Investment in National Rail services is also vital to the capital's success in view of the particular importance of London. The city's greater dependence on rail than other parts of the country is confirmed by analysis of data from the Office of Rail Regulation and the DfT:

— The average London resident makes five times as many rail trips as the average resident in the rest of England;

— Sixty per cent of rail journeys start or end in London—this is around 650 million journeys per annum of a total of 1,100 million journeys in Great Britain;

— Public expenditure per rail trip in London is only one quarter of that elsewhere in England;

— London passengers contribute more to the cost of rail travel. Average rail fares are higher in London and the South East than in the regions. The average fare per passenger km is £1.28 compared with 94p for regional passengers; and

— Overall, if you consider transport revenue spending in London as a proportion of the value it adds to the economy, the Capital gets no more than some other parts of the UK (see table below), while capital spending more than pays for itself over time.

	Gross Value Added (headline workplace GVA) 2008			*Identifiable government expenditure on transport (IGET)* 2008–09*		*IGET as a proportion of GVA*
Area	*£bn*	*£per head*	*Index UK=100*	*Capital £bn*	*Current £bn*	*%*
London	265.1	34,786	170	3.8	2.5	0.9
Greater South East	558.4	25,697	125	6.2	3.6	0.6
England	1,081.4	21,020	102	10.1	7.5	0.7
North East	40.9	15,887	77	0.3	0.3	0.7
North West	120.7	17,555	86	1.0	1.1	0.9
Yorkshire and Humber	89.1	17,096	83	0.6	0.6	0.7
East Midlands	80	18,041	88	0.5	0.5	0.6
West Midlands	94.5	17,463	85	0.7	0.7	0.7
East	111.6	19,473	95	0.9	0.4	0.4
South East	181.8	21,688	106	1.5	0.7	0.4
South West	97.8	18,782	92	0.7	0.5	0.5
Wales	45.6	15,237	74	0.5	0.5	1.0
Scotland	103.8	20,086	97	1.3	1.5	1.4
Northern Ireland	28.7	16,188	79	0.3	0.3	1.0
UK	1,259.6	20,520	100	12	9.7	0.8

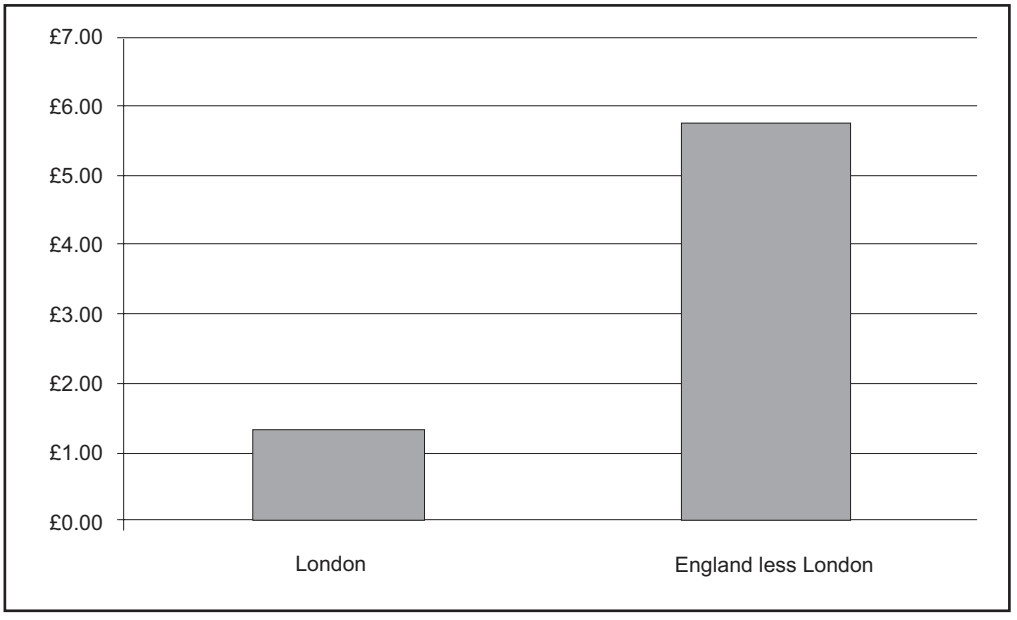
Sources: HM Treasury Public Expenditure Statistical Analysis 2009; National Statistics NUTS

3.12 London adds 70% more value to the economy each year than the UK average, far more than any other English region or any other part of the UK. For the most recent year available, the table above shows the Identifiable Government Expenditure on Transport allocated to the regions, using the Treasury's Public Expenditure Statistical Analysis methodology, and the value each region adds to the economy, using National Statistics data.

3.13 The column on the right shows current-account government spending on transport in each region as a percentage of the value that region adds to the economy. This measure shows, as a proportion of the value the region adds to the economy, non-capital support for transport in each English region is broadly the same with London and the North West receiving an identical proportion of their Gross Value Added in transport spending. This demonstrates that London gets no more revenue spend than other parts of the UK, in relation to the value added to the economy, and as described above, the capital spending more than pays for itself over time.

3.14 The figure for London includes TfL's grant from the DfT as well as other DfT spending on rail and motorways, while the figures for the Greater South East combine London with the South East and East regions. The above table shows total transport expenditure across all modes. The situation for rail, as mentioned earlier, is that public expenditure per rail trip in London is only one quarter of that elsewhere in England. (see below).

PUBLIC EXPENDITURE PER RAIL TRIP (£)



Sources: ORR National Rail Trends yearbook 2009/10 table 7.1; DfT annual report and resource accounts 2009/10

4. *How should the balance between revenue and capital expenditure be altered?*

4.1 In the current economic climate, spending by Government on transport should focus on investment rather than revenue spending to ensure that much-needed improvements to infrastructure are completed and will be in place when demand returns as the economy begins to grow again.

4.2 Planned upgrades to London's Underground and Crossrail are necessary to alleviate chronic overcrowding on London's transport network and to provide room for future growth. They will provide benefits to London and the UK as a whole, as described in Section three. Already passenger numbers on the Underground and on National Rail are picking up again as the region moves on from recession.

4.3 Consistent revenue expenditure is, however, also needed to deliver transport services to support economic objectives. This includes revenue maintenance of highway assets, enforcement and policing, and local transport improvements for walking and cycling. These areas are all vital to the smooth efficient operation of the transport system—for both passengers and freight—that is so important to businesses and the wider economy.

4.4 London also suffers from having two overly-distinct transport networks: the TfL network and the National Rail network. Each has different levels of service quality and fares tariffs, yet the customers are largely the same with identical needs. This acts as a disincentive to use of public transport, especially by less frequent travellers. Evidence shows that passengers and other stakeholders value TfL's service quality standards including turn up and go train frequencies; earlier first and later last train services; and better passenger information. The provision of the higher TfL service quality standards has a strong business case, but requires higher revenue expenditure.

4.5 In London, revenue spending is also used to support bus services, which are vital to London's continued economic success. Buses are the most widely-used form of public transport in London, with over six million trips made every weekday—over 2.2 billion passengers per year (around half of all bus journeys in England) and up 59% over the past ten years. They are also critical for employment and widen access to jobs. Sixty-two per cent of bus passengers are in employment (49% full-time and 13% part-time).

4.6 The bus network is the only public transport service present throughout Greater London, serving the entire population of the city. Services provide local and longer-distance links and also act as feeders to the rail network. They are the primary public transport for many inter-suburban trips and the principal link with the central area for many parts of inner London. Buses are important for local economies and are keeping town centres alive. Bus passengers contribute the largest proportion of monthly visitor spend in 15 of London's town centres at 38%, outweighing those who walk (32%) and car users (14%). Around one in eight of all bus trips is part of a longer journey also involving a rail service.

4.7 The bus network is flexible and regularly reviewed. It thus supports delivery of new homes, hospitals, retail and office development, and other centres of employment or public services. A comprehensive, reliable network reduces car-dependency and provides access to a wider range of employment opportunities for residents. Increased use of buses is the main component of the increase in public transport's mode share of

travel in London between 2000 and 2008 (28 to 33%). This level of change is a major achievement for a city such as London, not matched by any comparable city in recent times.

4.8 London's roads run at or near capacity for much of the day. Any reduction in bus services is likely to increase the number of car journeys as people use other means of transport. This will add greatly to the cost of congestion, which grows enormously once demand exceeds road capacity and to the costs from car pollution.

4.9 Transport providers also have a duty, especially during periods of tight public spending constraints, to demonstrate value for money at every opportunity. TfL has found efficiency savings of over £5 billion up to 2017–18 while protecting frontline services. Work on schemes for which no funding was available has been stopped; senior salaries have been frozen for the past two years and, unlike in other areas of the public and quasi-public sector, performance awards have been waived by senior staff; back-office expenditure is being reduced by 25%; staff numbers are being reduced by eight per cent including operational and management roles in London Underground. Many hundreds of further reductions are happening across TfL: a total of £220 million has been saved by reducing the use of consultants and temporary workers; around £160 million has been saved by moving to cheaper offices; and over £200 million has been eliminated from the Marketing and Communications budget.

5. *Are the current methods for assessing proposed transport schemes satisfactory?*

5.1 Transport appraisal guidance has been improved recently through the New Approach to Appraisal (NATA) Refresh process. The inclusion of Wider Economic Benefits has ensured that appraisal takes account of the significant benefits transport capacity can bring to the economy. The Department for Energy and Climate Change methodology that greatly increases value of Carbon emission savings, with further increases likely following regular future reviews, is also welcome.

5.2 Further improvements to the appraisal system can be made, but another major upheaval would be disruptive and, in our view, is not warranted. Some commentators believe there could be a much better appraisal framework which would radically re-prioritise transport programmes. However, it would be better for the existing framework to continue evolving, and for more effort to be put instead into devising procedures for improved decision making.

5.3 Appraisal guidance could usefully be revised to capture more accurately the role transport provision can play in directing growth to less developed areas. For example, in London there are many areas with significant brown field land ready for development that are poorly served by the transport network, which is likely to inhibit economic growth.

5.4 Time savings are extremely important in transport appraisals. Schemes such as Crossrail produce substantial time savings as well as providing wider economic benefits. However, because brown field sites available for development have few existing trips very little time savings arise from schemes that connect these locations. As a result, the current methodology does not build a strong business case for such schemes. This creates an impossible situation; the land is difficult to develop without transport infrastructure yet the appraisal guidance does not result in a solid business case to be made to justify new schemes. As a result, projects needed to support the redevelopment of East London, including river crossings, are not fully valued.

5.5 Other countries seem to make the transition from brown field site to opportunity area more easily. Appraisals need to be able to assess potential long term journey benefits together with associated economic growth and various quality of life improvements, as well as benefits for existing journeys. The methodology is currently weak in this area.

5.6 It is vital, particularly as public funding of potentially growth-promoting transport schemes is likely to be severely constrained in the coming years, that when companies and households gain more from transport improvements than simply faster journeys, these impacts are accurately identified in appraisals. Investigations into the nature of such gains have tended to get bogged down in an academic debate about supposed double-counting of monetised benefits, when the real unresolved issue is who actually gains financially and by how much.

6. *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

6.1 The London Plan and London's other regional strategies provide an important guide to both public and private investment and development in London. London's regional plans are not affected by this policy decision.

6.2 London has benefited greatly from having a single regional transport authority, TfL. This has allowed for most of the transport services across the region to be integrated and for regional transport priorities to be achieved. The Mayor of London's Transport Strategy has been developed (by TfL) alongside the Mayor's Spatial Strategy (developed by the Greater London Authority) and his Economic Development Strategy (developed by the London Development Agency) to provide an overall integrated plan for London's development. However, better integration of transport modes and coordination of planning could be achieved if the Mayor was given responsibility for National Rail services in the capital. These suburban services,

particularly in South London, are an important part of London's transport network. But because they are part of the National Rail franchising system the service they offer is not fully integrated with other transport modes in London. One need only look at the challenge of implementing a uniform fare structure across the Underground and National Rail networks to see why this is undesirable.

6.3 A consistent approach to minimum service standards across London and improved planning and sponsorship of schemes by a locally accountable sponsor such as the Mayor or TfL could help to deliver more for less.

7. *Conclusion*

7.1 The Government is facing a huge challenge in tackling the country's budget deficit, while protecting frontline services, and supporting economic recovery. Sustained investment in London's transport infrastructure is essential, however, if the capital is to accommodate forecast population and employment growth at the same time as maintaining its position as a leading world city and as a generator of wealth for the rest of the UK.

September 2010

Written evidence from Stagecoach Group plc (TE 12)

1.0 *Introduction*

1.1 Stagecoach Group plc welcomes this opportunity to contribute to the inquiry into Transport and the Economy and to present evidence to the Transport Committee.

1.2 The Eddington Report identified the reduction of urban and inter-urban congestion as two of three priorities for investment if economic growth was to be maximised.

1.3 The Committee's Terms of Reference for this Inquiry are particularly relevant, when economic growth is a stated Government priority in a future of severely constrained public expenditure. Our views on both urban and inter-urban transport congestion issues are given in response to the questions the Committee has posed.

2.0 *Stagecoach Group*

2.1 Stagecoach Group has extensive operations in the UK, United States and Canada. The Group employs around 30,000 people and operates bus, coach, rail, and tram services.

2.2 In the UK, our fleet of around 7,000 buses connects communities in more than 100 towns and cities across the country. We were independently judged Bus Operator of the Year at the 2005, 2006, 2009 and 2010 UK Bus Awards.

2.3 Two million passengers travel on Stagecoach bus services every day, using a network stretching from south-west England to the Highlands of Scotland. We serve major cities, including Manchester, Liverpool, Newcastle, Sheffield, Hull, Oxford, Cambridge and Exeter, as well as key shire towns and rural areas.

2.4 We operate a range of local scheduled services, express coach networks and school bus operations. Most of our services are operated on a commercial basis in a deregulated environment. We also operate contracts on behalf of local authorities and other organisations.

2.5 Stagecoach has invested more than £250 million in new state-of-the-art buses over the past four years. This is part of a long-term commitment to improve our environmental performance and ensure all our vehicles are fully accessible to the elderly, disabled and families with young children. As part of our strong commitment to the safety and security of our passengers and our people, all our new vehicles are fitted with digital CCTV systems.

2.6 We also operate express coach services linking major towns within our regional operating company areas. The Group runs the market-leading budget inter-city coach service, megabus.com, which carries over two million passengers a year on a network covering more than 50 locations. Scottish Citylink, our joint venture with ComfortDelGro, is the leading provider of inter-city express coach travel in Scotland.

2.7 Putting customers first is our priority. We continue to focus closely on the recruitment and training of our people, and we have one of the best records of any major operator for social and vocational training among our frontline drivers and engineers. Our UK Bus division is also a major employer, providing jobs for around 18,000 people at over 100 locations in our 18 regional companies.

2.8 Stagecoach Group is a major rail operator and has an involvement in running almost a quarter of the UK passenger rail network. The Group operates the East Midlands and South Western rail franchises, the latter incorporating the South West Trains and Island Line networks. South West Trains, the UK's biggest commuter franchise, runs nearly 1,700 trains a day in south-west England out of London Waterloo railway station.

2.9 We also operate Supertram, a 28 kilometre light rail network incorporating three routes in the city of Sheffield, and have a 10-year contract to operate and maintain the Manchester Metrolink tram network. In

addition, Stagecoach Group has a 49% shareholding in Virgin Rail Group, which operates the West Coast inter-city rail franchise.

2.10 We are committed to investing over £200 million in our rail franchises to improve the quality and range of our services. This has included station and car park enhancements, making ticket purchase simpler using smartmedia and ticket vending machines, depot extensions and rolling stock refurbishment.

3.0 *Have the UK's Economic Conditions Materially Changed Since the Eddington Transport Study and, if so, Does this Affect the Relationship Between Transport Spending and UK Economic Growth?*

3.1 Since the publication of the Eddington Report in 2006 economic growth has faltered and the Government has now determined that it must urgently address the structural deficit in public finances. It has called for Ministers to produce plans in all domestic spending areas, excluding health, which would reduce expenditure by both 25% and 40%. Decisions will be announced on 20 October 2010.

3.2 As the economy recovers, the demand for movement of goods and people will increase and congestion will rise, unless demand management is introduced, and/or investment in additional road and rail capacity is provided. Inaction will create a brake on growth.

3.3 The costs of congestion are already substantial. In 2009 excess traffic delays, poor air quality and greenhouse gas emissions were estimated to cost the English urban economy between £16 billion and £25 billion per annum[1]. Over-crowding on some trains has reached unacceptable levels and parts of the rail network cannot cope with any additional services at peak times.

3.4 The Government and the EU are also now giving greater priority to the reduction of greenhouse gases and pollutant emissions, through increasing regulation. Such measures increase the capital and operating costs of commercial transport vehicles and significantly add to the overall fiscal pressures[2]. However, there are opportunities for public transport to play a larger part by encouraging modal shift away from car.

4.0 *What Type of Transport Spending Should be Prioritised, in the Context of an Overall Spending Reduction, in Order Best to Support Regional and National Economic Growth?*

4.1 Transport spending should be prioritised where it offers the greatest return and the least recurring administrative cost.

4.2 The provision of bus services is labour intensive and fiscal measures which are designed to maintain services are therefore good for retaining employment in the industry. In particular, Bus Service Operators' Grant (BSOG) has proved a cost effective means of limiting bus fares and keeping bus services affordable for those without alternative means of transport. We therefore strongly support the maintenance of BSOG at existing levels. Failure to do this will result in job losses in the industry.

4.3 Stagecoach was disappointed that the new Government called a halt to Kickstart schemes approved by its predecessors. Kickstart has proved to be a low cost, targeted use of short term funding to create jobs, increase social inclusion, attract modal shift, reduce congestion and improve the environment. It is to be hoped that once the funding review is complete, this programme will be re-introduced.

4.3 Employment opportunities, particularly for young people, are likely to be limited for the foreseeable future and we believe that Government can help to address this by funding significantly expanded apprenticeship schemes in the bus industry. This would then provide a future pool of skilled engineering labour available to the entire road transport industry, to the long term benefit of the whole economy.

4.4 Aside from employment issues, congestion and pollution reduction should remain the twin policy priorities and the use of public transport for all but the shortest journeys, should be prioritised given its smaller carbon footprint[3].

Urban Congestion

4.5 In urban areas, bus operating speeds continue to fall as operators struggle to maintain service reliability on mixed use carriageways[4]. This is an inefficient use of resources, makes services less attractive to passengers, and at the same time increases fuel consumption, carbon dioxide and pollutant emissions[5].

4.6 Given the inflationary cost pressures of lower bus operating speeds, cleaner exhaust emissions and increasing fuel prices; it is crucial that expenditure which enables buses to move freely on the highway is prioritised if bus services are to be both affordable and attractive to customers. While some Authorities recognise this imperative, others do not[6].

4.7 The results of the first Passenger Focus national bus passenger survey[7] show consistently high levels of overall satisfaction throughout England, (outside London). However, the lowest ratings were for value for money, which demonstrates the importance of maintaining BSOG payments to operators, if future fares levels are to be constrained.

4.8 BSOG aside, Stagecoach does not believe that in the current economic climate, revenue support for bus services should be increased; rather, efforts should be directed towards making bus services relatively more

attractive to motorists, thereby increasing patronage and revenues and reducing their need for subsidy. Where Stagecoach and others have been able to forge strong Partnerships with Authorities this has been achieved.

4.9 In this regard, Eddington recommended enabling legislation to permit bus service franchising as a delivery mechanism for urban services without explaining why[8]. We have always questioned the economic effectiveness of such a regime. Bus franchising would address none of the issues identified above and in a time of constrained public expenditure, we would now suggest that any proposals of this type are simply unaffordable[9].

4.10 On rail, we are experiencing significant congestion and over-crowding on our London suburban services. DfT have already committed to funding infrastructure changes for longer trains but there is no commitment to provide the necessary additional carriages. Our low cost, alternative solution (to new build) that uses existing trains has yet to be accepted.

Interurban Congestion

4.11 The picture is less clear for inter-urban journeys where road journey time reliability measures show little change over the last five years[10]. In contrast, journey reliability by rail has improved from some 84% (in 2005) to a current national average of 93% PPM[11].

4.12 We believe that road congestion on strategic routes can be reduced through a variety of operational and capital schemes. We believe that road pricing is a necessary tool in controlling and managing interurban demand. We applaud the use of active capacity management now being extended across more of the motorway network. Further improvements could be achieved by simple and cheap operational measures such as restricting HGVs to the inside lane from 0700 to 1900hrs as in Germany.

4.13 On the rail network, the current regulatory settlement for Network Rail includes some 50 major capacity enhancement projects costing some £1.6 billion, in addition to its maintenance and renewal activity. We believe that greater integration of train operating and infrastructure companies will bring about significant efficiencies in the infrastructure costs of the UK rail industry. Research referenced by OECD[12] has demonstrated that vertical separation can cost up to 40% more that an integrated railway.

4.14 Extra interurban rail capacity can often be provided relatively cheaply through lengthening trains, particularly on electrified railways. For example Stagecoach has developed proposals to add an electric power car to its East Midlands Trains fleet which would reduce carbon emissions and increase capacity. New trains and extra vehicles have been ordered to lengthen Virgin's Pendolino trains to alleviate over-crowding being experienced on their West Coast Main Line services between London, Birmingham, Manchester, Liverpool and Glasgow where passenger growth is exceeding 10% per annum. These will increase seating capacity by 28%. They will lie idle until 2012 under current DfT proposals.

4.15 We would highlight two areas where congestion management opportunities for rail are being missed. Firstly, an easement in fares regulation of saver and long distance season tickets (which are exceptionally cheap due to an accident of history) would enable long distance interurban train operators to manage their demand better through increased use of advance purchase revenue managed fares. Secondly, since the move away from the original OPRAF style franchise contracts to the National Rail Franchise Terms (NRFT) currently used by DfT, costs have risen and opportunities for improvements are being missed. This is due to the highly prescriptive nature of the NRFT and the high degree of control exercised by DfT over almost all aspects of our rail operations.

5.0 *How should the balance between revenue and capital expenditure be altered?*

5.1 Insofar as local public transport schemes are concerned, the focus should be placed on relatively small capital schemes which deliver large passenger benefits. These will predominantly be urban measures which improve bus operating speeds and service reliability. Measures which encourage mode shift to public transport, like Park & Ride schemes accompanied by central area parking restraint, are also likely to deliver large benefits for the capital expenditure incurred. For well designed schemes, the bus services can operate without recourse to subsidy.

5.2 As indicated above, revenue expenditure should be limited to providing socially essential bus services in the most economic way possible.

6.0 *Are the current methods for assessing proposed transport schemes satisfactory?*

6.1 In November 2009 Stagecoach co-funded a study published by the Green Alliance[13] which recommended that government should: test transport scheme value for money using a revised cost benefit analysis, consider the alternatives in each appraisal to ensure best value for money was being obtained, create an independent body to evaluate transport solutions which considered wider government objectives, such as reducing emissions and improving health, and reform the transport appraisal model further to take better account of scheme impact on national carbon targets.

6.2 Further to the points made above we consider that any cost benefit analysis which values the bus passenger's time significantly lower than that of the car passenger or car driver, fails to take proper account of the harmful environmental and congestive effects of the motor car referred to in 3.3 above.

6.3 We would add that if the primary objective is to achieve economic growth in a period of constrained public finances, we would suggest that the assessment process for relatively small schemes with high benefits should be both simple and speedy to enable those benefits to be realised as quickly as possible.

7.0 *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

7.1 Stagecoach does not believe that the absence of regional bodies should be an impediment to the formulation of schemes. We note that Government is encouraging the formation of Local Enterprise Partnerships (LEPs) and inviting them to set their own priorities for expenditure which deliver local economic growth and other Government objectives.

7.2 It is not yet known whether LEPs will be able to bid for funding and we understand that the Government intends to make this clear in its forthcoming Decentralisation and Localism Bill.

7.2 Whether schemes are to be developed by LEPs or by Local Authorities, acting alone or together, there will be an issue of nationwide scheme ranking in a prolonged period of limited funding constraint. In this regard it would seem likely that measured objectives and outcomes will be necessary to identify which schemes should qualify for Government financial support.

7.3 For the reasons we have argued above (4.5–4.7), we consider it is essential that one key measure of scheme appraisal should be the impact of the proposed investment on both the absolute and the variability of bus operating speeds.

References

1 "The wider costs of transport in English urban areas in 2009"—source Cabinet Office Strategy Paper

2 If the UK bus fleet were to be replaced in its entirety, the premium for adopting hybrid vehicles would be circa £3.5 billion (at current prices)—source Stagecoach

3 Journeys by bus emit 1/10 of the carbon dioxide emitted by cars per urban passenger kilometre—source Greener Journeys

4 Stagecoach Manchester bus operating speeds reduced by 14.5% in the 10 years to 2009—source Stagecoach

5 Bus emissions double when operating speeds reduce from 20kph to 12 kph—source TRL

6 Not one of the 36 Metropolitan Highway Authorities has adopted bus operating speed as an improvement target—source "An Analysis of Urban Transport" Cabinet Office Strategy Unit November 2009

7 Source-http://www.passengerfocus.org.uk/news-and-publications/document-search/default.asp?go=1&add_topic=1612&topic=&type=&year=2010

8 Source—Eddington Report Paragraph 1.150

9 For the Metropolitan ITAs this has been estimated to be an annual running cost of £450 million per annum and substantial, but unknown, transition costs—source "An Analysis of Urban Transport" Cabinet Office Strategy Unit November 2009

10 Source—DfT Congestion Statistics July 2010

11 Source—Network Rail Overall Performance for Period 3 November 2010

12 Source—OECD "Structural Reform in the Rail Industry" quoting Ivaldi and McCullough (2004)

13 The right route: improving transport decision making.
http://www.green-alliance.org.uk/uploadedFiles/Our_Work/RightRouteFinal.pdf

September 2010

Written evidence from Professor Peter Mackie and Dr Greg Marsden (TE 13)

Summary of Key Points

1. While the impact of transport spending on the economy is one dimension of policy. It is not desirable to partition the transport budget into components which aim at the different objectives; a holistic approach should be taken.

2. Transport spending is only a part of the strategic picture; pricing and regulatory policy are others.

3. The Eddington analytical framework remains broadly valid but some of the conclusions have changed. The lower track of GDP moderates the need for transport investment to expand capacity. The public finance situation implies a required cut-off rate of return or benefit: cost ratio significantly higher than assumed previously. The case for capacity related investment is weakened relative to pre-crisis.

4. Relative to Eddington, our prescription would be: a) Greater emphasis on maintaining what we have to a good standard; b) Further investment in resilience to climate change; c) More priority to "making better use" and improving network reliability; and d) Greater priority to investment in transport quality for our cities.

5. It is inevitable in the short-term that capital will be cut by proportionately more than revenue expenditure. We attach priority to keeping the existing asset base intact and providing revenue support for core public transport. There is great uncertainty as to how different 'cuts' scenarios will play out due to the number of actors involved.

6. We believe that most of the assumptions underpinning NATA are defensible although we accept that there are difficult questions regarding uncertainty and change where the evidence base lags behind the needs of decision-makers. This would seem to be true irrespective of the framework in play.

7. A key problem is that there is a lack of clarity over prioritisation at a strategic level. Many of the criticisms levelled at NATA are because it is being stretched to perform comparisons to which it is not well suited.

8. The Department must move to change its processes for approving major schemes. We suggest a significant increase in the minimum value of scheme over which it needs approval rights to match the rhetoric of devolution and smaller government. However, it must retain and potentially grow its relationship with local partners, the Highways Agency and Network Rail for the many schemes that will be both local and national in nature and which neither party has the heart or funds to support alone.

Critical Contextual Observations

As a backdrop to our response to the questions, a few contextual observations are in order:

- While the impact of transport spending on the economy is one dimension of policy, so the other DfT goals relating to safety, environment and distribution/accessibility remain relevant. Choices need to be made against their impact in relation to all the objectives. It is not desirable to partition the transport budget into components which aim at the different objectives; a holistic approach should be taken.
- Transport spending is only a part of the strategic picture; pricing and regulatory policy are others. Conceptually at least the balance and trade-offs need to be kept under review. The economic consequences of changes in rail fares policy are likely to be a case in point in the coming weeks.
- Transport is very largely a means to an end with the end being the responsibility of other Departments of State. There is a very wide range of delivery agents. Furthermore the transport budget is significantly funded by Communities and Local Government. So we take a broad system-wide approach not a "Departmental" focus in our response.
- We are staring down the barrel of the spending cuts in an unprotected sector and a large cut in the size of the DfT at a time of significant administrative upheaval. The new national Planning arrangements have not yet worked through, the Regional Spatial Strategies and associated transport prioritisation infrastructure has been swept away and Local Economic Partnerships are the flavour of the day in local government. The fiscal cuts will work at a much faster pace than changes in the planning environment which the Committee rightly identifies as a risk.
- It is very important to recognise the political, legal and other constraints under which the Government is operating. In some cases, such as road user charging, politics has dictated a slow tempo, raising the question of whether there is now a need for Plan B. In other cases (e.g. concessionary fares in 2006 and 2008), policy formulation moved fast in one direction and would require primary legislation to move in the other. Some extremely large schemes are in a category which transcends normal economic judgement; there is not, in that sense, a fixed transport budget pot.

Q1 (a) *Have the UK's Economic Conditions Materially Changed Since the Eddington Transport Study?*

Yes, in the following respects:

- On reasonable assumption, forward GDP will track 10–15% lower than Eddington assumed.

— Partly because of exchange rate effects, fuel prices are at the upper end of expectations and seem unlikely to fall back in real terms.

— The cost and timing of reductions in carbon emissions in the non-transport parts of the economy appear to be problematic, so the transport sector may need to contribute more to the Government's target (though lower than forecast growth will help contribute to this naturally).

— Transport is in the non-protected sector of public expenditure so public funding is going to be acutely scarce; this in turn influences the balance between public funding and funding through farebox or toll revenue streams.

Q1 (b) *Does this affect the relationship between transport spending and UK economic growth?*

The lower track of GDP moderates the need for transport investment to expand capacity because both road and rail traffic growth will be lower than forecast and values of travel time savings will be lower. Also the public finance situation implies a required cut-off rate of return or benefit: cost ratio significantly higher than assumed previously. Though the *relationship* might be unaffected, the trajectory of the economy means that the case for capacity related investment is weakened relative to pre-crisis. The Eddington analytical framework remains broadly valid but some of the conclusions have changed.

Q2. *What types of transport spending should be prioritised in the context of an overall spending reduction in order best to support regional and national economic growth?*

We do not think it is right to think of transport spending as directed towards a single policy goal so our answer is in relation to all the goals of policy which we think are well set out in the previous administration's Delivering a Sustainable Transport System document.[15] Relative to Eddington, our prescription would be:

— Greater emphasis on maintaining what we have to a good standard. A natural response to funding cuts will be to "sweat the assets" yet this works against the general notion of liability/debt reduction as it simply defers larger costs to future years although it might hide them.

— Investing in resilience in the face of higher incidence of storms and winds needs higher priority. The bridge collapse at Workington should be a wake-up call.

— More priority to "making better use" and in particular to improving network reliability, whether through software solutions enhancing information or hardware investments to provide a margin for handling incidents and accidents.

— Greater priority needs to be given to investment in transport quality for our cities. 78% of trips are under 10 miles in length and 93% under 25 miles (representing 64% of all car travel by distance). City regions are the engine of the post-industrial economy but are suffering the diseconomies of congestion. We are also slipping behind our European competitor cities. Whilst only a part of the picture, the quality of transport infrastructure is a feature in attracting and keeping inward investment. Work by the Commission for Integrated Transport has found that our typically per capita spend on transport in the UK is broadly £90–£125 per annum. Throughout the 1990s we spent only 50% as much in capital as the Germans, French and Italians, countries which also provide more revenue support for public transport. The UK Government's deficit reduction strategy is abrupt, relative to other nations, and so, despite a narrowing over the last decade, this gap can once again be expected to grow. This in spite of the often excellent value for money demonstrated by smaller urban investments.

— It follows from the above that we would give relatively lower priority to investment in national and international network infrastructure. Investment cases need to be considered against 'best feasible management/pricing' alternatives, not simply against "do-minimum". For example, open access on rail with lengthy concession periods may not be the best way to allocate precious rail capacity, still less be used to justify expensive public investments. However, capacity decisions need to be balanced against forecast demand and congestion and we are not in the camp which argues that the inter-urban road network is complete, merely that a more selective approach is inevitable.

Q3. *How Should the Balance Between Revenue and Capital Expenditure be Altered?*

As a preamble, the question implies that there is a set of control mechanisms which enable it to "be altered". But in reality the changing balance will be the outcome of decisions of hundreds of actors in the system. We doubt that, given any one set of reductions in capital and revenue allocations to DfT and DCLG, anyone in central government would be able to confidently explain how this would play out—particularly if there is a desire to see real integration across public services at a local level. We reflect that the failed Manchester TIF referendum suggests that even with very large sums of supporting funding the Department for Transport has limited influence in forcing demand management. With far reduced levels of support this influence will be further diminished.

[15] It is noted that DaSTS has now been removed from the DfT website and placed on the national archives; however the goals themselves remain relevant.

It is probably inevitable in the short-term that capital will be cut by more than revenue expenditure. Ultimately it is more important to protect maintenance budget lines and revenue support for core public transport and hence the priority we attach to keeping the existing asset base intact.

Another question which the Committee might consider is the balance between very major projects such as Crossrail and HS2 and large but not super projects such as the recently abandoned A14 scheme. This perhaps turns on whether the public funding for the super projects is seen as internal to the ordinary transport budget or as part of an external national "Grand Projets" Fund.

Q4. *Are the Current Methods for Assessing Proposed Transport Schemes Satisfactory?*

This appears to us to be a question expecting the answer No and we anticipate that the Committee will receive evidence on various alleged weakness of the New Approach To Appraisal (NATA) as an assessment tool and of particular components within it such as the value of travel time savings. We think it is important to see the wood before the trees.

First of all, we think assessment of proposed transport schemes should be viewed as the entire political and social process by which schemes and policies are created, developed, consulted upon and appraised. Viewed in that way, there are criticisms such as the gestation period of schemes, the quasi-judicial nature of planning inquiries, the overlapping responsibilities of local authorities, PTEs, delivery agencies and government departments, the adequacy or otherwise of Hybrid Bill procedures and so on. Clearly the British planning system does not operate at the speed of the Chinese land development system. Nor are we willing to fund the generous compensation schemes which lubricate the French system. Perhaps we have the planning system we deserve.

Within that overall structure, we see three levels. The first is the development of strategies for areas such as city regions or corridors such as London-Birmingham. The second is the appraisal of schemes within the strategy such as say the A1(M) scheme from Ferrybridge to Red House near Doncaster. The third is the assessment of a multiplicity of scheme options in terms of design, layout, alignment, capacity etc. using for example the Design Manual for Roads and Bridges. In general, we would defend the use of a three tier approach to scheme assessment—a scheme should make good sense within a spatial strategy, it should perform well in cost-benefit analysis terms and the chosen design should be a good solution relative to the alternatives.

Of these, we think the weakest element is the first. Although we had the very high level statement in DaSTS, we have not yet populated the upper tier with the hard grind and experience of actually doing strategic studies. The Multi-Modal Studies of a decade ago were broadly a failure in that regard and it will be interesting to see whether the DaSTS studies prove more successful. We fear that both the timing and content of those studies may have been misplaced in the current budget circumstances.

By contrast there is a lot of experience at the middle tier and the issues with NATA are not the feasibility of doing it but whether it is structured correctly (see below). We see little challenge to the NATA framework as a way of assembling the relevant evidence in a controlled and consistent manner. We believe that the middle tier (the NATA) though absent in some other policy areas such as Education and Regeneration/Housing is nevertheless essential to assessment in the transport sector which cannot be reduced to single indicators of cost-effectiveness.

If the *concept* of NATA (which is really a rebranded version of the Framework developed in the late 1970s) is satisfactory, what about the details? Any appraisal system is going to be most comfortable comparing like with like, so the Roads Review of 1998 (Nellthorp and Mackie, *Transport Policy*, 2000) was well within the comfort zone of the NATA. Comparisons between very large and very small or across modes and policies will be less comfortable *whatever the appraisal tool.* So we would stress the need for a better pre-filter at the strategy level to ensure that the right mix is coming forward for assessment at the second level.

Within the NATA itself we think a number of the criticisms which we have seen are misplaced. In particular we would defend the Department's guidance on the treatment of taxation including fuel duty and of the value of travel time savings. We may wish to expand on that in the light of other evidence. While the impact of transport schemes on land use patterns within cities is important, we think that changing the focus of appraisal of schemes funded from national funds to one centred on the value of land development or employment capture would be misguided. We think that the real issues are not so much about NATA itself as the policy challenges which appraisal is intended to inform. There is currently a greater level of uncertainty to deal with in assessment than for a generation. Resilience against weather conditions and security concerns, unreliability in road and rail networks are very important but difficult appraisal topics. The evidence base lags far behind the policy need in various respects (eg in climate impacts). The low discount rate and 60 year appraisal period involve model and appraisal conjectures about the future which verge on the fictitious. It is important that decision-makers retain the perspective that NATA is for decision-support not decision-making.

Q5. *How will Schemes be Planned in the Absence of Regional Bodies and Following the Revocation and Abolition of Regional Spatial Strategies?*

The assembly of a coherent set of regional spatial strategies, regional transport strategies and the associated use of a semi-devolved Regional Funding Allocation (RFA) process took more than five years to put in place.

This is perhaps too long but is a feature of the pace at which the planning process has to move and reflective of the number of stakeholders that were in play. It is our opinion that the RFA process had just begun to overcome the initial tendency of any new funding constellation where each body simply lobbies for its own preferred scheme. The programme for regional major scheme approval had begun to become a more strategic and managed process.

LEPs provide an opportunity to reformulate these constellations (with the associated delays in re-establishing working protocols, priorities and trade-offs). However, there will be many more of them than regions. So the Department has to choice to re-centralise or devolve the prioritisation processes for major decisions.

Arguments for centralisation might surround a more consistent set of policy decisions and an oversight of value for money. This in our view is something of a red herring as the scale, range and objectives of the different schemes being put through the departmental mincer at any one time will be such that comparability is unattainable (see our points above about a better strategic filter). The Secretary of State also seems to have signalled that the Department will not have the staff to take on such a workload.

Arguments for devolution are consistent with allowing local areas to determine their own transport strategies and investment priorities as they know these requirements best. The uncomfortable middle ground here is however, that major schemes require budgets which fall well outside of the yearly capital allocations they receive so simply apportioning capital in a block grant approach and hoping the best schemes will get built will not work. Total devolution too is also a red herring—investments in some non trunk road routes and rail lines are still of a local, regional and national importance and both local and national stakeholders need to be involved. We currently see little clarity over arbitration between the Highways Agency, Network Rail and the emerging LEPs (and their predecessor bodies) on setting investment priorities for an area and the role of appraisal in that process.

We suggest the setting of a more sensible set of criteria for central government involvement in major investment decision-making. It is our view, for example, that the current £10 million definition of a major scheme is far too restrictive—this might be relaxed to £100 million. Other criteria such as the volume and degree of through route traffic relative to local traffic might be included. It would also be helpful to continue to outline indicative funding envelopes for investment so that the set of proposals tabled is properly prioritised before it gets there. Matched funding could also be significant (eg through workplace parking or equivalent).

Finally, we sound a warning that the LEPs are being established in a time of cuts. Leaner staffing will reduce the limited cross-sectoral planning experience that exists as agencies focus on core tasks. Adversity may generate a spirit to generate more from less—it may equally lead to entrenchment and short-sightedness due to the turmoil of the change process. The Department needs to plan for more active engagement with LEPs as the cuts bite if it is to communicate its agenda effectively.

The evidence is submitted as the views of Professor Peter Mackie and Dr Greg Marsden and is not the view of the Institute for Transport Studies nor the University of Leeds

September 2010

Written evidence from Unite the union (TE 14)

1. *Introduction*

1.1 This submission is by Unite the Union. Unite is the UK's largest trade union with over 1.5 million members across the private and public sectors.

1.2 Unite the Union's current membership in transport, together with our membership in other trade groups, such as supervisory and administrative grades, and some maintenance engineering members, exceeds 250,000. Unite represents workers in all areas of transport including bus, coach, taxi, tram, rail, road haulage, logistics, civil aviation, docks, ferries and waterways.

1.3 Unite has obtained the views of our transport worker members through our lay member committees at national and regional level. Therefore Unite is in a unique position to submit a response to the Transport Committee Inquiry into Transport and the Economy.

2. *Executive Summary*

2.1 The relationship between transport spending and UK economic growth is even more vital during this tenuous post recession period then it was previously.

2.2 Unite is extremely concerned that the Government's drastic cuts programme is jeopardising the recovery and may even lead to a "double dip" recession.

2.3 Continued investment in transport infrastructure is crucial to delivering and maintaining economic growth. It will not only help build the UK out of recession by providing jobs and attracting investment, but provides an essential element for long-term, sustainable growth.

2.4 Every transport mode makes a substantial direct and indirect contribution to the UK economy and Unite will protect its members and their terms and conditions vigorously across all these modes of transport.

2.5 If any alteration is needed between transport revenue and capital expenditure during this time of little economic growth then it is greater expenditure in the UK's transport infrastructure that is required.

2.6 What are the criteria that the decision maker will be using to make their decisions when assessing proposed transport schemes?

2.7 If the Government wants to make some cost neutral improvements to the UK's transport policy then Unite's "Safer Way Campaign" would be an appropriate place to start.

— a maximum single piece of driving duty not to exceed 4.5 hours,

— a maximum length of driving time of no more than eight hours in one day,

— a maximum of 10 hours total working time in any one day.

2.8 Regional transport strategies must be maintained despite the removal of the wider regional spatial strategy.

3. Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?

3.1 The Eddington Transport Study 2006 was explicit about the long-term links between transport and the UK's economic productivity, growth and stability.[16] Since Eddington's Transport Study the UK has undergone a severe recession from which recovery is still fragile and the Committee is right to recognise this in its terms of reference to this inquiry that *"a good transport system is a pre-condition of the long-term economic growth required to drive the UK's economic recovery"*.[17]

3.2 When the Eddington Transport Study was conducted the UK economy was amidst a period of sustained growth that would last 16 years and was finally brought to an end with a 0.6% fall in the 3rd quarter of 2008, after 64 consecutive quarters of growth in the UK.[18] Now after six negative quarters in a row, the UK has reported growth in the last three quarters.[19] GDP increased by 1.2% in the second quarter of 2010, compared with an increase of 0.3% in the previous quarter.

3.3 The transport sector's contribution to the UK economy since the Eddington Transport Study is substantial in terms of the sectors contribution to UK GDP and employment levels.

Year	*Transport & Communication Gross Value Added*	*Transport & Communication Workforce Jobs*
2006	£83,655,000,000	8,837,000
2007	£88,280,000,000	8,845,000
2008	£91,347,000,000	8,905,000
2009	Not available	8,622,000

Source: UK National Accounts—The Blue Book 2010

3.4 However, the transport sector should not just be valued on its considerable direct GDP and employer contribution to the UK economy alone. Transport provides a "multiplier-effect" to all the other sectors of the UK economy which has an indirect economic value, which can be hard to quantify but which is certainly present.

3.5 The British Chambers of Commerce (BCC) has estimated a transport infrastructure "multiplier-effect" worth around three times the cost of a powerful package of road, rail and airport improvements, which will deliver economic benefits worth a projected £86.3 billion for an outlay of £30.1 billion.[20]

3.6 Concerns about the damaging consequences of failing to invest in transport infrastructure have also been raised by the CBI who state that: "an apparent saving today means spending more tomorrow, and fails to recognise the direct and indirect benefits that quality infrastructure can bring in the near term."[21]

3.7 It is Unite's view that the relationship between transport spending and UK economic growth is even more vital during this tenuous post recession period then it was previously.

[16] *The Eddington Transport Study, 2006*
[17] www.parliament.uk/business/committees/committees-a-z/commons-select/transport-committee/inquiries/transport-and-economy/
[18] www.statistics.gov.uk/
[19] www.statistics.gov.uk/CCI/nugget.asp?ID=192&Pos=1&ColRank=1&Rank=144
[20] www.britishchambers.org.uk/679821924689758819 7/transport_priorities.pdf
[21] www.cbi.org.uk/ndbs/press.nsf/0363c1f07c6ca12a8025671c00381cc7/f3d498f499d77c6a8025779800442fbd?OpenDocument

4. *What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?*

4.1 Unite believes that this Government must deliver on commitments it has made for the high speed rail network, which can drive economic growth with a yield of £2 in benefits for every £1 spent and deliver 10,000 jobs[22], and the Crossrail project, which will be essential to the development of London's prosperity and competitiveness.

4.2 Unite urges the Government to rethink its opposition to a third runway at Heathrow, which for £9 billion investment from the private sector, not government coffers, would generate £30.7 billion of economic benefit to the UK.[23] The London Hub business cannot be replaced by the utilisation of other neighbouring airports or the construction of a fictional new airport in the Thames. If managed correctly runway additional capacity at the airport would not lead to an increase in green house gas emissions and may provide incentives toward reducing emissions globally. In addition, these transport infrastructure projects will provide numerous opportunities for British construction and manufacturers. These projects must not be compromised by short-term cost-cutting measures.

4.3 However, it isn't just about preventing the mothballing of large proposed transport infrastructure projects. Maintaining current funding in existing transport infrastructure is just as crucial.

4.4 The Government is pursuing a severe programme of spending cuts in which unprotected departments are to see budgets slashed by some 25%, with reports of as much as 40%. A 25% cut to the Department for Transport's £13.6 billion annual budget would amount to £3.4 billion. Cuts have already been announced in respect of local authority grants, Network Rail, railway stock and road improvements.[24]

4.5 At a time when the Government, local authorities and PTE's should be increasing investment in transport infrastructure. Within the bus industry there is so much that could be done e.g. financial support for tendered bus services, new buses, bus stations, bus stops and shelters and the timetable and service information provided on them. Unite fear that local authority spending cuts will impact heavily in this area and make public transport less attractive and more difficult to use, particularly if timetable and service information is degraded.

4.6 Unite is extremely concerned that the Government's drastic cuts programme is jeopardising the recovery and may even lead to a "double dip" recession.[25] Continued and increased investment in transport infrastructure is crucial to delivering and maintaining economic growth. It will not only help build the UK out of recession by providing jobs and attracting investment, but provides an essential element for long-term, sustainable growth.

4.7 Every transport mode makes a substantial direct and indirect contribution to the UK economy and Unite will protect its members and their terms and conditions vigorously across all these modes of transport.

5. *How should the balance between revenue and capital expenditure be altered?*

5.1 Certainly it isn't by the Government reducing or removing the only direct national funding for bus services—the Bus Service Operators Grant (BSOG). BSOG, formerly known as the Fuel Duty Rebate (FDR), is a rebate to bus operators on the fuel duty they pay. Operators who run local registered bus services are reimbursed for the major part of the tax paid on the fuel used in operating these services. These also include many rural, school and socially important services and the grant is also increasingly important to community transport providers. Government provides a fuel duty rebate on approximately 80% of the fuel used by buses. Bus operators pay fuel duty tax on the remaining 20% of their fuel.

5.2 BSOG lowers the cost of providing services, resulting in lower fares, a more comprehensive network of services, less congestion on our roads and a better and healthier living environment in our communities. It also helps support the 170,000 jobs in the bus industry and thousands of others in bus manufacturing and support services.

5.3 BSOG also helps the Government achieve its aims of carbon reduction, lower road congestion, and social inclusion. The Government has publicly recognised the value of BSOG, with the Transport Minister Norman Baker telling the House of Commons on 29 June: "The benefits of that grant are clear: it ensures that the bus network remains as broad as possible, while keeping fares lower and bringing more people on to public transport, with the obvious benefits of reducing congestion, lowering carbon emissions and improving air quality in our towns and cities."[26]

5.4 The Department for Transport's own submission to the review of the local bus market said that BSOG represents high value for money.[27] A previous study for the Government by the Commission for Integrated Transport found that every £1 invested in BSOG provided between £3 and £5 of wider benefits.[28]

[22] news.bbc.co.uk/1/hi/8561286.stm
[23] www.britishchambers.org.uk/679821924689758819 7/transport_priorities.pdf
[24] www.bbc.co.uk/news/uk-politics-10924719
[25] This is a view shared by a number of notable economists. See for example, www.newstatesman.com/economy/2010/07/growth-budget-cuts-recovery
[26] http://services.parliament.uk/hansard/Commons/bydate/20100629/mainchamberdebates/part005.html
[27] www.bettertransport.org.uk/system/files/10.07.09.bsog_briefing.pdf
[28] www.bettertransport.org.uk/system/files/10.07.09.bsog_briefing.pdf

5.5 If the Government withdrew BSOG this would have damaging and wide-ranging consequences for local communities, public transport services, low-income groups, the UK economy and the environment.

5.6 Unite also opposes the planned sale of Dover and the trust ports to raise capital for central government. The Dover Harbour Board claims that the sale would cause the "*Removal of constraints to enable growth: access to capital with no statutory or artificial constraints on the Port's development and growth; optimisation of its capital structure and user charges*". However in reality The Dover Harbour Revision Order 2006 provides the Board with the capacity to borrow funds in whatever way they choose and the ferry companies claim that the route is already 40% over capacity. For UK-registered vehicles, 77% travelled via the Dover Strait in 2009; the corresponding figure for foreign vehicles was 88%. If there is another unforeseen event like the Ash cloud incident or the wrong type of snow which causes the channel tunnel to shut then the Dover port becomes an even more vital UK economic life line than it already is

5.7 Therefore Unite believes that if any alteration is needed between transport revenue and capital expenditure during this time of little economic growth then it is greater expenditure in the UK's transport infrastructure that is required.

6. *Are the current methods for assessing proposed transport schemes satisfactory?*

6.1 Unite is concerned with the actual decision makers. What are the criteria that decision makers will be using when assessing proposed transport schemes?

6.2 If the Government wants to make some cost neutral improvements to the UK's transport policy then Unite's "Safer Way Campaign" would be an appropriate place to start.

6.3 British bus drivers are presently driving longer periods than their European counterparts. This is wrong on grounds of safety because the deepening congestion on Britain's roads makes their job increasingly stressful and hazardous. The British Driving Hours Regulations currently provide for bus drivers to work for up to 5.5 hours without any breaks, and up to 16 hours in a whole day. Unite believes it is time for:

- a maximum single piece of driving duty not to exceed 4.5 hours,
- a maximum length of driving time of no more than eight hours in one day,
- a maximum of 10 hours total working time in any one day.

6.4 The issue of excessive driving hours and the poor quality of UK regulations ought to be a matter of serious public concern and we urge the Transport Committee to support our campaign calling for steps to be taken to tighten the current drivers hours regulations.

7. *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

7.1 Unite is unsure what the Government plans to take the place of the regional bodies following the revocation and abolition of regional spatial strategies. Of particular concern is the status of the regional transport strategy, which was part of the wider regional spatial strategy.

7.2 The backbone of any local transport network is the bus. 4.8 billion journeys are made every year on buses. For the 25% of UK households that do not have a car, to get to work, to school, to visit the shops or the hospital, the first and often only travel choice is a bus.[29]

7.3 Clearly if there is no provison to get the level of bus demand right as part of a regional transport stratgey, then it could be a recipe for disaster for local transport services provision. Regional transport strategies must be maintained despite the removal of the wider regional spatial strategy.

September 2010

Written evidence from Professor Henry Overman (TE 16)

Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?

1. Clearly the UK's economic conditions have changed. GDP per capita is higher than when the Eddington report was written even if the growth rate is lower. There is no reason to think that these changes affect the relationship between transport investment and UK economic growth. The most important impacts of transport investments are long run and decisions should continue to be made on that basis. Equally the arguments that transport facilitates growth rather than causing it and that a lack of transport responsiveness may impede growth remain convincing. Finally, the emphasis on mode neutrality (e.g. not always favouring rail over planes) remains valid.

[29] www.bettertransport.org.uk/campaigns/public_transport/buses/facts

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

2. The priorities for investment remain those identified by Eddington: Reducing congestion in urban areas, on key inter-urban corridors and at key international gateways (major ports and airports).

3. We should prioritise projects that deliver large benefits relative to costs. Assessments of these costs and benefits need to be realistic. Claims about the "transformational" nature of transport investments for particularly areas should be generally discounted in assessing these benefits because they have no convincing evidence base to support them.

4. Consistent with the findings of the Eddington review, and the points above, the case for large expenditure on a High Speed Network (including HS2) remain weak relative to the case for other schemes. Put simply, for the cost of the London-Birmingham HS2 link we could fund a scheme the size of Manchester's Transport Innovation Fund Schemes bid in 10 of our best performing cities. There are good reasons to think that the benefits of the latter would far outweigh the former (even more so if planning reforms were to allow expansion of these cities). Moreover so long as electricity generation remains largely carbon based the global warming aspects of HSR are nugatory.

How should the balance between revenue and capital expenditure be altered?

5. Capital expenditure is likely to bear a disproportionate share of cuts even when the benefits to investment far outweigh the benefits to revenue expenditures that will be maintained (it is hard to cut subsidised bus services, easy to scrap plans for a new railway line). Evaluation of costs and benefits coupled with transparency may go some way to prevent this but the political economy pressures mean that this outcome is hard to avoid.

Are the current methods for assessing proposed transport schemes satisfactory?

6. Decisions will need to be made on specific projects within these overall priorities. The way that we do this should continue to be based around a careful assessment of the realistic costs and benefits. Traditionally this has been done on the basis of Cost-Benefit Analysis. More recently DfT has issued guidelines about incorporating wider economic impacts in to transport appraisal. There is a distinct possibility that this has added more uncertainty to estimates of benefits. Given our incomplete understanding of the wider impacts, moving even further away from CBA (eg towards estimates of "growth impacts") as a means of prioritising projects would be a high risk move without clear benefits. One improvement in current practice would be for ex-post assessment of the economic impacts of larger schemes.

7. It is unclear whether we are doing a good job of incorporating market signals in to transport planning and assessment. For example planners often to try to "lead the market" with investments whose value depends on changes in behaviour that are often not forthcoming (so we build in weakly performing areas rather than responding to congestion in more successful areas). These biases also occur in assessment, for example, valuing land at market price, but wages at national averages artificially reduces the appraised value of projects in urban areas.

8. Concerns about growth impacts would be better seen as a strategic issue determining overall spending priorities and, possibly, used to decide between projects that have otherwise similar CBAs.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

9. The case for moving away from RDAs and spatial strategies is strong but it will create problems for some transport decisions. For intra-urban schemes local authorities and local enterprise partnerships are the obvious planning bodies. This will raise questions around capacity (for smaller LAs and LEPs) and the extent to which LEP boundaries match up to those of the local economic area. For inter-urban and other large schemes that extend beyond LEP boundaries it would appear that the planning role will need to revert to central government. Strategic planning for projects that have wide spatial impacts are not easily devolved.

10. It should be noted that the move to abolish RSS before alternative arrangements are in place is likely to lead to considerable uncertainty (and hence delays) in implementing projects in the immediate period.

Prof Henry Overman acted as a one of the group of economists who advised the Eddington Report (the so called "friends") and now sits on the HS2 analytical challenge panel. He directs the BIS/CLG/ESRC/WAG funded Spatial Economics Research Centre. This submission presents his personal views and is not representative of any organisation.

This evidence is submitted as the personal views of Prof. Henry Overman and not the view of the LSE.

September 2010

Written evidence from the Chartered Institute of Logistics and Transport (CILT) (UK) (TE 18)

Summary

— UK economic conditions have, of course materially changed since 2006. However, some travel patterns are set on a trend irrespective of GDP. Car trips and distance are decreasing while rail and some bus trips are growing independent of the economy. Other transport, in particular freight related and air travel, is more closely linked to the economy.

— Alternatives to travel will assist in growing GDP but will result in more travel later.

— Economic growth is therefore best supported by prioritising transport investments which are related to GDP. CILT(UK) continues to support the Eddington priorities: congested urban areas, inter urban corridors and gateways.

— CILT(UK) continues to support better pricing for all travel, providing direct signals on the value of each trip on which economic value and therefore priorities can be based.

— In a time of limited public sector finances, schemes which leverage private sector investment should be prioritised.

— The best schemes depend on the particular circumstances. Public transport, cycling, walking and low cost integration schemes can help in urban areas, but the movement of goods and services for the economy is vital. Rail schemes and the removal of road bottlenecks are appropriate to inter urban corridors. The provision of capacity at gateways is fundamental if they are not to inhibit the flow of people and goods.

— The balance between revenue and capital expenditure should not simply be altered because of financial limitations. Carefully targeted revenue expenditure may have a high long term economic benefit, just as much as capital investment.

— Current appraisal techniques are not adequate, but simpler appraisals are appropriate for initial sifting or for schemes with obvious benefits. Wider benefits should be studied but should not be used unless doubts about the value of benefits or the limitations of data are fully understood.

— Devolved administrations have considerable autonomy in transport decision making, but some nationally important schemes are being held up for local reasons. National policy should be afforded significant weight in planning decisions. Localism should not prevent nationally important infrastructure being provided.

The Chartered Institute of Logistics and Transport in the UK (CILT(UK))

1. The Institute of Transport was founded in 1919. The first President was Sir Eric Geddes, who was also the first Minister of Transport. One of the principal objectives of the Institute, then as now, was to promote the knowledge and study of the art and science of transport in all its branches, and to provide facilities for the exchange of information and ideas. As today's CILT(UK), it has in excess of 18,000 members. This response was formulated by the Institute's Public Policies Committee, which includes representatives from all parts of the transport profession and from all nations and regions.

Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?

2. Clearly, the economy has been in recession since 2006 and, although it is now recovering, uncertainties over the pace of recovery and the Government's programme to control public spending inevitably mean that the extent of the impact on transport expenditure is unclear although it is likely to be negative in most areas. The relationship between GDP and travel is complex, and we should be cautious about the use of transport statistics as some modal data is not compatible. Some elements are declining, notably travel by car—which has been falling for several years both in terms of number of trips and distance travelled. This has not just been because of the recession (although a reduction in commuting has contributed) but appears to be a change to the previous long lasting trend of almost continuous steady growth. On the other hand, many trips by public transport (bus in London and some regional areas and rail) and cycling have increased and continue to do so, albeit more slowly in some cases, despite the recession. Freight traffic has decreased after a period of strong growth on all modes, with heavy goods vehicles declining more than light vans. Air travel seems closely linked to the economy. Intermodal container traffic on rail has grown although other rail freight markets have declined, in particular coal traffic following changes in the energy market. In 2010, international freight transport, in shipping and aviation is recovering, but the picture is mixed for rail and on the roads.

3. Alternatives to travel, particularly for business purposes, may have had some effect on recent trends, and are a very important way of increasing business activity and therefore GDP. However, it is vital that travel is not inhibited by nationally imposed restrictions or excessive taxation, otherwise the benefits of improved business contacts will be lost. Goods can be ordered over the internet, but then need to be delivered. Jobs can be set up by electronic communications, but then people need to get to work. International business, especially in the BRIC and similar emerging economies, needs face-to-face contact. Cultural contact cannot be experienced remotely.

4. The short term trends since 2006 do not necessarily show a change in the relationship between travel and GDP as some are directly in proportion. However, the decline in car travel appears to be a change in the both trips and distance relative to GDP. As car trips are around two thirds of all travel, this is significant. Public transport and cycling are also showing growth relative to GDP which may be a shift in the relationship.

5. Most of what Eddington said still applies since the concepts were not based on any particular rate of growth in the economy. However there is a danger that transport spending will increasingly be devoted to propping up less profitable transport operations rather than investing in connections for the future eg increased subsidy for services where patronage declines, rather than investing in connectivity for city regions, reliable journey times on long distance routes to support regional development (including tourism), and investment to support local economies.

6. While the relationship between economic growth and travel is one of cause and effect (in that order), the relationship between economic growth and transport spending is usually the other way around (i.e. transport spending leads to economic growth). Work done in Greater Manchester shows that the connection of areas of unemployment with job opportunities is a vital function for transport investment. However, sometimes the investment fails to deliver the expected gains or even to have perverse results if not properly planned. There is a lead and lag time between spending which may be of the order of five years on average, and it is certainly not the case that spending five or more years ago has led to the current downturn. Indeed, spending five years ago, coupled with a downturn in travel demand, has led to a reduction in congestion on most modes which means that recovery is for the time being not held back. But it would be a very bad mistake to impose a blanket restriction on investment now, as demand will rise in the next five years and congestion will then limit growth.

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

7. The policies of the Coalition Government clearly suggest the public sector alone must not be expected to shoulder the burden of transport spending either in capital or revenue terms. Public spending should therefore work with and create incentives for private investment. Where public investment in transport does not attract significant other investment, by people, businesses and investors it should generally be seen as a lower transport priority.

8. Economic growth is best supported by ensuring that those elements of travel which are related to GDP do not suffer from congestion and delay. This means that the networks should be provided with sufficient capacity or else managed to attract the most valuable traffic and deter the less important. Eddington's foci remain the most important: inter-urban corridors, key gateways and congested urban areas where they are impacting journeys to work. However, Eddington paid little attention to regional interests (except to the extent that inter-regional links leading to international gateways were clearly considered priorities). In the current economic circumstances the consequences, inter alia, of Government actions may well create circumstances in which regions with high proportions of public sector jobs and skilled workforces will become more attractive for inward investment which may be facilitated by judicious improvements both to inter and intra-regional transport networks. This can be measured by Gross Value Added from raising the number of job and training opportunities accessible to deprived areas, which schemes can be prioritised.

9. Eddington drew particular attention to the need for correct economic pricing on all modes. He pointed out that, in the absence of correct pricing, a higher level of investment was needed to reduce congestion and overcrowding; and that strategies involving road pricing gave much higher rates of return. At a time when public sector funding is scarce it will be particularly important to make the best use of existing infrastructure and to get the pricing right, whether to give good value for money on publicly funded projects or to make them attractive to funding by the private sector.

10. The solutions should, of course, depend on the circumstances. Congested urban areas can be relieved by a range of options including better public transport, cycling and walking, but the movement of service and light freight vehicles is vital. The urgency of road improvements may be greatest in our regional towns. Inter urban corridors and gateways may be assisted to a limited extent by rail, but really require the road network to provide sufficient capacity, in particular the removal of bottlenecks. Pricing on both road and rail should be designed to spread demand to make efficient use of the available capacity throughout the day. Increased access to rail freight is needed for raw materials and finished goods, both imports and exports, but in a way that allows payment for use, rather than for a particular frequency of capacity. There are also many low, or nil, cost interventions related to information and integration which are often implemented within major schemes but which can be independent if the major scheme does not go ahead.

How should the balance between revenue and capital expenditure be altered?

11. The long term aim should be to reduce the need for ongoing revenue support and where possible lock in sustainable economic and social business models for the delivery of transport. Working towards zero revenue funding could help the economy, for example by creating social markets for road maintenance and supported public transport. New transport markets are a potential growth area for the UK as large integrated transport companies will increasingly grow their markets overseas.

12. In the shorter term, if transport capacity remains the obstacle to economic growth (as it is in the case of inter-urban roads, rail and air transport and congested periods in urban areas) then capital expenditure to create new capacity should be considered and may take priority over revenue expenditure on subsidising travel. While revenue expenditure can be related to actual use (for maintenance or subsidy), properly targeted support can release productive capacity either more quickly or more efficiently. It is both more efficient and more effective to achieve mode shift by increasing the cost of the mode to be discouraged than to make the preferred mode cheaper. Studies have shown, for example, that cheaper bus fares attract additional passengers who did not previously travel at all, or made shorter journeys on foot and that a relatively small proportion of the increase comes from former car drivers and passengers. Conversely, when the congestion charge was introduced in central London, many of the people who stopped driving in by car switched to bus assisted by the increased levels of services introduced concurrently. It is instructive that transfer to already congested Underground and, to a lesser extent, suburban train services was proportionately rather less than expected.

13. Overall there is an opportunity, which sadly the urgency of Government inspired cuts may be ignoring, to reassess the conventional wisdom that capital investment is always to be preferred to revenue expenditure. Both will always be required—just as there comes a point where complete replacement of an asset is more efficient than further maintenance, so there are instances where revenue support to bolster services (for example in passenger rail routes parallel to major highways or in congested urban areas) may be more efficient than capital investment.

Are the current methods for assessing proposed transport schemes satisfactory?

14. The case for change in transport economic appraisal was made strongly by SACTRA in 1999 and again by Eddington in 2006. We responded to the NATA Refresh consultation but the current changes being proposed by DfT do not go far enough. Summating small time savings on the part of many individuals over a long period does not give a clear indication of a scheme's value to the economy in terms of usable benefit, or actually facilitating better connection of people to jobs. The dialogue about wider economic benefits (including tourism), agglomeration, and social and distributional impacts has become far too complex, partly due to lack of clarity and or consensus about how social and economic value is or should be incorporated in value of travel time. It is fair to say that virtually nobody is able to defend the current approach with all parties citing important changes as necessary.

15. To ensure a practical short term solution, one of our key responses to the DaSTS initiative was that some schemes are so obviously either good or bad that they do not need a high level of sophisticated calculation to measure them. If a proposal produces excellent financial returns on the investment, whether by private or public sector, and contributes to environmental and social benefits, then professional time should be spent on fund assembly and tackling barriers to delivery rather than the pseudo-science of economic appraisal. Appraisals should always note the limitations of the data, in particular whether it is available in comparable form between modes.

16. For more complex business cases the broad level sifting of investment opportunities will assist in prioritising appraisal resources at resolving the uncertainties being highlighted in the appraisal debate. In this debate, there is a need to a wider perspective to look at national benefits. For example, the wider use of smartcards will have benefits but this cannot be assessed by looking at the effects in one region alone. A back office serving a number of smartcard operations will be considerably more efficient than a number of smaller operations.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

17. The demise of regional spatial strategies, and with it regional transport strategies, creates a major gap in the development and delivery of non-local transport schemes and this needs to be filled. The alternative is that nothing will get done and economic, environmental and social conditions will get worse because travelling becomes more dispiriting.

18. It is important at a national level that Central Government should continue with the preparation of National Policy Statements as an overview and direction for the delivery of major transport infrastructure (airports, sea ports, national road and rail networks) so that infrastructure of national importance can be provided even in instances where the local communities find it difficult to accept.

19. A particular example of this is the need for a national policy statement on the provision for intermodal freight. There is a clear case for facilities that provide for better and more road/rail interchange points that would enable more long-haul freight to be handled by rail. There have been a number of recent planning applications that have been refused in the South East. Such developments, carefully located, would fit in with a national strategy that calls for better connectivity and this should be recognised through national guidance so that they could be given proper weighting in planning decisions.

20. The devolved administrations and London have considerable freedom to decide their transport priorities but they are dependent to a large extent on funding allocated by the UK Government. The relatively better performance on transport investment in each case is arguably because planning and transport investment decisions and the relationships between them are better understood by smaller administrations and executives

responsible for their own regional issues and the correspondingly shorter decision chains. Examples of this in Scotland are the ability to undertake investments to re-open rail lines for passenger use.

21. In England, local government can decide their own priorities for local transport, be they those related to economic growth as identified by Eddington, or through other ways, such as rural transport for social progress. Local authorities, working through local economic partnerships, can collaborate in preparing sub-regional strategies, as is being proposed in a number of areas such as the West Midlands and the Yorkshire City Regions. These local economic partnerships are new and untested and particular local authorities may find it difficult to resolve conflicts between different parts of an area, especially where one has to accept a disadvantage for the benefit of the wider sub-region. The nature of these new partnerships geographically means that some transport issues which extend across administrative boundaries will remain unresolved. From a transport point of view the abolition of spatial strategies covering the whole of a travel-to-work area threatens to remove a way of solving transport problems through land use and transport planning policies operating together. This seems a retrograde step, economically, environmentally and socially. Similarly the abolition of the Government Offices for the English Regions threatens to delay decision making both through increasing the workload centrally and removing local professional knowledge and advice.

22. Localism is likely to be beneficial for local transport issues, but will cause delay, prevarication and sub optimal scheme design for nationally important transport infrastructure. Decisions on national transport infrastructure must remain with national authorities, with local inputs only where the balance of national benefits is outweighed.

September 2010

Written evidence from Professor Roger Vickerman (TE 21)

PROBLEMS IN IDENTIFYING THE WIDER BENEFITS OF TRANSPORT

1. Introduction—The Issues

1.1 Transport as a determinant of land use and economic development has been the subject of much controversy. What have become known as wider economic benefits (WEBs) or, to reflect the fact that there may also be negative net effects, wider economic impacts (WEIs), continue to provide difficulties on both theoretical and empirical grounds and hence there is no clear guidance for their use in appraisal.

1.2 Formal appraisal techniques tend either to exclude the possibility of wider economic impacts, largely because of the fear of double counting, or simply include an arbitrary add on. The fear of double counting is a major issue in the appraisal literature. But frequently there is pressure from promoters facing an inconclusive benefit-cost analysis to recognise that some of the indirect effects of a project could have been omitted.

1.3 Recent research has improved our understanding of the way in which accessibility affects the performance of firms, the public sector and labour markets. In imperfect markets reduced transport costs can have differential impacts on different sectors and different regions. These could also impact on the public sector's ability to maintain or develop services in those regions as there may be an impact on the tax base. Transport improvements may affect the labour market, leading to widening catchment areas and allowing workers to move to higher productivity jobs, leading to agglomeration impacts which go beyond the simple sum of the benefits to individual firms.

1.4 The conceptual and theoretical arguments have advanced, but the empirical evidence remains problematic. Both the SACTRA Report in 1999 and the Eddington Report in 2006 found it difficult to give precise guidance on this at both national and regional/local level. This is in part because there is no a priori relationship between transport improvements and their consequences for the economy. It is difficult to determine whether the link between better accessibility and economic performance runs from accessibility to performance or vice versa. There are conflicts between estimates based on different methodologies. The interrelationships and spillovers between different areas could have major impacts—transport improvements in one area can either enhance or detract from economic performance in other areas.

1.5 This has important policy implications. Underinvestment in transport infrastructure as a result of the failure to include any WEIs could lead to lower growth and congestion in affected areas. On the other hand overinvestment as a result of including assumed WEIs which do not exists could lead to problems for public budgets and negative externalities associated with over expansion. The former may occur if one jurisdiction tries to leave it to others to invest so it can benefit from spillovers, the latter where regions are competing with each other to attract mobile investment by enhancing local accessibility. Hence there are implications for the most appropriate level at which to implement transport policy.

2. Implications for Appraisal

2.1 The first stage is to improve the application of Cost-Benefit Analysis (CBA) recognising the existence of externalities (such as environmental impacts) and imperfect competition (in the absence of perfect competition it cannot be assumed that changes in transport costs will be directly reflected in prices).

2.2 To take into account all the impacts on the wider economy appears to require a much larger modelling exercise such as the use of computable general equilibrium (CGE) models. These have been used in a variety of studies, but are very dependent on assumptions made about the parameters used; small changes can lead to significant swings in the overall conclusion.

2.3 There are issues about the appropriate geographical scale of analysis. How large an area is affected by a scheme? Are there spillovers? Are the gains to one region at the expense of another or is there a real net gain?

2.4 Most appraisal is carried out on single schemes, but these are usually links in a wider network; the creation of a new link will affect, and be affected by, conditions on other links on the network and decisions about the programming of investments will affect the valuation of any one investment in that programme.

2.5 Too much emphasis may have been placed on the appraisal of new infrastructure investments to the exclusion of upgrade investments or service level improvements; are there similar levels of gains to be found?

2.6 There may be effective ways of making progress without large scale modelling. A development of the Economic Impact Report to focus on identifying where the issues identified above may arise could pose the questions:

- Are there increasing returns or imperfect competition in the region under study?
- Do these differ by industry?
- What is the relative importance of transport costs in inputs or outputs for that industry?
- Will the change in transport costs affect this relationship—i.e. will it increase competition from regions with established advantages or enable economically more peripheral regions to compete more effectively?

3. Implications for Policy

3.1 The overriding implication is that simple rules can be dangerous, especially simple rules derived from complex models.

- Investment in transport can seriously damage the health of an economy by changing competitive structures in a region and exposing it to more competitive regions elsewhere.
- But a failure to invest in transport can be just as damaging by not allowing a region's enterprises to compete effectively with other regions.
- There is no simple *a priori* rule for knowing into which category a region will fall, and indeed that category may differ for different investments.
- Transport policy has to be able to explore carefully the transport needs of a region's economy rather than making the assumption that all increases in speed and reductions in transport costs are bound to have positive effects.

3.2 Traditional methods of appraisal, depending on complex transport planning models and what may seem to be obscure evaluations of the benefits of time savings and accident reduction, may be insufficiently transparent to be clearly understood by all stakeholders. This makes their conclusions difficult to challenge in any constructive manner.

3.3 This reflects problems with the levels of decision making. Spillovers between areas make it difficult for a single jurisdiction to coincide with the area receiving most benefits, the area incurring most costs and the area providing most of the finance. Where policy is established by higher level jurisdictions but implemented at lower levels there is scope for policy refraction.

3.4 Competition between different policy-making authorities can lead to bias in investments where excessive competition leads to over-investment in non-viable competing facilities such as under-used regional airports, or the fear of competition to reluctance to fund investments where the benefits may accrue to neighbouring regions leads to under-investment and a sort of "race to the bottom" effect.

4. Concluding Remarks

4.1 The discussion has come full circle on the existence and importance of the wider benefits of transport projects, from "transport is critical to economic growth", to "beware double counting, the user benefits will capture (almost) all impacts", to "wider benefits are the key to understanding the real effects of transport investments". We still have no universal response to the question "are there wider benefits of transport investments which are not captured in a simple CBA counting direct user benefits?". The best we can say is "it depends". However, recent research has taken us much closer to knowing what it depends on. We know that the impacts can be negative as well as positive. We know that they will vary from region to region and project to project and we know what to look for as indicators of possible sign and magnitude.

4.2 There remains much on the research agenda:

- We need more empirical evidence on the effect of imperfect competition and the productivity gains from transport.

— More needs to be done on assembling micro-behavioural evidence; on link versus network effects and on spillovers and jurisdictional competition.

— We need evidence from more *ex post* studies, have transport investments really made the difference claimed?

Roger Vickerman is from the Centre for European, Regional and Transport Economics, University of Kent

September 2010

Written evidence from UK Major Ports Group (TE 22)

1. Summary

The UK Major Ports Group welcomes the Transport Committee's decision to set up a new inquiry into transport and the economy. It is our strong view that good transport infrastructure plays a vital role in the development of the UK's economy. While ports themselves are financed through private investment and do not seek any financial help from the taxpayer, road and rail links to and from ports are rightfully part of the publicly financed national transport infrastructure system. The importance of these international gateways was recognised in the Eddington report and schemes to enhance capacity and remove bottlenecks should continue to receive priority within what will inevitably be a constrained Department for Transport spending programme. Our strong view is that continued investment in connections to ports will promote economic recovery, not hinder it.

2. Analysis

UKMPG is one of two associations representing ports in the UK. Our nine member groups handle over 70% of the UK's international trade by volume, and therefore play a significant role in supporting the UK economy and promoting exports. UK ports are privately financed and do not seek any financial help from the taxpayer. Annual investment in upgrading and developing port facilities has been running at £200–300 million per year and this will increase as several large development projects (which have already received planning approval) are taken forward.

3. The ports sector gave a strong welcome to the Transport Study by Sir Rod Eddington published in December 2006. We were particularly pleased to see the report's recognition that, given the international nature of the UK's economy, good links to international gateways such as ports were crucially important, offered a high rate of return and should be a priority area for future DfT investment. We were also pleased that the previous Government acted quickly to implement Eddington's findings through:

— setting up a new streamlined planning system for major infrastructure projects through the provisions of the Planning Act 2008;

— putting major ports at the centre of the strategic transport corridors set out in the white paper "Delivering a Sustainable Transport System", published in November 2008; and

— bringing forward several major road and rail projects improving links to ports under the Transport Innovation Fund, Strategic Freight Network and accelerated Highways Agency programmes.

4. In 2008 the independent consultants Oxford Economics carried out an assessment of the economic importance of ports as part of a wider review of the UK maritime sector. Their main conclusions based on 2007 data were that

— Ports directly employ over 130,00 people and support a further 230,000 jobs.

— Ports directly contribute around £8 billion to UK GDP and indirectly generate a further £10 billion.

— There are further unquantifiable benefits for instance enabling other sectors such as fishing, marine aggregate dredging and offshore oil and gas to operate as well as supporting a number of industries based on or near port estates.

5. UKMPG considers that despite the recent economic downturn, the economic realities addressed in the Eddington and Oxford Economics reports have not changed. The UK continues to be an economy which is more dependent than most on international trade and ports remain central nodal points in that process. Indeed, any rebalancing of the economy away from finance and services to the export of manufactured goods would increase the role played by ports. Secondly, in an increasingly carbon conscious world, ports are key players in facilitating the use of the most carbon-efficient transport modes, i.e. water and rail (over 50% of UK rail freight now starts or finishes at a port). Ports are also important in the development of renewable energy, particularly offshore wind and biomass.

6. It is our strong hope that the new coalition Government will continue to pursue Eddington principles in reaching difficult decisions on the future allocation of public expenditure. The private sector has shown confidence in the future of the UK ports sector, with a major expansion of the UK's largest container port, Felixstowe, now well advanced and initial development of a large new port on the Thames at London Gateway now underway. The Government should demonstrate similar confidence. Port-related road and rail schemes tend to score highly in economic appraisal terms even though the methodology used in DfT's NATA (New

Approach to Transport Appraisal) methodology does not yet take sufficient account of the additional value generated by international traffic movements. We trust that NATA will continue to be the basis for scheme appraisal and that economically important freight projects will not lose out to more politically attractive though economically less worthwhile schemes.

7. UKMPG notes that as part of the Government's localism agenda, regional spatial strategies are being abolished and Regional Development Agencies are to be replaced by local enterprise partnerships. We look to the Government to ensure that economic priorities are secured through the successor arrangements and that improving local road network links to ports will continue to be an investment priority (including a commitment that transport infrastructure improvements will be a priority area for the new Regional Growth Fund). For their part, ports will continue to work closely with local authorities and other key stakeholders so that there is a good overall understanding of ports' future development plans, bearing in mind the need to react quickly to changing market circumstances. Port masterplans can have a role to play here, though in line with Government guidance it will be up to individual port authorities to determine whether in the light of local circumstances masterplanning represents a good use of time and resources.

8. At national strategic planning level, UKMPG ports will continue to work closely with Network Rail and the Highways Agency in preparing schemes designed to improve access to ports. National road and rail links to ports are rightly the responsibility of the state to finance (as is the practice in all other EU countries). Expecting ports to pick up part of the cost (other than for sections directly into ports which are for the exclusive use of port customers) simply adds to the cost of port development projects and reduces their comparative viability, making them less attractive to mobile international capital.

9. We also hope that the Government will take a positive approach to encouraging the development of coastal shipping, which has the potential to become as important a mode for commercial freight in the UK as the inland waterways network is for the transport of freight in continental Europe (with around a quarter of the port of Rotterdam's traffic now being transhipped onto barges). Coastal shipping does of course have the benefit of requiring relatively low infrastructure investment compared with other transport modes and makes a positive contribution to reducing carbon consumption (because shipping is the most energy efficient way of moving goods) as well as reducing congestion on the hard pressed national road network.

10. Conclusion

We hope that these considerations will be of use to the Committee in its investigation, and look forward to updating them as necessary when the results of the Government's comprehensive spending review are published.

September 2010

Written evidence from VisitBritain (TE 26)

Introduction

1. VisitBritain is responsible for promoting Britain overseas. It works in partnership with the tourist boards in England, Scotland, Wales, Northern Ireland and London to ensure that the UK is marketed around the world in mature and developing markets, providing an export platform for the industry. Tourism, like domestic transport, is a devolved matter.

2. Our mission is to build the value of inbound tourism to Britain by inspiring visitors from overseas to explore Britain, delivering a global overseas network to support tourism promotion in mature and developing markets, championing tourism and engaging industry and Government in support of its growth and maximising the long-term tourism benefits of the London 2012 Olympic and Paralympic Games.

- Our activity contributes £1.1 billion to the economy and delivers £150 million directly to the Treasury in tax take each year.
- This translates into supporting 28,000 jobs across Britain.
- VisitBritain delivers £159 million in efficiency benefits to the tourism industry through its role, strategy and innovations.

Summary of Response

3. Tourism is a major part of the UK economy. It is Britain's third highest export earner, generating £115 billion a year and providing employment for 2.6 million people, as well as supporting over 200,000 small and medium sized businesses. Altogether this amounts to nearly 10% of the entire economy.

4. Promoting the growth of tourism is a priority for the new Government. In his speech on 12 August, the Prime Minister set out his ambitions for the tourism industry. These include returning Britain to the top five destinations for tourists globally, as well as increasing Britain's share of tourism from emerging markets such as India and China. A half a percent increase in market share would yield an additional £2.5 billion for the economy and create 50,000 new jobs.

5. In his speech the Prime Minister recognised that action was necessary across Government. He singled out infrastructure as one such area. A successful transport system is central to the achievement of the Government's aims for the tourism industry to be a successful, growing part of the UK economy. The cost of visiting the UK, the capacity and quality of "welcome" at our international gateways, and the quality of our national transport infrastructure are vital to ensuring the success of tourism, and thus maximising its contribution to the UK economy.

6. In particular, the UK's international route network is a key asset for the development of tourism. International aviation is vital, as is improving the quality of the UK's "welcome". Immigration controls at ports of entry remain a bottleneck. London is the main destination for visitors to the UK, attracting 50% of all visitors to the country. A strong domestic transport network, which is easily navigable by international visitors and includes high speed rail in the future, will encourage visitors to travel elsewhere in the country, spreading the economic benefits of tourism.

The Economic Value of Tourism to the UK

7. Tourism is one of the largest industries in the UK. According to a recent Deloitte study *The Economic Contribution of the Visitor Economy—UK and the nations* (2010), tourism was worth £115.4 billion to the UK economy in 2009 once the direct and indirect impacts are taken into account, equivalent to 8.9% of UK Gross Domestic Product. (Full report available online: The Economic Contribution of the Visitor Economy Deloitte June 2010)

8. The Deloitte study found that tourism would account for a similar proportion of the overall UK economy in 2020 as it did in 2008 (8.8%). The number of jobs that tourism supports is forecast to increase by 250,000 between 2010 and 2020, from 2.645 million to 2.899 million. One in twelve jobs in the UK is currently either directly or indirectly supported by tourism.

9. Tourism is the UK's third highest export earner behind Chemicals and Financial Services, with inbound visitors spending more than £16bn annually and contributing over £3 billion to the Exchequer. Its future success can play a part in developing a strong, rebalanced economy.

10. The long-run GVA growth rate of the visitor economy is forecast to be 3.5% per annum over the period 2010 to 2020, given the right support. This is well ahead of the 2.9% forecast for the economy as a whole.

Transport and Tourism

11. International transport is vital to delivering the economic benefits of tourism. The importance of air travel to the UK inbound visitor economy was evident during the disruption seen in April 2010 due to the cloud of volcanic ash from Iceland resulting in the closure of airspace. VisitBritain has assessed the cost to the tourism industry as £425 million. In 2009, International Passenger Survey (IPS) statistics show 74% of overseas visitors travelled to the UK by air, 15% by sea, and 11% by Tunnel.

12. CAA figures reveal the number of nations with direct scheduled air links to Britain in 2009 stood at 119. There are 1,435 separate scheduled air routes operating from overseas to the UK. This makes Britain one of the best internationally connected nations of its size in the world. This connectivity is a vital asset for our tourism industry's future growth.

13. The UK's five largest markets in 2008 (France, Ireland, the USA, Germany and Spain) are forecast to remain the five largest in 2014, accounting for an additional 3.3 million visits between them. Faster growth is forecast from the USA (30%) and Germany (29%). France is expected to remain top of the "visits league", growing by 12% itself. (Source: Tourism Economics 2010)

14. Visits from China to the UK are expected to grow at a faster rate than from any other source market (89%) by 2014, making it the UK's 30th largest market, one place behind Brazil (which is expected to grow by 18%). (Source: Tourism Economics 2010)

15. Improvement of the UK's domestic and international transport systems is vital if we are to achieve the sustainable growth of tourism which the Prime Minster has outlined, in order to extract the maximum benefits of tourism for the wider economy. In particular the cost of visiting the UK, immigration controls at ports of entry and capacity constraints all act as barriers to potential visitors.

Barriers to Growth

Cost of visiting the UK

16. The cost of a UK visitor visa increased on 1st April 2010 from £67 to £68. This particularly affects key markets in China, India, Russia, Thailand, South Africa and the United Arab Emirates, and, depending on prevailing exchange rates, can represent a value for money challenge in comparison with a visa to explore the Schengen bloc, priced at €60 (£50).

17. Visitors from key growth markets- particular Russia, India, and China (BRIC nations) are likely to want to visit a number of European nations as part of a tour. The ability to access 25 nations within the Schengen bloc, rather than just the UK, combined with a higher cost, places Britain at a disadvantage when competing

for a share of these new markets. A European-extension visa which provided a simpler process for visitors already applying for a Schengen visa to acquire one to travel to the UK, at reduced cost, would benefit our tourism and transport industries.

18. Visa costs are in addition to already high taxes on aviation. The last three years have seen a succession of increases in the rate of APD—passengers flying to the UK from a long-haul destination will have to pay up to £170 in tax from 1 November 2010, compared to a maximum of £80 just four years ago. At present no other country enforces an aviation tax at a comparable rate, which places the UK at a significant competitive disadvantage when trying to encourage overseas visitors.

19. Aviation is not an under taxed activity. Excluding APD, aviation's tax to Gross Value Added (GVA) ratio was 32.5% in 2007–08, slightly higher than the economy average 32.1%. With APD included the ratio rises to 54.5%. UK aviation already covers its environmental costs. The tax burden on aviation is £0.6 billion higher than the external costs as assessed by DfT. The tax burden will exceed these costs by up to £1.1 billion in 2012 following the entry of aviation to the EU Emissions Trading Scheme (Oxera Consulting Ltd. 2009).

20. As just one example, at present it costs a family of four at least £412 more to travel from China to London than China to Paris or Frankfurt (see table below). France received 688,000 Chinese visitors in 2008, while the UK managed only 108,000.

Table 1

COST OF VISITING THE UK FOR A FAMILY OF FOUR, COMPARED WITH PARIS AND FRANKFURT

	LONDON	*PARIS*	*FRANKFURT*
Visa Charge	£272 (£68pp)	£200 (60€/£50pp)	£200 (60€/£50pp)
APD—Economy	£340 (£85pp)	£0	£0
APD—Non economy	£680 (£170pp)	£0	£0
Minimum price	£612	£200	£200
Maximum price	£952	£200	£200
Appear in person for visa application	Yes	Yes	Yes
Visa in local language	No	Yes*	Yes

*Chinese translation available but form must be completed in French or English

21. The relatively high cost of visiting the UK is a barrier to tourism. The expense of a trip to Britain is frequently mentioned by both visitors and prospective visitors. Whilst this perception has largely been shaped by the strength of the pound (2003–07) relative to other key international currencies, consumers also talk about the expense of getting to Britain. Reducing the cost of travelling to the UK, compared to our competitors, would stimulate international tourism, increasing the number of visitors and delivering increased economic benefits. This would require reductions in the cost of visas and Air Passenger Duty.

Immigration controls at ports of entry

22. In research carried out for VisitBritain on departing visitors by the CAA in 2008, airports were mentioned most frequently as the place where visitors felt least welcome. Immigration was also specified, but less frequently. Passenger perceptions of have been improving: 94% of passengers at Heathrow now rate their journey as good, very good or excellent.

23. VisitBritain is working with a wide range of stakeholders on the "Welcome to Britain" initiative, including the UK's major ports and airports, in preparation for these major events, in particular the 2012 Games. This will be a major opportunity to showcase Britain at its very best and the Welcome we offer our visitors will be a crucial measure of the success of the Games, both in London and Britain as a whole. 2012 offers an unparalleled opportunity to act as a catalyst for accelerating improvements in the quality, services and welcome in Britain as a lasting legacy and a firm foundation for future tourism growth.

24. VisitBritain does have concerns about the welcome passengers receive at UK immigration. The UK Border Agency (UKBA) sets out a standard queue time for non-EU passengers of 45 minutes. This issue has been picked up by the Department for Transport's South-East Airports Taskforce. This level of basic service is poor, and harms visitors' perceptions of Britain as a tourist destination. Providing a good passenger experience should be integral to UKBA's work, along with maintaining a secure border.

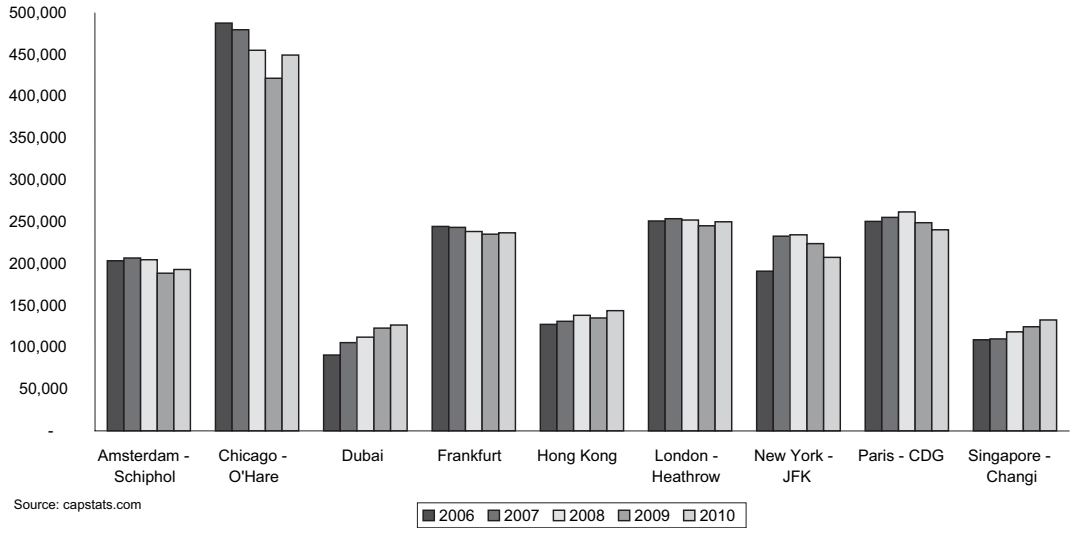
25. Action across Government departments is necessary if we are to ensure that UK immigration is able to cope with, and provide a welcoming service, to the influx of visitors expected for the 2012 Olympic Games and beyond. Investment in improved immigration controls which facilitate the fast, convenient movement of travellers into the UK will improve the quality or service at, and perception of the UK's major points of entry, and generate a tourism dividend.

Capacity

26. In 2009 74% of the 29.9 million overseas residents who visited the UK travelled by air, and with a much higher average spend per visit than those using either the Channel Tunnel or a ferry, airborne visitors accounted for 83% of the £16.6 billion worth of inbound visitor spend last year. Air travel is vital to the economic contribution of tourism.

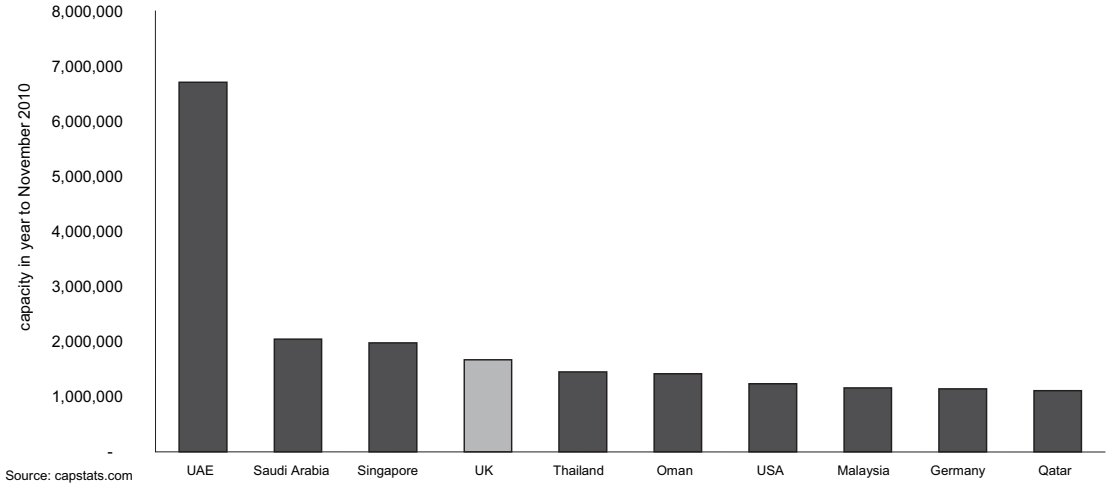
27. For long-haul visitors the main entry point to a country will be through a hub airport. For the UK this is Heathrow. The chart below shows the annual number of aircraft arriving at Heathrow, which has dipped by almost 4,000 in the past few years, but remains on a par with the likes of Paris Charles de Gaulle, Frankfurt and New York JFK.

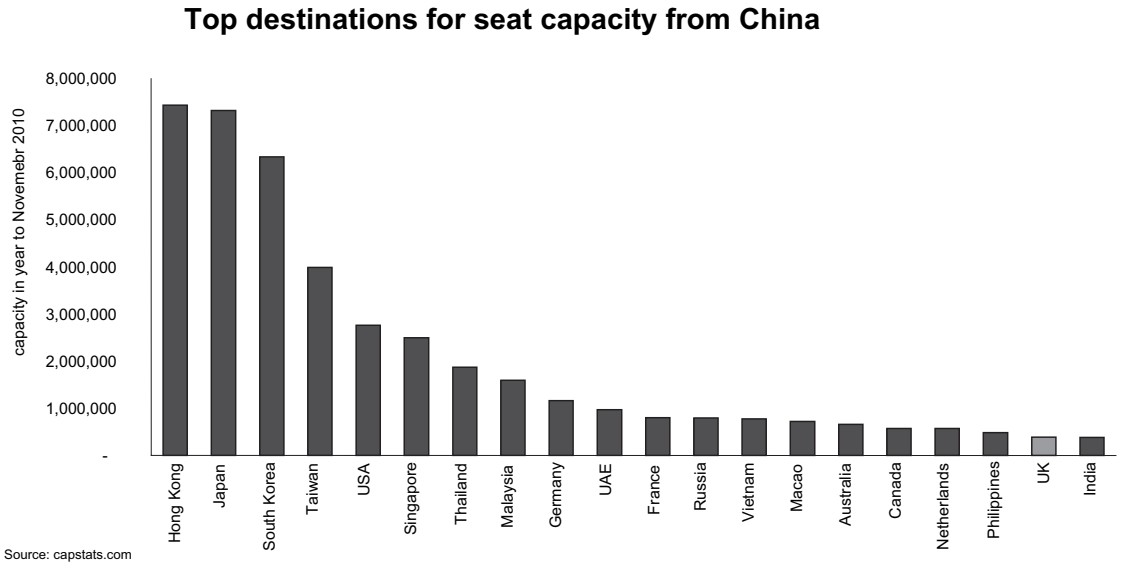
Aircraft arrivals at major hub airports



28. Recently published figures from the United Nations World Tourism Organisation revealed that countries such as Malaysia and Turkey are gaining ground on the UK in terms of visitor arrivals and international tourism earnings. The UK is also falling behind in terms of seat capacity from India and China.

Top destinations for seat capacity from India





29. Whilst the UK is the fourth best-served destination from India, the number of seats available on direct flights between the UK and India is only a third that available on flights to the United Arab Emirates. The UK is in 19th place for seat capacity from China.

30. India, China and other emerging economies offer substantial opportunities for growth as business and tourism links mature. Visits from China are expected to grow by 89% by 2014. Increasing the UK's share of the Chinese tourism market by half a percent would yield an additional £2.5 billion for the economy and create 50,000 new jobs. The economic case for tourism growth is clear.

31. Achieving this level of growth is dependent on the provision of sufficient airport capacity in the long term. The cost of travelling to the UK is already high due to Air Passenger Duty, and visa costs. A shortfall in airport capacity would inflate costs further, harming the UK's competitiveness. The Committee on Climate Change, reporting in December 2009, found that growth in airport capacity by 60% to 2050 was consistent with the UK's climate change targets.

Domestic Transport and Spreading the Benefits of the Visitor Economy

32. Transport is essential to ensuring that the economic benefits of tourism can be shared across the UK. VisitBritain research over a long period has found that perceptions of Britain are dominated by London. The capital receives 50% of overseas visitors, compared to 9% in Scotland and 4% in Wales.

33. In absolute terms, London had 11 times the number of the visitors to Edinburgh, 18 times the number to Manchester, 20 times the number to Birmingham and 23 times the number to Glasgow. Enhancing our domestic transport system in order to make it more easily accessible to overseas visitors could play an important part in increasing the number of visits to areas other than London.

Intermodality

34. Major ports of entry must be integrated into the domestic transport network, thereby establishing intermodal hubs where travellers can change from one mode of transport to another. This would enable passengers to make intelligent decisions when planning domestic and international journeys, informed by a market for air, sea, road and rail journeys which would reflect their environmental cost and convenience.

35. There is a clear need for a joined up approach amongst transport operators to timetabling, ticketing arrangements and information provision. For example: Caledonian MacBrayne ferries already include train departure and arrival times from/to Glasgow. There are, however, mismatches in the timetabling. The 1221 train from Glasgow Queen St. arrives at Oban at 1527. Passengers require a minimum 30 minutes to check in for a ferry. The ferry to Barra sails at 1540—only 13 minutes after the train arrives. There is a potential coordinating role for Government. Further, domestic transport networks need to identify and take into account the transport needs of tourists.

36. Equally, it is important to make it simple for overseas visitors to move conveniently between modes of transport in order to ease their journey. VisitBritain already works with Transport for London, and other organisations, to sell items such as Oyster Cards, and tickets for the Heathrow Express, Gatwick Express and Stansted Express trains, though the VisitBritain online shop. This allows overseas visitors to plan and prepare for their journeys on arrival in the UK in a convenient way.

37. More generally, travel around the UK for overseas visitors, particularly those who do not speak much English, can be challenging, and expensive as they are often unable to book in advance to take advantage of

better deals for rail travel. This can act as a further disincentive for visitors to travel beyond London and the Greater South East.

38. The BritRail pass, which is available only to non-UK residents, has been created in order to allow tourists to access lower-priced rail travel and encourage them to visit parts of the country they would not otherwise go to. Through-ticketing which allows overseas travellers to plan travel in the UK once they arrive at an international gateway has the potential to significantly increase the regions' share of overseas visitors, with the result that the economic benefits of tourism would both grow and be more broadly-based.

High speed rail, but an ongoing role for domestic air

39. VisitBritain supports proposals for a high speed rail network linking London with cities in the north of the UK, which will encourage visitors to travel beyond the Greater South East, broadening the economic contribution of tourism to the whole of the UK.

40. High speed rail is complementary to aviation. It is not an alternative. HSR cannot replace short haul and domestic air journeys. Airports can, broadly speaking, be connected to any other airport on earth by the establishment of an air route. Rail depends on geographically fixed infrastructure—a track—which cannot necessarily link any two points in the UK, particularly where there is a major sea crossing involved. In 2008 more than 530,000 passengers flew between London Gatwick and Belfast's two airports. A further 780,000 made the journey between Belfast and Heathrow. 17,000 people flew between Aberdeen and Exeter (CAA 2009).

Conclusions

41. Tourism is a major part of the UK economy. It is Britain's third highest export earner, generating £115 billion pounds a year and providing employment for 2.6 million people, as well as supporting over 200,000 small and medium sized businesses. Altogether this amounts to nearly 10% of the entire economy.

42. Tourism has the potential to grow, and increase its contribution to a rebalanced UK economy. The long-run GVA growth rate of the visitor economy is forecast to be 3.5% per annum over the period 2010–20, given the right support. This support includes ensuring that the UK's international and domestic transport networks are able to meet the demands placed on them.

43. Improvement of the UK's domestic and international transport systems is vital if we are to achieve the sustainable growth of tourism which the Prime Minster has outlined, in order to extract the maximum benefits of tourism for the wider economy. In particular the cost of visiting the UK, immigration controls at ports of entry and capacity constraints all act as barriers to potential visitors.

44. The relatively high cost of visiting the UK is a barrier to tourism. Reducing the cost of travelling to the UK, compared to our competitors, would stimulate international tourism, increasing the number of visitors and delivering increased economic benefits. This would require reductions in the cost of visas and Air Passenger Duty.

45. Action across Government departments is necessary if we are to ensure that UK immigration is able to cope with, and provide a welcoming service, to the influx of visitors expected for the 2012 Olympic Games and beyond. Investment in improved immigration controls which facilitate the fast, convenient movement of travellers into the UK will improve the quality or service at, and perception of, the UK's major points of entry, and generate a tourism dividend.

46. Achieving this tourism growth is in part dependent on the provision of sufficient airport capacity in the long term. The Committee on Climate Change, reporting in December 2009, found that growth in airport capacity by 60% to 2050 was consistent with the UK's climate change targets.

47. Effective domestic transport networks are vital to ensuring that visitors to Britain are able, once they arrive, to travel beyond the Greater South East and enjoy the tourism opportunities the rest of the UK has to offer. In so doing, they will spread the economic benefits of tourism, stimulating job and wealth creation across the country, supporting the wider economy.

48. Major ports of entry must be integrated into the domestic transport network, thereby establishing intermodal hubs where travellers can change from one mode of transport to another. Equally, it is important to make it simple for overseas visitors to move conveniently between modes of transport in order to ease their journey.

49. VisitBritain supports proposals for a high speed rail network linking London with cities in the north of the UK, which will encourage visitors to travel beyond the Greater South East, broadening the economic contribution of tourism to the whole of the UK. High speed rail is complementary with, not an alternative to, domestic aviation.

September 2010

Written evidence from ADEPT (TE 29)

1. Summary

1.1 ADEPT represents local authority strategic directors who are responsible for delivering public services that relate to the physical environment and the economy.

1.2. We strongly support the Government's primary aims of reducing the public spending deficit and ensuring economic recovery. Indeed, we see sustainable economic recovery as a vital component of deficit reduction.

1.3 We consider that in order to achieve this there is a need to continue to invest in transport infrastructure; and in particular to recognise the key role of local authorities in its financing and delivery.

1.4 We support the central tenet of the Eddington study: that the performance of the UK's transport networks is a crucial enabler of sustained productivity and competitiveness. However, we believe that some of his recommendations need revisiting, in particular, to give priority to the need to address the poor condition of existing assets, including local roads.

1.5 Priority for new transport schemes, including investment already planned but not committed should be given to those:

— with strong economic benefits;

— that support wider regeneration/growth strategies; and

— that complete gaps in the network, where this unlocks economic benefits.

1.6 We are encouraged by Eddington's analysis which suggests that whilst transport projects can offer remarkably high returns generally, some of the best projects are small scale, such as walking and cycling schemes, and schemes that tackle bottlenecks. Therefore some degree of rescheduling of "grands projets" would release resources for investment in network maintenance and smaller scale projects with potentially greater returns.

1.7 There is some interchangeability between capital and revenue spending. For highway maintenance, the most important balance is that between planned, preventative maintenance, and reactive repairs. If preventative maintenance on any asset is less than adequate, this can initiate a "vicious circle" where reactive repairs soak up an ever increasing proportion of available preventative maintenance budgets

1.8. Whilst we acknowledge that cost-benefit analysis provides a very useful starting point for assessment of transport schemes, we agree with the Secretary of State that there is a need for discretion which recognises that there are other relevant factors affecting prioritisation.

1.9 Following the revocation and abolition of regional spatial strategies ADEPT considers that significant changes are needed to improve strategic planning at the national and sub-national levels. County and unitary councils should prepare strategic spatial plans through robust partnerships at functional geographic levels. Investment in local infrastructure, for much of which county and unitary authorities are responsible, will be key to their delivery

1.10 We recognise, of course, the difficult spending decisions that lie ahead, but we also believe that through reducing bureaucracy, eliminating inefficiencies, taking a cross-agency approach to public spending at all levels and a willingness to explore alternative sources of funding, there is a way forward that balances the need for spending and investment and the need to cut the budget deficit.

2. ADEPT

2.1 The Association of Directors of Environment, Economy, Planning & Transport (ADEPT) represents local authority Strategic Directors who manage some of the most pressing issues facing the UK today. ADEPT membership is drawn from all four corners of the United Kingdom. Operating at the strategic tier of local government they are responsible for delivering public services that relate to the physical environment and the economy.

2.2 At the local level, ADEPT members, with their wide-ranging briefs, will have a key role in supporting and helping to deliver sustainable economic growth and quality of life throughout the country. We do this from a perspective of deep experience in delivering services in the context of politically driven ambitions and priorities and an understanding of the views and interests of our communities. Our approach is to focus on efficiencies and offer solutions rather then agonise over problems.

2.3 We strongly support the Government's primary aims of reducing the public spending deficit and ensuring economic recovery. Indeed, we see sustainable economic recovery as a vital component of deficit reduction.

2.4 ADEPT considers that in order to achieve this there is a need to continue to invest in transport infrastructure; and in particular to recognise the key role of local authorities in its financing and delivery. In our view, investment in local transport infrastructure is not an option but a pre-requisite for supporting sustainable economic growth.

3. The Economic Impacts of Transport

3.1 Eddington recognises that transport impacts on the economy in a number of different ways, which can be assessed through a series of micro economic drivers of growth: business efficiency, investment and innovation; agglomeration economies; labour markets; competition; trade; and globally mobile activity. Such impacts are made by improvements to the speed, cost, reliability, network coverage, comfort or safety of the journey.[30]

3.2 For example, he states that a 5% reduction in travel time for all business travel on the roads could generate around £2.5 billion of cost savings—some 0.2% of GDP. Delays and unreliability on the network have direct costs to people and businesses, increasing business costs and affecting productivity and innovation. Eliminating existing congestion on the road network, if that were ever feasible, would be worth some £7–8 billion of GDP per annum. Although the emphasis of this paper is on economic impacts, ADEPT would also wish to emphasise the beneficial effects of congestion reduction on air quality and carbon reduction.

3.3 On the basis of this and other similar evidence, ADEPT supports the central tenet of the study: that the performance of the UK's transport networks is a crucial enabler of sustained productivity and competitiveness. However, we would wish to emphasise the significance of local transport in reaching this conclusion.

4. Local Transport

4.1 Local authorities are responsible for local roads, public transport, and car parks. Of the £22.6 billion spent by central and local government on transport in 2008–09, nearly 54% was by local authorities.[31]

4.2 Their responsibility for roads embraces the construction, improvement, management and maintenance of highways in the interests of all road users including drivers of cars and goods vehicles, bus passengers, cyclists and pedestrians.

4.3 Local roads carry 68% of all road traffic (measured in vehicle km). Moreover, although the motorway and trunk road network carries the remaining 32%, nearly all of those trips begin or end on local roads also. In terms of road length nearly 97% of the GB road network is the responsibility of local highway authorities.[32]

4.4 Given the scale of the activity, it is disappointing that local transport does not have the same high profile as national and international transport, and its role in the national economy and in serving travellers is often undervalued. However, without good quality local transport infrastructure, the benefits of national level transport investment in, for example, reducing inter-city travel times would be undermined.

5. The Eddington Transport Study: Changes in Economic Conditions

5.1 Although the role of transport in the economy has not fundamentally changed since publication of Eddington's report in December 2006, the demand for movement of people and goods in the short-term is clearly being affected by changes in the economic environment.

5.2 We therefore believe that some of his recommendations need revisiting. In particular, he considered that because the UK is already well connected, there were three strategic economic priorities for transport policy where "there are clear signals that (existing) networks are not performing"[33]:

- Congested and growing city catchments.
- Key inter-urban corridors.
- The key international gateways that are showing signs of increasing congestion and unreliability.[34]

5.3 He did not appear to give similar priority to the need to address the poor condition of existing assets, including local roads.

6. Spending Priorities to Support Economic Growth

6.1 ADEPT considers that protection for funding to maintain existing assets, particularly the highway network and its future resilience, is the first priority. This position would appear to be supported by the Chancellor, who made the point in his emergency budget statement that it does not make sense to allow the existing infrastructure to crumble.

6.2 At a local level, highway condition and road safety frequently feature at the top of residents' complaints lists. The severe winter weather of 2008–09 and 2009–10 and the consequent peppering of the nation's roads with potholes have served to highlight this as well as the vulnerability of the network.

6.3 Priority for new transport schemes should be given to those:

- with strong economic benefits;

[30] The Eddington Transport Study: Volume 1, Chapter 2, December 2006
[31] Transport Statistics Great Britain, 2009, DfT
[32] ibid
[33] The Eddington Transport Study: The Case for Action, December 2006, para 9
[34] We have some comments to make on the approach he adopts to reach these conclusions, in section 8 below, which could lead others to a different set of priorities.

— that support wider regeneration/growth strategies; and
— that complete gaps in the network, where this unlocks economic benefits.

Investment already planned but not committed should also be assessed against these priorities where necessary.

6.4 New schemes may be large or small, but we concur with Eddington[35] in his view that High Speed Rail and other major rail improvement schemes should be subject to the same scrutiny and value for money tests as any other transport investment. At the very least, some degree of rescheduling of "grands projets" would release resources for investment in network maintenance and smaller scale projects with potentially greater returns.

6.5 We are therefore encouraged by Eddington's further analysis which suggests that whilst transport projects can offer remarkably high returns generally, some of the best projects are small scale, such as walking and cycling schemes, and schemes that tackle bottlenecks.[36]

6.6 Significant reductions in overall investment would risk the loss of essential skills and capacity, both in the public and private sector, which will be needed when the economy allows headroom for expansion. Bearing in mind the long lead times associated with transport schemes, loss of capacity now would make it slower and more expensive to deliver investment later.

7. The Balance between Revenue and Capital Expenditure

7.1 In 2008–09 local authority investment in transport accounted for 24% of overall local authority capital spending—slightly less than on housing (25%) and slightly more than on education (23%).[37]

7.2 Approximately 56% of net local government transport expenditure is current spending on roads, revenue support for public transport, and concessionary fares, with some net income generated from car parking charges. The remaining 44% is capital, mainly invested in roads and public transport.

7.3 Although ADEPT supports the need for local authorities to retain flexibilities between sectors, it is concerned to protect as far as possible the overall level of local transport expenditure, including the avoidance of leakage from the sector entirely, rather than focus simply on the split between capital and revenue.

7.4 As we state above, ADEPT considers that protection for funding to maintain existing assets is the first priority. In the case of highway maintenance there is some degree of flexibility in the definitions of capital and revenue expenditure. The key issue here is therefore not the balance between them, which the public may not understand or care about anyway, but between planned, preventative maintenance, and reactive repairs.

7.5 If preventative maintenance on any asset is less than adequate, this can initiate a "vicious circle" where reactive repairs soak up an ever increasing proportion of available preventative maintenance budgets, compounding the problem by reducing still further the amount that can be spent on planned maintenance. (See Figure 1.)

[35] Eddington, ibid, paras 1.140 et seq.
[36] Eddington, ibid, para 1.84 and paras 1.99 et seq
[37] Source CLG 8 April 2010

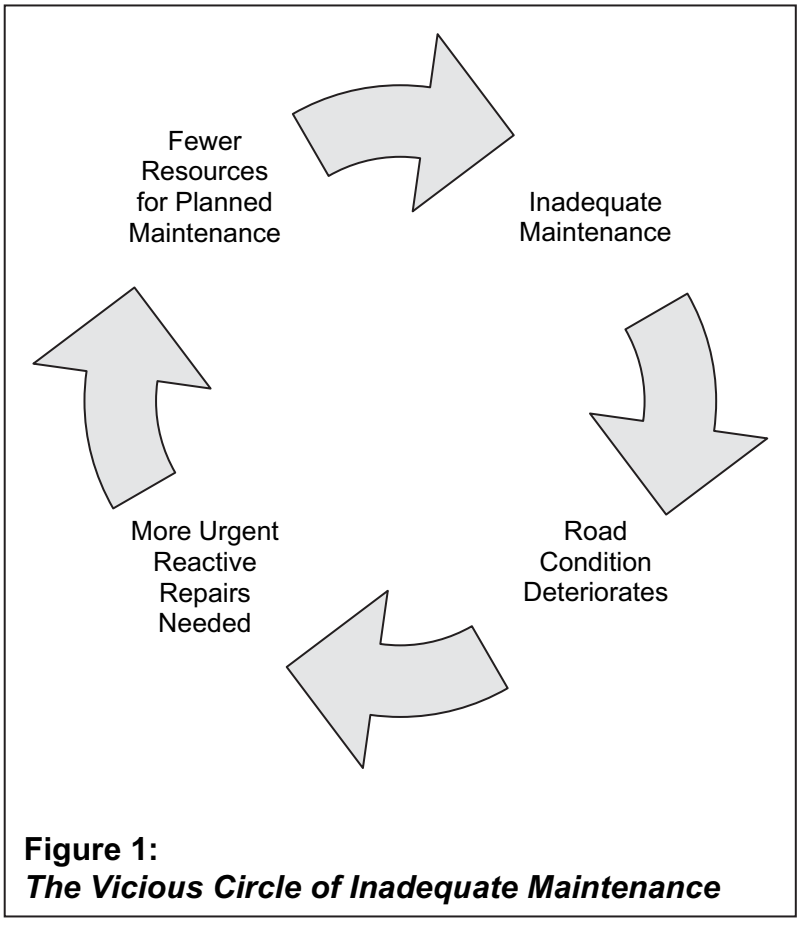


Figure 1:
The Vicious Circle of Inadequate Maintenance

7.6 The resulting deterioration in road condition and increase in reactive repairs have an impact on all road users and therefore on the economy generally in terms of increased vehicle running costs, increased journey times and decreased journey reliability, and ability and willingness to travel.

7.7 There is international evidence of these economic impacts and their links to inadequate road maintenance (although some are difficult to quantify). For example, research by the OECD[38] on the relationship between road user costs and road condition suggested that road user costs on a very poor condition road could be up to double those for a comparable journey on a very good road.

7.8 With public transport, there is similarly some interchangeability between capital and revenue expenditure. For example, investment in bus lanes, bus stops, real-time information systems and indeed in the vehicles themselves can help reduce operating costs and therefore the need for revenue support. The appropriate balance between capital and revenue should be a matter for local appraisal.

8. Assessment Methodology

8.1 The Department for Transport has a cost benefit analysis model which produces for each major highway project a net present value. Local Highway Authorities are expected to use that model in assessing options for their major highway schemes, if they are seeking grant aid from DfT.

8.2 The Eddington Study appears strongly to endorse cost-benefit analysis, but expresses concern that "current methodologies do not reflect other potentially significant impacts on the economy. Assessments of overall benefits on a project-by-project basis could increase by up to 50% in some cases if new evidence concerning the importance of reliability and agglomerations were to be included in the appraisal of transport schemes…In addition, current methodologies do not fully encompass the environmental impact of projects." He therefore recommends that "transport strategy and appraisal should continue to develop as our understanding evolves, and in particular that the full range of effects should be incorporated into appraisal as a matter of urgency."[39]

[38] Pavement Management systems, OECD, 1987
[39] Eddington, ibid, para 1.25

8.3 Whilst we acknowledge that cost-benefit analysis provides a very useful starting point and we respect these aspirations, ADEPT's experience over many years dating back to the Roskill Commission[40] is that over-emphasis on cost-benefit analysis can produce outcomes which don't necessarily reflect social and environmental impacts, and it can be very complex. Therefore we agree with the Secretary of State that there is a need for discretion which recognises that there are other relevant factors affecting prioritisation, both locally and in terms of national ranking (or indeed between modes of transport). Public consultation and independent scrutiny are important elements of this decision-making process.

8.4 ADEPT research[41] shows that all areas can make a contribution to economic recovery, and we need to ensure that growth is supported as well as investment in declining areas. However, there is a clear risk that over-rigorous prioritisation on the basis of cost-benefit analysis could result in an increasing focus on a small number of areas of the country, where for example congestion problems are greatest.

8.5 Equally, we must avoid the trap of focusing only on under-performing city regions and other areas of the country with economic problems. This would be counter-productive and illusory as Eddington states[42].

9. Future Strategic Planning Arrangements

9.1 Following the revocation and abolition of regional spatial strategies ADEPT considers that significant changes are needed to improve strategic planning at the national and sub-national levels.

9.2 A national framework for spatial planning, informed by local government practitioners and other relevant stakeholders, is needed to guide local areas on assisting delivery to meet national priorities and join up Government policy in areas of crucial importance.

9.3 ADEPT considers there is a need for a single tier of strategic spatial planning between national and local levels. County and unitary councils should prepare strategic spatial plans through robust partnerships at functional geographic levels. These councils have the expertise and knowledge of cross-boundary working on strategic matters and are also the providers of key infrastructure. The plans would identify and co-ordinate cross-boundary issues and provide a policy approach on key issues including transport and other infrastructure.

9.4 There is no "one-size-fits-all" solution to defining the geographic area of cross-boundary working, which will vary according to local circumstances and should reflect economic, social and environmental realities. This approach would seem to fit well with the Government's initiative on LEPS.

9.5 Local infrastructure investment is key to the delivery of sustainable communities and economic recovery, and county and unitary authorities are responsible for delivering much of it. They have developed considerable expertise in preparing Local Transport Plans over the last decade. These are essentially medium-term investment programmes embracing highway maintenance, integrated transport packages and major local schemes.

9.6 County and unitary authorities often have to rely on developer contributions to fund transport infrastructure. Various models for securing such contributions are available, including securing site-specific infrastructure through planning obligations and using levies/tariffs for infrastructure that is needed to address the cumulative impact of new development. ADEPT supports both approaches but more needs to be done to ensure that necessary infrastructure is delivered.

9.7 ADEPT has expressed some specific concerns about the Community Infrastructure Levy (CIL) because in two-tier areas, County Councils are neither Charging Authorities nor Planning Authorities even though they provide a large proportion of the infrastructure. In the absence of effective safeguards, ADEPT considers that these strategic local authorities need to retain the power to secure such contributions via Section 106 and Section 278 agreements.

10. Creating Headroom

10.1 We recognise, of course, the difficult spending decisions that lie ahead, but we also believe that through reducing bureaucracy, eliminating inefficiencies, taking a cross-agency approach to public spending at all levels and a willingness to explore alternative sources of funding, there is a way forward that balances the need for spending and investment and the need to cut the budget deficit.

10.2 For example, there is real potential for:

- — the Government to rationalise existing agencies and funding streams to reduce the administrative costs and central constraints on public service organisations that lead to sub-optimal outcomes ad inefficiency;
- — a much more collaborative "joint team" approach with Government to deliver major transport schemes;

[40] In 1971, the Report of the Roskill Commission on the Third London Airport selected Cublington as the location of a proposed third airport for London on the basis of cost-benefit analysis. The government later rejected the recommendation due to quality of life concerns in favour of a site at Maplin Sands, Foulness. It was eventually built at Stanstead

[41] Making the Most of our Economic Potential—Looking Beyond the Core Cities. ADEPT/CEDOS 2007

[42] Eddington, ibid, para 1.32

— better joining up of Government policy to make it possible to deliver more efficiently in localities eg putting hospitals where there is good access;

— greater drive/direction for central agencies to pursue collaborative procurement with local government;

— protecting maintenance spend and planned asset management which will deliver efficiency savings;

— focusing on behavioural change to make more efficient use of the transport infrastructure and reduce the need for investment;

— control of utilities to prevent them undermining efforts to manage and maintain highways and ensure full cost recovery; and

— investment in high-speed broadband to maximise economic competitiveness, to reduce travel demands and to tackle digital exclusion and the growing digital divide.

September 2010

Written evidence from the Northern Way (TE 34)

Summary

— This submission is by the Northern Way, the public and private sector partnership established to promote the North's productivity and output growth and currently funded by North West Development Agency, One North East and Yorkshire Forward.

— UK economic conditions have materially changed since the Eddington Transport Study but we see no evidence that the recession has changed the relationships between transport connectivity and economic growth that Eddington considered or Eddington's prescription, namely the economy needs adequate and appropriate connectivity within and between city regions, as well as to and from port and airport international gateways.

— Our evidence identifies key differences between transport demand in the North and the South. Existing travel patterns in the North are more sustainable. Car trips are shorter, bus use higher and rail use is growing but before the recession every percentage point of economic growth in the North led to transport demand growing more strongly in the North when compared with the South. Evidence shows that the North has a higher elasticity of transport demand.

— The recession has brought to the fore the importance of well targeted investment to facilitate economic growth. This is pressing in the North given that it has been most affected by the recession and the projections that the North's economy will be most affected by public sector spending cuts. As we move out of recession, without investment the more sustainable pattern of transport demand in the North will be lost.

— The Northern Way's evidence shows that what is needed to foster the North's economic growth is a balanced approach that looks at the connectivity needs of travel within city regions and the links between the North's city regions. Also important are links between the North and London with its World City functions, and international connectivity via port and airport gateways within the North and elsewhere in the country.

— The split between capital and revenue budgets can be a potential barrier to implementation. We would welcome further relaxation of the demarcation between capital and revenue budgets.

— The Northern Way supports the concept of NATA appraisal but considers that development of its processes and practices is needed. Also consideration needs to be given to how cost benefit analysis is used in decision making.

— There has been recent very valuable work on how transport investment can influence the size of the economy as measured by GVA. Our evidence is that more work needs to be done before such techniques can become part of mainstream appraisal.

— The Northern Way has filled a "strategic gap" by acting as a counterbalance to Scotland and London where there are strong statutory bodies in Transport for London and Transport Scotland to make the strategic case for transport investment and progress implementation.The abolition of regional apparatus has the danger of creating a strategy gap for the identification and promotion of transport interventions of sub-national importance. Local Enterprise Partnerships will need to work together and be sufficiently resourced if they are to fill this gap.

The Northern Way

1. This submission has been prepared by the Northern Way, a public and private sector partnership currently funded by the three Northern RDAs (North West Development Agency, One North East and Yorkshire Forward). Our goal is to improve the sustainable economic development of the North towards the level of more prosperous regions by growing the North's economy faster.

The Northern Way Growth Strategy

2. The 2004 Northern Way Growth Strategy *Moving Forward: The Northern Way* sets out how the Northern Way seeks to bridge the output gap in the North's economy. It highlights transport as a priority for transformational change. It identifies three transport investment priorities:

- to improve surface access to the North's airports;
- to improve access to the North's sea ports; and
- to improve links within and between the North's City Regions.

The Northern Transport Compact

3. The Northern Way has established the Northern Transport Compact to provide advice on transport priorities at the pan-northern level linked to productivity. Chaired by Professor David Begg, the Compact includes City Regional, private sector and RDA members from the North's three regions. The Compact has led the development of the Northern Way's Transport Strategic Direction and Priorities as well as subsequent work.

The Strategic Direction for Transport

4. The Northern Way's *Strategic Direction for Transport* is an evidence-based assessment of the most appropriate transport interventions that will promote productivity gain, while at the same time seeking to protect and enhance the North's natural and built environment, and contributing to the nation's commitments regarding climate change. Looking over 20 to 30 years, it sits below the three high-level transport goals of the Growth Strategy and above the level of individual priority schemes and projects. The Strategic Direction sets out the types of interventions which will have the greatest productivity impact, as well as where in the North those interventions will have the greatest impact.

5. While the *Strategic Direction for Transport* pre-dated the Eddington Transport Study, its prescription and that of Eddington are consistent, namely what is needed is a balanced investment strategy that considers transport links within our city regions, between the city regions of the North and between the North and the rest of the country, as well as links to port and airport international gateways located in the North and elsewhere is the country.

The Northern Way's Short, Medium and Long Term Transport Priorities

6. Having established our *Strategic Direction for Transport*, we then identified *Short, Medium and Long Term Transport Priorities*. Our prioritisation work shows that while the transport proposals being pursued by stakeholders across the North will make worthwhile contributions to productivity growth, taken together they do not allow our Strategic Direction for Transport to be met. Consequently, if the North's productivity growth is to be maximised a number of the "Strategic Delivery Gaps" need to be addressed. We have identified strategic delivery gaps for the rail network, the road network and associated with network integration. The rail gaps are the Northern Hub (the strategy to transform rail in the North), rail gauge enhancements for multi-modal container traffic, a rail rolling stock strategy and strategies for trans-Pennine and north-south rail (including high speed rail). The road gaps relate to the need for a long term strategy to keep the strategic road network moving and a north-wide approach to behavioural change. For network integration the strategic gaps relate to pan-Northern smart ticketing and strategic park and ride.

Transport and the Economy

1. *Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?*

7. As work published by the Northern Way in March this year has shown, the recession has significantly affected car and public transport demand, as well as the number of air passengers and volume of domestic and international freight. However, we see no evidence that the recession has changed the relationships between transport connectivity and economic growth that Eddington considered, nor the basic prescription that he put forward, namely the economy needs adequate and appropriate connectivity within and between city regions, as well as to and from port and airport international gateways. What the recession has done is bring to the fore the importance of well targeted investment to stimulate and facilitate economic growth. This is most pressing in the North given that it has been most affected by the recession and the projections that it will be most affected by public sector spending cuts.

8. Importantly, our *Transport Demand in the North* report showed key differences between the North and the South. Our work has shown that travel patterns in the North are more sustainable than in the South. Car trips are shorter, bus use is higher and rail use is growing (and continued to grow during the recession). However, in the years leading up to the recession, transport demand in the North grew more strongly than in the South. Every percentage point of economic growth in the North led to transport demand growing more strongly in the North when compared with the South. In the period of recession that followed, indications are that demand also fell away more in the North. In short, the North has a higher elasticity of transport demand

than the South. Car trips are getting longer, rail trips are growing in number while bus use is now declining again.

9. In the North and without further intervention, a continuation of the pre-recession trends would suggest that transport demand in the North is likely to become more like that in the South.

10. The trend of re-structuring employment and economic activity as the North moves to a more private sector focused knowledge economy, is set to continue for many years to come. As we move out of the recession, it should be anticipated that the trend in the North of increased car use, increased rail use, but declining bus use will resume (and mooted changes to the concessionary fares regime and to BSOG would accelerate this decline). This reinforces the need for a balanced strategy of policy interventions that seeks to facilitate economic growth through targeted enhancements to the North's transport system, combined with measures that seek to exploit the more sustainable pattern of transport use that currently exists in the North and wherever possible, supports the use of more sustainable modes.

2. *What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?*

11. Speaking in Shipley at the end of May in his first major speech as Prime Minister, David Cameron identified the Coalition Government's goal of rebalancing the economy away from the heavy reliance on the South East, and through the growth of private sector businesses.

12. As we have already set out, the Northern Way's evidence shows that what is needed to foster the North's economic growth is a balanced approach that looks at the connectivity needs of travel *within* city regions and the links *between* the North's city regions. Also important are links between the North and London with its World City functions, and international connectivity via gateways within the North and elsewhere in the country. Enhancing connectivity within city regions is focused on expanding labour supply across functional labour markets. Improving the connectivity between city regions facilitates the movement of goods, business to business links and allows the expansion of labour markets, most notably for entrepreneurial high level skills. International connectivity facilitates trade.

13. Clearly the outcome of the Spending Review will be less funding to enhance strategic and local transport networks in the North. Given the importance to the economy of capital investment in our transport networks, we contend that both enhancement and maintenance budgets need to share the burden of programme reduction. There will be a high economic cost if the spending reduction is met by the enhancement programme alone. Of course, spending reductions means there is a need to prioritise. To contribute to the Spending Review we have submitted to the Secretary of State our evidence-based assessment of what these should be. Our submission is summarised in the Annex to this memorandum.

14. We are also mindful of the time taken to develop significant transport interventions and the importance of bringing forward investment proposals in a timely manner. This means that it is important that funds are continued to be made available to Network Rail, the Highways Agency and local authorities for scheme development. As well as identifying priorities for which construction can start by 2014/15, we have also set out priorities for proposals that we consider should be taken through the business case, powers and other statutory processes for implementation subsequent to 2014/15. These too are summarised in the Annex.

3. *How should the balance between revenue and capital expenditure be altered?*

15. We are concerned that the split between revenue and capital funding could be seen as a barrier to implementation of measures that the Northern Way has identified as delivering productivity benefits to the North. For example, more widespread implementation of the Managed Motorway programme (and beyond that greater integration between Highways Agency and local authority intelligent transport systems) has a revenue as well as capital implication. In the case of Managed Motorways, this relates to the costs of operating control centres and provision of Highways Agency Traffic Officers amongst other things. A further example would be the more widespread and mainstream implementation of smarter choices measures, where Northern Way research has identified worthwhile productivity benefits but also that constrained revenue capital budgets are hindering implementation.

16. We would welcome further relaxation of the demarcation between capital and revenue budgets.

4. *Are the current methods for assessing proposed transport schemes satisfactory?*

17. In short, more research and development work needs to be done to develop approaches that quantify the impact of transport investment on the size of the economy and so they can be incorporated into the appraisal mainstream.

18. The Northern Way's focus is on promoting the North's economic growth while at the same time promoting a low carbon economy, but these are not the only reasons to support transport investment, nor is it just the economy and carbon that are affected by transport investment. The Northern Way strongly supports the conceptual approach of the New Approach to Appraisal (NATA) as it is an important decision making tool that offers a methodology and framework to consider positive and negative impacts of transport schemes.

19. This does not mean, however, that the further development of NATA is not warranted. Attention needs to be given to the methods and parameters employed in cost benefit analysis (CBA) and how this is used in assessing the value for money of transport investment. We welcomed the extension of the conventional cost benefit framework to include economic wider impacts, the largest and most significant of which is agglomeration. Also we contend that insufficient weight is given to carbon in the appraisal process. In this regard, we welcome the Coalition Government's decision to review the process by which transport schemes are prioritised.

20. A particular area of interest is the potential role in appraisal of assessments of the Gross Value Added (GVA) impacts of transport investment in determining overall transport spending as well as the prioritisation of transport investment. The Greater Manchester authorities, Greengauge21, Network Rail and the Northern Way have each promoted work to develop and apply techniques in this area. Collectively, this work suggests that monetised GVA impacts of well targeted transport investment could be up to three times the welfare benefits in a conventional transport CBA.

21. Given the Northern Way has identified the criticality of transport connectivity to the North's economic growth and the important potential impacts of GVA analysis on funding availability and scheme prioritisation, we commissioned the Institute for Transport Studies (ITS) at the University of Leeds to review the methods that have been developed to assess the GVA impacts of transport investment. Their findings are important to this inquiry. ITS identified a number of new insights that have come from the GVA assessment work. In particular:

- Transport investment can both stimulate a local economy and lead to redistribution of economic activity from elsewhere. The redistribution of economic activity due to a transport investment is important. The available evidence suggests that redistribution effects are stronger than local productivity gains.
- In turn, this reinforces the benefit in distinguishing between *people-based productivity effects* and *place-based productivity effects*. People-based effects come about from the migration of productive labour and are principally associated with re-distribution. It is place-based effects (such as greater agglomeration) that determine the net increase in national productivity.
- From the work to date, the contribution of different transport modes to productivity appears very different. The GVA benefits of rail investments can be large and overall the evidence thus far suggests that on a per traveller basis, rail investment has a greater productivity impact than road investment.
- Changes in productivity associated with rail schemes are particularly driven by productivity changes of medium skilled workers.

22. There are a number of further issues which are important when considering how these new approaches are used to inform decision making: namely, how much is spent on enhancing the transport system and where is that expenditure directed. Conventional cost benefit analysis takes an equity approach, that is the value for money case of a transport investment is a function of its use and how much it costs, not where it is located. In the GVA benefit calculations, both location and the area over which impacts are assessed are important influences on the derived estimates of GVA uplift. More work needs to be done to understand the area over which a transport intervention influences the economy.

23. ITS also identify that the estimates of GVA uplift are a measure of *economic potential* rather than are an assessment of the actual impact on the economy of a particular transport investment. For this potential to be realised, further investments may be needed in, for example, sites and premises or skills and training. The nature of these additional investments is unspecified and uncosted in the GVA assessment methods. It seems important that alongside the GVA assessment, work is undertaken to understand the capacity of a local economy to deliver the projected economic potential.

24. Considering the GVA assessment work in the context of the conventional approach to cost benefit analysis, the ITS review also identifies that well specified transport investments in the North have equal if not greater potential to deliver *GVA benefits* per pound invested when compared with investments in the South East. This concurs with findings from the Northern Way's own work when considering conventional cost benefit analysis incorporating economic wider impacts (principally agglomeration), namely well specified transport investments in the North have equal if not greater potential to deliver *welfare benefits* per pound invested when compared with investments in the South East. However, what the ITS work also clearly concludes is that prioritising on a basis of GVA benefits per pound would give a different answer to a conventional benefit cost ratio.

25. Bringing all these points together, the key finding from ITS is that techniques to quantify the impacts of transport investments on the size of the economy are in their infancy. The work that has been done to date has helpfully furthered our understanding, but more research and development work needs to be done before such approaches can become part of the appraisal mainstream.

5. *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

26. Many of the strategic weaknesses in the North's transport system cross city region boundaries. The journey to work catchments of the city regions overlap. What the work of the Northern Transport Compact has done is identify the key investments needed in the North's transport networks to address these weaknesses. It has also overseen progress towards delivery through the early planning stages for a number of significant interventions, such as the Northern Hub. It has done this by fastidiously avoiding duplication of work best undertaken at a city regional level and adding value to what can be achieved by city regions or regions acting in isolation. The Compact's approach of building the evidence-base on the links between transport and economic growth has been widely welcomed and is described as influential by Department for Transport. Independent evaluation of the Compact's work has identified tangible benefits to the North.

27. It is the Government's intention that Local Enterprise Partnerships (LEPs) will lead the development of strategy and identification of investment priorities for their functional economic areas. This will be challenging as individual local authorities will be both key partners in LEPs and transport scheme promoters. The intended geographic scope of LEPs will ensure that they have a natural focus on journey to work catchments and therefore on city and local transport networks. While the strategic road network and national rail network will be important to LEPs, the development of plans and programmes for investment in and management of these national networks will be directed nationally.

28. Over the last five years, the Northern Transport Compact has led for the three northern regions on pan-regional links and links between the North and the rest of the country, with representation from city authorities and the PTEs/ITAs, as well as private sector interests. It has filled a "strategic gap" or "market failure" by acting as a counterbalance to Scotland and London where there are strong statutory bodies in Transport for London and Transport Scotland to make the strategic case for transport investment as well as progress implementation. The removal of the regional apparatus would mean in transport terms that there will be a strategy gap between nationally led initiatives and what will be the local focus of the LEPs. This appears to be recognised by the Secretary of State in his recent evidence to the Transport Committee where he expressed interest in sufficiently strategic coalitions of LEPs on some strategic transport issues.

29. We are considering how the work of the Northern Transport Compact can continue on strategic transport issues in the North. This would be supported by LEPs, where they are established, being given a statutory duty to cooperate on cross-boundary transport issues as well as ensuring they have sufficient resources to work collectively to continue the evidence building and early scheme development work that the Transport Compact has led over the last five years.

Annex A

NORTHERN WAY'S PRIORITIES AS SUBMITTED TO THE SECRETARY OF STATE FOR SPENDING REVIEW CONSIDERATION

Strategic Road Network

Scheme Implementation by 2014–15

- M62 Managed Motorway between Leeds and Bradford
- Completion of the upgrade of the A1 in North Yorkshire to motorway standard
- Upgrade of the A556 between the M56 and M6 in Cheshire
- M60 Junction 15 to 12—additional lane

Scheme Development by 2014–15

- M1 Managed Motorway around Sheffield
- M60 Managed Motorway around Manchester
- Low cost interventions for the management of the A1 Gateshead Newcastle Western Bypass

Rail

Scheme Implementation by 2014–15

- Network enhancement between Liverpool and Leeds
- Network enhancement between London and Sheffield
- Electrification of the lines between Manchester and Liverpool, Manchester and Preston, and Liverpool and Preston
- Enhancements to the East Coast Main Line, including the introduction of a standard hour timetable

Scheme Development by 2014–15

- Northern Hub, for implementation by the end of Control Period 5
- Intercity Express Programme

— New rolling stock for Northern and Trans Pennine franchises

— Trans-Pennine electrification

International Gateways

Scheme Implementation by 2014–15

— Rail gauge clearance for the east Coast Main Line north of Doncaster to Scotland, between Doncaster and the East and West Midlands, to Teesport and to the north and south banks of the Humber.

— A160/A180 upgrade

Scheme Development by 2014–15

— A5036 to the Port of Liverpool

— Gauge clearance (associated with electrification) of trans-Pennine rail routes

September 2010

Further written evidence from the Northern Way (TE 34A)

Introduction

1. This supplementary submission has been prepared by the Northern Way, the public and private sector partnership currently funded by the three Northern RDAs (North West Development Agency, One North East and Yorkshire Forward). It reflects developments since the Northern Way made its principal submission to the Transport Committee on 22 September, namely the conclusion of the Spending Review on 20 October, subsequent ministerial statements on local major schemes and the Highways Agency's programme, the publication of the National Infrastructure Plan, as well as the Government's 4 October announcement on the way forward for high speed rail.

Spending Review Outcome

2. The Northern Way welcomes the Government's explicit recognition of the role that targeted enhancements to transport connectivity can play in meeting the twin goals of supporting and facilitating private sector led economic growth, and rebalancing the economy away from the South East. This has helped support the relatively favourable capital settlement for transport compared with other Departments.

3. The Spending Review has established the Government's short term programme for the enhancement of the strategic road network and the national rail network. A substantial number of the Northern Way's priorities for the strategic road network and rail network will be implemented by around 2014–15. These enhancements will deliver substantial and worthwhile economic benefits for the North.

4. From the Secretary of State's statement on the Highways Agency's programme, it is evident that priority has been given to the management of congestion on some of the busiest sections of motorway not only in the North but in the country as a whole. Seven of the managed motorway/limited widening schemes are in the North. No doubt this is because the Government's assessment is that such schemes deliver significant value for money as well as benefits to the real economy. The Northern Way's own analysis highlights that motorway congestion around the North's city regions is a significant strategic transport threat to the North's economic recovery and growth. The Northern Way therefore warmly welcomes this investment.

5. As part of the Spending Review, the Government also announced that the Northern Way short term priorities (to 2014–15) for enhancements to the national rail network will proceed. These include electrification in the North West, enhancements to Midland Main Line and East Coast Main Line, as well as enhancements to the North Trans Pennine route. This too is welcome, although further details are awaited. In particular, the announcement on the Government's preferred way forward for the Intercity Express Programme is of significance to the North. As well as there being a pressing need for timely provision of extra rolling stock for the East Coast Main Line, the IEP trains would be assembled at a new manufacturing plant, the preferred location for which is in the North East. There are also interdependencies between the way forward for Thameslink and rolling stock provision in the North including the routes to be electrified in the North West.

6. Inevitably not all schemes have received funding support. A number have been postponed with further development work being undertaken with a view for implementation post 2015. These include proposals to enhance the A160/A180 on the South Humber Bank and the A63 in Hull both of which would enhance road access to the Humber ports and two of four junction schemes on the A19 in proximity to the 2nd Tyne Crossing. Others have been cancelled, the most notable of which is the upgrade of the last section of the A1 in North Yorkshire to motorway standard. This scheme would have linked the North East directly into the national motorway network for the first time and delivered economic benefits by providing safer and more reliable journeys.

7. While understandable in the context of the Coalition Government's approach to reducing public spending, these decisions are disappointing. What is now important is that there is clarity from Government on:

- the processes and timescales for developing affordable and worthwhile measures for implementation post 2014–15 to address the significant problems that remain and that cancelled schemes were intended to address; and
- how priorities for investment will be brought forward that will inevitably come from the on-going National Network Studies, including the Access to Manchester Study, the Access to Newcastle Study, the Trans Pennine Connectivity Study and the study that is looking at the A1 and M1 corridor (the "Corridor 10" study).

8. Given its role of adding value to what can be achieved by the North's city regions, the Northern Way's focus has been on the strategic road network and the national rail network. Nonetheless, the Northern Way's evidence identifies the importance to achieving balanced growth across the North of targeted enhancements to local and city region road and public transport networks. Typically these are funded through the Department for Transport's major schemes process.

9. The Northern Way recognises that in any spending reduction process not all local authority transport priorities will be able to proceed as promoters intended or would wish. The Government, however, needs to be mindful of two issues. The first is the danger that the contraction of funding to local authority promoters will make it challenging for them to resource the delivery of those schemes that the Government indicates that it will consider for funding. This will be amplified by the pressure on the promoters to secure higher local contributions. The second issue is that the funding reductions will impair local authorities' ability to develop and then progress through the funding and planning process priority proposals for implementation after the current Spending Review period.

10. In our primary submission to the Transport Committee, we set out in an Annex the Northern Way's priorities for funding in the Spending Review period. In the Annex to this memorandum we repeat this table along with our assessment of how these priorities have fared in the Spending Review.

High Speed Rail

11. The Northern Way also strongly welcomes the Secretary of State's announcement that the Government will promote a national Y-shaped high speed rail network that serves both sides on the Pennines. A network serving both sides of the Pennines is the central proposition of the Northern Way's September 2009 High Speed Rail Position Statement.

12. The Northern Way's evidence as set out in the Position Statement is that high speed rail has the potential to bring significant benefits to the North, whether measured using the Department for Transport's conventional approach to benefit calculation or in terms of the impacts on GVA and employment. On a per capita basis there is the potential for these benefits to be greater in the North than elsewhere in the country. The work that HS2 Ltd has done to inform the Government's decision has reinforced the Northern Way's position that a national network should comprise two north south routes serving both sides of the Pennines. The Northern Way therefore welcomes the Government's direction to HS2 Ltd to recommence work developing options for the eastern side of the Y network alongside its on-going work developing options serving the North West.

Annex A

NORTHERN WAY PRIORITIES—SPENDING REVIEW OUTCOME

NORTHERN WAY'S PRIORITIES AS SUBMITTED TO THE SECRETARY OF STATE FOR SPENDING REVIEW CONSIDERATION	*SPENDING REVIEW OUTCOME*
Strategic Road Network	
Scheme Implementation by 2014–15	
— M62 Managed Motorway between Leeds and Bradford — Upgrade of the A556 between the M56 and M6 in Cheshire — M60 Junction 15 to 12—additional lane	All included within the HA's Programme to 2014–15
— Completion of the upgrade of the A1 in North Yorkshire to motorway standard	Upgrade of A1 between Dishforth and Leeming is under construction. Upgrade of A1 between Dishforth and Barton has been cancelled
Scheme Development by 2014–15	Included within the HA's Programme to 2014–15:
— M1 Managed Motorway around Sheffield — M60 Managed Motorway around Manchester	— M1 J32–35a (east of Sheffield) — M1 J28–31 (south of Sheffield) — M1 J39–42 (Wakefield) — M60 J8–12 (south west Manchester) — M62 J18–20 (north east Manchester

NORTHERN WAY'S PRIORITIES AS SUBMITTED TO THE SECRETARY OF STATE FOR SPENDING REVIEW CONSIDERATION	*SPENDING REVIEW OUTCOME*
— Management of the A1 Gateshead Newcastle Western Bypass	Options for A1 Gateshead Newcastle Western Bypass being considered by DfT's Access to Newcastle National Network Study
Rail	
Scheme Implementation by 2014–15	
— Network enhancement between Liverpool and Leeds	While announcements of details are awaited all form part of post SR10 committed programme
— Network enhancement between London and Sheffield	
— Electrification of the lines between Manchester and Liverpool, Manchester and Preston, and Liverpool and Preston	
— Enhancements to the East Coast Main Line, including the introduction of a standard hour timetable	
Scheme Development by 2014–15	
— Northern Hub, for implementation by the end of Control Period 5	Development of Northern Hub project by Network Rail for funding consideration as part of 2012 High Level Output Statement is on-going.
— Intercity Express Programme	Announcements on IEP and rolling stock are awaited
— New rolling stock for Northern and Trans Pennine franchises	
— Trans-Pennine electrification	No clarity on the way forward
International Gateways	
Scheme Implementation by 2014–15	
— Rail gauge clearance for the East Coast Main Line north of Doncaster to Scotland, between Doncaster and the East and West Midlands, to Teesport and to the north and south banks of the Humber.	Scheme development for rail gauge enhancement is progressing
— A160/A180 upgrade	Further work will be undertaken on the A160/A180 upgrade with the goal of starting construction post 2015
Scheme Development by 2014–15	
— A5036 to the Port of Liverpool	A5036 is subject of a regionally-led DaSTS study
— Gauge clearance (associated with electrification) of trans-Pennine rail routes	No activity to develop options and case for trans Pennine gauge clearance

November 2010

Written evidence from the Royal Town Planning Institute (RTPI) and the Transport Planning Society (TPS) (TE 37)

Introduction, Purpose and Scope

1. This evidence is submitted jointly by the Royal Town Planning Institute (RTPI) and the Transport Planning Society (TPS).

2. The RTPI is the largest professional institute for planners in Europe, with over 23,000 members who serve in the public service and as advisors in the private sector. It is a charity with the purpose to develop the art and science of town planning for the benefit of the public as a whole. As well as promoting spatial planning, RTPI develops and shapes policy affecting the built environment, works to raise professional standards and supports members through continuous education, training and development.

3. The TPS exists to facilitate, develop and promote best practice in transport planning in the UK and to provide a focus for dialogue between all those engaged in it whatever their background or other professional affiliation. The TPS has approximately 900 individual members and corporate membership of many leading companies in the field.

4. The key messages of this joint submission are:

(a) that the proper integration of transport and land-use planning systems is the most effective way to ensure that transport benefits the economy; and

(b) that existing methods for assessing and prioritising proposed schemes are unsatisfactory.

5. The submission responds to all the questions posed in the inquiry terms of reference collectively.

Structure and Summary of Conclusions

6. The 2006 Eddington Report's strategic economic priorities for transport investment were: growing and congested urban areas and their catchments; the key inter-urban corridors; and the key international gateways. We consider that these priorities remain valid, but note that they depended upon road pricing to secure the economic benefits for the longer term.

7. The current practices used by DfT to decide investment priorities largely rely on estimates of the value of time savings derived from the sophisticated models used to plan transport infrastructure. However, the reasoning connecting such direct transport effects to economic benefits of the kind referred to by Eddington is increasingly disputed, particularly as regards the most important and longer term impacts such as economic agglomeration and urban regeneration.

8. We conclude that current methods are not a reliable means of directing the very limited transport resources now available towards economic purposes, particularly regarding the balance between road and rail, and between large-scale capital schemes and the smaller kinds of scheme often financed by revenue. We suggest other methods of appraisal that could be employed pending longer-term resolution of the more fundamental issues.

9. Transport decisions affect social structures, quality of life, car-dependency and CO_2 output as well as economic productivity. Many of these impacts feed back into economic productivity and are determinants of the longer-term evolution of cities and patterns of settlement and of their longer-term sustainability. The forces involved work at a range of geographical scales (neighbourhood, town, city, subregional and national) and we believe that the forms of local collaboration put in place following abolition of RSSs need to reflect this.

Economic Priorities for Transport

Eddington's conclusions

10. The terms of reference for this inquiry include the question of whether conditions have materially changed since the Eddington Report and what the priorities should now be in order to deliver growth, both nationally and regionally. It is relevant to recall Eddington's words (from his Foreword).

11. He described the UK's transport networks as "a crucial enabler of sustained productivity and competitiveness." On value for money he said, "transport policies offer some remarkable economic returns." He concluded "Continued economic success is forecast to lead to rising demands. Given their significance to the economy, my Study shows that the strategic economic priorities for long term transport policy should be growing and congested urban areas and their catchments; the key inter-urban corridors; and the key international gateways."

12. These conclusions were all placed in the context that "… for economic reasons as well as social or environmental, all transport users should meet all their external economic, social or environmental costs: hence my strong backing for congestion-targeted road pricing".

Current validity

13. Since he reported in December 2006 there have been major changes with a bearing on Eddington's conclusions:

- GDP in Britain has not grown as anticipated;
- the balance of trade has worsened from −£7.0 billion to −£9.6 billion;
- unemployment has risen from about 5.5% to nearly 8%;
- public sector debt has increased from c. 37% of GDP in 2006 to over 53%;
- potential for public investment has been replaced with fiscal retrenchment; and
- rather than introduction within 10 years,[1] road pricing has all but disappeared from the public policy agenda.

14. In our view, Eddington's broad conclusions about the importance to the UK economy of transport in conurbations, on inter-urban corridors and to international gateways remain valid. However, changes in the resource context, the removal of road pricing from the policy mix and our increasing understanding of how transport influences the economy all lead to rather different conclusions as to the kinds of transport programmes and policies needed. The need for transport investment to play its part in economic development has if anything increased since 2006, but how it might best do so may well have changed.

15. The Eddington Report itself placed a good deal of reliance on DfT's conventional cost-benefit analysis (CBA) processes to prioritise schemes in the chosen areas (in and around conurbations, inter-urban corridors and gateway access). These are areas where the pressures of growth of road traffic are highest, and where (in conventional DfT appraisal) the highest ratios of benefits to costs therefore tend to attach to roads. Under Eddington's dispensation roads would dominate investment priorities, and road pricing was therefore crucial,

not just to raise money but more importantly to "lock in" the benefits of schemes, so that the additional capacity did not simply generate more traffic.

16. The failure to follow up road pricing, increasing doubts about the validity of DfT's conventional appraisal process and radically constrained resources all point to the need to reconsider Eddington's priorities.

Deficiencies in Current Economic Appraisal

The conventional appraisal process

17. The Standing Advisory Committee on Transport Appraisal (SACTRA) undertook a major inquiry into the connections between transport and the economy, published in 1999.[2] While noting that the scope for transport improvements to deliver economic benefits in advanced economies with mature transport systems may be limited, the SACTRA Report identified the following possible chains of causation linking transport and economic growth:

(i) better transport links allow rationalisation of locations for production and distribution, thus reducing costs and increasing competitiveness;

(ii) access to wider labour market catchments, reducing labour costs and increasing choice;

(iii) higher productivity (from both the above), increasing output and market share;

(iv) stimulation of inward investment by creating internationally attractive locations;

(v) unlocking inaccessible sites for development; and

(vi) multiplier effects on all of the above leading to further growth in supply chains and dependent services.

18. The scale of these effects can be estimated, but only with some difficulty and uncertainty: in general such estimates are only used where the *local* incidence of economic benefits is of particular importance (eg in a Regeneration Area—see below). Normally the economic benefit is estimated from the direct transport effects as calculated by the models used in transport network design and planning. The main such benefits are:

(i) Time savings to users of the network (business and leisure) compared with doing nothing.

(ii) Reductions in vehicle operating costs (VOC) through quicker or smoother journeys).

(iii) Accident savings (through better sight lines, etc).

19. These benefits form part of a broader appraisal framework which includes other kinds of effect (such as landscape, natural environment, air quality, noise, etc): this is known as "the new approach to transport appraisal" (NATA) even though it is now some 10 years old. However, the majority of impacts that are assigned a monetary value are user time-savings with smaller contributions from modelled VOC and accident savings. Benefit/Cost Ratios (BCRs) are calculated by comparing the value of monetised benefits with scheme costs (both discounted over time). These BCRs are the determining factor in DfT's investment priorities.

20. DfT has a highly sophisticated system of guidance for the application of these principles. The web-based Transport Appraisal Guidance (WebTAG) currently runs to over 100 detailed "Units", many of them lengthy and complex. Compliance with the Treasury Green Book standards is claimed and in practice this claim appears to be accepted.

Economic impact in conventional appraisal

21. Transport improvements tend not to have lasting effects on the performance of the transport system itself—journey times, congestion, etc. Rather, the benefits are taken in the form of a wider choice by households and businesses of places to live, work, locate and visit. The original transport improvement is thus transformed into a new pattern of settlement, activity and movement, and this in turn drives further physical development. Although this increases transport demand (and so reduces transport benefits), such changes are a path to the economic benefits listed earlier (para 17). The SACTRA report concluded that *" in general, the value of direct transport benefits must decline if indirect economic benefits are to grow"*.[3]

22. The rationale for using the value of initial time-savings as the main measure of economic benefit is that, *in a perfect market*, the ultimate economic benefit will be equal to the initial user benefit, however tortuous the path between. Thus time savings, a by-product of scheme design, seem to offer a quick and convenient means of estimating economic impacts. For most of its existence DfT has focused on reducing congestion (particularly on roads). Because time-savings directly measure reduced congestion, there is an obvious attraction in using the same metric for economic benefit.[4] This simplification has been the foundation of DfT practice for over 40 years[5] and is the main principle embodied in WebTAG.

23. In recent years there has been an increasing interest in indirect and longer-term economic and social effects arising from *imperfect* markets. The added competitiveness that comes from concentration of activity (agglomeration) is one such effect, and the differential impact of transport on housing prices and choices (social polarisation) is another. SACTRA pointed out that effects of transport change on such processes could be either positive or negative, and might be on a significant scale (though it offered no means of estimating their size). Eddington's emphasis on agglomeration as an economic force has led to a renewed interest such wider and

longer-term effects, and WebTAG now offers units on adjusting the conventional time-savings results to take this into account.

Critique of conventional appraisal

24. There is an emerging consensus of experts in the field that DfT's current methods are no longer a safe guide to transport choices to support economic priorities, for two reasons:

(i) increasing concerns about the validity in detail of the conventional process, even its own terms as a representation of effects within a perfect market; and

(ii) increasing disquiet about treating the larger and longer-term processes in imperfect markets merely as adjustments to the conventional, perfect market assumption.

25. The focus of existing methods on time-savings allows a conceptually simple prioritisation process to be consistently applied to a wide range of scales and types of scheme. However, the penalty is that wider and longer-term impacts are either ignored or treated only as adjustments. This may have been acceptable when reduction of congestion was the dominant policy objective, but will not do now that economic recovery and climate change have precedence.

26. Eddington's remarks about the benefits of transport investment appear to have been based on applying the conventional system, but achieving the economic aims he recommends requires a wider approach. It is arguable that over-investment in roads and under-investment in public transport has resulted from the dependence of conventional appraisal methods on time-savings, and that this has undermined the economic and social well-being of cities in the UK in significant ways—particularly when compared with many similar continental cities.[6]

27. Annex One deals with the background to these concerns in more detail.

Alternative Methods of Prioritising Transport Investment

Need for fundamental overhaul

28. Given the present pressures on limited resources, and the importance attached by decision-makers to achieving positive economic impacts, the serious concerns raised here about the inadequacy and potential bias of conventional appraisal matter a good deal. Ideally transport appraisal should include the wider economic and social consequences that are relevant to economic competitiveness. It was noted as long ago as 1997, in connection with conventional transport appraisal that *"The extraordinary consequence is that the largest and most important effects of transport play little or no part in the appraisal of transport projects"*.[7]

29. While Land-Use/Transport Integration (LUTI) models offer ways of exploring some of these consequences, they bring with them increased complexity and uncertainty. Credible precision about value for money is unlikely to be the output of a transport model any time soon.[8]

30. Given that little in the way of major new commitments is likely to be feasible for some time, the time is ripe to carry out a more fundamental review of appraisal than DfT has so far attempted. We do not pursue this issue further here as there are other concerns which are more urgent (though not more important).

Balance between small and large scale, revenue and capital financing

31. The emphasis on time-savings tends to work in favour of large schemes, particularly roads, which are typically financed by capital borrowing. Annex two sets out the background to perverse incentives from the financing system that tend to reinforce this bias:

(i) Local, small scale "smarter transport" interventions are often financed (inappropriately) from capital, and so are first to go as capital budgets are cut—whether or not this makes sense in terms of effectiveness.

(ii) Capital funding for major schemes continues to be sought even if the original rationale for a project has weakened, because once the scheme is abandoned, staff and other revenue costs can no longer be charged against it, and must compete for limited revenue money.

32. A recent study from the University of West of England[9] suggests that, even using the existing appraisal system, large projects and projects in categories where most has been spent in the past do less well than small local schemes of the "smarter choices" kind.

Interim methods

33. The means of exploring wider and longer term impacts are complex and poorly developed, so a short-term expedient is needed pending development of better alternatives. Elements of this could include:

(i) employing an interim pass/fail filter, using the criteria put forward by the Government in July and relating to existing NATA tests;[10]

(ii) reworking existing appraisals to reduce the influence on CBRs of distant, uncertain and short time-savings by shortening appraisal periods, raising discount rates and discounting very short time-savings;

(iii) using transport model outputs to estimate "indirect" economic impacts instead of relying on conversion of "direct" time-saving The approaches currently employed in "wider economic impact" reporting on regeneration areas could be more widely applied; and

(iv) constructing a common "points" system to place CBR alongside other NATA factors rather than it being the single dominant factor. This would accord better with Green Book advice than present methods which neglect non-monetary impacts.

34. Such actions would be better than nothing, but only a short-term fix. For the future a more integrated and strategic approach could include the following:

(i) The wider impacts of larger scale policies and projects (such as road pricing, a national High Speed Rail network or extensive provision of rail-based local transport beyond London) should be informed by LUTI modelling.

(ii) Planning concepts and processes should foster a more integrated relationship with other aspects of economic and spatial policy-making, to realise the potential for mutual reinforcement ("win/win") between agglomeration, quality of life, reduced transport demands, and reduced vulnerability to fossil fuel supply and price.

(iii) Devolution of more responsibility for such plans to a more local level, at which the relationships between transport and other factors is more meaningful.

(iv) Retention of central government responsibility for strategic national decision-making as cannot effectively be undertaken at a lower level—such as the balance between regions.

Other Implications

Wider consequences of transport investment

35. Transport problems arise as much outside the transport system as from within it, and the effects of transport measures are felt far beyond the transport system itself. Long-term UK data show that *increased trip lengths* (implying changing locational choices) account for most of the observed growth of personal travel[11]. A more diffuse pattern of locational choice by families and businesses, leading to increasing trip lengths for all purposes, is thus the major strategic cause of growing transport demand, and of related increases in car-dependency.

36. In the long term, land-use and transport have a symbiotic relationship, expressed through long-term, indirect processes. This point has been summarised by Peter Hall[12] as follows:

> "at least since the first industrial revolution, two hundred years ago—the growth of cities had been shaped by the development of their transport facilities. But these in turn were dependent on the evolution of transport technologies. For each successive development of the technology, there was a corresponding kind of city. However, the relationship was more complex than that: it was a mutual one. The transport system shaped the growth of the city, but on the other hand the previous growth of the city shaped and in particular constrained the transport alternatives that were available. So the pattern of activities and land uses in the city, and the transport system, existed in some kind of symbiotic relationship."

37. Peter Hall identified four major episodes of divergence between transport technologies and urban form over the last 200 years. The current crisis arises because agglomeration advantages in a knowledge economy depend on offering *both* an attractive quality of life *and* concentration of activity, while high current levels of car-dependency undermine both. In this connection we note that continental cities with integrated modern transport systems have significantly better productivity than their UK equivalents (relative to their national context).[13] London, with its extensive underground and suburban rail systems, is the exception that demonstrates the point.

Implications of abolition of RSS

38. The experience of national and regional plans (like RSSs) that attempt to commit to targets and measures that are too specific has not been happy, and transport has been particularly prone to producing this kind of "end-point" plan. Unexpected events can render such plans redundant, and to the extent that their continued existence inhibits a flexible response to new problems and opportunities, even damaging. Any replacement within the localisation agenda needs to employ a style of planning that offers a clear sense of direction, but at the same time is more robust and more flexible.[14]

39. Transport planning in the UK comes from a tradition that plots a path towards a desired (and stable) end, and is therefore vulnerable to disruption by unexpected changes, such as those experienced with increasing frequency in recent years. Planning processes for all purposes and at all levels need increasingly to *manage uncertainty* rather than seek to eliminate it. The longer-term and more strategic the purpose, the more important it becomes to test alternative economic and social scenarios and responses to them. Such an approach might also help bridge the serious and persistent gap between strategic transport and spatial planning in the UK.[15]

Annex 1

CRITIQUE OF CURRENT APPRAISAL METHODS

A1.1 A vigorous discussion has been going on over the last year or so about current appraisal processes. Starting with issues raised at national and European conferences and seminars, this has continued in recent months in the technical press[16], in an e-mail group of experts (practitioners and academics). While there is no single viewpoint, it is clear that there is widespread disquiet about the 'fitness for purpose' of an appraisal system dominated by time-savings. This Annex summarises the main strands under three headings: modelling time-savings; valuing time-savings; and converting time-savings to economic benefits.

Estimating time-savings by modelling

A1.2 Criticisms of the models which are used to estimate time-savings included:

(i) The convention in standard transport models of representing dynamic processes as a series of equilibrium states may produce a systemic bias in favour of large schemes that support the continuation of past trends (particularly therefore roads).

(ii) Techniques that allow full dynamic modelling tend to be rejected because of unfamiliarity and because appraisal rules require comparisons between (artificial) equilibrium states.

(iii) Complex, diffuse, non-equilibrium processes (involving transport but extending well beyond it) may be responsible in the longer-term for larger consequences than the transport choice processes that are conventionally modelled. Adjustments for imperfect markets may not capture these effects.

(iv) LUTI models which can explore some of these wider processes in a dynamic manner are complex and difficult to calibrate or verify. They may help examine strategic alternatives, but do not produce the kinds of results that can be used to appraise schemes.

Valuing time-savings

A1.3 Having arrived at an estimate of initial time-savings, what is their value (both at the start and over time)? Difficulties here included:

(i) The validity of some or all of the following:

  (a) the valuation of business time-savings at wage costs, justified because this a market rate. However, time spent travelling may be productive (eg as a rail passenger), and it is not clear whether the market would really value very short time-savings at the standard hourly rate;

  (b) the valuation of all time-savings at the same rate, regardless of how short they are (business and leisure). A study of leisure time showed no value for savings less that 5 minutes;

  (c) the appraisal period is currently 60 years, while transport projections rarely look ahead more that 15. This means that the (untestable) assumptions made about the rest of the appraisal period are likely to have a major influence on the scheme benefits: modelled time-savings are of dubious validity over these time-scales;

  (d) the discount rate is currently only 3–4%, which was intended to add to the influence of longer-term environmental impacts, but has the perverse effect of increasing the influence of long-distant time-savings; and

  (e) the unknown proportion of time-savings converted to economic benefit over the appraisal period (or remaining as time-savings).

(ii) Indicating the possible scale of these causes for concern, there are cases where an independent estimate of economic impacts has been made (because a Regeneration Area is involved), where independently identifiable economic benefits have been only ~10% of the value of time-savings over essentially the same area.

Conversion of time-savings to economic benefits

A1.4. The lossless conversion of time-savings depends on the assumption of a perfect market, which all are agreed does not exist. The present approach is to adjust for imperfection, but this may not be satisfactory if imperfect market effects (eg agglomeration) are of high policy importance:

(i) the uncertainties of modelling time-savings even 10 years ahead does not inspire confidence in their conversion to economic value over much longer periods

(ii) in the longer-run time-savings are transient—benefits are taken in the form of increased access, and it is the value of these that should be the focus of attention

(iii) even if perfect convertibility is accepted, the distribution of economic benefits between significant groups such as employers, employees, rentiers and travellers is important to decision-makers and requires a broader approach

(iv) the real economic value of time-savings may be further compromised by their measurement relative to a base case—'time-savings' may merely be lower time-losses than would otherwise occur. These may not self-evidently be of equal value in the eyes of the public or decision-makers.

Annex 2

CAPITAL AND REVENUE IN LOCAL AUTHORITIES

The Revenue/Capital Distinction

A2.1 Local authority revenue expenditure means the day-to-day running costs of the transport planning function (eg staff wages and other operating costs incurred by a local authority). Revenue spending is financed via a combination of Government grants, non-domestic rates, receipts from sales, fees and charges (eg car parking and planning application fees), housing revenues and Council tax receipts.

A2.2 Capital expenditure results in a fixed asset, such as investment in new or extended infrastructure. At present, central Government pays local transport capital to local authorities in two blocks (Integrated Transport Block and Highways Maintenance Block). These are paid by two means:

— Capital Grant, paid to authorities quarterly by DfT; and

— Supported Borrowing, where allocations published by DfT are added to the notional debt for the authority and use by DCLG to distribute Formula Grant.

A2.3 Capital can also be funded from a wider range of other sources (eg revenue, borrowing, other grants from central government, grants and contributions from other organisations such as the National Lottery and private developers through §106 planning agreements, or proceeds from the sale of land, buildings or other fixed assets).

Balance between capital and revenue

A2.4 The line between revenue and capital expenditure these has become somewhat blurred in recent years. Historically, it has been easier to receive money for spending on transport in the form of capital grants, and local authorities have tended to prefer this form of support. This is primarily because it is easier to account for, and removes some of the uncertainties that occur because the Formula Grant is unhypothecated and "damping" is used to limit fluctuations.

A2.5 However, a consequence is that there has been an increase in the use of capital funding for purposes that ordinarily would be funded through revenue. This is particularly the case with measures to support "smarter travel", such as the use of capital grants to fund posts for travel plan co-ordinators. This has the perverse effect that as capital budgets are cut, such posts tend to be first to go, whether or not this makes sense in terms of the direction or effectiveness of transport policy.

A2.6 The converse is that local authorities can charge preparation and land acquisition costs for major schemes against prospective capital finance (including transport modelling, scheme design and appraisal which would otherwise be defined as revenue). This creates another perverse incentive: to carry on seeking capital funding even if the original rationale for a project has weakened, because once the scheme is abandoned, staff and other revenue costs can no longer be charged against it, and must compete for limited revenue money.

Future prospects

A2.7 The relative ease with which capital funds may be secured, and the general preference for this approach to funding within local authorities will no doubt change as the financial constraints aimed at reducing the budget deficit become increasingly onerous. However, at the same time, it may also be the case that any new or innovative funding arrangements (for example from the private sector via Local Enterprise Partnerships) for spending on transport is likely to be continue to support capital expenditure rather than revenue.

A2.8 The current economic circumstances do provide a means by which a shift could, and perhaps should, be made from capital spending on large infrastructure schemes to revenue-funded spending on more modest measures aimed at changing people's travel behaviour. It will still be the case that some new infrastructure should continue to be developed through capital expenditure, with contributions (usually maintenance-related, but also in infrastructure from §106 contributions) from revenue funds.

A2.9 However, the issue remains that the balance between capital and revenue expenditure will be determined separately by each local authority, and inconsistencies may subsequently arise. Certainly, in terms of encouraging walking, cycling and the use of public transport one of the biggest problems is the lack of adequate funding for maintenance. If maintenance is properly funded there might be little left for any other activity—capital or revenue.

A2.10 Overall, there appears to be a case for moving the present balance of funding further in favour of revenue spending. This not only would appear to be more relevant to the type of investments that local authorities will be making in transport going forward, but also would encourage a move towards a more prudent and cost effective approach transport measures that are relevant to local conditions and support economic growth. This will require action to counter the vagaries of the current system for calculating and allocating funding streams.

September 2010

References

[1] DfT White Paper (2004), "Managing our roads"

[2] Standing Advisory Committee on Trunk Road Assessment (SACTRA) (1999) "Transport & the Economy"

[3] SACTRA (1999), ibid, para 23

[4] and of course some time-savings may remain uncoverted, and of value as such

[5] since it was used in the case for the Victoria Line in the mid-1960s

[6] M Parkinson (2006) "The State of UK Cities" Report to ODPM

[7] A Wenban-Smith (1997), submission to SACTRA (ibid), quoted at para 10.10

[8] A Wenban-Smith and T van Vuren (2009) "Using transport models in spatial planning: issues from a review of the London Land-use/Transport Interaction model", European Transport Conference, Amsterdam

[9] Phil Goodwin (2010) 'Improving value for money in the context of transport expenditure cuts: feasibility study"

[10] see Keith Buchan (Viewpoint, LTT 550, 23 July 2010).

[11] Department for Transport (2008), "Transport Statistics GB". Analysis shows 70% of increase in motorised personal surface travel is due to longer trips (A Wenban-Smith, Committee on Climate Change workshop, 2009) http://downloads.theccc.org.uk/CCC_land_use_transport_report.pdf

[12] Hall, P (1994) "Squaring the circle: can we resolve the Clarkian paradox?"' Planning and Design 21 579–594

[13] M Parkinson (2006) ibid

[14] J Robinson (1986), "Paradoxes in planning", Long Range Planning Journal, Vol 19, No 6, pp21–24: a pertinent discussion by a former Shell UK executive

[15] Department for Transport (2004), "The integration of regional transport strategies with spatial planning policies", report by MVA (especially Chapter 6)

[16] See Local Transport Today, Issues 552, 550, 549, 547, etc (thread from http://www.transportxtra.com/magazines/local_transport_today/news/?id=23860&StartRow=1)

Written evidence from the RAC Foundation (TE 41)

1. Background

1.1 The RAC Foundation is a charity which explores the economic, mobility, safety and environmental issues relating to roads and responsible road users. Independent and authoritative research, carried out for the public benefit, is central to the Foundation's activities.

1.2 The Foundation welcomes the Committee's timely inquiry into the subject of Transport and the Economy. This follows up *The Eddington Transport Study* which was jointly initiated by the Chancellor of the Exchequer and the Secretary of State for Transport. That was a large and thorough exercise involving the commitment of substantial resources over eighteen months by officials from HM Treasury and Department for Transport, as well as outside experts, under the general direction and leadership of Sir Rod. The report was generally well-received. It was formally accepted by the government of the day, as were the parallel reports by Sir Nicholas Stern on Climate Change and Kate Barker on Land Use Planning.

1.3 A large part of the Eddington Study was a review of the existing international evidence, especially on the relationships between transport, productivity, competitiveness and economic growth. Whilst there has been a change of government—and therefore changes in policy—there is little reason to think that much has changed in terms of this underlying evidence over the three and a half years since it was published. Until such time as a new study of a similar scale has been concluded, Eddington is the best we have and good use should be made of it.

1.4 In the RAC Foundation's view there is more that government could and should do in terms of adopting the recommendations of the Eddington Transport Study in the decisions it takes. We regret that neither the previous government nor the current one has published a National Policy Statement for the surface transport networks: that is an essential part of Eddington's process of implementing the principles of sound strategic transport planning.

1.5 The Department for Transport has made a start in improving its procedures in response to Eddington, including conducting a major "refresh" of the appraisal techniques, once again involving considerable resources from officials and outside expert advice. There will, of course, be further adjustments as the subject develops and techniques improve.

1.6 It is important to recognize that quantification and monetary valuation, whilst important, is only one part of a rounded appraisal that can usefully be offered to ministers. This was first recognized in the appraisals the DfT developed in response to the Committee on Trunk Road Assessment (the Leitch Committee) in the 1970s, and further developed into the appraisal framework of the New Approach to Appraisal (NATA) in 2000. But the recognition that monetary valuation is only part of the appraisal does not imply that it should be done with any less scientific rigour. In particular, in our view there are risks of contaminating meaningful monetary valuations by attempting to add in items which cannot be plausibly valued, or by "adjusting" monetary valuations to take account of considerations that have not been or cannot be expressed in monetary terms.

1.7 One important weakness that Eddington correctly identified is that, in the past, the disbenefits of unreliability (or unpredictability of journey times) have not been evaluated carefully. This has become an increasingly important matter as our road, rail and air networks have grown less rapidly than the increases in demands upon them. So they have to run closer to their maximum capacities for more of the time: with the consequence that unpredictable hold-ups are bound to occur more frequently. Also, as general standards of living increase and individuals' expectations of quality of service increase in all walks of life, unreliability of transport services is likely to become even less tolerable: or to put it another way, individuals will be willing to pay increasing amounts to secure improvements in predictability. Similarly, as "just-in-time-delivery" and competitive pressures increase in commerce and industry, unreliability matters more to producers. Appraisal in this area is technically difficult, but attempts are being made.

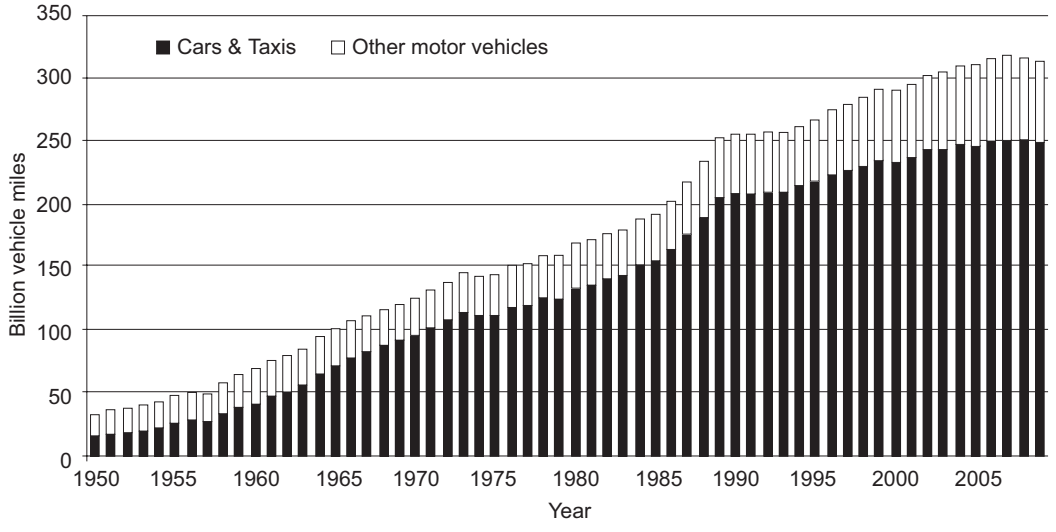
2. Economic Conditions Since the Eddington Transport Study and The Relationship between Transport Spending and Economic Growth

2.1 As we have already noted it is unlikely that the evidence on these relationships has changed much. Three things have however changed: the state of the economy; forecasts of population growth and the fiscal situation.

The state of the economy

2.2 The present economic recession was not anticipated at the time of Eddington. Industrial and personal demand for travel are both very closely linked to the level of economic activity and it is to be expected that the traffic on all modes has not grown as rapidly as expected. For the moment congestion has been relieved. That is why, for instance, railway deficits are higher than expected and road traffic conditions have eased somewhat. "Figure 2.1" (below) from the DfT's *Road Statistics 2009* clearly illustrates the connection between economic activity and road traffic, with traffic moving above or below a linear trend according to the state of the national economy.

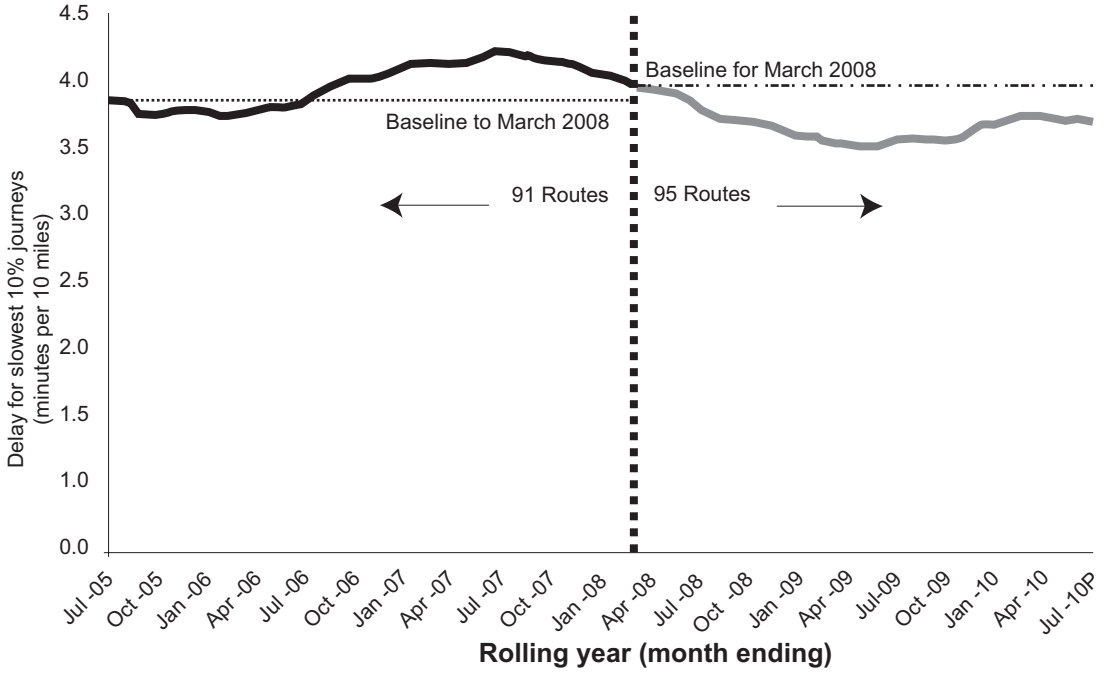
Figure 2.1 All motor vehicle traffic, Great Britain: 1950-2009



Source: National Road Traffic Survey, Departtment of Transport

2.3 Road traffic has fallen during the recession (especially vans and other goods vehicles). The Figure below from the DfT's *Congestion on inter-urban roads*, July 2010 shows how this has translated into more reliable road journeys. But it also shows how, in recent months reliability has started to deteriorate again as the economic recovery has started. If, as we all hope, the economy continues to recover, it is reasonable to expect traffic on road and rail to recover in step. In other words traffic growth will return to the kind of growth anticipated by Eddington, but after a pause of a few years. If so reliability will decline unless road capacity is increased.

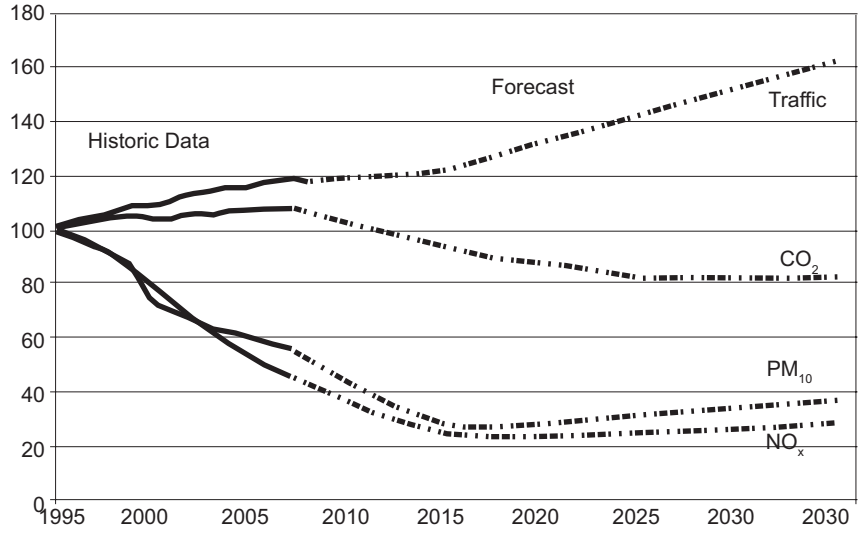
Journey Time Reliability Measure on the Strategic Road Network



Source: DfT Congestion on inter-urban roads Monthly provisional estimates: July 2010

2.4 The pattern of renewed road traffic growth after a pause is reflected in the official road traffic forecasts shown in "Figure 3" (below) from The DfT's *Road Transport Forecasts 2009*. We believe that document to be thorough, scientific and soundly-based.

Figure 3: Historic and Forecast Traffic and Emissions, England



Source: Historic data from DfT (2009); Historic emissions from Defra (2009); forecasts produced by the NTM.

2.5 Eddington was working about four years ago, so, arguably, the future now looks similar to the way it did when the Study was being written. It is worth noting that (without road pricing) even with Eddington's "economically justified" programme of road proposals—which is substantially greater than the DfT's then planned programme—congestion will be worse than at present.

Population numbers and location

2.6 The Office of Population Census and Surveys has, in recent years, increased its estimate of future population growth. Thus, even if the rate of trip-making per head were to stabilize, as some have claimed in respect of car trips, the demands on transport networks (and other public infrastructures) will continue to increase for this reason. Importantly, continued movement of population between regions is predicted, as shown in Table 1:

Table 1

POPULATION GROWTH FORECAST IN THE ENGLISH REGIONS, 2010–31

	%
North East	7
North West	10
Yorkshire and Humberside	19
East Midlands	21
West Midlands	12
East	20
London	14
South East	16
South West	20
All England	16

Source: OPCS (Office for National Statistics, 2006)

2.7 It is important to bear in mind that transport schemes serve specific geographical locations and it can be misleading to speak in terms of "the average" road or rail scheme. What matters to the benefits of any one scheme is how many people will use it, and that will depend on the local population. This is, indeed, taken into account in scheme appraisals. Note that Table 1 predicts a population increase of one fifth over two decades in some Regions and these are broadly ones in which levels of road congestion are already high. Thus, even if the rate of total national traffic growth were to reduce, it is likely that there will be significant *local* growth and therefore a need for more infrastructure to serve it. It is useful to compare our relative provision of key infrastructure to Europe, where many similar nations have invested to a greater extent in their road network (See: International Transport Forum).

Fiscal Situation

2.8 Clearly, Eddington was working at a time when the prospects for public expenditure were very different. But that does not change the principles. He was suggesting how to approach the problem of allocating finite public resources to achieve good value for money. The fact that the quantum of public resources is smaller does not change the principles, but it does make it even more important to avoid wasting resource on activities with insufficient return.

3. Transport Spending to Support Regional and National Economic Growth

3.1 The broad thrust of Eddington's research findings is that it is hard to find convincing evidence that transport spending is effective at stimulating regional growth—even though this policy has frequently been attempted. On the other hand both regional and national economic growth can be significantly impeded if the transport infrastructure does not provide an adequate level of service; if movement of goods and people is slow, unsafe or unreliable. We agree. It is common experience around the world that growing economies need good (transport) infrastructure to meet their potential.

3.2 The Eddington report noted that the quantity and quality of infrastructure are not adequate and that UK economic growth is increasingly jeopardized by shortages of transport capacity. It predicted that, without action to add road capacity, by 2025 congestion on Great Britain's road system would grow by about 30%—broadly in line with the projected rise in road traffic—with increases most marked in urban areas, key inter-urban corridors and around ports and airports.

3.3 Essentially, scheme appraisals are attempting to evaluate the benefits to people, industry and commerce of speeding up journeys and reducing accidents, whilst taking proper account of the disadvantages caused by calls on the taxpayer, noise, air pollution and greenhouse gas emissions.

3.4 Whilst any method of assessment can always be improved, we agree with Eddington's general conclusion that the currently available methods do attempt to measure the right things in relation to regional and national economic growth and do it successfully: they are a good place to start.

3.5 It is important to note that, correctly used, appraisal techniques are "modally agnostic". The high level objective is not "to reduce traffic" or "to promote public transport". These may be the outcomes, but the objective is to use the available public funds to make the best overall contribution to personal welfare, or the economy—in short, to provide the best value for public money. Self-evidently, the same methodology and the same unit values should be applied irrespective of the mode or type of scheme under consideration.

3.6 Some of Eddington's most powerful conclusions are often forgotten. Namely, that "projects" can include better maintenance of existing facilities and more intelligent pricing for their use. The latter can be instrumental in achieving management of the demand, generation of new revenues and higher economic value from the same physical assets.

4. The Balance between Revenue and Capital Expenditure

4.1 In principle this balance should emerge as part of rational appraisal. In practice there are long-standing, institutional distortions. In some cases capital has been artificially constrained (or hidden in PFI or PPP mechanisms) in order to meet targets on maximum public capital spending. This can be damaging to overall value for public money.

4.2 We welcome the coalition government's intention to compare return to capital spending across departments: this can only be right. We hope the government will be equally open to adjusting the balance between capital and revenue spending in search of the best overall return. This implies consistency of *revenue* spending across departments.

5. Current Methods for Assessing Proposed Transport Schemes

5.1 We believe the techniques for project appraisal the Department for Transport has, which have evolved over five decades, have good scientific foundation. They can always be improved, but they do give meaningful, quantitative indicators. We, of course, recognize that formal appraisal is only an aid to the decisions ministers have to make. However there has been a history of several past governments making decisions on the allocation of public funds in a way that was inconsistent with the indications on economic returns (notably the Ten Year Transport Plan of 2000). This has contributed to the inadequacies in surface transport infrastructure we face today.

5.2 We are aware that amongst commentators on transport appraisal there is a divergence of views on the treatment of time savings and of carbon. A great deal of effort has gone into these topics over the years: the time values currently in use should not be changed without careful consideration of any new scientific evidence that was unavailable last time the subject was considered. Such a review would take many months.

5.3 The existing appraisals have the considerable advantage of having been done according to a consistent and documented method. We believe the method used to account for carbon is correct in principle. It would certainly be sensible to confirm that the money cost per unit of carbon is set at the latest value officially specified for use across all Whitehall departments for consistency. This may be a higher value than has been used in the past. However, we offer the hypothesis that for most transport projects the benefits from time savings (typically congestion reduction) and safety improvements are so much larger than the carbon benefits or disbenefits, that increasing the value of carbon would make little difference to the overall picture in most cases. It might be possible to test this quite quickly.

5.4 Carbon is important but is one consideration amongst many. The objective of the formal appraisal is to put carbon even-handedly alongside the other factors. The carbon performance of any specific proposal must be properly worked out and not assumed. As with all expansions of capacity there is a balance between the extra carbon emissions caused by that activity and that saved by transfer of passengers or freight from existing, carbon emitting activities. To mention two examples: the work by the DfT in support of substantial investment in new London commuter rail capacity confirmed good value for money but also demonstrated that it would cause a net *increase* in carbon emissions. Similarly, the HS2 study shows that the carbon benefits from a new high speed line could be positive or negative, but would be "small" either way.

5.5 Some commentators advocate the replacement of the current methods by models that seek to assess the "real" impact of transport investments on land uses and land values. They also advocate distinguishing between immediate impacts and very long term dynamic adjustments. In principle there is some merit in these suggestions. The difficulty is that they are impractical: there are neither the data nor the modeling capabilities to do this on the timescale or within the budgets that are available. The attempt would involve a large and expensive research programme with a high risk that it would yield nothing. What we have is simplistic and crude, but it is operational and tells us something useful. And it can be—and is—applied in a consistent manner across many diverse situations.

5.6 Some object to the commonly-used assumption that the relevant markets are in competitive equilibrium. This is well-recognised in the literature as an important simplifying assumption, which can be especially unsatisfactory in the assessment of labour costs when there is unemployment. There are established ways of attempting to deal with this (for instance through the use of shadow prices). The Eddington study reviewed the implications of imperfect markets and also "wider economic benefits" and suggested ways in which they might be treated—at the cost of increasing complexity.

5.7 Others object that the current methods are "unscientific". We disagree. They are based on clear, documented assumptions, great care is taken to make them internally consistent and they are referenced to data so far as possible. They are firmly based on a large and long-standing, peer-reviewed literature. They are certainly imperfect, but they are scientific. These critics often have not understood the fundamental philosophy of standard economic appraisal: that one is attempting to assess the value affected individuals *themselves* place on the changes they would experience. It is not an attempt to impute a value on behalf of some third party, "the economy" or "the government". The question is the extent to which the sum of all the benefits and disbenefits as experienced by affected individuals is sufficient to offset the costs in valuable resources with alternative uses tied up in the project. Good appraisal keeps issues of "fairness" separate (important though they are), leaving them for political resolution.

6. Planning for Schemes in the Absence of Regional Bodies and Spatial Strategies

6.1 The RAC Foundation is concerned about the planning and funding of regional-scale infrastructure after the demise of the RDA's and believes that careful thought should be given to how the regional nature of many transport infrastructure requirements will be addressed in the future.

September 2010

Further written evidence from the RAC Foundation (TE 41A)

1. Since we drafted our submission in September there have been important developments.

2. The RAC Foundation welcomes the sentiments expressed by the Government in relation to transport in the Spending Review: for instance

> "… the Chancellor pledged … to maintain investment in new and existing infrastructure that will support a growing economy … hard decisions about priorities that have allowed us to secure the investment in vital transport infrastructure that will support the national recovery" (Transport Spending Review Press Notice)

3. This is consonant with the principles set out in the Eddington Transport Review. It was also good that the Government protected transport capital expenditure.

4. However, we note that whereas the average capital spend on rail over the four years is to increase by 20% (compared with the 2010–11 baseline) the average capital spend on the Highways Agency is to be cut by 35%. Highways agency resource spend is to reduce by 23% and local government transport resource spend is to reduce by 28%. (All these figures are in cash terms and will be further eroded by the effect of inflation)

5. Many of the schemes to be delayed or withdrawn by local government are capital or maintenance programmes for roads: some of them large schemes. Other public transport activities will also be badly affected; particularly local bus services.

6. Meanwhile the Government has committed £750 million over the four years to preparation for High Speed Rail (which will not open for more than 12 years)

7. So, within a protected transport total rail has done well and national and local roads and other public transport have done badly.

8. In view of the fact that the railways carry about 7% of the nation's passenger miles and a similar proportion of freight it would be interesting to hear how the Government squares the rail:road balance in the Spending Review with the claims they have made to be supporting a growing economy.

9. We welcome and agree with the Secretary of State's general endorsement of current appraisal techniques (subject to further refinement) "We have the best appraisal system in Whitehall, there's no question about that. The Department for Transport's appraisal system is more objective, more quantitative than anything else across Whitehall…" (Local Transport Today, 12 November 2010)

10. In announcing the Spending Review the Secretary of State said "the 14 [major road] schemes confirmed today will make a major contribution to the development of Britain's economy. For every pound invested, there will be over £6 worth of public benefits. On some schemes, this figure will be higher than 10 …" (Investment in major transport schemes, Oct 2010)

11. These very high rates of return to road investment are not unexpected: they reflect the acute shortage of road capacity that they will relieve. It would be reasonable to ask the Secretary of State for the corresponding rates of return for the road schemes that have been excluded, and for the rail and local public transport schemes that have been included and excluded.

12. We note that the stated reasons for promoting High Speed Rail have now changed to "radically reshape the UK's economic geography: connecting this country's great cities and international gateways and helping to bridge the North-South divide that has, for too long, limited growth outside London and the South East". These motives are new and not consistent with the principles outlined in the Eddington Transport Review. It would be helpful to have a clear statement from the government of the evidential support for the proposition that High Speed Rail would, in fact deliver against these objectives. It would also be helpful to have a statement of the latest appraisal of benefits in relation to the costs of High Speed Rail for comparison against national and local transport schemes (many of them public transport schemes) that have been excluded in order to release the funding made available to High Speed Rail.

13. The RAC Foundation strongly welcomes the recently published "National Infrastructure Plan 2010" by HM Treasury and Infrastructure UK. It can only be right that some central body is taking an overall, strategic view of the likely infrastructure needs over the next decades, including transport. In particular, we endorse the insistence that Transport Ministers should publish a National Policy Statement for surface networks (ie road and rail). There can be no evidence-based discussion of the merits of High Speed Rail, roads or other transport

investments before there has been a statement of the problems to be solved and a proposal about how particular investments might help solve them. It is disappointing that there is no firm timetable for publishing this.

December 2010

Written evidence from Professor Phil Goodwin (TE 43)

Summary in Relation to Three of the Committee's Questions

Have the UK's economic conditions materially changed since the Eddington Transport Study, and if so, does this affect the relationship between transport spending and UK economic growth?

The Eddington analysis showed that the attempt to reduce congestion by infrastructure improvements, but without road pricing, would be associated with deteriorating conditions not improving ones, due to the scale of traffic growth expected.

Apart from the immediate effects of the recession itself, there are some important revisions that need to be made to the Eddingon analysis. These are (a) traffic growth trends, and their relationship with income growth, seem to be quite different from those which have underpinned most transport appraisals, and this substantially predates the recession; (b) the treatment of indirect tax in appraisals used in the period 2003–09 (including implicitly by Eddington) has quite rightly been changed; (c) there is now much evidence on a wider set of transport alternatives, not only traditional infrastructure improvements. Taken together, there are in some ways *more* favourable possibilities in spite of financial stringency, and there are ways of getting better value for money even in the context of cuts.

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

By far the best value for money is currently coming from spending on "smarter choices" (travel planning, car-reduction policies, telecommunications as alternatives to some travel, etc), local safety schemes, cycling schemes, and the best of local bus and some rail quality and reliability enhancements. There are also unrealised opportunities for high benefit new light rail systems in some places. Traditional road capacity schemes are now giving much lower estimated value for money.

Intention is not the same as outcome, and some transport interventions may have a perverse effect on economic efficiency, due to traffic trends where economic costs are not directly charged, and to the "two-way road" problem.

How should the balance between capital and revenue be altered?

The problem is that the cheap, swift, high value for money, popular policies are often classified as "revenue" (even when they save capital spending) whereas many of the expensive, slow, lower value for money, controversial projects are classified as "capital" (even if they involve more revenue spending in the long run). This distorts decision-making. It is essential to have flexibility to move between capital and revenue, the same funding stringency applied to both, and/or a greater ingenuity in accepting re-classification.

1. The Eddington Report: Eeminding Ourselves what the Analysis Really Showed

As always with long and complex reports, the results can be mis-remembered. For a full picture it is necessary not only to look at its summary, but also the technical work, notably in the main report[43], its important Volume 3[44], and a technical annex with modelling results provided by the Department for Transport[45].

It is true that the Eddington Report focussed on reducing congestion in urban areas, key inter-urban corridors, and key international gateways. However, this one sentence summary misses some very important parts of the underlying analysis. These showed that the attempt to meet these objectives by expanding infrastructure investment but without road pricing would not in fact lead to an improvement in congestion, but steadily worsening travel conditions. It "made things worse more slowly" rather than "making things better".

Now that road pricing is off the political agenda, at least for a while (and perhaps ever?), this message becomes very salient. There is an argument about whether the effects of transport on the economy are in addition to the conventional assessed transport benefits especially time savings, or simply a re-expression of them, but in any case it is clear that if there are weak transport benefits, there is little driving source of wider economic benefits. People do not make investment and increase employment because they are convinced that things could be even worse, but because they see evidence that things will get better.

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[43] Eddington R (2006) "Transport's role in sustaining UK's Productivity and Competitiveness: The Case for Action". Department for Transport, London

[44] Volume 3—Meeting the challenge: prioritising the most effective policies http://collections.europarchive.org/tna/20070129122531/http://www.hm-treasury.gov.uk/media/39E/F8/eddingtonreview_vol3.0_011206.pdf

[45] Department for Transport (2006) Transport Demand to 2025 and the Economic Case for Road Pricing and Investment , DfT London December

The evidence for such worsening conditions is seen in the DfT model results in the Annex.

Table 1

DFT MODELLING RESULTS SHOWING CONGESTION GETTING WORSE, IN THE ABSENCE OF ROAD PRICING, EVEN WITH A VERY LARGE ROAD BUILDING PROGRAMME

England, Road Lane Km	*2015*	*2025*		
Scenario	*"Baseline" Scenario*	*"Baseline" Scenario*	*Economically Justified, No Road Pricing*	*Economically Justified, With Road Pricing*
HA Road Lane kms—additional to 2003	1,590	3,500	4,850	2,300
HA Road Lane kms—change from 2015 Baseline		1,900	3,250	700
HA Road Lane kms—change from 2025 Baseline	–	–	1,350	−1,200
Traffic (Change from 2003)	22%	31%	32%	22%
Average Delay per vehicle km (Change from 2003)	25%	30%	28%	−37%

Table 5.1: Road build in Intervention Sceanrios

In the last row there is the preferred measure of the severity of congestion. It is seen that with road pricing (and with the substantially reduced road programme that would then be implied) there is a significant net *improvement* in the level of congestion, measured as a 37% fall in the average delay: most of this effect is due to the pricing itself. However, in the without road pricing case, even with the very much larger road construction programme that would then, under the assumptions, be warranted, congestion actually gets worse, giving an increase of 28% in average delay.

This reinforces a widely observed phenomenon, namely that most or all road proposals, appraised assuming no road pricing, provide their benefits in the form of "slowing down the pace at which congestion gets worse", as measured not against an observable starting point, or any actual experience of road user, but against a 60 year forecast sometimes called the "do-nothing" option. Thus the appraisal will interpret this difference between the two forecasts as a benefit, but the road user will *experience* a progressive worsening of travel conditions. It is not sensible to expect that this will lead to wider economic benefits, except in a peculiarly negative sense.

2. Revising and Updating the Eddington Analysis

Having made this caveat, a good summary of the key results of the Eddington Report, expressed in terms of Benefit-Cost Ratios (BCRs), is provided by Dodgson (2009)[46] as shown in Table 2.

[46] Dodgson J (2009) Rates of return on public spending on transport, RAC Foundation, London http://www.racfoundation.org/assets/rac_foundation/content/downloadables/rates%20of%20return%20-%20dodgson%20-%20190609%20-%20report.pdf

Table 2

DODGSON'S (2009) SUMMARY OF EDDINGTON RESULTS

Sector	No. of projects	Ave BCR
Highways Agency Schemes	93	4.66
Local Road Schemes	48	4.23
Local Public Transport Schemes	25	1.71
Rail Schemes	11	2.83
Light Rail Schemes	5	2.14
Walking and Cycling	2	13.55
Total	**184**	

At face value the results seemed to suggest that walking and cycling schemes gave the best value for money, then highway schemes, then public transport schemes. Policies such as smarter choices were not included as there was insufficient data available (or at least, known to the Eddington team) at that time.

The most important departures from the Eddington assumptions that I would now suggest relate to (a) new interpretations of changing trends that were already happening, especially in relation to trends in traffic growth; (b) new appraisal rules adopted by the DfT especially in relation to indirect tax; and (c) the need for closer attention to those expenditures which appeared to score well, but for which the report had little data. All of these have a substantial effect on the Eddington conclusions.

(a) *Traffic growth*

The Eddington work followed the then DfT official assumptions about long term traffic growth which in some respects now seem implausible. This especially relates to a flattening (and some signs of reduction) in car use *preceding* the recession, perhaps going back as far as the early 1990s when there was an important shift, not noticed at the time, in the relationship between traffic growth and economic growth. Sometimes called "decoupling", this meant that increasing incomes were associated with a declining, less than proportional growth in traffic, rather than the increasing, more than proportional relationship which had applied previously.

The consequence of the then Eddington assumptions (which are thought still to be the view of DfT officials) was that the long term trend in congestion was inexorably expected to be getting worse, even if an unaffordably large and politically untenable road construction programme were initiated. Only road pricing would bring about an actual improvement, but this itself was also deemed politically unacceptable. If these trends are softer, or go into reverse, then it is possible to make improvements in transport efficiency with less drastic and divisive policies, which in turn gives a more optimistic prospect. The research is not yet definitive, but recent discussions among researchers show this interpretation must be taken seriously, not dismissed out of hand.

All the infrastructure schemes appraised in the last two decades have been on the basis of assumptions about future traffic using, or based on, Department for Transport forecasts. These have typically been based on high and continuing rates of growth of car use, which increases expected future congestion and hence raises the estimated benefits of expanding road infrastructure, as well as putting downward pressure on the demand for non-car transport. However, since 1989 the actual growth in traffic has been very much less than forecast, and currently is actually reducing. (The latest year of data will reflect recessionary pressures, but the change in trend clearly started well before that). Figure 1 shows the long term trend in car traffic compared with the former and current DfT forecasts, and Figure 2 shows more detail on the recent period of car trips and distance travelled.

Figure 1

TREND IN CAR TRAFFIC SINCE 1950, AND DFT 1989 AND 2007 FORECASTS

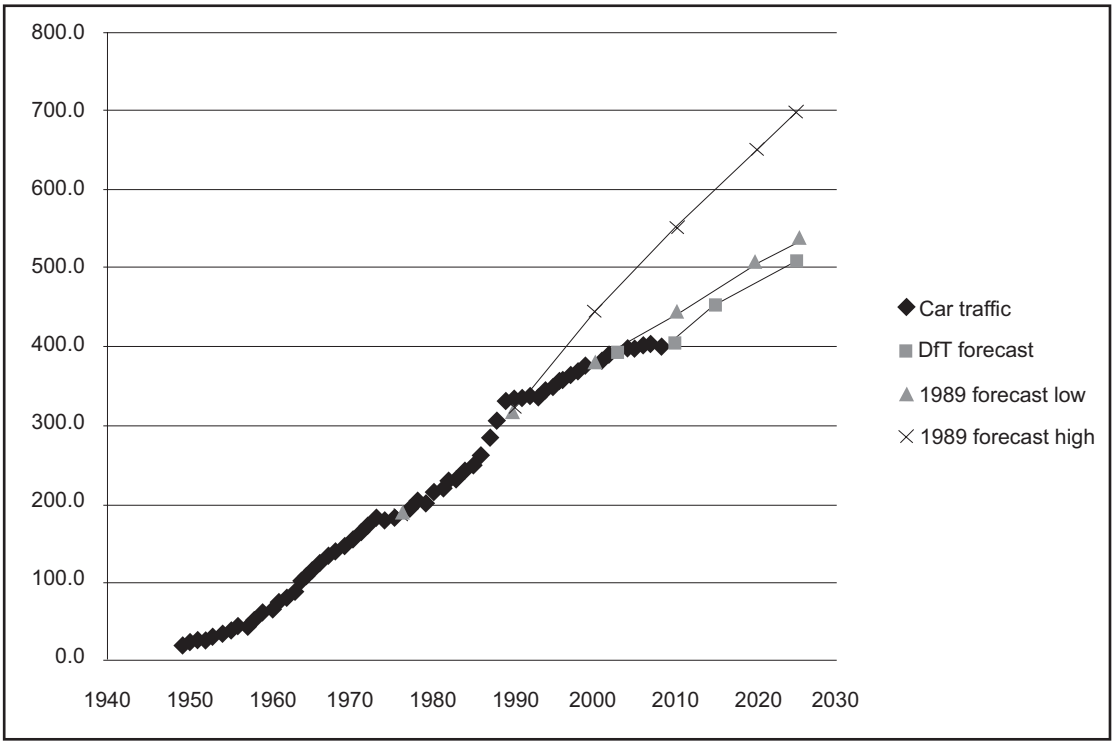
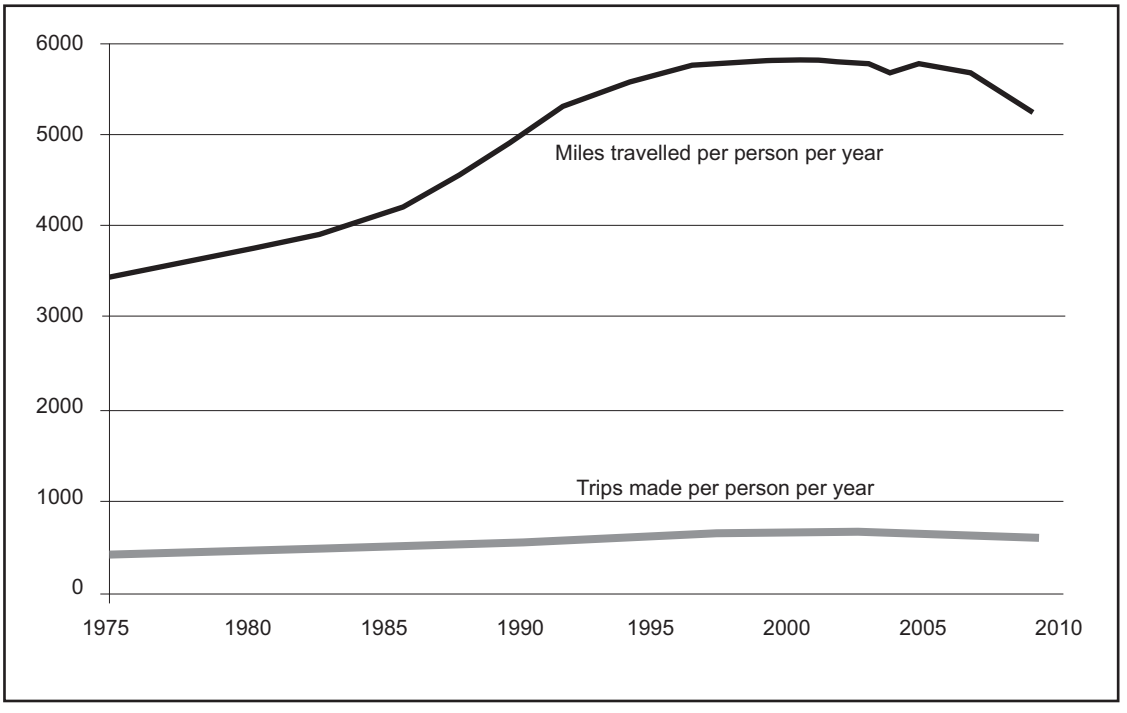


Figure 2

CAR TRIPS AND CAR DISTANCE TRAVELLED, PER PERSON, 1975–2009



Source: Chained from DfT National Travel Surveys, 2010, 2004 and 2001

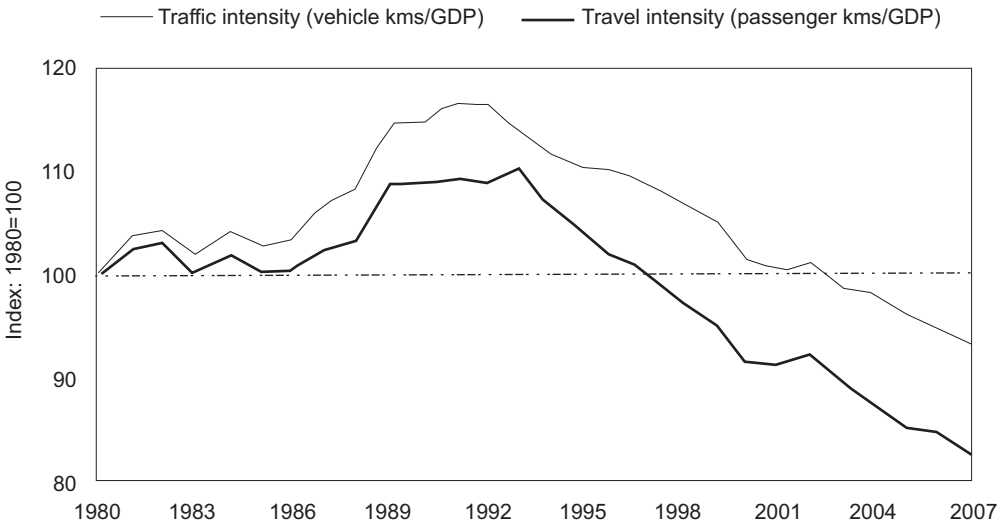
Nobody has yet fully explained this shift in trend, but it is obvious that the shift has predated the current recession by a considerable period. One very important indicator is "transport intensity", which measures the association between traffic growth and economic growth. Generally speaking they tend to rise and fall together, to some extent (which does not of itself prove a cause-and-effect relationship) but it is notable that this

relationship has changed substantially over the last 20 years, as shown in figure 3 (numbered 1.2b in the original).

Figure 3

"DECOUPLING": A SHIFT IN THE RELATIONSHIP BETWEEN TRAFFIC AND ECONOMIC GROWTH

Trend 1.2b - Road traffic and travel intensity: 1980 to 2007, Great Britain



Source: Department for Transport and Office for National Statitsics

Thus until the early 1990s, economic growth was associated with high and increasing traffic growth. Since then, it has been associated with lower and decreasing traffic growth. This is indeed what policy would have intended, giving very favourable possibilities of economic growth without excessive congestion or environmental damage, and declared policies of both Conservative and Labour administrations have sought to achieve this. Indeed it is interesting that the time of a policy shift in relation to road building, environmental impacts, and traffic growth occurred in the period 1990–94 (notably associated with Gummer, Portillo and Mawhinney) with a consistent development in 1997–98 (notably associated with Prescott), though it is not usually thought that their policies could have been powerful enough to result in such a marked shift on their own. However, whatever the reason, I would argue that the scale of car traffic growth implied by the earlier DfT forecasts, and used by Eddington, is no longer plausible. Given that assumed continuation of the earlier trends underpins all the road BCR calculations, it is necessary to reconsider this substantially. Whether the future is of continuing falls in car use, or a return to some stable or slightly increasing level, there is no evidence for such large growth as previously. The effect will unambiguously be to reduce the estimated value for money of road schemes compared with the Eddington calculations.

The problem is how big to make the adjustment, since this would require redoing all the modelling and forecasting with new assumptions. However, some indication may be given from a different, but related, issue, which in fact had been recalculated for the Eddington appendices. This concerns what would happen if there were road pricing at some point in the future during the 60 year appraisal period of road schemes. (In this case we are using the road pricing results not as part of an argument about road pricing itself, but as the best available evidence about what effect a more favourable pattern of traffic would have on the value for money of infrastructure spending).

This is seen in model results from the Department for Transport annex to the Eddington Report, which I have reformatted for comparability, as shown in table 3.

Table 3

MARGINAL BENEFIT-COST RATIOS FOR ROAD BUILDING WITH AND WITHOUT ROAD PRICING, ACCORDING TO THE DFT'S NATIONAL TRANSPORT MODEL

Additional Lane Kilometres	*Marginal BCR without road pricing*	*Additional Road Kilometres*	*Marginal BCR with road pricing*
		350–550	1.5
		550–700	1.5
		700–850	1.1
		850–1,150	1.0
		1,150–1,500	1.1
1,450–2,250	3.0	1,500–2,450	0.9
2,250–2,750	2.3		
2,750–3,250	1.2	2,450–3,700	0.7
3,250–3,350	0.7		
3,350–4,450	1.0		
4,450–5,200	−0.1	3,700–4,600	0.7
5,200–6,150	0.2		

The results show that the incremental benefit of extra road construction declines the more one builds, both with and without road pricing. The reduced overall traffic level, and its relocation in less congested conditions, resulting from road pricing substantially reduces the estimated benefits obtainable from road building: the modelling suggested there would be an economic case for building 3,250 lane kilometres by 2025 if road pricing is *not* implemented, but only 700 lane kilometres if it is, a reduction in the warranted road programme of nearly 80%. Comparing like with like, road pricing reduces the BCR of road spending substantially, eg by 70% in the roughly overlapping category 1,450–2,250 lane kilometres in the table (from a good BCR of 3 to an unacceptable BCR of 0.9, a reduction of two thirds. The reason for this is mainly that the problems of congestion which the road building had been intended to solve, would be largely already solved by more rational pricing, so that the extra benefit of building the roads is small compared with their cost.

Thus one of the indirect financial consequences of road pricing would be the saving of funds on unnecessary road building. (Since it also generates net revenue itself, there is a double whammy effect on public finances, a feature which may lead to a re-growth in policy interest by Government in the future. Indeed it may be a triple whammy, since it would also be expected to reduce the need for at least some public transport revenue support, because of the more buoyant market conditions that would apply, and possibly increase the proportion of public transport infrastructure spending that would be profitably funded internally). For the time being however I assume that all the policy assessments are made on the assumption of **not** implementing road pricing, which is why the economic impacts can in some cases be perverse and unintended.

The mechanisms by which road pricing brings about a reduction in congestion are not the same as those by which a reduction in traffic growth for other reasons brings about a reduction in congestion, but the orders of magnitude of effect seem prima facie comparable. At the moment I assume that the scale of impact on benefits which would be available from road pricing is broadly similar to the scale that would be caused by other transport policies (eg a combination of smarter choices, public transport improvements, etc, though these would certainly be a more expensive way of achieving them), and that the scale of effects that would be brought about by spontaneous other changes in trend are capped at the same level, though in principle of course they could be greater. Thus the reduction in BCR on road schemes due to road pricing is used provisionally as a measure of the effect of other sources of reduced traffic growth.

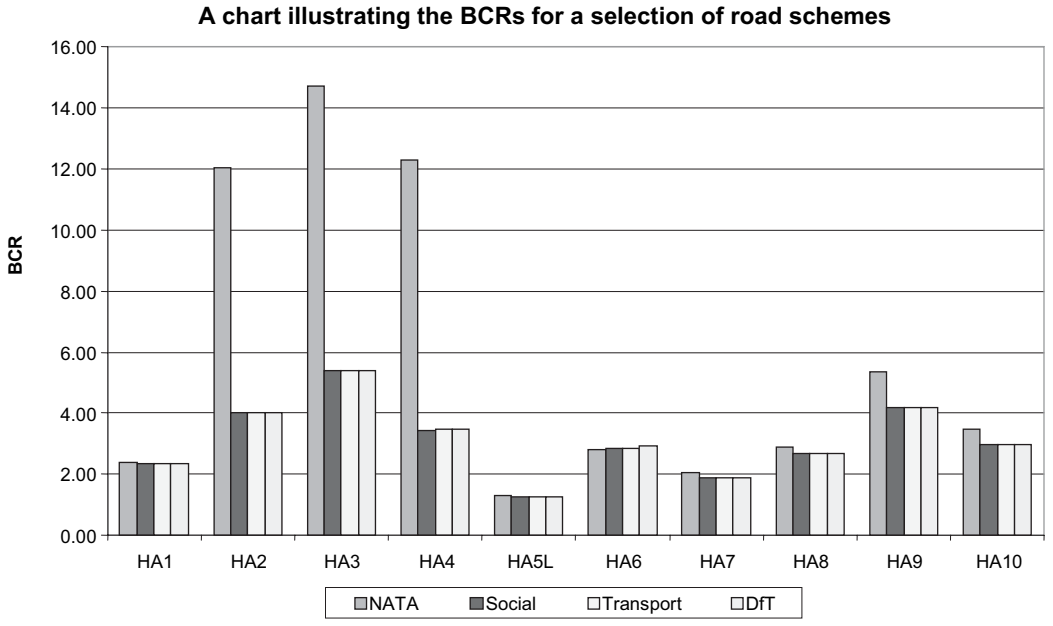
(b)

(c) *Indirect Tax*

In the period 2003 to 2009 the DfT used a rather non-standard method of social cost benefit analysis, such that the indirect tax consequences of a project were included as benefits or costs. For example, if a road scheme induced traffic which generated more fuel tax revenue, the extra revenue was treated as a reduction of the cost of the scheme. This approach became increasingly criticised as it appeared to be biased towards roads schemes and against public transport and especially against those where traffic reduction was actually intended as a policy objective. It appeared to build in an incentive to public stakeholders to adopt policies which were in direct conflict with objectives of efficiency and environmental protection. In 2009 DfT decided (rightly, in my view) that this approach was not going to be continued, and from 2010 new schemes are being assessed using a different approach, in which tax effects—though clearly of course important in themselves—are not confused with the ratio of benefits to costs of the scheme itself.

The DfT[47] retrospectively reworked 10 Highways Agency schemes, as shown in Figure 4.

[47] O'Sullivan P and Smith S (2009) So you thought you understood value for money? GES Conference July, DfT



The now abandoned approach is violet in the figures, labelled "NATA". In eight of the ten cases the BCR given under the former NATA approach (in violet) is higher than any other criterion, and in three of these cases the difference is very substantial indeed, a BCR of the order of 12–15 in cases where the three other methods all give BCRs of the order of 3–5. This result is reinforced by work by Buchan (2009), who carried out an analysis of a small number of specific schemes, including some whose BCR will be better under the new approach. His results[48] are shown in Table 4, (numbered 1 in the original).

Table 1

SUMMARY OF COMPARATIVE RESOLUTS UNDER DIFFERENT NATA ASSUMPTIONS

	Benefit Cost Ratio (BCR) under original appraisal model	*BCR under revised appraisal model*	*BCR under appraisal model with further reforms*
Tram Merseytram	1.97	2.07	2.85*
Cycle Grand Union Canal Cycle Path	38.4	75.0	75.0
Road Improving the A14 between Ellington and Fen Ditton	10.83	6.69	1.3–3.25**
Bus Guided busway Cambridge to St Ives	4.8	6.4	7.9**
Rail Freight Expansion of rail freight (Felixstowe–Nuneaton)	5.25	10.4	10.4***

* Based on moving to a 60 year appraisal. The Merseytram case study provides several examples of how small changes in the treatment of tax revenues has a strong impact on the benefits (see the main report Investing in Transport: Making the Change)

** Based on limited data

*** The carbon benefit of the rail freight scheme was already factored into the original analysis hence there is no change

The direction and order of magnitude of change for road schemes is broadly consistent with the DfT schemes reported above. In some other cases the change is in the opposite direction, notably the busway, rail freight scheme, to a lesser extent Merseytram, and very substantially for the Cycle scheme where an already very large BCR (calculated by the DfT) is made substantially greater. This is entirely in accordance with what one would expect. The biggest class of schemes affected are those whose indirect effect is to increase tax revenue, primarily by inducing more traffic. These are mainly the bigger road schemes. The new rules will reduce their BCRs, compared with the 2003–09 rules which produced the data used by Eddington.

[48] Keith Buchan, cited in Cary R, Phillips R and Harwood J (2009) The right route: improving transport decision-making, Green Alliance, November. http://www.green-alliance.org.uk/grea_p.aspx?id=4619

Other schemes which would be affected in the opposite direction are those whose indirect effect is to reduce tax revenue, primarily by reducing traffic, but potentially also by increasing fuel efficiency. This would include smarter choices, cycling and public transport improvements. The new rules would *increase* their BCRs compared with the 2003–09 rules.

An adjustment to take account of tax changes can be made unambiguously in the case of most road schemes, since nearly all the available BCR results in recent years will have been made according to the now abandoned method. By inspection of the DfT and Buchan results, a cautious adjustment would be to reduce the BCRs of the apparently best-performing schemes by half, the next best by 20% and the next tranche by 5%. However, without inspecting the detailed studies individually it is not clear how much to increase the results for the opposite effect, since some of them ignored the DfT recommended procedure during this period (eg smarter choices), and others require a more detailed study to assess on a case by case basis (especially public transport improvements). Therefore the results are not formally amended, though this is likely to result in some degree of underestimate of the benefits of the latter, especially where the studies were done by DfT, or according to its recommendations.

3. What Type of Transport Spending Should be Prioritised, in the Context of an Overall Spending Reduction, in Order Best to Support Regional and National Economic Growth?

First, two caveats.

1. There is an argument about whether the contribution of transport to economic growth is *additional* to the economic value of effects measured in cost-benefit studies, or simply a *re-expression* of the same benefits. Eddington was mainly concerned with circumstances where an additional impact may be taken as additional benefit. The preceding SACTRA[49] study, 1999, had given more attention to the nature of the conditions for this "additionality", and as a result argued that in cases where certain types of market imperfection exist (especially where transport decisions cause economic costs which are not charged for, and sometimes where transport-using firms are themselves subsidised or inefficient), the additional economic effects of transport improvements can be bad for the economy not good, by encouraging a greater volume of traffic which does not pay its way. But in any case, it is probably agreed that there will not be wider economic improvements unless there are narrower transport improvements (speed, reliability, cost, etc) to start with. Having good value for money in transport terms is a necessary (bit not sufficient) condition for good value for money in terms of economic impact. Therefore distinguishing between "transport getting better" and "slowing down the pace at which transport gets worse" is crucial.
2. Concerning regional effects, it must be remembered that transport impacts are geographically specific and do not necessarily benefit the intended area. Thus benefits known as "agglomeration" mostly relate to for high income areas of intense economic activity such as town centres, whereas benefits known as "regeneration" are mostly intended for areas of low incomes, perhaps unemployment, and less intense activity. Intended improvements can sometimes make things worse for these areas, due to the well known "two-way road" problem, which is usually tactfully not mentioned. (See Appendix).

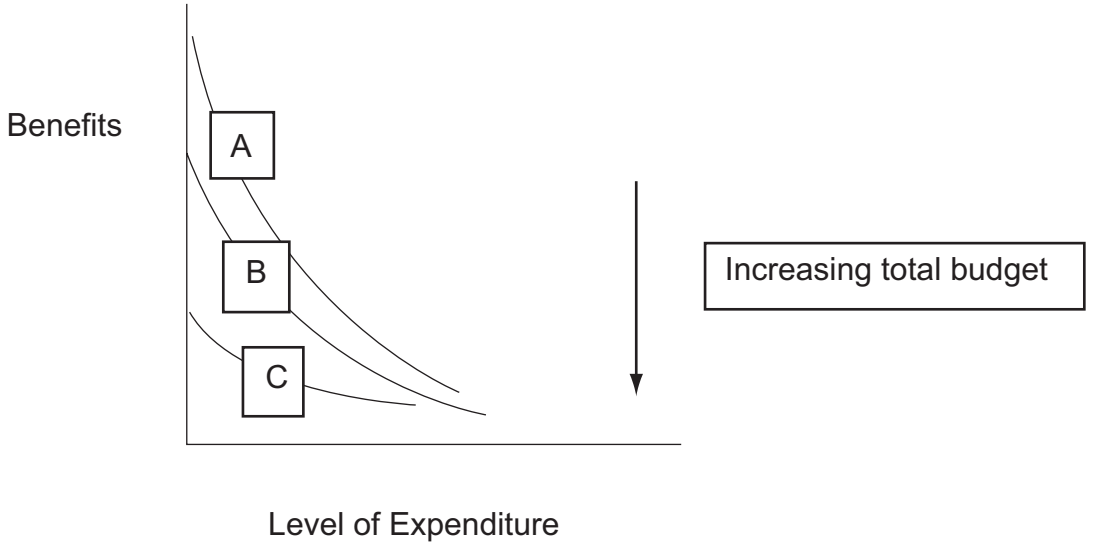
Having made these caveats, it is logical to start discussion of value for money by consideration of benefit cost ratios, as Eddington did. The Benefit-Cost Ratio (BCR) of a project is an estimate of its value made by comparing its real resource costs with a wide range of economically-valued benefits including effects on some or all of congestion, accidents, carbon, health, local environment, travel time, consumer satisfaction and wider effects on the economy which might be generated by these benefits. It is not a perfect measure, not coping well with strategic interactions of policies and projects or considerations of fairness and political acceptability, and in practice very many assumptions are built in which can have the effect of giving answers which are biased for or against certain types of projects.

The approach I use is similar in underpinning to Eddington's, but with a somewhat different presentation. It is based on the idea that for each area of expenditure (road building, public transport improvements, smarter choices, etc) the benefits of properly judged spending increase as spending increases, but usually at a declining rate, so that that the best projects at the top of the list will have a bigger benefit and higher value for money than the marginal projects at the bottom of the list. This can be depicted as in figure 5, for the expenditure classes A, B, C etc.

[49] SACTRA (1999) Transport and the Economy, Standing Advisory Committee on Trunk Road Appraisal, Department for Transport, London.

Figure 5

INCREMENTAL BENEFITS FROM SUCCESSIVE INCREASES IN SPENDING



It follows generally that the more is spent on a particular area, the lower the benefits. Although there is no presumption that decisions already made in the past will have been optimised, in general it is likely that the more mature the field of application, the more of the very best projects will already have been identified and carried out, so a mature class of expenditure may well have lower BCRs than it used to have, and lower also than new emerging fields. This does not mean that the new is always better than the old, but does mean that it is more likely to have unexplored potential.

Results

Table 5 and Figure 6 show the results.[50]

Table 5

BCRS BY QUARTILE OF EXPENDITURE IN NINE AREAS OF SPENDING

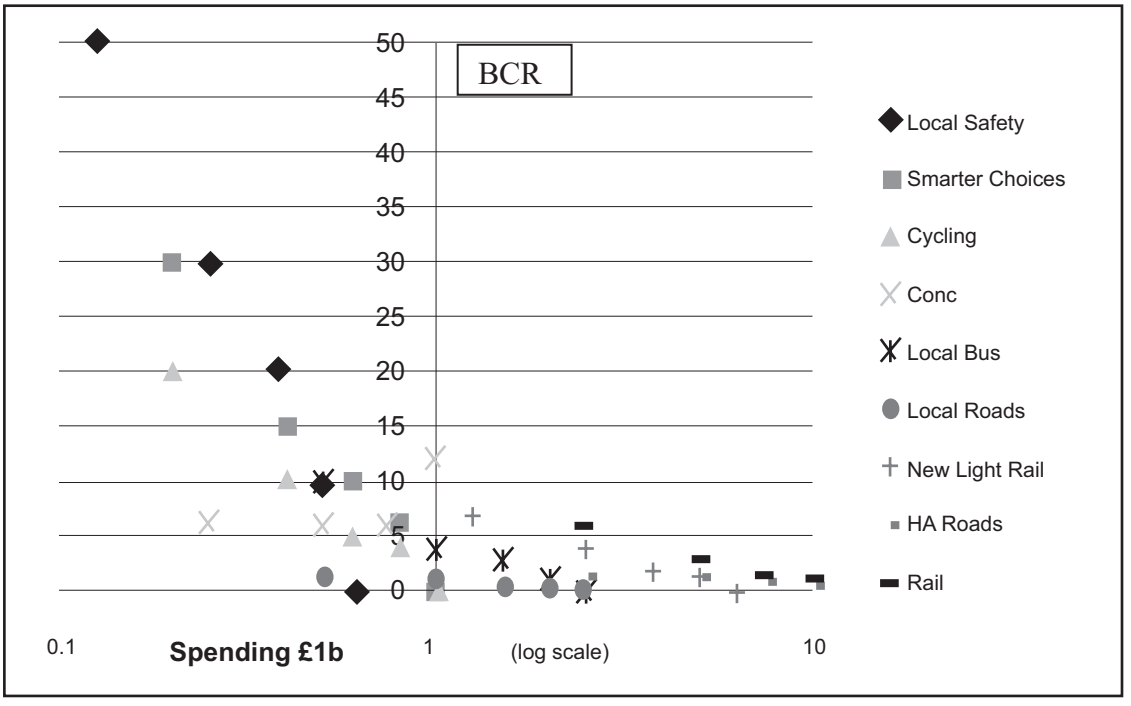
Exp £b	*Local Safety*	*Smarter Choices*	*Cycling*	*Conc Bus Fares*	*Local Bus*	*Local Road*	*New Light Rail*	*HA Roads*	*Rail*
0.125	50								
0.2		30	20						
0.25	30			6					
0.375	20								
0.4		15	10						
0.5	10			6	10	1.3			
0.6		10	5						
0.625	0								
0.75				6					
0.8		6	4						
1		0	0	12	4	1.1			
1.25							7		
1.5					3	0.6			
2					1.5	0.5			
2.5					0	0	4	1.5	6
3.75							2		
5							1.5	1.25	3
6.25							0		
7.5								0.7	1.5
10								0.6	1.2
12.5								0	0

(Results after adjustment for traffic growth, indirect tax, and omitted elements)

[50] A longer report gives technical details of assumptions, sources and methods. I have provided a copy to the Committee Transport Specialist, and it may also be obtained by emailing me at philinelh@yahoo.com

Figure 6

VALUE FOR MONEY RELATED TO EXPENDITURE



A strong pattern is now emerging of which types of transport expenditure have the greatest value for money in terms of speeds, travel times, safety, and other economic costs such as health. In summary, by far the best returns come from smarter choices, local safety schemes, cycling schemes, and the best of local bus and some rail quality and reliability enhancements, together with new light rail systems in some places. Traditional road capacity schemes are now giving much lower estimated value for money than cited in Eddington, due (a) to a change (for the better) in the way that taxation is accounted for in the studies, and (b) the effects of lower traffic growth, whether due to road pricing, other policies, or to changing trends.

In current circumstances, it turns out that by far the best value for money is being gained from Group 1, consisting of low budget items, namely local safety schemes, smarter choices, and cycling schemes. The next in order of value for money is Group 2, including some cheap and some more expensive public transport improvements, namely the best local bus schemes, and the best new light rail and conventional rail schemes.

However, Group 3, consisting mainly of Highways Agency and Local Roads schemes, gives much poorer results (even for the best schemes) after allowing for the new approach to indirect tax, and if allowance is made for the damping effect on traffic growth either of road pricing, or of some combination of other policies with the same impact, or on changes in traffic trends due to other reasons.

Therefore the best overall value for money will be gained from *increasing* the expenditure on the first group, *protecting* the best projects in the second group, and *making savings* mostly from the worst projects in Group 2, and all except the very best in Group 3.

Although carbon considerations have played only a very small part in the calculations, the resulting pattern of recommended expenditures is very supportive of carbon objectives.

Road pricing is not itself included in the analysis: since it produces both revenue and net social benefit, it will inevitably count better as "value for money" than any of the spending policies included. However, it is allowed for in testing the robustness of other policies: road pricing would (like reduced traffic growth for other reasons) reduce the value for money of road building. It could also increase the ability for public transport to fund its own improvements.

Concessionary fares spending similarly is not quite comparable, but it does seem to produce a good level of social and economic benefits.

Road maintenance, pedestrianisation of town centres, traffic calming (other than safety schemes) and traffic management are not yet included in the analysis. I believe it would be very worthwhile to do so.

The results are provisional, to test the feasibility of the method, availability of data, and robustness of the conclusions. Qualitatively they seem in line with common sense and strategic priorities, but the exact numbers would be influenced by detailed data which could be published by the DfT, and further more substantial analysis and remodelling.

It is interesting to note that a recent report by the industry lobby group London First[51] suggested that the wider economic benefit was the highest proportion of total benefit for urban public transport schemes, with interurban road schemes having a very much smaller effect.

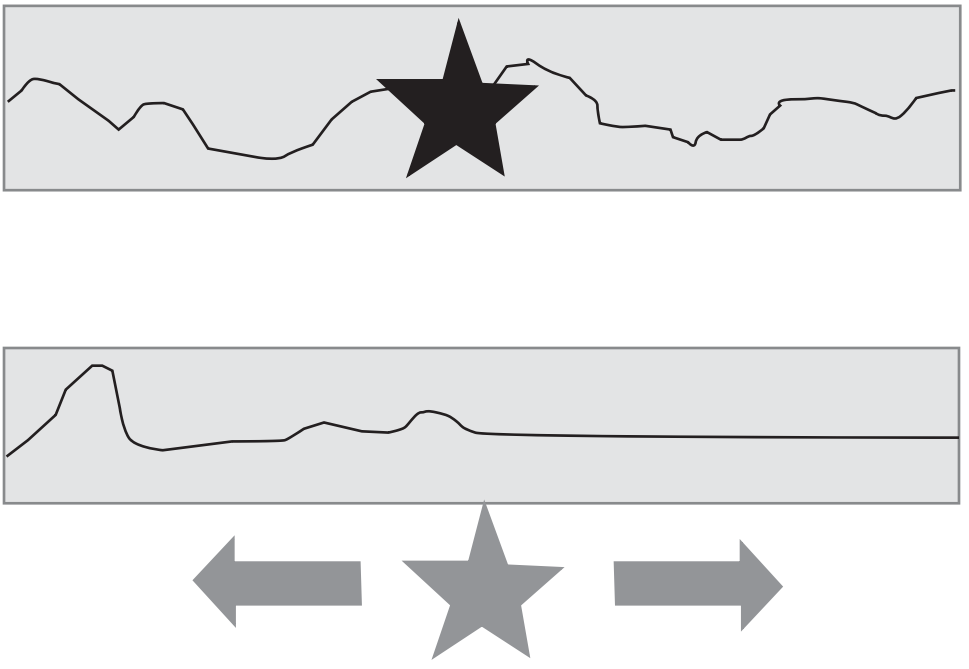
How should the balance between capital and revenue be altered?

The main problem is an artificially strict imposition of the distinction between capital and revenue spending especially in the case where well-judged revenue spending (such as on smarter choices) actually makes it possible to make larger savings in capital. In these cases, it is sometimes necessary to forego thesaving, making less efficient use of funds, because of the implicitly "higher" importance of capital. The problem would be solved by suitably ingenious redefinition, giving local authorities some flexibility, which they would like and which would give better value for money.

Many of the best expenditures traditionally are classed as "revenue" expenditure rather than "capital". To get maximum benefit it is essential to have some form of interchangeability or trade-off such that (for example) revenue spending which saves a greater amount of capital spending can be counted under the rules for capital expenditure. Otherwise there is a serious danger that the best value projects will be wiped out while inferior spending is protected.

APPENDIX

THE "TWO-WAY ROAD" PROBLEM



Suppose road improvements are used with the intention of improving the balance of international trade (usually called "to help exports") or to increase the economic efficiency of an area (usually discussed in terms of "attracting inward investment"), or giving access to jobs over a wider area. The problem is that such projects may instead have the opposite effect, ie increasing imports rather than exports, or encvouraging outward investment, or giving improved job opportunities to people outside the area, etc. The SACTRA report "Transport and the Economy" emphased the importance of considering such unintended effects as well as the intended ones, and formal advice from the DfT reminds scheme promoters that they need to include such effects in their analyses, but in practice it is virtually never done. All the effects are assumed either to be positive, or negligable, never negative. (Hence the use of phrases like "wider economic benefits" rather than "wider economic impacts").

The classic case is as follows. Consider a long but rather simple country, with uniform density, which has a single rather poor quality road, running East-West. There is a single distribution company, considering where to locate. It may be proved (and is intuitively rather obvious) that the best place for it to locate is at the half-way point. Here it will get maximum access to the whole country with minimum transport costs. Now this half way point happens to be the boundary between two regions, who are competing for tax revenue, employment opportunities and the signs of economic progress. They are controlled by different political parties, and the party in the East decides to make a substantial improvement in its half of the road, straightening and widening

[51] London First (2010) Greater Returns Transport Priorities for Economic Growth, London, June. The report also suggested that the wider economic benefit from transport spending in London was a greater proportion of total benefit than in other places.

it, to enable faster travel. This is intended to attract the distribution company over the border into its region. The adminsitration in the West does nothing.

The directors of the company are in fact wondering about relocating because their lease is up for renewal. They now consider—with the new transport arrangements, where is the best place for them to locate? Should they move? And if they do, in which direction?

(As a student essay, I usually leave this question open, and it is offered to Committee members as an interesting thought exercise).

September 2010

Written evidence from the Transport Planning Society (TPS) (TE 44)

Introduction

1. The Transport Planning Society (TPS) has as its key aim: to facilitate, develop and promote best practice in transport planning and provide a focus for dialogue between all those engaged in it. In pursuing this TPS has regional and national branches, holds regular seminars and meetings, supports the Transport Planning Professional (TPP) qualification, and runs a bursary scheme for young professionals. The elected Board takes responsibility for policy development and planning the society's events programme.

2. This submission responds to the call for evidence on "Transport and the Economy" by the select Committee on Transport. We note that further evidence is sought after the contents of the Comprehensive Spending Review, due in October, are published. We would wish to do so, since we will then have available the full results of a survey of our members' views on the current economic situation and its impact on transport planning and investment. We can then assess the CSR in the light of the Society's views.

3. We have nevertheless been able to use the preliminary results from our survey to respond to the key issues identified by the Committee.

4. Before doing so, we wish to draw attention to some underlying principles in terms of what transport can achieve in relation to national objectives.

Key Issues for Transport Planning and the Economy

5. We start from the premise that transport is somewhat different from other policy areas for two important reasons.

6. The first is that transport planning is a key facilitator for other policies rather than an end in itself. Obviously there are certain transport industries (such as aerospace and vehicle manufacture) which have a more direct role in the national economy. Even their eventual purpose is to facilitate social and economic activities in terms of communications or personal travel. This leads to the paradox that in many ways, the less transport the better, providing the other objectives are met.

7. This fact underpins objectives such as "minimising the need to travel" or "reducing transport intensity" and makes the link between transport planning and land use planning explicit and comprehensible. This interaction is widely recognised as key, and indeed would be hard to argue against. However, a co-ordinated approach to land use and transport is not reflected in the current administrative and financial planning for either. Transport assessments in particular are carried out at too late a stage in the process.

8. This is relevant in the current climate and to the Committee's investigation, because there are major costs involved in this current failure. These are reflected in the ongoing resources used (including increasing imports of oil) as well as the need for infrastructure investment to meet demand and revenue to maintain the transport systems.

9. Transport demand could be influenced by, for example, early transport cost assessments for alternative development sites, or the true costs of closing local facilities. The other means by which it could be moderated, through various forms of restraint, including both price and supply (particularly parking) have been largely absent.

10. Thus, in response to the Committee's questions, Eddington did not fully take into account the issue of resource costs. Minimising them is critical to the efficiency of any society and its economy. As the world population grows, and economic activity grows with it, there will have to be a greater emphasis on resource productivity rather than labour productivity.

11. The second point of difference is that transport has a very wide range of impacts on third parties (externalities) and these tend to be very powerful. This is well understood in relation to climate change, but in recent years this has led to a slight underplaying of other environmental impacts, such as air pollution and noise.

12. There are a huge range of environmental, social, and economic effects with no consistent approach to including them either in appraisal or in terms of the way transport users pay for travel. There have been various attempts to put money values on some of them. This illustrated by considering a few diverse examples:

- *Community severance*: is this a "combination factor" or can it be measured separately? Not currently costed.
- *Landscape*: there are various methods for costing which have been used, but can we really put a price on the Cliffs of Dover?
- *Congestion*: since most transport infrastructure is based on saving time, this is commonly valued in appraisal. However, the cost is rarely charged, despite Government's desire to do so.
- *Health:* in transport, the benefits of cycling have now been costed, and included in scheme appraisal. This has raised the benefit to cost ratio of cycling schemes dramatically. It is interesting that the increasing use of motorised transport, and facilitating that increase, is not counted as a disbenefit.

13. We consider that these issues need to be addressed by transport planners as objectively as possible, but remaining aware of the complex interactions which are the hallmark of transport planning.

14. The next section addresses the Committee's questions in the light of the initial results from our member survey.

Member survey and the Committee's questions

Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?

15. Economic conditions have clearly changed, but there needs to be greater understanding of how this will affect future transport plans. For example, the type of travel demand produced by a consumer and service led economy will differ from that produced by a more "balanced" economy in terms of assembly and manufacturing. This is not just in terms of freight.

16. A second key issue will be the impact on the balance of payments of transport's demand for oil. The UK stopped being a net exporter of oil in 2005 and no longer conceals the real cost to the economy of such imports.

17. As suggested earlier, the most likely projections for raw materials and population growth (which is stronger than Eddington envisaged) indicate a move to resource productivity rather than labour productivity. Recycling is the most obvious example.

18. In terms of transport spending, this suggests a greater emphasis on maintaining, and managing the assets we have rather than embarking on what Eddington called "grands projets". This is reflected in our member survey, where only 18% identified high speed rail as important, and major trunk road schemes were even lower at 9%. One exception to this was that only 10% thought grants for electric cars were a priority.

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

19. While not "grands projets", local schemes which create a step change in transport, for example through urban rapid transit, may need to be pursued. However, these need to reflect genuine local needs, for example in the context of new development and regeneration, but also arising from travel planning initiatives.

20. In this context, initial analysis of our survey shows the following top priorities:

- travel behaviour change (61.2%);
- road maintenance (56.5%);
- non-high speed rail capacity (52.6%); and
- walking and cycling (55%).

How should the balance between revenue and capital expenditure be altered?

21. Although this was not a specific question in our survey, there is widespread support for greater flexibility between capital and revenue spending. This is particularly important for the transport sector, where revenue spend, for example demand management, can substitute for capital expenditure, for example on new capacity.

22. An area which was included was whether new sources of revenue were needed and which should be used. This was split between national and local sources.

23. Nationally, top priority was given to increasing the level and scope of aviation taxes, scoring an average 3.49 out of a possible maximum of 5. Next came Lorry Road user Charging (3.18), very closely followed by national road pricing (3.16) and a national parking space levy (3.15).

24. Locally, charging developers a transport levy was most favoured (3.72), followed by workplace parking levies (3.30). Interestingly, charging for all parking spaces (including retail) scored almost as well (3.27). Support was weaker for local user pricing (2.83) or local road tolls (2.40).

25. There is strong recognition of the need to find new sources of revenue for transport at the local level.

Are the current methods for assessing proposed transport schemes satisfactory?

26. Our survey showed 41% thought major reform was needed, and 28% that minor reforms were required. Only 2% considered the current methodology satisfactory. An interesting finding was that 21% felt that decisions were made politically and that elaborate appraisal was not needed at all.

27. In terms of the reforms needed, top priority was representing carbon in appraisal (67%) closely followed by Smarter Choices and non-time saving economic costs and benefits (both 65%). Representing the health disbenefits of motorised modes was also identified as a missing element (56%). Individual comments noted the need for links with land use planning and economic benefits, but others called for current methods to be simplified.

28. This reflects the view that a longer term reform is needed, but simpler high level methods, for example checking schemes against health or climate change objectives, should be used. These would be particularly useful when decisions have to be reached quickly in response to economic constraints.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

29. Given the criticism of regional bodies for producing compromise lists of local schemes rather than thinking strategically, the survey results were not surprising, with only 24% believing that they had improved transport decision making.

30. The most favoured option, but not a clear majority view, was to develop new, devolved arrangements (36%). However, 21% thought that local government should get on with making its own arrangements, and by contrast 19% thought that central government should take the lead in producing regional strategies.

Conclusions

Our overall position is that the best long term approach, in terms of transport and the economy, can be summarised as follows.

31. The development of transport planning skills will be essential to our domestic and international economic performance and must not be compromised by national spending cuts.

32. In terms of transport delivery, one of the most cost effective ways of supporting the economy is to co-ordinate it with land use planning. There needs to be much greater emphasis on reducing the need to travel.

33. Beyond this there is a need to manage demand, both to reduce congestion and achieve social and environmental goals.

34. Managing demand should start by better reflecting the external costs imposed by transport use. While a national road user scheme has been put to one side by the Coalition, it has widespread support in the profession. However, Lorry Road User Charging is in the Coalition agreement and this could be an important source of new revenue, as well as addressing the high level of unmet external and congestion costs. Parking controls and levies could also make a major contribution.

35. Such schemes may appear to increase costs for some individuals and companies, but nationally would encourage efficiency, for example addressing the serious under utilisation of heavy goods vehicles.

36. We thus continue to support the Eddington emphasis on smaller scale schemes and for a "maintain and manage" approach. This means that capital spending on capacity can be avoided or reduced, but much revenue spending will need to be protected.

37. In a time of economic constraint, maintaining the assets we have should have priority over new capacity.

38. In addition, the move towards more sustainable delivery of transport will of itself deliver economic benefits through the decreased consumption of non-renewable resources.

September 2010

Further written evidence from the Transport Planning Society (TE 44a)

1. The TPS has now considered the details of transport's contribution to the Comprehensive Spending Review (CSR). We wish to give the Committee an immediate response, but clearly the DfT process of finally selecting individual major schemes will take until the end of next year. However, we feel that there are important issues raised at this stage to which we wish to draw the Committee's attention.

Positive Aspects of the Transport Review

2. First we welcome the Local Sustainable Transport Fund (LSTF), in particular the revenue content. Block grant is being reduced but the LSTF will help to protect high value low cost work, such as Smarter Choices, which requires a committed long term revenue stream. In this sense, the emphasis on capital spending elsewhere in the transport statement might be, at first sight, a cause for concern. Revenue expenditure can be extremely effective in reducing congestion and enabling, for example through workplace travel planning, patterns of commuting which are both sustainable and attractive to employers and employees alike. The evidence of this is now extensive and well documented.

3. We also welcome the clarity of the major scheme timetable and three pool approach. It is often the case that it is politically easier to include or leave a major scheme, which may be financially unrealistic or otherwise past its sell by date, in a capital programme rather than to remove it. However, this can be very damaging. Sometimes schemes need to be dropped for areas to "move on" to devising more cost effective and realistic solutions to their transport problems.

4. We welcome the fact that highway maintenance has been cut less than average—4.5% reduction over the period for the HA and similar for local authority capital maintenance. This is to be achieved through savings in the cost of delivery and spread of best practice. Our members are very concerned to protect existing assets and we encourage the Government to assist local authorities further than the £3 million set aside for 2011–12 and 12/13 in delivering these savings, for example where transition costs to a co-operative approach with other authorities are needed. In this area, and others, we welcome the proposal for a Green Investment Bank and wish transport to be fully represented in its programme.

5. We have yet to gather a full response from our regional and national branches and this will reflect the final outcomes of the Pool and LSTF decisions. We are still assessing the potentially damaging impact on bus services of the CSR and welcome the Committee's decision to hold a separate Inquiry into this issue.

Appraisal and Priorities for the Funding Process

6. Given the profession's strong criticisms of the current transport appraisal methods, we support the confirmation that it will be reviewed. Transport requires a robust process but one which is proportionate to the scheme being appraised. We support transparency in the approach itself, but also in how it is reformed. Thus we are concerned that the progress made to engage with the profession, for example through the NATA Refresh informal advisory group, appears to be on hold.

7. As well as detailed comments on the Highways Agency (HA) evaluation criteria in paragraph 12 below, we suggest that, in relation to the specific schemes in the three pools, overall priority for major schemes should be given to:

- public transport in city centres and links to the wider city regions; and
- management of the strategic network.

We note many schemes of this type in the list and would wish to see these progress. London is benefitting from major public transport investment and its system of integrated planning and ticketing. The economies of major cities outside London have a wider impact in their city regions and need to be supported. Motorway management is an extremely cost effective approach with early delivery and potential for further development.

8. We also note that there are a few schemes in the Pools which were part of the general RFA inter-authority scheme "bargaining" which led to some criticism (clear in our member survey) of the regional arrangements and their failure to produce a genuinely strategic view. In this sense it would be helpful to clear the decks for the new approach.

9. While having no strong favourite, most members also concluded that a strategic view was needed, to sit between local and national agendas. This must be a concern and two examples spring immediately to mind.

10. The first is the lack of consistency in parking standards between neighbouring authorities. Parking control is still one of the key tools in demand management and greatly enhances the cost effectiveness of Smarter Choice schemes. The two are natural partners. There is a real fear among planners and transport planners of a "race to the bottom" in terms of relaxing such controls. PPG13 originally called for Regional Transport Strategies to ensure that this did not occur. Local economies can be harmed by such a lack of strategy, and national objectives on reducing congestion and avoiding climate change, to give two important examples, will be undermined. In the development of corridor studies and Nationally Significant Infrastructure Projects (NSIPs) we consider that a consistent approach to parking across regions will be required.

11. The second example is the lack of an obvious champion for regional rail schemes in England between local authorities and the national RUS process. This is compounded by the fact that even the PTEs, representing the major city regions, no longer co-sign franchise agreements. Our members showed strong support for local rail improvements, contrasting with their modest support for High Speed Rail (HS2).

12. In relation to the HA Major Scheme four criteria:

Value for money—we are concerned by the emphasis on time savings, rather than reliability, and that there is no caution over justifying schemes through the use of very large numbers of small savings (for which there is little evidence of any value). Major schemes should by definition be expected to create significant absolute savings (for which there is some evidence of value) on individual journeys. Freight operators in particular usually call for reliability as their key requirement.

Strategic value—the use of the term "bottlenecks" does not seem to fit with the idea of strategic approach. It is important that removing one does not simply create a new one. We appreciate this may have been used for the rapid CSR process, but would not wish to see it gain future currency. In the NSIP process a corridor approach will be essential and congestion needs to be managed and reduced comprehensively. The principle is that strategic projects should sit within a strategic policy framework.

Deliverability—we agree that uncertain costs and benefits should count for less in any appraisal. For example, schemes which depend upon benefits in the second half of the appraisal period (30–60 years from opening) should be clearly identified and removed from the pool.

Non-monetised aspects—the recognition that there are likely to be significant factors of this type is welcomed. We support a proper and comprehensible description of such factors, which is as numerate as possible even if there is no monetisation. This is far preferable to the inclusion of more speculative money values in the formal analysis.

13. We note that in one instance (A14) a major scheme is to be removed from the programme and multi-modal study of alternatives is to be pursued. Our view is that such alternatives need to be based on assessing all the elements of transport demand and how they can be met or managed. There will be local areas which will have to finally relinquish a particular scheme which has tended to dominate their thinking for a number of years. They will require resources to develop and design smaller scale and more cost effective packages and we would like to see the Government make financial provision for them to do so. It should be made clear that this will only be used for genuinely new work, for example leading to a bid to the LSTF.

Maintaining Professional Resources

14. This naturally leads to a final concern in relation to the CSR, the future of the profession itself. Promoting best practice, developing skills and sponsoring debate is at the heart of the TPS.

15. There are two aspects to the maintaining of transport's professional resources. The first is the need for continuing research on a diverse but robust basis. It must be a concern that two bodies have already been affected by Government cuts. One is CfIT, which was not wholly a research body but commissioned a significant number of studies which tended to cover topical concerns. A more recent casualty of great concern to the TPS is the withdrawal of funding by DfT and ESRC from the UK Transport Research Centre, an organisation just launched after several years of tortuous and resource intensive negotiations between DfT, ESRC and academia.

16. While learned societies, including TPS, will feel an extra responsibility to maintain standards and promote debate in the "age of austerity", this cannot substitute for properly funded research. This is especially true for understanding why people and goods travel, for personal or business reasons, and what influences their decisions. To give an example highly relevant for this Inquiry—economic impacts—analysts need to fully understand the two way nature of the effects of infrastructure building. Transport planners are well aware that decreasing the travel cost between a well off area and a less well off area may overheat the well off area rather than cause an exodus from it. This is as true for HS2 as major trunk roads. Do we really know how this works in the UK economy? In terms of congestion, travel planning still needs more research and development but also monitoring to provide the data we need. We know it works, but could it provide even greater benefits?

17. Cuts in such programmes may seem easier because they are less visible but we contend that lack of such understanding could lead to the wrong sort of investment and thus inhibit the recovery and future growth. They tend to be very low cost compared to infrastructure spending itself and we strongly oppose cutting them without putting alternatives in place.

18. In our first submission we pointed to the low priority given to HS2 in our member survey. This needs a robust assessment in terms of how it will really impact on the UK economy (see paragraph 16 above) and whether it will divert resources away from more cost effective (often demand management) schemes, essential research and innovation, or the need to maintain our skills base as well as physical infrastructure.

19. Thus our final point is that the profession must be able to continue to both retain and develop the skilled human resources required for recovery. It is no secret that transport planning companies have been hit very hard by both the recession and public expenditure reductions. While there have been substantial job losses in the sector, many consultants have sought to cushion the extent of these by introducing part time working and other strategies. Although many have continued to invest in training the staff they are retaining, the TPS annual

survey of UK students on transport Masters courses has shown a two thirds reduction in part time students sponsored by their employers. Experience from past recessions in the industry has shown that few of those who leave the profession in a downturn return. Having led the Transport Planning Skills Initiative to address the severe skills shortage that occurred in the early 2000s, and subsequently done much to improve the standing of the profession, including the provision of a professional qualification and a professional development scheme, TPS is very concerned that a skills shortage will re-emerge as we move out of recession and financial austerity. It considers it essential that the Government recognises the need for adequate skilled professional resources to plan for efficient and sustainable transport policies, systems and services, and its key role in ensuring they are available now and in the future.

November 2010

Written evidence from the Directors of Public Health for the West of England Partnership Area (TE 47)

This evidence submission is on behalf of the four Directors of Public Health for the West of England Partnership (WoEP). The four Directors of Public Health have signed a Memorandum of Understanding with the four Directors of Transport for the WoEP, in order:

> "To promote effective joint collaboration to ensure that the transport system for the area now and in the future is designed in such a way that it enhances health, wellbeing and prosperity for all residents, and contributes to reducing health inequalities."

The four authorities that make up the West of England are:

Bath and North East Somerset

Bristol

North Somerset

South Gloucestershire

Issue 1; *Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?*

1.1 The UK economic conditions have changed materially and considerably since the Eddington Transport Study. We would refer the Committee to evidence contained in the publications listed below. We note that the request for evidence asks for original submissions and not for published papers. We believe that the reports from Lloyds, and from UKERC are so fundamental to future transport plans for the UK that it would be irrational for the Select Committee to fail to take account of their contents. These reports point to the unarguable conclusion that unpredictable economic consequences will arise because of resource depletion. These are probable within the current decade, and highly likely by 2030. The implications for how we design, maintain and run a viable transport system are profound. As the foreword to the Lloyds Report says, we face a new paradigm, and this is very different from normal market volatility.

Key Publications

Froggatt A and Lahn G. "Sustainable Energy Security; strategic risks and opportunities for business". Lloyds 360 Risk Insight. Chatham House June 2010 www.lloyds.com/News-and-Insight/360-Risk-Insight/Research-and-Reports/Energy-Security/Energy-Security

Sorrell S et al. UK Energy Research Centre. Global Oil Depletion. An assessment for the evidence of a near-term peak in global oil production. August 2009

Osborn S. Building a positive Future for Bristol after Peak Oil. October 2009. www.bristol.gov.uk/ccm/content/Environment-Planning/sustainability/file-storage-items/peak-oil-report.en

Martenson C. The crash course. www.chrismartenson.com/crashcourse.

UK Industry Peak Oil Taskforce. The oil crunch; securing the UK's energy future. 2010. http://peakoiltaskforce.net.

Raffle A E. Oil, health and healthcare. BMJ 2010;341:c4596 http://www.bmj.com/content/341/bmj.c4596.full

Issue 2; *What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?*

2.1 The priority is to support regional and national prosperity now and for the future. The use of GDP as a convenient proxy for prosperity must not allow us to lose sight of what really matters for people. Growth in GDP can be achieved in the short term by any means of money changing hands, irrespective of the long-term social value of that exchange. The goal is not economic growth for its own sake, but for the sake of the prosperity and health that it brings.

2.2 Priority needs to be given to transport infrastructure that will enable people to access employment, services and recreation even in the face of economic shocks, energy depletion and environmental degradation. This means that we need to build a transport system which;

- Makes best use of existing physical infrastructure.
- Aims to maximise access to services, rather than aiming for hypermobility as an end in itself.
- Is efficient in use of fossil fuels both for day to day running, and for building infrastructure and vehicles.
- Has minimum adverse impacts on health (through crashes, noise, air pollution, suppression of physical activity, and community severance).
- Makes maximum use of walking and cycling for short journeys, these are low carbon, need no fossil fuel, and they improve health.
- Can withstand extreme climatic events.
- Can be maintained using locally available skills.

2.3 In effect this means that mass public transport combined with walking and cycling will become essential for the economic life and social cohesion of the nation once fuel prices and economic insecurity cause private individual car use to become unaffordable for many sections of the population.

2.4 It also means that urban design and planning must be integrated with transport planning, so that there is design for access. It means that information systems relating to travel should be predicated on the primary question of "How do I access x, y or z service?" as opposed to "How do I travel by car from location A to location B". With the former approach this can reveal opportunities for services to be accessed with little or no travel, and gives information about walking, cycling and public transport access.

Issue 3; *How should the balance between revenue and capital expenditure be altered?*

3.1 It will be essential to maintain revenue funding streams for the maintenance and running of existing transport infrastructure. There is recognition from the current Secretary of State for Transport that technological fixes will not be enough to deliver the behaviour changes required. This means there is a need to ensure that there is sufficient staff resource to support and deliver parking management policies, vehicle restraint policies and behaviour change programmes in a positive way. This is revenue intensive in the initial phases. Smarter Choices teams are at risk from local authority staff cuts just at a time when their skill sets are essential.

Issue 4; *Are the current methods for assessing proposed transport schemes satisfactory?*

4.1 Current methods are unsatisfactory. Setting the life of infrastructure programme to 60 years gives an inappropriate skew to the apparent benefits of major road network expansion projects compared with other investments. There is clear evidence that the highest value for money schemes are small scale traffic management and behavioural interventions. This includes, for example Bike It, and routes for pedestrians and cyclists. The revision of webtag guidance to include "fitness" has revealed how important health benefits are but the formula is still very restrictive in terms of taking full account of health impacts in all schemes assessed.

http://www.sustrans.org.uk/assets/files/Bike%20It/Bike%20It%20Review%202010.pdf

http://www.healthyweight4children.org.uk/resource/item.aspx?RID=90422

4.2 There is also a need to incorporate valuation of the carbon costs and benefits. In line with the Government's "UK Low Carbon Transition Plan" (July 2009), the assessment of proposed developments should value any changes in emissions by integrating the social cost of carbon (the cost of the damage of carbon emitted in the atmosphere) into their cost-benefit analysis through the shadow price and/or non-traded price of carbon (based on the cost of mitigating emissions currently £51 per tonne). This needs to cover the lifetime of the development (ie demolition of any existing building, construction and in operation). This ensures developments account for their climate change impacts. Thus, where a development reduces emissions, this change will increase the benefits of the development, while where a development increases emissions, carbon valuation will increase the costs of the development.

Issue 5; *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

5.1 The absence of the RSS risks major fragmentation in planning policy. It opens up the risk of "stranded investment" in road schemes that have popular short term appeal and do nothing to build viable solutions for the longer term.

5.2 Most of the debate about the impact of the revocation of regional spatial strategies has been about housing provision and green belt.

However, regional spatial strategies covered a wide range of other issues and policies, including transport. They provided the opportunity to integrate land use and transport planning at a sub-national level, addressing cross-boundary issues and inter-urban transport.

5.3 The speed of their abolition means that as yet there are no suitable interim arrangements in place to look at these issues. Local Development Frameworks and core strategies have been produced assuming that Regional Spatial Strategies were part of the statutory development plan. These will now need to be revised to take into account the abolition of the RSS leading to further delay in their final adoption.

5.4 Local Enterprise Partnerships may well be the way to take up this agenda in the future, but it is likely to be a while before they are in place and have the capacity.

5.5 There is concern that there are not the structures in place for local authorities to engage with Network Rail and the Highways Agency who don't have the capacity to work directly with every individual local authority.

5.6 This could put back the planning of major inter-urban transport schemes such as the electrification of the rail services between London and Bristol, the South West and South Wales and between Bristol and Birmingham. These schemes have economic and sustainability benefits as well transport benefits. To illustrate the difficulties we would draw attention to the contrast between the planning and development of Cross-Rail in London, achievable because of an overarching Greater London planning body, versus the situation that would have transpired if the problems were left with every individual local council to solve.

5.7 Other cross boundary issues include public transport to airports, opening new railway stations and the development of park and ride sites that address urban congestion problems in one authority but are located in a neighbouring authority. The planning of urban extensions and the transport infrastructure to serve them will also be difficult with a fragmented planning system.

5.8 We fear that the lack of the RSS will mean schemes could be prioritised simply due to parochial concerns (and long-held aspirations of highway authorities eg Westbury By-pass) without due consideration of strategic value, carbon, fuel resilience and other substantive health impacts.

5.9 Urban space is valuable, and parking and congestion fees are the logical market mechanism to engineer the best use of this space and to solve congestion. There is now incontrovertible evidence that more road provision actually induces demand rather than "easing" congestion. London has been able to achieve congestion charging and controlled parking in a way that is very difficult for small local authorities. Fragmenting the planning system will weaken our ability to move forward on the essential policies for managing parking and overall private motorised traffic restraint. Ultimately this will damage the economy. Individual developers can play off neighbouring local authorities one against the other by threatening to relocate if workplace parking levies are mooted. Viable park and ride services are difficult to achieve if commuters are provided with city centre parking spaces free of charge by their employer.

5.10 Deregulation of bus services in 1986 has left local authorities with little power to ensure reliable, efficient, affordable bus services for their residents and visitors. London was exempt from this legislative change and has a well used and comprehensive bus service that other cities would like to emulate.

September 2010

Written evidence from the British Air Transport Association (BATA) (TE 61)

1. The British Air Transport Association (BATA) welcomes the opportunity to submit evidence to the inquiry entitled *"Transport and the Economy"*, being undertaken by the House of Commons Transport Select Committee.

2. BATA is the trade body for UK registered airlines. Our 10 members cover all sectors of the airline industry—including freight, charter, low fare, regional operations and full service. In 2009, BATA members directly employed over 71,000 people, operated two thirds of the UK commercial aircraft fleet and were responsible for some 80% of UK airline output, carrying 81 million passengers and one million tonnes of freight[52].

3. We understand that a number of BATA's member airlines intend to make their own, individual submissions to the Committee. This submission should therefore be seen as supportive of those separate submissions.

4. We appreciate that aviation, given the nature of both its funding and operation, will not be a prime focus of this inquiry. Nevertheless, we do wish to bring to the Committee's attention a number of issues which we believe are of relevance.

5. Unlike other modes of transport in the UK, aviation is virtually all funded and operated by the private sector. Indeed, it receives no subsidy from the taxpayer, apart from a very small number of "lifeline services" operated in the more remote parts of the UK. Airports are generally privately owned and costs such as air traffic management services, security and the regulatory authorities (Civil Aviation Authority and European Aviation Safety Agency), are paid for by airlines in the form of fees and charges.

6. Aviation raised £1.9 billion in the form of Air Passenger Duty (APD) for the Treasury in 2009–10[53], a figure forecast by the Office for Budget Responsibility to grow to £3.8 billion in 2015–16[54]. This ever

[52] CAA "UK Airline Statistics: 2009—Annual", Tables 1.6, 1.14 and 1.11.2
[53] "HMRC Air Passenger Duty Bulletin Dataset", published August 2010, Section 1
[54] OBR Budget Forecast contained within "Budget 2010", HC 61, published 22 June 2010, p 100 Table C11

increasing level of tax is a barrier to the ability of the UK to compete for international investment and inbound tourism on an equal basis with other nations. It is also likely to have an adverse effect in the regions where air services may become unviable. This will impact upon jobs and regional development.

7. We would wish to point out that the 23 million international sea passenger journeys through UK ports in 2009 attracted no equivalent tax to APD. Yet shipping contributes at least as much as aviation in terms of global CO_2 emissions[55]. There is therefore a glaring inconsistency in the approach taken by government in addressing the "Polluter Pays" principle between these two transport modes, both of which are vital for sustaining the UK's economic recovery.

8. A study of aviation's contribution to the UK economy, published in November 2009, was undertaken by Oxera Consulting Ltd for the Airport Operators Association. The study found that aviation represented 1.5% of the UK economy, contributing £18.4 billion towards UK GDP in 2007[56].

9. A previous study, by Oxford Economics in 2006, found that aviation directly employed around 200,000 people and supported over half a million jobs either directly or indirectly[57].

10. We appreciate that the Department for Transport, like other Government departments and public bodies, is facing a significant cut in its budget and this will obviously result in reduced support for transport projects and initiatives that require state funding and subsidy.

11. BATA fully supports the logical argument that effective and efficient transport systems, infrastructure and networks, are required for economic prosperity. Aviation is a critical component of the transport system of an island trading nation such as the UK. 30% of all UK exports by value are transported by air[58].Over 50% of the UK's exports of manufactured goods that are exported to destinations outside the EU travel by air[59]. The importance of air travel in our modern globalised world was clearly exposed by the consequences of the disruption to flights caused by the volcanic ash cloud earlier this year, with not just people stranded at airports all over the globe but also fresh produce and key industrial components and goods.

12. Air links between the UK regions and also between UK regional centres and European and longer haul destinations play an important part in driving and growing regional economies.

13. Aviation is a global industry and as such it exists in an extremely competitive environment. If the UK decides not to meet demand by limiting capacity and infrastructure at our key international gateways, other competing airports in Continental Europe and further afield will prosper at the UK's expense. This will have a direct impact on UK jobs and future economic growth.

14. Offering air services to key developing markets such as India and China is crucial for the future health of the UK economy.

15. The vast majority (74% in 2009) of inbound visitors arrive in the UK by air[60]. These visitors spent nearly £13.8 billion (over 83% of total visitor spend)[61] and many were from places such as North America, Australia, China, the Indian sub-continent and the Middle East—where there no realistic alternative option of travel to the UK other than by air.

16. Good air links are vital if the UK is further increase its attractiveness to overseas visitors, something the Prime Minister in his speech about tourism on 12 August 2010 indicated he wants to happen, when he said:

> "[Tourism is] fundamental to the rebuilding and rebalancing of our economy. It's one of the best and fastest ways of generating the jobs we need so badly in this country."

17. Later in the speech, he talked about the importance of the UK being competitive and attractive destination:

> "I want to see us in the top five destinations in the world. But that means being much more competitive internationally. Take Chinese tourists, for example.
>
> We're their 22nd most popular destination. But Germany is forecast to break into their top 10. Why can't we?
>
> Currently we only have 0.5% of the market share of Chinese tourists. If we could increase that to just 2.5% this could add over half a billion pounds of spending to our economy and some sources suggest this could mean as many as 10,000 new jobs. Currently we have 3.5% of the world market for international tourism. For every half a per cent increase in our share of the world market we can add £2.7 billion pounds to our economy, and more than 50,000 jobs."[62]

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55 Report to the CCC by AEA "Greenhouse Gas Emissions from Shipping", September 2008, p11

56 Airport Operators Association Press Release, 9 December 2009 (http://www.aoa.org.uk/media/news_show.asp?NEWS_ID=162)

57 Oxford Economic Forecasting, "The Economic Contribution of the Aviation Industry in the UK" October 2006, Executive Summary, p 5

58 Ibid, p 33

59 Ibid, p 33

60 Office for National Statistics Travel Trends 2009, p 37, Table 2.08 "Spending in the UK: by mode of travel and purpose of visit 2005 to 2009"

61 Ibid, p 27, Table 1.07, "Overseas residents' visits and spending in the UK: by mode of travel 1984 to 2009"

62 http://www.number10.gov.uk/news/speeches-and-transcripts/2010/08/pms-speech-on-tourism-54479

18. Heathrow, the UK's main international air hub and gateway, currently offers services to just three cities in China (including Hong Kong), which is the same number Helsinki airport serves, while Paris Charles De Gaulle and Amsterdam Schiphol both have services to four cities and Frankfurt provides services to seven.[63]

19. For the UK economy to continue its recovery and be able to return to strong sustainable growth, we believe that it will be important to stimulate inward investment, improve connectivity and increase productivity. Aviation will be integral to this.

20. It seems sensible to us, that at a time of deep public spending cuts and reigning in of capital investment in infrastructure, the provision of a positive policy agenda on capacity and taxation could protect and enhance those transport links which cost the public purse nothing; offering the greatest return for least expenditure.

21. We therefore call on the Government to:

- Publish as soon as possible a coherent, comprehensive policy which supports and facilitates the sustainable development of UK aviation.
- To reconsider government decisions which will result in capacity constraints and limitations on infrastructure being imposed upon the industry and travelling public.
- To reduce and then phase out tax on air travel (whether in the form of the current Air Passenger Duty or any new per plane tax) with the entry of aviation into the EU ETS in 2012.

22. BATA would be pleased to provide oral evidence to expand on the points made in this submission.

September 2010

Written evidence from Centro (TE 62)

Centro is the West Midland Integrated Transport Authority, we promote and develop integrated transport across the seven West Midlands Metropolitan Authorities of Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall and Wolverhampton. From April 2011 Centro will also take responsibility for the coordination and delivery of the West Midlands integrated transport strategy—Local Transport Plan Three.

Our aim is to transform transport so that the people of the West Midlands have a world class integrated transport system provided by a best in class organisation. Centro seeks to ensure everyone in the region benefits from an effective transport system that meets the economic, social and environmental needs of the West Midlands.

Summary of Key Points

Centro believes an efficient transport system is an essential prerequisite of a successful vibrant economy. This was well illustrated in the Eddington report and despite the economic slowdown we believe the case made by Eddington that transport investment should be focused on the major conurbations is still relevant.

However, in order to maximise the benefits of an efficient transport network it is essential to target investment on those areas which not only deliver the connectivity required for people to access jobs but also to establish a basis for rebalancing the national economy, address social inequality, contribute to other sectors including health and help the UK significantly reduce its carbon footprint to meet global and national targets. In order for this to take place the role of transport needs to re-evaluated and re-prioritised as an area of Government spending which can bring far wider benefits than traditional thinking has allowed.

High Speed 2 (HS2) provides a good example of how transport can have a direct impact on the economy of an area through its potential to attract investment, broaden travel horizons and labour markets and ultimately act as a major catalyst to rebalance the national economy. HS2 will provide high quality access to attract investment in the West Midlands and beyond, regenerate Birmingham city centre and boost the wealth and economic output throughout the region. HS2 therefore needs to be recognised as a national priority for investment over the forthcoming years.

However, whilst HS2 provides a major opportunity for the UK in the longer term it is important to recognise and understand the broader role that transport can play in the shorter term. Centro believes the way transport and in particular public transport is currently prioritised and evaluated is misleading and does not reflect the true role and impact good transport initiatives, including rail and light rail schemes can have directly and indirectly on the local and national economy. There is a growing recognition of the role transport can play in addressing health issues such as obesity through active travel and respiratory problems through improving air quality. This is just one area where the wider role transport can play in addressing cross sector issues is not currently recognised fully enough either through funding allocations or appraisal of initiatives.

Cities will play a crucial role in delivering sustainable economic growth but in order to facilitate this, a number of key issues need to be addressed. These include how transport can be delivered and enabled to ensure cities are shaped in a way which can promote sustainable growth. Funding mechanisms such as Accelerated

[63] Source: Websites of Heathrow airport, Helsinki airport/Finnair, Aeroports de Paris, Schiphol Amsterdam airport and Frankfurt airport, accessed 22 September 2010

Development Zones (ADZs) recognise the role that enabling infrastructure can have on attracting investment, delivering future growth and ultimately ensuring an urban renaissance can take place and occur in a direction which promotes sustainable travel. This principle has been recognised in London through the expansion of DLR and is being promoted further in Paris through their Land Use Masterplan for the city.

This shift in how transport initiatives are delivered and the growing need for this to happen faster is exemplified in the role that transport will play in the UK achieving their carbon reduction targets. Road transport accounts for almost a quarter (22%) of all UK CO2 emissions therefore whether investment is made through capital or revenue funding the need to reduce carbon levels and the role transport can play in addressing this means the emphasis on this investment should be public transport which can attract investment and usage.

Question 1—*Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and uk economic growth?*

1. The key change to economic conditions since the Eddington study is the slowdown in the economy and the fiscal deficit resulting in affordability becoming the key constraint on transport investment. We are not aware of any research being undertaken to examine if Eddington's recommendations should still be considered valid.

2. However we believe there is a strong case for supporting the view that Eddington took for the following reasons:

(i) The appraisal of transport schemes takes place over 60 years and there is no reason to believe that similar economic conditions to those in place when the study was undertaken will not prevail for most of this period.

(ii) Eddington highlighted the relationship between economic prosperity and a successful transport system. As outlined below we believe that the economic impact of transport investment should be a key criterion in selection of schemes as a successful economy will result in rising tax revenue making schemes more affordable and allowing further investment in the future.

(iii) The growing move to decentralisation and funding through Local Enterprise Partnerships with strong business representation would favour transport schemes with a strong economic growth bias.

3. A key point highlighted in the study was that the strategic economic priorities for long-term transport policy should be growing and congested urban areas and their catchments; the key inter-urban corridors and the key international gateways that are showing signs of increasing congestion and unreliability. We believe that this is still the case as these are the areas where transport constraints have the potential to significantly hold back economic growth and will offer the best economic return given investment.

4. Regional and national economic performance relies heavily on the productivity of cities because of their concentrations of infrastructure, assets, high-value business and jobs. For example, the Birmingham economic area (the City Region) produces more than half of the entire region's economic output, whilst Leeds and Sheffield's combined account for more than two-thirds of Yorkshire's (Ref 1).

Question 2—*What type of spending should be prioritised in the context of an overall spending reduction, in order best to support regional and national economic growth?*

5. At the current time there is considerable pressure to reduce the level of public expenditure. It is therefore of paramount importance that where the Government does spend money it achieves high levels of benefit. These benefits should be line with Government objectives, for example supporting the emphasis on transport schemes supporting economic growth and reducing carbon. As highlighted above we believe that if investment is to be reduced in the short term then it should be focused on urban areas, the driver of the UK economy.

6. In a situation of high Government deficit there is a strong case for ensuring that investment levels are not neglected and that cuts focus on expenditure where the direct impact on future prosperity is low.

7. A key area in which any Government can, and needs to invest in order to produce a prosperous economy is transport, which in many cases is capital intensive. The Eddington Report (Ref two) provided many examples of this relationship including

(i) a 5% reduction in travel time for all business and freight travel on the roads could generate £2.5 billion of cost savings—some 0.2% of GDP.

(ii) 55% of commuter journeys are to large urban areas. 69% of business trips are less than 15 miles in length.

(iii) 89% of the delay caused by congestion is in urban areas.

8. Government inevitably has to be a major funder of infrastructure. At the time of writing webtag guidance is suspended and under review. As the revised guidance will be a key determinant of the type and level of transport investment many of the recommendations in this submission relate to suggested changes to the appraisal guidance and the approach taken to appraisal.

9. Traditionally transport appraisal has been based on welfare benefits. Where a cost benefit ratio exceeded 2:1 the investment was deemed to be high value for money and assuming that it was affordable and deliverable the project stood a good chance of being progressed. While relying on benefit cost ratios for project selection

and prioritisation has its limitations this has been a key part of the decision making process for many years and it is likely to remain so in the future.

10. We believe there is the potential to simplify the appraisal methodology particularly for schemes below a certain threshold say £20 million. However for all schemes we feel there is good potential to simplify the process through greater testing of options at an early stage deciding on a preferred option and developing that scheme in detail. In the past too much time has been spent on detailed appraisal of one or more alternative options even when it is clear which would be the final choice. In addition we feel there is also scope for speeding up the decision making process by DfT as delays often give rise to the need for reappraisal as guidance or circumstances change over time. Addressing both these issues would have the following benefits:

(i) Early achievement of welfare benefits.

(ii) Early achievement of economic benefits and tax income generated.

(iii) Reduced scheme preparation costs for promoters. As nearly all scheme promoters are within the public sector this will further reduce public expenditure even if this impact is not fully felt by Central Government.

11. Suggestions for detailed changes to the appraisal methodology are outlined in the methods for assessing schemes below.

12. Over recent years there has been growing recognition within the transport industry that the economic impact of transport investment has not been fully recognised. The Department for Transport recognised this in part, and were planning to include a wider economic impact assessment in scheme appraisal from April 2010. Due to the election and change of Government the revised guidance was not implemented.

13. The wider economic impact assessment aimed to quantify the following benefits

(i) Agglomeration,

(ii) Labour market impacts; and

(iii) Benefit of increasing output in imperfectly competitive markets.

14. These were to be quantified in terms of net national impact as opposed to local and regional impact. While this was the prime definition of interest to Government there was recognition that benefits which accrued in areas of deprivation could be considered of greater worth and the appraisal guidance attempted to quantify the impact of benefits on different areas and groups in society. The wider economic appraisal did not impact directly on the benefit cost ratio but was designed to be a supplementary tool within the decision making process.

15. While the approach planned by DfT was welcomed by the transport industry there is a growing body of evidence supporting the view that it did not fully quantify the wider economic impacts. This is a view which Centro shares. We believe that given the high deficit there is a case for prioritising schemes which provide a strong economic stimulus and provide future tax revenues. We outline below our views on how the appraisal process could be modified to achieve this. It should be noted that it is not designed to replace the welfare test (ideally modified as in the response to question 4) but to complement it. Maintaining the welfare test acts as a guarantee of value for money.

16. The importance of transport investment to business to overcome the two key problems of lack of capacity on transport networks and inability to operate reliable services was clearly highlighted by the CBI in 2009 in a report assessing the state of UK transport networks and the concerns of businesses in regard to these issues. (Ref 3)

17. An efficient transport network has the ability to add to GDP and a poor one can reduce it with consequent implications for taxation and welfare spend.

18. There are considerable benefits to be had by targeting investment where, in addition to providing welfare benefits, it can support economic growth. As noted above the DfT has recognised the benefits of agglomeration and how reduced travel costs can increase the available pool of labour.

19. As transport makes an area more attractive both to businesses and those who wish to work in those businesses this can influence the number and type of businesses that choose to locate in that area.

20. In terms of productivity it is important that transport links businesses to pools of labour which meet employers' needs. Much has been made in recent years about transport addressing worklessness and while it is true that good transport connections can reduce this, it should be recognised that this issue has many causes of which poor transport is just one. However in the case of unemployment and particularly structural unemployment (within a wider region) transport has the ability to address this issue quickly. Achieving this benefit may require larger scale schemes such as improvements to the heavy and light rail networks which expand the viable commuting region around major cities especially those outside London where longer distance commuting is less common.

21. The potential for schemes such as this exists in many areas. For example in the West Midlands investment in the Camp Hill Chords would allow an expansion of inter regional rail services. In addition new suburban

services to Tamworth, on the Camp Hill Line to Kings Heath and on the Sutton Park line would also be possible. The benefits would include:

(i) Expanding the labour market. For example there would be a much improved rail service from the large and expanding town of Tamworth. There would also be a station at Castle Bromwich which is an area of high social deprivation. A scheme such as this has the potential to provide better links across an area which incorporates a wide range of social mix and skills levels which is what is required to meet the needs of business.

(ii) Changes in the sectoral mix. As noted above good rail connections improve the productivity of businesses and the mix of those businesses. This could be of great benefit to the GVA of the West Midlands. In a recent report (Ref 4) The West Midlands Regional Observatory highlights that "the most significant contributors to the regional economy are the lower value added private sector activities". The same report also highlights characteristics of individual towns in the region highlighting that Tamworth has historically been associated with low value added activity but that it is now diversifying its economy. There would be a considerable benefit from better linking the town to other major centres. Nuneaton is recognised as another town with similar characteristics. This also is linked with a major scheme bid for a rail scheme upgrading the Nuneaton Coventry rail line.

(iii) Schemes such as this and the expansion of the Midland Metro into Birmingham City Centre would also provide agglomeration benefits especially for the main regional centre of Birmingham. Work undertaken for Centro by CEBR showed that extension of the Midland Metro would have annual benefits of £47 million per annum in 2021 (2006 prices).

22. Many other cities have major transport projects with well researched economic benefits. This does indicate that in many cases if the aim is to invest in schemes which will add to economic prosperity that the emphasis should be in the major conurbations. This should include areas outside the South East which in many cases already has good transport connections. Outside London the costs of construction and operation are likely to be lower and in the longer term the tendency for the London economy to overheat will be reduced improving the UK's international competitiveness. This is likely to be of increasing importance in coming years as countries with lower cost bases such as Eastern Europe and in the Far East have increasingly skilled workforces. Such a policy is also in line with the current Government's plans to rebalance the economy. In a speech given by David Cameron on 28 May 2010 (Ref 5) he stated:

23. "Today our economy is heavily reliant on just a few industries and a few regions—particularly London and the South East. This really matters. An economy with such a narrow foundation for growth is fundamentally unstable and wasteful—because we are not making use of the talent out there in all parts of our United Kingdom"

24. In addition to benefits for business the economic benefits from vibrant economic centres spread throughout a region. High Speed Rail has the ability to act as a catalyst for investment and will play an important role in bridging the economic divide between London/South East and the rest of the country if a comprehensive network is delivered. Analysis produced on behalf of Centro (Ref 6) into the economic benefits of High Speed Rail between Birmingham and London show that if the high speed line is combined with changes to local and regional and national rail services the benefits to the West Midlands economy more than double and the benefits are much more widely distributed throughout the region with each worker, on average, earning around £300 more per annum.

25. The bus has an equally important role to play in supporting the economy. In the West Midlands over 300 million journeys are made each year. Many of these are vital journeys to work or leisure trips involving spending which supports the local economy. As noted in the response to question 3 the bus can play a key role in reducing worklessness. In many areas of the country it is the only alternative to the car for journeys where walking or cycling is not practical. It is therefore imperative that if the economy is to thrive and be accessible to all continued investment in the bus network and associated infrastructure measures such as bus priority need to be maintained.

26. In summary the case for continuing to invest in transport infrastructure is strong. Given the importance of access to cities and the increasing importance of reducing carbon levels the emphasis should be on public rather than private transport.

Question 3—*How should the balance between revenue and capital expenditure be altered?*

27. The history of transport investment by Government in the UK outside London has focused on capital schemes. This is especially true in the bus and light rail industries. There is a saying that transport scheme promoters are "capital rich and revenue poor".

28. Revenue expenditure has the ability to impact service levels, quality and frequency. Where changes in these areas are desirable they can be implemented much more quickly than capital schemes giving faster returns. An example from the West Midlands is the £1.5 million which is being put into improving the number, frequency and hours of operation of buses around Birmingham Airport and the National Exhibition Centre. In this case funding is coming from the private sector. It is aimed at improving modal split in favour of public transport. For example public transport links from North Solihull (an area of high deprivation) to the airport

have been poor and for the many shifts at the airport which begin around 0400 services are nonexistent. The new services will allow those without a car to access jobs for the first time with benefits for those seeking work and the airport businesses that have difficulty in recruiting for positions where pay is low.

29. Capital schemes give rise to revenue funding needs as maintenance arises. Some local authorities are discouraged from seeking capital funds due to concerns about revenue implications (Ref 7). A DfT study also noted that rates of return of 30:1 can be achieved from some revenue funded schemes such as personal journey planning (Ref 8).

30. The private sector has the potential to provide some funding streams. For example in Japan 30% of non fares revenue comes from property, advertising and consultancy compared to 5% in the UK. (Ref 9). Funding may also be available from Business Improvement Districts or through Accelerated Development Zones.

31. The key benefits of revenue investment are:

(i) Benefits achieved much quicker than through capital investment,

(ii) Ability to withdraw or switch investment if returns do not materialize,

(iii) There is the opportunity to offer improvements to the public transport network,

(iv) Costs likely to be lower than for capital schemes at least in the short term where funds are limited,

(v) Fewer objections as no capital works and construction involved,

(vi) Rates of return comparable to capital schemes; and

(vii) Adequate revenue funding ensures capital schemes well maintained and that good schemes are not put off for fear of revenue liability.

Question 4—*Are the current methods for assessing proposed transport schemes satisfactory?*

32. There are a number of detailed changes and additions which we would welcome within the welfare appraisal. Detailed consideration of these is beyond the scope of this submission and we will submit views when consultation on the new guidance takes place. However some of the key changes we would welcome are outlined below:

Health Benefits

33. Many public transport schemes encourage greater physical activity and therefore can offer significant health benefits. As these projects have the ability to reduce the financial burden on the health sector and have been shown by a number of promoters to have excellent business cases it is recommended that funding for suitable transport schemes could be redistributed from health to transportation budgets. Cycling and walking schemes have the potential to reduce health costs and wider economic losses by reducing the physical inactivity that contributes to a range of chronic diseases. (Ref 10).

Carbon

34. The UK has passed legislation which introduces the world's first long-term legally binding framework to tackle the dangers of climate change. The Climate Change Bill was introduced into Parliament on 14 November 2007 and became law on 26 November 2008. The act includes a legally binding target of at least an 80% cut in greenhouse gas emissions by 2050, to be achieved through action in the UK and abroad and a reduction in emissions of at least 34% by 2020. Both these targets are against a 1990 baseline.

35. Road transport accounted for almost a quarter (22%) of all UK CO2 emissions in 2007, an increase from the 1990 baseline position unlike a range of other industries such as energy supply and business emissions, which have fallen over the same period.

36. The low value of carbon used within the DfT's methodology means that the impact is often lost within a scheme appraisal. This means that schemes with a positive carbon impact have little impact on the overall business case and schemes with a negative carbon impact but large time saving benefits e.g. new road schemes can be prioritised above them. This is a significant issue if the UK is serious about meeting its obligations on climate change. We propose it is addressed by reviewing the value attributed to carbon within appraisal and also by providing additional funding (outside the transport budget) for schemes which will make a significant contribution towards achieving these targets. (Ref 11)

Smarter Choices

37. There are no plans to include factors such as ticketing within the appraisal framework despite DfT having commissioned research into the benefits associated with such measures.

38. On the basis of what is outlined above, Centro welcomes the recent Government announcement on the creation of a Local Sustainable Transport Fund which appears to very much support these principles and those outlined in the Campaign for Better Transport's Carbon Reduction Fund Proposal.

Question 5—*How will schemes be planned in the absence of regional bodies and following the revocation and abolition of Regional Spatial Strategies?*

39. The West Midlands has a history of working productively and effectively together. Through a thorough analysis of the problems and opportunities it faces the Metropolitan Area has a clear view of the most appropriate interventions it needs to implement and support its Growth Agenda.

40. In the case of transport, the emerging Local Transport Plan 3 (LTP3) provides an integrated transport strategy which reflects the distinct challenges and opportunities across the Metropolitan Area. LTP3 sets out the transport requirements needed to deliver the regeneration and growth strategies of the West Midlands through an understanding of the transport issues and a close alignment with Local Development Frameworks. Post 2011, LTP3 will form the basis of a balanced integrated transport package of measures which will provide the platform for the connectivity required to deliver success in a changing economic environment.

41. However, current structures are not optimal for economic development, regeneration and transport and therefore the Metropolitan Area is not performing to its full potential. Following the Local Transport Act (2008) the West Midlands conducted a transport governance review which highlighted that transport strategy setting and delivery is currently fragmented. This will improve with the ITA having responsibility for the delivery of LTP3 for the Metropolitan Area from April 2011. However the link between regeneration, the low carbon economy and transport means there is an overriding imperative to ensure transport and regeneration strategy are fully integrated—do nothing is not an option.

42. The new coalition government came to power in May 2010 and announced the abolition of a number of regional structures in favour of Local Enterprise Partnerships (LEPs). Transport will play a vital role in the success of LEPs to delivering improved economic performance. It is therefore essential that decision making and strategy setting are fully aligned and on this basis the ITA have developed a proposal for a Commission for Integrated Transport which could work in partnership with the LEPs to ensure transport is prioritised and delivered effectively.

43. The Commission for Integrated Transport (CfIT) would assume the role of strategy setting, planning and commissioning the delivery of transport interventions across the LEP areas embracing the journey to work area.

44. The foundation for this would be the planning of an optimal integrated transport network coordinated across a number of LEPs—the Integrated Transport Strategy for the travel to work area would meet the economic development aspirations of those LEPs in the context of transport. This would include a funding strategy, coordinating integration between transport modes and ensuring transport fulfils its full contribution to the delivery of economic growth and regeneration priorities. In order to ensure coordination of strategic transport planning functions protocols will be put in place with Network Rail and the Highways Agency to ensure coordination of transport strategy setting and delivery across the area.

45. Further discussion is needed on the membership of CfIT, however it is envisaged that membership would come from both local authorities and the LEPs within the CfIT area. The LEPs would help secure the funding and through CfIT would commission the delivery of transport initiatives through a number of delivery "agencies" including local authorities for highway works and Centro for public transport. This proposal would advance how transport strategy is set and delivered within the West Midlands.

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September 2010

Written evidence from the CBI (TE 65)

1. The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. With offices across the UK as well as representation in Brussels, Washington, Beijing and Delhi the CBI communicates the British business voice around the world.

2. We therefore have a strong interest in ensuring the UK's international and national transport networks are capable of enabling economic recovery in the short term and economic growth in the medium to long term.

3. Overall we still believe the conclusions of the Eddington study remain highly relevant and robust. More recent studies that we are aware of and the CBI's own surveys of its members continue to emphasise the cost of congestion to the economy, and the need to focus on the performance of transport networks as a whole and addressing "bottlenecks" in particular. The attached submission, which draws heavily on the CBI's recent submission to the Government's Spending Review, summarises the overall economic case for investment in transport and sets out how the CBI believes public funding should be prioritised.

4. However, we recognise that given the scale of congestion, especially on roads, and the constraints on Government capital spending investment in improved transport infrastructure alone is not the only answer. We would draw the Committee's attention to our recent report on roads policy: Tackling congestion, driving growth: A new approach to roads policy, a copy of which is attached. This report in part discusses the question of whether changes in working patterns (some a consequence of the recession) could help reduce congestion.

5. Infrastructure in the UK can be broadly divided into those projects that have traditionally been funded by the public sector, ie road and rail investments, and infrastructure that has been largely provided by the private sector such as airport capacity. Protection of public investment in the former and the creation of a regulatory framework that maximises private sector investment in the latter should be the central aims of government policy as it searches for ways to reduce the deficit without damaging the long term growth potential of the UK.

6. It is widely acknowledged that there are both direct and indirect links between economic growth and well managed infrastructure.[i] Other research has shown that the decisions government makes regarding levels of investment in infrastructure, particularly transport networks, will have a major impact on future levels of growth.[ii]

7. However, the UK's infrastructure has historically lagged behind other developed economies, ranked 33rd in the world by the World Economic Forum.[iii] From 2000–07 the UK was the lowest investor of all OECD countries[iv] and, although investment did increase in the years 2005–09, investment is still low by European standards.[v] Around £434 billion of new investment in infrastructure is required in the UK.[vi]

8. We recognise that the government's overriding concern should be to correct the UK's fiscal deficit by bringing the public debt under control. However government should direct what money it does have at investments that will most benefit the country in the short to long term. A core area of this should be the UK's infrastructure, in particular its transport network.

9. The CBI argues that:

- The UK needs a major infrastructure upgrade which must begin during the CSR period.
- Total UK infrastructure investment must increase to deliver this upgrade.
- Infrastructure investment must also become more efficient.
- Prioritisation of publicly funded transport investment must be improved and made more transparent.

The UK Needs a Major Infrastructure Upgrade which must Begin During the CSR Period

Well funded infrastructure is crucial for future economic growth and competiveness

10. History shows a compelling link between infrastructure, in particular transport, and economic prosperity, with new transport connections enabling new economic opportunities, making regions and markets more accessible for business. However poor infrastructure can be a barrier to higher efficiency and growth, an issue that the UK is currently grappling with.

11. It has been argued that a substantial proportion of private sector productivity growth is linked to the size of a country's infrastructure base and how much is invest in it annually.[vii] For example, in 1999 France had a 25% higher productivity rate than the UK, thanks to much more effective infrastructure, despite having a rigid labour market.[viii] Eddington estimated that "by 2025 an additional £22 billion might have to be added to the cost of congestion in England alone".[ix] Given the UK's poor performance in comparison to its global competitors, this would suggest we have some way to go to ensure private sector growth is maximised.

12. In particular, the UK's transport networks, in particular roads, are highlighted as being a major barrier to economic expansion. It has been noted that "good roads are good business".[x] Eddington argued that a smooth running transport network feeds through to the wider economy through greater business efficiency, more investment and innovation, improved functionality of agglomerations and labour markets, increased competition and trade and attracting globally mobile resources. He also pointed out that a 5% reduction in travel times would amount to around £2.5 billion in cost savings to business.

13. On top of this, the CBI's 2005 "Business of transport" survey found that business leaders highlight the UK's transport infrastructure as a major barrier to the UK remaining globally competitive, all the more pertinent given the current state of the economy. In particular, the survey found that more than 40% of companies reporting that staff often arrived late at work as a result of transport problems. A further 38% of companies said transport issues had led to problems with staff recruitment and retention.

The UK lags behind its global competitors in terms of its transport infrastructure

14. A series of international studies has found that the UK has historically underinvested in infrastructure and that public funding in transport networks has lagged behind major competitors. The World Economic Forum recently ranked the UK 34th in the world on the basis of the quality of its infrastructure, well below most other developed countries and despite being the 6th largest economy in the world. Furthermore, public spending in infrastructure investment as a proportion of GDP between 2000 and 2004 came in at 1.5%, compared to 6% in Japan and 3% in the United States, France and Italy.

15. Although the UK has invested an estimated £150 billion in infrastructure[xi] over the last five years and an estimated £195 billion of investment currently being planned[xii] over the next five years, this remains inadequate, given that the UK is starting from a much lower base than its global competitors. When OECD estimates[xiii] of demand for infrastructure investment as a percentage of GDP are applied to the UK, this would suggest that an average of £50 billion per annum could be required from 2015–30. This is significantly more than either historic or planned levels of investment and highlights the scale of the investment required if the UK is to ensure that it remains competitive and its economy functions efficiently.

16. As a consequence, the OECD in its most recent "Going for Growth" report[xiv] states that under-investment in the UK's public infrastructure has resulted in road and airport congestion and an unreliable rail system, which add to business costs and constrains productivity. It advises on the need to follow through with planned levels of spending and ensure that investment does not fall below these planned levels. Infrastructure investment has highlighted a major priority area by the OECD for the UK since 2005, and has always focused specifically on transport infrastructure.

17. This situation is likely to become more pronounced in the coming years as many countries invest hundreds of billions in transport infrastructure as a means not only to stimulate weak economies (see next section) but also as a way of readying a country for economic expansion. This is most clearly seen in China where around 13,000 kilometres of high speed rail are due to be completed by the 2020s. Even in the USA, where rail has not historically been an attractive mode, high speed rail is now seen as one remedy to economic weakness and a method of ensuring future economic growth.

Infrastructure improvements will also help rebalance the economy

18. The Coalition Government is looking to rebalance the economy in various ways and infrastructure investment could help support this. Firstly infrastructure can push the economy onto a lower carbon path. For example, this could be done by rolling out of electric vehicle infrastructure. Secondly transport infrastructure enables an export orientated economy: for example by ensuring better surface access to ports and airports, and by making the UK more attractive to inbound tourism. Finally, and perhaps most crucially, infrastructure investments tend to be spread across the regions and nations of the UK.

This investment must begin during the CSR period

19. Infrastructure investment is one of the most efficient ways to provide an economic stimulus to the economy. Infrastructure investment has a much higher multiplier effect that other types of government expenditure.[xv] Given how constrained the public finances will be in the coming years, identifying which public spending will have the most beneficial impact on the economy is crucial. Conversely, reducing public spending in an area with a higher multiplier effect would have a disproportionately more damaging impact on the overall economy.

20. In terms of stimulating demand, infrastructure investment as opposed to other forms of public spending will have much wider benefits for supply chains and employment levels. Given the complexity and long-term nature of big infrastructure projects, extensive and varied supply chains are often relied upon. This not only provides an added incentive to invest in these projects, but could also provide substantial opportunities for UK based companies and reduce the need for imports. In this way infrastructure investment can be a positive driver both in terms of increasing overall economic activity, productivity and competitiveness.[xvi]

21. In addition, infrastructure projects tend to be labour intensive. This has been noted in the context of the Obama stimulus programme, where the number of those employed indirectly as a result of infrastructure project

was around 60% as opposed to only 47% for health. This reflects the potential investment in human capital as well as upgrading infrastructure.

Total UK Infrastructure Investment Must Increase to Deliver this Upgrade

22. Infrastructure UK has set out the 50% increase in historical UK spending levels on infrastructure that will be required over the next few decades. Much of this will come from private sector sources, but despite the deficit public funding of infrastructure will remain important. Government has three main tasks in order to ensure that aggregate public and private investment is sufficient:

1. Restore public infrastructure investment to 2.25% of GDP and make more predictable.
2. Use new funding models to attract private sector funding to areas previously fully publicly funded.
3. Creating better investment frameworks for privately funded infrastructure.

Restore public infrastructure investment to 2.25% of GDP and make more predictable

23. The Chancellor's commitment in the "emergency" Budget not to make overly deep cuts in public infrastructure investment was welcome. But significant cuts are already underway from pre-recession levels and investment levels should be returned to 2.25% over the CSR period. It is also important that public investment becomes more stable and predictable. The impact of constrained public finances on long term infrastructure projects tends to lag behind overall economic cycles. This means that cuts in public spending on infrastructure today will only be noticeable in several years, requiring more than a short term view of investment priorities.

24. This is particularly important when considering the impact of public spending cuts on complex supply chains. Without the required long term vision for infrastructure, with the attendant transparency and certainty enjoined in this, there are two key impacts on supply chains. Firstly, without long term certainty, private investment in infrastructure could be limited as investors remain reluctant to commit to projects that may not be required in the future. Additionally, fluctuations in spending on infrastructure can destabilise fragile supply chains, as skills required for complex projects, are lost. This is most clear when looking at the absence of skills in the UK required for such projects as construction of nuclear new build and the electrification of the West Coast mainline.

25. Government could ensure long term consistency by ensuring annual public spending on infrastructure remains at 2.25% of GDP over a period of 20 years. Furthermore, to ensure that the private sector remains confident about medium term investment levels, there should be a level playing field between investment horizons for road and rail. Currently the Highways Agency does not have a longer term funding arrangement along the lines for High Level Output Specification for rail, which puts in place five year periods for spending plans.

Use new funding models to attract private sector funding to areas previously fully publicly funded

26. Even if public investment is restored to 2.25%, given the need to increase total infrastructure investment, new sources of private investment will be needed in areas hitherto funded directly from the public spending and this in turn will require new funding models to be explored. We see particular value in the following:

27. Increased "copayment" in transport**:** Both road (indirectly through Fuel Duty) and rail are funded by a mix of public spending and user payments. The balance of user payments will need to increase. On road this should take the form of tolls to fund new road infrastructure (including potentially tolled additional lanes to enable widening for existing roads at congestion pinchpoints). Local authorities may also need to investigate road toll schemes to fund local transport improvements (we do not however favour workplace parking levies as these risk acting as a tax on employment). Regarding rail fares, an alternative to the current funding situation would be to make users of transport responsible for a greater share of total funding. Government has already expressed its support for shifting the burden for the funding of the rail network to passengers to around 75%, up from its current 50%. This would require guarantees from government that in the event of economic decline, when passenger numbers tend to fall substantially, revenue would be protected. Another possibility would be to look at reforming the current RPI+1 model for fare prices, which would allow train operating companies greater flexibility when looking to invest.

28. Tax Increment Financing**:** TIF can enable local authorities to raise funds for infrastructure improvements which will increase economic activity in the future. TIF has been widely used in the US for many years. It is not a panacea but could be appropriate for certain schemes. TIF is currently being considered, for example, for the Northern Line extension to Battersea.

29. Subdividing major projects into smaller sections with bespoke financing/funding arrangements: For example, as set out in the report on HS2 funding by David Ross et al the main line investment could be simplified and funded by central government but then station development and city links are funded and justified separately by local governments and/or private sector developers. This could divide what seems like an insurmountable investment into well structured projects which are both practicable and fundable.

Creating better investment frameworks to privately funded infrastructure

30. Major parts of our transport infrastructure such as airports and sea ports are funded entirely by the private sector. The capital that funds such investment tends to be global capital that has investment options around the world. The Government must focus on ensuring the UK offers an attractive investment framework in these areas. We argued in our report "*Green Skies Ahead"* that aviation will play a central role in ensuring the UK remains an economic hub, emphasising the need to ensure there is sufficient capacity and an appropriate level of tax on airlines and airports. Similar issues can be raised in terms of port capacity. The key elements of this are:

31. A streamlined, predictable planning system: The replacement of the IPC with a major Infrastructure Unit must not undermine the benefits of the 2008 Planning Act. In addition, the NPSs for transport must be finalised and designated as soon as possible.

32. Regulatory frameworks must be conducive to efficient investment: For example, DfT must ensure rail franchises are reformed with longer franchises specified at a high enough level to encourage efficient, innovative investment by TOCs.

33. Green Investment Bank/project bundling: Investors such as pension funds are looking for low risk/long term return investments. In principle such investors should have an appetite for infrastructure investment, but in practice may be deterred from investing for example because they do not want to take on the construction risk in a major infrastructure project. A GIB may provide a way to bundle projects together in a way which dilutes this risk and makes investment more attractive.

Prioritisation of Publicly Funded Transport Investment Must be Improved and Made More Transparent

UK transport investment has been over politicised

34. Traditionally, UK transport appraisal tends to be narrowly focused on user benefits (eg time savings) rather than encompassing wider benefits such as labour market and connectivity impacts. This in turn has encouraged political considerations to be overlayed on appraisal results, or for the two to be blurred, which is one of the reasons why UK transport spending has fluctuated so much, and for major projects such as Crossrail to be argued over for so many years.[xvii]

Appraisal methodologies must be improved

35. An appraisal methodology has been developed which recognises a potential project's impact on "the real economy" as well as user benefits.[xviii] This would allow strategic spending decisions in transport and infrastructure in general to focus on wider parameters than currently used. The impact on land use and business mix will be recognised by using such a measure and will provide a more comprehensive understanding of the long term impacts on the real economy at both regional and sub-regional level. A further advantage of this new methodology would be to focus more closely on specific regional and local conditions. Identifying where economic growth could be most aided by a substantial infrastructure project would become as central. This appraisal method would look at the impacts of a potential project on the supply side of the economy and whether it would make a region more attractive to investors. It would look at a project's impact on the sort of economic activity in a given area as well as whether this would reduce levels of unemployment. Now is the appropriate time to explore further possible alternative methodologies, although it is crucial that this does not lead to a freeze in projects appraised under the existing model being taken forward.

Debate over priorities must be more transparent

36. Appraisal methodologies will never be perfect, and political issues can be legitimate factors provided they are transparently debated. Government should be more explicit about the sensitivities of appraisal methodologies and the extent to which political considerations have been factored in when prioritising transport spending.

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Written evidence from Associated British Ports (ABP) (TE 67)

PORTS
THE UK'S GATEWAYS TO GREEN GROWTH

Introduction

1. ABP is the UK's largest and leading ports operator with 21 ports around Britain handling around one quarter of the UK's entire seaborne trade. ABP's ports include Grimsby & Immingham, the UK's largest port by tonnage, and Southampton, the UK's principal cruise port and home to the nation's second largest container terminal.

2. Since the Eddington Transport Study was published in 2006 the UK has experienced a severe economic recession. Whilst this has brought about a change in wider economic conditions, efficient access to global markets remains a key driver of economic growth. Investment in transport infrastructure to support this is therefore an essential component of successful economic recovery.

3. However, the focus of Eddington inevitably does not reflect the fresh ambition to shape the economic conditions of the future. In particular, there are now clear policy objectives to re-balance the economy and achieve "green growth". These objectives, as expressed by the coalition Government, increase still further the importance of efficient transport links to ports and effective port infrastructure.

Re-balancing the Economy and Achieving Export-led Growth

4. Achieving the important goal of re-balancing the economy and aspiration towards export-led growth depends on making sure that UK manufacturers have the best possible access to our international gateways. Offering efficient access to global markets is also essential for attracting new UK and foreign investment to further boost the nation's manufacturing capacity.

5. The Department for Transport's "Delivering a Sustainable Transport System" (November, 2008) identifies the UK's most important international gateways, including Grimsby & Immingham, Hull and Southampton. Therefore DaSTS can undoubtedly provide the correct basis for prioritising future public investment in transport infrastructure.

Delivering Green Economic Growth

6. Ports have a crucial role in delivering green economic growth by helping to build the low carbon economy of the future and facilitating sustainable distribution networks. As such, they are key to creating thousands of green jobs.

7. Many ABP ports are at the forefront of the drive towards renewable energy. For example, ABP Hull is planning for the development of state-of-the-art manufacturing facilities to support a massive expansion in offshore wind power. The £100 million investment is one of the key drivers behind the Humber Green Economy Gateway and is projected to create over 2,000 jobs. By developing the skills base of the Humber workforce, particularly in areas such as engineering, the scheme has the potential to support the sustainable transformation of the local and regional economy over the long term.

8. Ports also have a key role in supporting green economic growth by facilitating sustainable distribution networks. According to Freight by Water, a 2000 tonne coaster is the equivalent to 80 lorry loads and three times as efficient.

9. In so far as it does not rely so much on expensive infrastructure, coastal shipping offers considerable potential to deliver carbon-friendly transport solutions on a cost-effective basis. Unfortunately, this potential remains largely untapped. It is therefore important that Government adopts a more holistic and thorough approach to deliver low carbon distribution that represents best value-for-money for the taxpayer.

Case Study

ABP Hull: A Gateway to Green Growth

ABP Hull is a prime example of how UK ports are key to economic recovery and shaping our future prosperity by re-balancing the economy together with promoting green growth.

The Port provides thousands of businesses with essential access to global markets. Its container and ro-ro terminals alone offer shipping services that connect the UK to Northern Europe and a range of destinations world-wide.

Beyond its position as a leading international gateway, ABP Hull is planning for a £100 million scheme to provide a base for the manufacturing and pre-assembly of offshore wind turbines and their components. The project will support a massive expansion of offshore wind power generation off the UK's east coast and is projected to create over 2000 jobs. Uniquely, the scheme benefits from a planned supply of renewable electricity generated on the port estate. This will make sure that green industry is powered by green electricity.

In addition to the site for the manufacturing facility, ABP Hull offers further port land to support the sustainable development of a much wider cluster of renewables and other manufacturing businesses. These businesses can also be connected to a renewable electricity supply and will enable Hull, and the wider Humber region, to rapidly become a key part of creating the UK's green economy. As the developments will make use of existing port infrastructure, they will mitigate the impact on the environment while offering a fast-track route to delivering green jobs and growth.

ABP is proactively engaging with Hull City Council and other partners to develop these sites as the foundation of a "Green Economy Gateway". The **Humber Green Economy Gateway** offers the exciting prospect of delivering a huge boost to the local and regional economy.

Securing Private Sector Investment

10. Government investment is central to making sure that the UK's ports have road and rail links which are fit-for-purpose. However, private sector investment is critical to delivering effective port infrastructure. In the past five years alone, ABP has invested in excess of £350 million.

11. To secure future private investment in the ports industry Government must ensure fair competition between ports and an efficient planning system. It must also ensure that the introduction of marine planning under the Marine and Coastal Access Act 2009 does not add cost or delay to impede port development, and ensure that the new Marine Management Organisation provides the highest possible standard of service to the ports industry.

12. It is important for Government to recognise that the UK must compete for investment in its port infrastructure on an international basis. Creating the right environment for investors is therefore absolutely critical.

Conclusion

13. Eddington rightly identified access to international gateways as a crucial driver of economic growth. The need for economic recovery means that the Government's future spending priorities should reflect this. The case for investment in transport links to ports is strengthened still further by the desire to re-balance the economy and promote green economic growth. The Humber Green Economy Gateway is an excellent example of ports' critical role in achieving these objectives.

14. ABP would be delighted to answer any further questions the Transport Committee may have about our submission.

September 2010

Written evidence from the Campaign for Better Transport (TE 79)

Since 1973 the Campaign for Better Transport has been helping to create transport policies and programmes that give people better lives. Working nationally and locally, collectively and as individuals, through high-level lobbying and strong public campaigning, we make good transport ideas a reality and stop bad ones from happening.

Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and uk economic growth?

The UK's economic conditions have changed dramatically since the publication of the Eddington Transport Study. Faced with a global recession and commensurate national economic decline, the coalition Government has refocused the UK's priorities on deficit reduction. At the same time our understanding of how transport (and transport spending) engenders economic activity has changed, particularly in relation to revenue expenditure.

In the Campaign for Better Transport's view, the change in the economic situation makes Eddington's findings all the more significant. For instance, his championing of smaller, smarter interventions should be especially useful to local authorities whose plans for a major scheme have not survived the comprehensive spending review. Similarly, his recognition that congestion is primarily an urban problem should be used to guide investment away from rural bypasses and link roads and towards high-value and sustainable urban transport packages.[64]

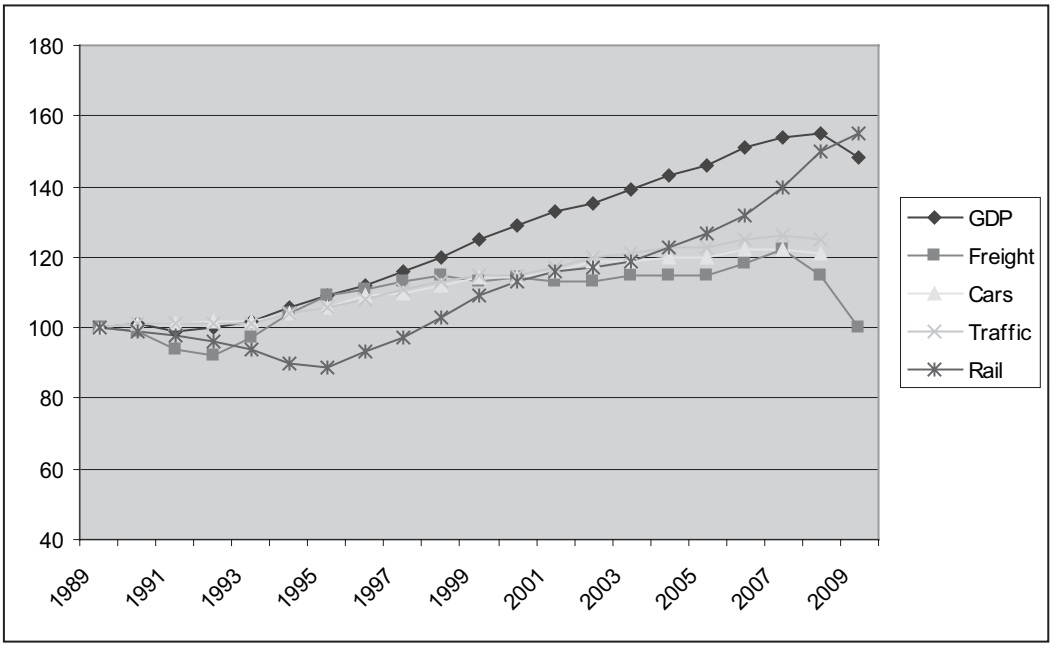
Transport Activity has Decoupled from Economic Growth

It has become increasingly clear that transport is no longer inexorably linked to economic activity. From 1997 onwards the correlation between GDP and traffic levels has diminished (see figure 1, below). By contrast during this period, growth in the use of rail, after an initial decline, has consistently run alongside or (more recently) ahead of GDP.

The reasons for this are unclear. One obvious cause is the UK's transfer away from manufacturing and production towards a knowledge-based economy. Other causes include land-use planning policy, which has focused development away from out of town areas and into town and city centres.

Figure 1

TRANSPORT AND ECONOMIC GROWTH INDEXED TO 1989[65]



Many UK cities, such as Nottingham and London, have shown that economic growth can be achieved without a corresponding increase in traffic. Despite this, Department for Transport forecasts still assumes a linear relationship between economic and transport activity and specifically a linear growth in road traffic and car ownership to a "saturation level" akin to the highest levels found in some US cities.

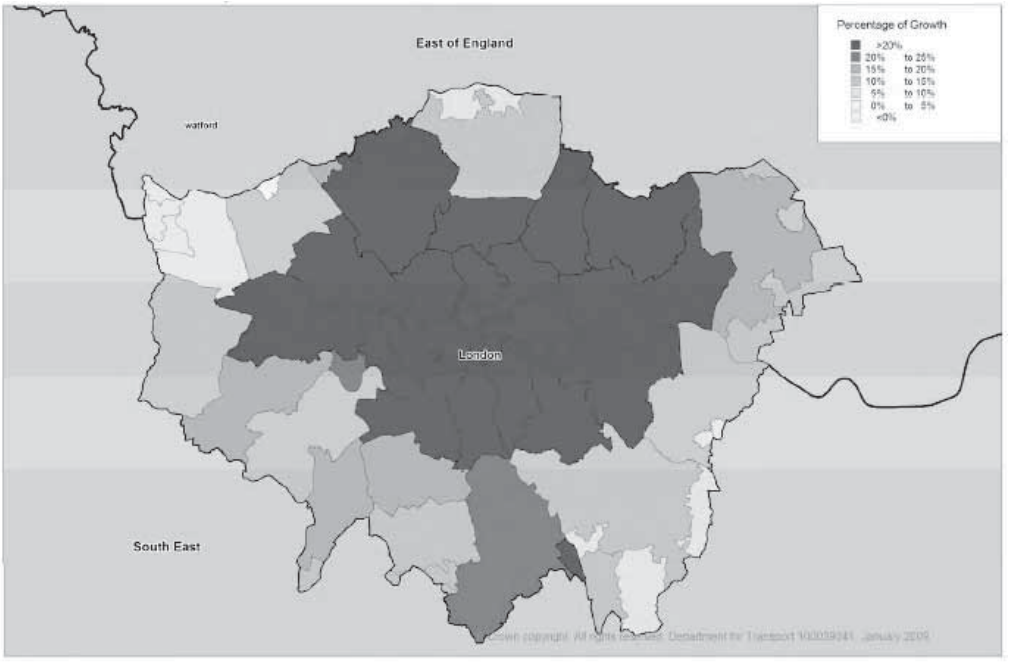
[64] *The Eddington Transport Study*, page 79. Eddington notes that 90% of non-urban traffic travels in "relatively uncongested conditions" and that 89% of time lost on the roads is in urban areas.

[65] *Transport Statistics Great Britain 2009*, http://www.dft.gov.uk/pgr/statistics/datatablespublications/tsgb/2009edition/.

The assumptions underlying this forecasting, which have remained unchanged for forty years, have a huge influence on policy and economic analysis. Recent modelling of future levels of car ownership in London forecast implausible increases of over 20% for central London boroughs, despite a long-term year-on-year decline (see figure 2). Scenarios, ranges and sensitivity tests, for example on future oil prices, should be incorporated into the projects authorised by DfT, to ensure that spending is predicated on robust, real-world situations, not wildly imaginative modelling.

Figure 2

FORECAST GROWTH IN CAR OWNERSHIP IN LONDON 2006–26[66]



More recently, some academics, such as Professor Phil Goodwin, have suggested that we are approaching, or have already reached, "peak car": the point at which car ownership moves into permanent decline.[67] This is different from a saturation point. Instead as the disbenefits of car ownership (congestion, difficulty of parking, cost of ownership) begin to outweigh the benefits, so car ownership and distance travelled by car begins to decline.

Certainly there is convincing evidence that individual travel has peaked. For instance, although our journeys are getting longer (from 6.4 miles in 1997 to 7 miles in 2008) our individual mileage peaked in 2005 and is now below 1997 levels. Similarly, car use has been in steady, gradual decline, falling from 82% to 79% of trips over the past decade, with per capita distance travelled by car dropping from 5,705 to 5,468 miles per year.[68]

Highways Agency Forecasting of Economic and Traffic Benefits is Generally Not Accurate

Since the Eddington Study, the Highways Agency has published a number of "post opening project evaluation" reports, which examine the correlation between forecast and outturn impacts of specific road schemes, one and five years after they opened. An Atkins meta-report summarised 28 reports, finding considerable issues with the quality of forecasting, especially traffic levels and economic benefits.[69]

In 60% of the examined bypasses, forecasters had failed to predict traffic levels within a 15% margin of error. 35% showed differences of greater than 25%, and the majority had actual traffic volumes above those predicted. Accident savings for bypasses were around a third lower than predicted. Atkins also found that time savings bore little relationship to the forecasts, and the Highways Agency's forecasting of economic benefits was "generally not accurate".

[66] Delivering a Sustainable Transport databook, Annex 9, http://webarchive.nationalarchives.gov.uk/+/http://www.dft.gov.uk/pgr/regional/strategy/dasts/databook/annex9.pdf

[67] "What about 'peak car'—heresy or revelation?", *Local Transport Today*, 25 June 2010. http://www.transportxtra.com/magazines/local_transport_today/opinion/?id=23221

[68] Transport Statistic Great Britain 2009. http://www.dft.gov.uk/pgr/statistics/datatablespublications/tsgb/2009edition/sectiononemodalcomparisons.pdf

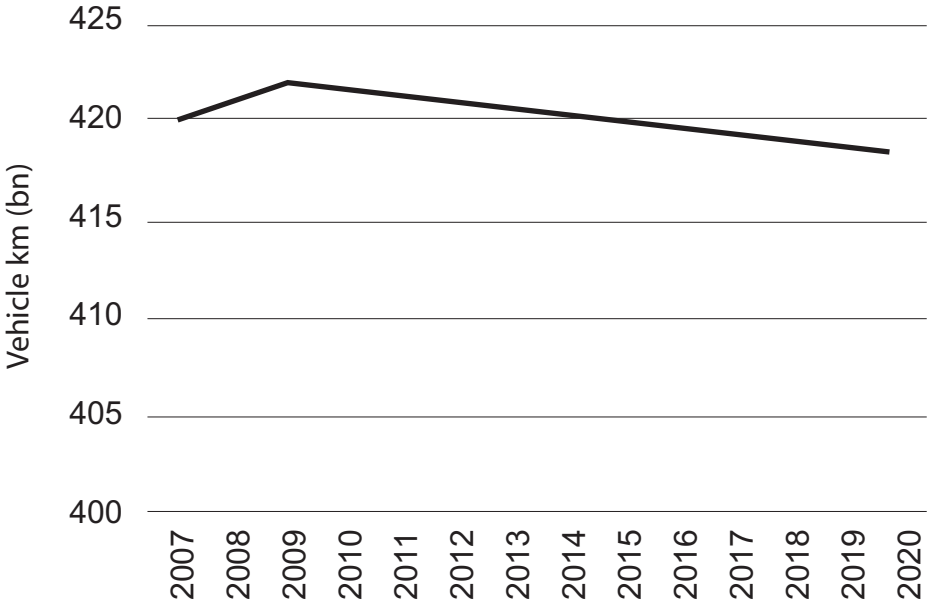
[69] *Highways Agency Post Opening Project Evaluation*, meta-analysis report, Atkins, March 2009. http://www.bettertransport.org.uk/system/files/HA-POPE-summary.pdf

Climate Change Act and Committee on Climate Change

Since the Eddington Study was published, there has been a greater awareness of the importance of reducing greenhouse gas emissions and preventing climate change. Since 2006, despite some press coverage, the evidence base for climate change and global warming being real, serious, and caused by human activity including vehicle emissions, has grown and solidified.

Figure 3

VEHICLE-KM TRAJECTORY FOR CARS[70]



In 2008, legally binding limits on CO2 emissions were enshrined in the Climate Change Act. So far, Government action has focused on promoting cleaner and lower emission vehicles, but the Committee on Climate Change has also stressed the importance of stabilising and reducing traffic and behaviour change measures to achieve this (see figure 3). Ministers have accepted this, and recently announced a new Local Sustainable Transport Fund to support schemes which achieve this.

"Smarter Choices" Programmes Continue to Show Excellent Value for Money

Finally, evidence regarding the benefits of "smarter choices" programmes has been further consolidated. The results of the Sustainable Travel Demonstration Towns and the Cycling Demonstration Towns have demonstrated sustained reductions in car use following low-cost (primarily revenue) interventions.[71] It is even clearer now than it was when the Eddington Study was published that these interventions have real benefits, both for the economy itself and for Government policy in the round.

The Case for Infrastructure has been Weakened by a Better Understanding of the Evidence Base

Eddington suggested that the economic benefits of major infrastructure investment were generally overstated in advanced economies, because poor infrastructure was rarely a major obstacle to business. Since his report was published, we have gained a better understanding of the robustness of the evidence base for major investment. As we have seen, many of the core assumptions underpinning DfT forecasting and modelling are congenitally flawed. The case for new infrastructure schemes, particularly major road building, is considerably weaker than when the Eddington Study was published, whereas the case for non-transport interventions and resource spending has been strengthened. This should have a major impact on future spending priorities.

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

The Comprehensive Spending Review should produce a package of measures which support a sustainable economic recovery in the short-term and which reduce the need for future capital spending. Transport spending

[70] *First Progress Report*, Committee on Climate Change, http://downloads.theccc.org.uk/21667%20CCC%20Report%20AW%20WEB.pdf

[71] See, for instance, letter from Gillian Merron, then-Transport Minister, to local authority Chief Executives, http://webarchive.nationalarchives.gov.uk/+/http://www.dft.gov.uk/pgr/sustainable/demonstrationtowns/lettersustainabletraveltowns.pdf, or *The effects of smarter choices in the Sustainable Travel Demonstration Towns*, http://www.dft.gov.uk/pgr/sustainable/smarterchoices/smarterchoiceprogrammes/.

should fit with cross-Departmental objectives. The major schemes pot should prioritise smaller schemes, and we welcome the announcement of the Government's new Local Sustainable Transport Fund.

Fund Schemes with Immediate Benefits, Fit with Government Policies and Reduce Future Spending

The Government will want to prioritise schemes which reduce the deficit and create the conditions for economic recovery. It will therefore want to prioritise schemes with considerable benefits within the first five years. There is little point in allocating tens (or hundreds) of millions towards a scheme which will spend several years going through the planning process, because that money could be better spent on a project or package of measures which is "shovel ready". Similarly, schemes whose benefits are mostly felt towards the end of their 60 year evaluation period (such as those whose economic benefits are mostly aggregated time savings) should be rejected in favour of those with more immediate benefits.

Recent work for the Public Transport Executive Group has attempted to capture the economic benefits of investment in public transport.[72] This indicates that for every hundred direct jobs in rail, 140 indirect jobs are created. By contrast, one hundred direct jobs in the motor industry generates just 48 indirect jobs.

Given the fragile state of the economy—and the risk of a "double dip" recession—we must prioritise measures which reduce future capital costs. It is clearly better to spend money on maintenance now, if doing so avoids spending larger amounts in a few years time. Failing to spend on highway and rail maintenance now risks, to employ an over-used idiom, spoiling the ship for a ha'pworth of tar.

This is also the case for schemes which reduce or increase greenhouse gas emissions. As the Committee on Climate Change has shown, and the Secretary of State accepted, we will not be able to meet our CO2 targets by technology alone. However, by investing in schemes which give alternatives to car use, and thereby reduce emissions, we can make meeting the Climate Change Act targets more achievable and therefore less costly in the medium- to long-term. Conversely, prioritising schemes which increase traffic and thereby emissions only increases the cost of meeting these legally binding targets.

Focus on Maintaining Existing Network, Helping People Get to Work and Cutting Urban Congestion

The Government's current appraisal system, the New Approach to Transport Appraisal, has been roundly criticised for placing too much emphasis on small time savings at the expense of more material economic benefits. For example, the overwhelming majority of the economic benefits of the proposed Hastings to Bexhill Link Road are time savings averaging 15 seconds per user. Whilst such schemes appear to enjoy relatively high benefit-cost ratios, this does not translate into significant real-world benefits.

In any case, time savings are only a proxy for economic benefits. KPMG, in recent work for Network Rail, has identified ways of prioritising schemes according to their impact on the real economy.[73] Their report proposed reducing the reliance on Welfare economics—user benefits monetised according to the willingness to pay principle—and instead focusing on economic outcomes, such as economic and labour market activity, land use, development activity and environment and sustainability.

As the Secretary of State has suggested, Government spending should prioritise schemes which make best use of the existing transport network, cut congestion and improve access to employment, education and training. As Eddington notes, 89% of congestion is in urban areas, where solutions should centre on providing alternatives to car use, not additional road building.[74] Such schemes would be of particular assistance to those on limited incomes, who are disproportionately less-likely to drive and thus find it harder to get to work or education unless there is affordable, accessible public transport.

We believe that maintenance should be a major priority for the coalition Government. Maintenance work could also coincide with programmes to make best use of existing infrastructure, including plans for active traffic management for Highways Agency roads, and bus lanes, public realm improvements and cycle infrastructure for those managed by local authorities.

Reject Legacy Road Schemes but Support Low-cost Alternatives

The previous Government's spending plans were dominated by legacy road schemes with little national benefit and detrimental environmental and social impacts. These schemes ill accord with Government policy and have never been subject to a proper assessment of options in line with current WebTAG guidance. Others are designed to enable unpopular housing developments necessitated by now-abandoned central Government housing targets.

[72] *Employment in sustainable transport*, http://www.pteg.net/NR/rdonlyres/D09F59E8–72C6–438C-8964–60A1993A8F48/0/EmploymentintheSustainableTransportSectorpdf.pdf.

[73] *Prioritising investment to support our economy*, KPMG, http://www.networkrailmediacentre.co.uk/Press-Releases/INVESTING-TO-BUILD-BRITAIN-S-ECONOMY-1561.aspx.

[74] *The Eddington Transport Study*, page 79.

There are two sensible courses of action. Firstly, the coalition should introduce a "transport test" to ascertain the impact of decisions taken by other departments. This would demonstrate the benefits of encouraging new developments in sensible locations, such as around existing railway stations or on urban brownfield land (from which people could walk or cycle). It would also highlight the impact that some measures, such as closing rural post offices or relocating hospitals, would have, both on individual travel patterns and expenditure, but also on air quality, traffic and greenhouse gas emissions.

Secondly, the coalition should cancel the majority of legacy road schemes and require a reassessment and re-examination of all lower-cost and alternative options. These should focus on a package of measures rather than on road building alone. The new Local Sustainable Transport Fund should help provide funding for the packages which arise out of this process.

How should the balance between revenue and capital expenditure be altered?

The Eddington Study highlighted the vital role played by low-cost interventions in tackling transport problems. Many of these "smarter choices" programmes require revenue funding, in that they often involve a mix of information provision, travel marketing, cycle training and support for transport operators and local businesses. The Treasury has proposed substantial cuts to resource spending as part of the comprehensive spending review. This would be an entirely retrograde step.

Reform Capital-revenue Split to Give Local Authorities Flexibility

For transport, increased revenue funding serves a number of useful ends. Revenue spending ensures better efficiency of existing services and networks, whether through marketing public transport services and thus making them more economical, supporting businesses in developing travel plans and thus reducing congestion, or extending the hours a bus service runs so that more people are able to rely on it.

Secondly, revenue services offer lower-cost solutions to transport problems. It is generally cheaper to reduce demand than to attempt to provide additional capacity. The Department for Transport calculated that spending on the Sustainable Travel Demonstration Towns had a benefit-cost ratio of 4.5 for congestion benefits alone.[75] More recent academic research has substantiated and elaborated on these findings, particularly on cross-departmental benefits, such as health.

Finally, resource spending can be used to reduce future capital expenditure. Small-scale, targeted spending on travel planning, car sharing and other demand management options by the Highways Agency for businesses located at the Cambridge Science Park, for instance, lead to sizeable cuts in congestion on an otherwise gridlocked junction, avoiding the need for additional road space. Research conducted by Steer Davis Gleave into alternatives to the Wing Bypass suggests that the cost of a revenue intervention to reduce the need for capital investment could be less than the interest repayments on borrowing the capital costs.

It is therefore important that there is greater flexibility in revenue-capital allocations, so that the right decisions can be made according to local needs. One option would be to enable revenue spending which could be demonstrated to reduce capital expenditure to be classed as capital spending. Another approach would be to give scheme promoters greater flexibility by not distinguishing between packages of capital and revenue spending.

Are the current methods for assessing proposed transport schemes satisfactory?

The flaws in the Government's New Approach to Transport Appraisal (NATA) are widely acknowledged. Appraisal reform was a cornerstone of the Coalition Agreement, and all three parties included some form of reform in their manifestos. Campaign for Better Transport set out the case for NATA reform in a recent letter to the Secretary of State for Transport, Philip Hammond, which accompanies this submission.

Time Savings Do Not Reflect Real-World Economic Benefits

Time savings dominate benefit-cost ratios: 85% of the benefits of the Bexhill-Hastings Link Road come from time savings averaging just 15 seconds. However, research by the Department for Transport and elsewhere has questioned whether drivers even notice such minor time savings, let alone use them to generate additional economic activity. Very minor time savings are especially vulnerable to slight changes in traffic levels; even minor congestion would wipe out savings of less than a minute. The focus on time savings also leads to regional disparity, because it leads to a presumption in favour of road building in the south east to the detriment of other parts of the country.

One suggestion, which we endorse as an interim measure, would be to disaggregate time savings, showing how many are less than a set time period (say, one and a half minutes) and how many are greater. However, in the long-term we believe that time savings of less than one or two minutes should be disregarded, focusing instead on schemes which generate considerable and lasting time benefits.

[75] Department for Transport, *The Effects of Smarter Choice Programmes in the Sustainable Travel Towns*, chapter 21. http://www.dft.gov.uk/pgr/sustainable/smarterchoices/programmes/

Without Reform, NATA will Continue to Reward Schemes with Poor Policy Fit

The Department for Transport undervalues greenhouse gas emissions, counting changes against an unrealistic baseline scenario which assumes emissions increase, despite legally binding commitments to cut carbon dioxide emissions. We propose that emissions should be considered against a decline of 80% by 2050, in accordance with the Climate Change Act.

Secondly, the cost of a tonne of CO2 is too low, especially when considered against the value of time and indirect tax revenues. The cost of the carbon dioxide emitted by burning a litre of petrol is considerably outweighed by the benefit to Government from the associated fuel duty. This could be remedied by changing the treatment of fuel duty (see below) and by implementing the draft version of WebTAG dealing with the cost of carbon (3.5.3d), as proposed during the 2009 NATA refresh.

Benefit-cost ratios are over-reliant on fuel duty revenue. Schemes which increase fuel duty are permitted to discount capital costs against future revenue; those which decrease revenue, by providing lower-carbon alternatives, must include the reduction as a cost. In some cases, indirect fuel duty revenue outweighs the cost of construction, leading to ludicrous BCRs.

The A14 Ellington to Fen Ditton, estimated to cost up to £1.3 billion, has a benefit-cost ratio of -3.1; although the scheme would cost £765 million (in 2002 prices), it would raise £1,068 million in fuel duty, and is therefore assumed to cost approximately -£300 million. The Highways Agency reformulated this by moving the fuel duty from the costs to the benefits column, resulting in a BKR of 2.6. Removing fuel duty entirely would produce a BCR of 1.2, well below the threshold for central Government funding.

Fuel duty may be a benefit to the Government, but it is a major cost to transport users. It's inclusion in transport appraisal expressly encourages unsustainable schemes and presents a barrier to schemes which provide alternatives to private car use. We do not believe there to be a case for including fuel duty revenues in transport appraisal and propose that it be removed from benefit-cost ratios altogether.

There also issues about the treatment of light rail schemes. Whilst the minimum local authority contribution towards scheme funding is normally 10% of capital costs, tram scheme promoters must contribute a minimum of 25%; utility discounts for diversions required by tram schemes are just 7.5%, compared with 18% for highways schemes. This discourages local authorities from submitting light rail schemes, despite their attractiveness to users and potential to provide reliable, high-quality alternatives for urban transport.

We propose that NATA be modified so that all schemes are considered equally.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

It is entirely unclear how schemes will be planned following the demise of the regional decision making bodies. There is clearly a need for some form of sub-national decision making process, if only to mediate between DfT and individual scheme promoters.

In principle, Campaign for Better Transport supports initiatives which encourage local authorities to work together, such as through Integrated Transport Authorities. However, as the recent Regional Funding Allocation demonstrated, regional decision making is just as likely to result in counter-productive horse-trading as in strategic packages of interventions. We would prefer to see strategic thinking along the lines of the Regional DaSTS studies recently begun by DfT, which generally achieved the challenging outcome of balancing central Government objectives with local and sub-national aspirations.

There are serious concerns about Local Enterprise Partnerships. Local people need to be included in the decision making process but this is not the case in several local coalitions between councils and business. The Greater Norwich Development Partnership, for instance, claims to be exempt from Freedom of Information Act requests and does not allow the public to attend its meetings, despite being a publicly funded body. Whatever sub-national decision making bodies emerge over the coming years must be bound by the Freedom of Information Act and should be accountable to local people.

There is a wealth of experience across voluntary organisations involved in environmental and transport issues of involvement in regional decision making. It would be a real pity if that experience were lost or excluded from future strategic decision making bodies.

We have argued above that future spending should prioritise smaller schemes and rely more on resource spending and non-transport interventions. Ideally, what limited money remains in the capital budget should be allocated to schemes which accord well with central Government priorities, with the remaining money made available for demand management programmes and smaller interventions to make best use of existing capital assets.

September 2010

Further written from the Campaign for Better Transport (TE 79A)

This short submission updates our original submission to the Select Committee, in light of the announcements which followed on from the comprehensive spending review.

Local Sustainable Transport Fund Should Produce Innovative Results

1. We welcome the Government's decision to make a separate fund available for sustainable interventions at a local level, particularly in that it supplies revenue funding. Whilst this will not make up for the sizeable cuts in other funding, it should encourage local authorities to trial new approaches, particularly where their application for a major scheme has been rejected (or where they had been working up a scheme but had not submitted a business case before the deadline).

Highways Agency Programme is a Welcome Shift Towards Managing Capacity

2. We welcome the Secretary of State's decision to prioritise managing existing trunk road and motorway capacity over adding new capacity. Not only is this less costly, but, by smoothing traffic flows, it has the potential for long-term benefits, whereas road widening tends towards short-term gains offset by long-term deterioration as generated traffic outstrips the new supply.

3. We are pleased that the coalition has recognised that the A14 Ellington to Fen Ditton did not represent the best solution to congestion on the A14. We welcome the decision to cancel the project and to instead embark upon a proper, multi-modal, consideration of the Felixstowe—Midlands road-and-rail corridor. We hope that this will provide some useful opportunities for local people to feed in their suggestions for lower-cost, more sustainable solutions, such as upgrading the Felixstowe-Nuneaton rail freight line.

4. We are concerned about the decision to fast-track the A556 Knutsford to Bowdon road scheme. This road carries serious environmental impacts, both in local terms (it would have a severe impact on local green spaces) and nationally (in terms of greenhouse gas emissions). It is nowhere in planning terms, having had no draft orders published, nor undergone a public inquiry; indeed, the Highways Agency has only just announced a preferred route. We cannot believe that construction will have started, let alone finished, by 2014–15, and therefore cannot understand why it is being considered for funding in this spending review period.

Local Authority Programme Offers False Hope to Councils

5. Whilst we support the Government's plans to reassess the programme of local authority majors, we are concerned that the current programme encourages councils to continue spending money developing projects which stand next to no chance of receiving funding.

6. For instance, the development group has £600 million attached to it, but contains 22 schemes, several of which require central Government contributions of over £70 million apiece. The likelihood of, for instance, the £100 million Hastings—Bexhill Link Road, being approved in this spending review period is minimal. However, instead of admitting as much, the Government has offered false hope to councils, who will have no option but continuing developing their scheme.

7. This is particularly applicable to schemes in the pre-qualification group. In theory, schemes in this category could be elevated to the development group. In practice, however, the development group is over-subscribed (see above). We do not believe that any schemes could be brought forward from the pre-qualification group, because competition for its limited funds is already fierce.

8. It would have been preferable for the Government acknowledge that many of the schemes in the development and pre-qualification groups are not going to be built. This would have created political space for councils to rethink their proposals; to return to first principles and explore more affordable and sustainable solutions.

Choice of Supported Schemes is Questionable

9. We have particular concerns about two of the schemes that the Government placed in the supported group. The first, the Heysham M6 Link Road, is being promoted by Lancashire County Council. The council plans to totally redesign it, and has said that this will result in material changes. It would therefore require a new planning application and public inquiry. Any revisions would need to be completed by the end of the year, giving the council around seven weeks to totally redesign a major scheme, consult the public, ascertain the costs, benefits and wider social impacts.

10. We fear that this timescale is too short, affords no time for consultation and is likely to result in substandard work. We also cannot understand how DfT plans to decide whether to approve the road by January. Analysing a major scheme business case normally takes around six months, but it took DfT and Lancashire CC five years to conclude the business case for this scheme. We simply do not believe that this can be done properly in the time currently allotted. Instead, this scheme, and any others which are being completely rethought, should be considered as part of the development group.

11. We are also sceptical of the benefits attributed by Halton Borough Council to the Mersey Gateway Bridge. Professor Wenban-Smith has highlighted a number of major inconsistencies in their business case, including that there will be no benefit to anyone, save the toll operators, for the first fourteen years. We are also concerned that efforts to reduce central Government contributions will result in further, substantial, PFI costs, and that assumptions of the likely toll charges are wildly optimistic. We enclose a copy of his short briefing, which, we believe, is a perfect example of how the flaws inherent in the current appraisal system operate.

Appraisal Needs Serious Reform, not Tinkering Around the Edges

12. There is serious confusion as to which version of the Department for Transport's WebTAG guidance is in use. Over a year ago, the previous Government began revising WebTAG and NATA. However, because the proposed changes were not enacted before the pre-election purdah, many sections of WebTAG currently exist in two forms: an out-of-date original, and a reformed version in draft. Worryingly, it is those areas which were felt to be most urgently in need of reform which are disputed, because those are the sections where changes were proposed and new versions consulted on.

13. Given this confusion, there is a real need for the Government to clarify how it appraised transport schemes in the comprehensive spending review, and how it plans to appraise them when it decides which schemes should go ahead next year. Despite blanket media coverage of the comprehensive spending review, including in the specialist press, we were given little insight into what methodology was being employed to compare transport schemes, let alone how spending on transport was compared with spending on defence, health or education.

14. In our main submission, we outlined the case for reforming transport appraisal. The Government has continued to suggest that this long-awaited reform is imminent. Their *Investment in Local Major Schemes*, published concurrently with the Secretary of State's more detailed post-spending review announcement, promised "to take forward the commitment in the Coalition Agreement to reform the way decisions are made on which transport projects to prioritise. The appraisal of local major schemes will be consistent with these proposals."

15. Transport appraisal is not an exact science. You will have already heard several experts outlining different ways in which they would reform the current system, as well as the difficulties which reaching agreement as to the optimum system. However, what is not in dispute are the myriad flaws in NATA and WebTAG, and the need for urgent reform to ensure that schemes which perform well in the appraisal process are those which best fit Government policies.

16. We believe that there is an urgent need for a comprehensive overhaul of transport appraisal, tackling issues of time savings, valuation of externalities, do minimum comparisons, treatment of fuel duty revenues, etc., all of which we outlined in more detail in our main submission. This is likely to materially alter benefit-cost ratios, which are still dominated by time savings and fuel duty revenues. We believe that getting appraisal right must be central to the Government's plans for the coming year, so that the package of schemes which emerges out of the development group can be properly assessed for their benefits, costs and fit with Government policies.

Rail Fare Increases Will Restrict Labour Market and Price People Off the Railways

17. We are very disappointed at the decision to increase the cap on regulated rail fare rises from RPI+1% to RPI+3% from 2012. Using the Office of Budget Responsibility's RPI forecasts, this will lead to fares being 31% higher by the end of this Parliament in 2015. This is against a historical real term increase in rail fares of 55% between 1998–2008 (compared with an 18% real term decrease in the cost of motoring).[76]

18. There is a danger that this will be price people away from jobs in many city centres, restricting the labour market. Season tickets are already twice as high as other European countries and this situation will only get worse, affecting the competitiveness of London and other cities.[77]

19. Sample season ticket rises by 2015 include:

- Milton Keynes to London: £5,026 (increase from 2010 price: £1,194).
- Gillingham to London: £4,995 (increase from 2010 price: £1,187).
- Luton to London: £4,229 (increase from 2010 price: £1,005).
- High Wycombe to London: £3,605 (increase from 2010 price: £857).

20. There are also risks that could arise from failing to protect flexible fares. We understand that Virgin is planning to abolish all walk-on fares on some peak time services between London and Birmingham.

21. The Government's forecast is that, as a result of the change to RPI+3%, there will be 4% fewer trips by rail than otherwise[78], most of which would be expected to shift to road transport with consequent rises in congestion and carbon emissions. This is bad news for all transport users.

[76] *RAC Report on Motoring 2008.*
[77] Fares and Ticketing final study report, Passenger Focus, 2009
[78] Hansard, 10 November 2010, c335W

Cuts to Bus Support Will Force People into Welfare-dependency

22. Bus services are a vital part of people's lives. They are the most popular form of public transport, and are especially important in rural areas, and to people on low incomes. They have featured prominently in the Government's welfare-to-work strategy, with Works and Pensions Secretary Iain Duncan Smith suggesting that jobseekers should "get on the bus" and look for work.

23. But bus services are under threat from three sides. Firstly cuts to local authority revenue grants have put pressure on local authority tendered services. Somerset County Council have just approved cuts to bus subsidies that they predict will lead to a 50% reduction in bus services across the county, with severe impacts on rural isolation and local businesses.[79] North Yorkshire County Council are proposing severe cuts to evening, weekend and holiday services and have reduced the times when concessionary passes can be used.

24. Secondly, changes to the valuation of average fares in the concessionary fares formula will cut the amount spent to provide concessionary fares. This would penalise longer-distance rural bus services and services in the larger cities that do not have integrated transport authorities. The DfT's impact assessment suggests that this could result in 2.4% fewer trips by bus.

25 The third blow to bus services will be the cuts to bus service operators grant of 20% from 2012. If this is combined with moves away from being based on mileage, this could again affect rural bus services more. The Department for Transport estimate that the 20% cut to BSOG could result in:

- Fares increases and service mileage reductions of around 2% in rural areas.
- Fares increases of around 1% and service mileage reductions of around 2% for small towns.
- Fares increases and service mileage reductions of around 1% for larger non-metropolitan towns.
- Fares increases of around 2% and service mileage reductions of around 1% in metropolitan areas.[80]

26. In combination, these cuts (which might appear relatively small in isolation) are likely to combine to form a triple whammy from which bus services, particularly in rural areas, will find it difficult to recover. The impact of these cuts will be especially felt by those out of work who are looking for a job. Two thirds of job seekers do not have a driving license or access to a car.[81] Research by the Social Exclusion Unit discovered that 38% of job seekers found transport was a major obstacle to their finding work.[82] People should be getting on the bus to find a job, but that depends on there being a bus to use in the first place.

Plans for Lorry Road User Charging and Rail Reform Need Further Work

27. We are disappointed that the Government has opted for a simple vignette system for lorry road user charging. We believe that there are sizeable benefits in a slightly more complex model, as suggested in our recent report, *Lorry Road User Charging—A Way Forward for the UK*. We looked at a number of different models, and concluded that the simple time-based model, as supported by Government, would not meet wider objectives, would raise enforcement issues, could run into EU limits on charging, and be costly to implement and run.

28. We are concerned that plans for rail restructuring would hinder rail freight without significantly benefiting the rail industry. The Government is currently considering regional sectorisation and vertical integration, but rail freight works best with a national network, because this tends towards an integrated network which can compete with national road freight. We believe that the impact on rail freight of these proposals should be better considered to ensure that rail freight remains competitive and a viable solution to trunk road and motorway congestion, greenhouse gas emissions and air quality issues.

UK Needs to Develop Transport Which Supports a Sustainable Economy

29. In conclusion, we believe that getting transport right will be critical to engendering the conditions for a sustainable recovery. However, UK transport policy continues to fixate on long-distance movement of goods and people, rather than developing sustainable economic communities in our towns and cities.

30. Whilst the ability to move goods and services is important, it risks prioritising spending on inter-urban routes at the expense of our urban areas. As has been apparent for some while (it is cited in Eddington, for instance) at least 80% of congestion in the UK is in urban areas. But the majority of transport spending remains focused on inter-urban connectivity: bypasses, link roads, motorways, high-speed rail, intercity rail, etc.

31. Reversing this trend should be a vital goal for the coalition, in order to reverse the decline in our towns and cities by making them attractive places to live, work and shop; accessible to people, regardless of car ownership and income.

November 2010

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[79] 2011–12 to 2013–14 Medium Term Financial Plan: Summary of Service Proposals, Somerset County Council
[80] Hansard, 2 November 2010, c702W
[81] See http://www.dwp.gov.uk/consultations/2010/21st-century-welfare
[82] Making the Connections: Final Report on Transport and Social Exclusion, Social Exclusion Unit

Written evidence from Freightliner Group Limited (TE 81)

1. Executive Summary

1.1 The rail freight sector is a crucial part of the UK's transport solution and delivers significant carbon, congestion, road infrastructure and safety benefits to the UK economy. Rail freight is a strategically critical player in various UK markets including power generation, construction, retail, manufacturing, heavy industry and waste management.

1.2 The freight transport sector is now recovering from the recent recession, and the long term forecasts of GDP and freight growth are still valid as are the conclusions reached by the Eddington study of 2006, particularly the need to make the most efficient use of existing assets and transport networks.

1.3 In these difficult economic times, additional scrutiny of capital spending is needed to ensure that investments are deliverable and the returns are realistic and achievable. Focus on incremental schemes that are affordable and can be undertaken in steps rather than "landmark" schemes should bring a faster return.

1.4 When evaluating spending, consideration should be given to schemes that put in place the right conditions to trigger parallel private sector investments.

1.5 Mode Shift Revenue Support ("MSRS") grant is pivotal to maintaining rail's ability to compete with road; it warrants continued support to underpin infrastructure investment and further modal shift.

1.6 The current appraisal methodology undervalues the full value of modal shift, not least because the value of carbon is unrealistically low. In parallel, the rail economic benefits of interventions should be taken into account.

2. Introduction

2.1 Despite not being much in the consciousness of most of the population, the efficient and reliable transport of freight around the UK is a vital part of the success of the UK economy and contributes to the competitiveness of the UK in the global market. Just in time deliveries into factories, warehouses and retail units allow UK businesses to minimise their stock levels and quickly react to changing demand. The Eddington report, published in 2006, quantified the importance of an efficient freight sector, in particular in connecting international gateways to regions of demand; despite the recession since, the report is still absolutely relevant.

2.2 The rail freight sector is a crucial part of the UK's transport solution and it is estimated[83] that it contributed £5.9 billion to the UK economy, £870 million directly, in 2009. It has achieved 60% growth since privatisation and now holds a 13% market share in inland freight movements in 2007 (latest available statistics).[84]

2.3 Rail freight is a strategically critical player in various UK markets including:

- *Power generation:* over 25% of the electricity consumed in the UK is generated by coal moved by rail. Nuclear waste from power stations is also carried.
- *Construction:* rail moves aggregates and cements into major conurbations to enable developments that in turn enable our economy to grow. **In London over 40% of raw materials are delivered by rail,**[85] which played a major part in the delivery of Heathrow Terminal 5 and the Olympic stadiums.
- *Retail and Manufacturing:* **one in every four deep-sea containers** that arrive or depart from the major deep-sea ports **is carried by rail**. Containers have become the standard unit of transport around the world and can accommodate almost anything, eg food, clothes, consumer goods, raw materials or chemicals. Rail provides low cost, reliable movements between the ports and the distribution centres or factories.
- *Heavy Industry:* Steel making or manufacturing cars make use of rail in their supply chains delivering raw materials, parts and finished goods around their centres of production or distribution.
- *Waste Management:* The equivalent of 55,000 lorry movements of domestic rubbish are removed from our major cities by trains every year.[86]

2.4 Rail freight also delivers significant carbon, congestion, road infrastructure and safety benefits to the UK economy. It is estimated that the freight carried by rail rather than road:

- Saves £68 million per annum in CO_2 costs.[87]
- Saves £772 million per annum in congestion costs.[88]
- Saves £133 million per annum in road infrastructure costs.

[83] Network Rail: Value and Importance of Rail Freight July 2010
[84] ORR National Rail Trends 2009–10 Table 3.3c, billion tonne kms (excluding pipelines and water)
[85] Transport for London: Rail Freight Strategy August 2007
[86] Network Rail: Value and Importance of Rail Freight July 2010
[87] Based on Sensitive Lorry Mile values (DfT) multiplied by lorry journeys saved (ORR)
[88] Based on Sensitive Lorry Mile values (DfT) multiplied by lorry journeys saved (ORR)

— Incurs negligible costs from accidental fatalities[89] compared to the £532.8 million that could be attributed directly to fatalities involving Heavy Goods Vehicles (HGVs) in 2009.

2.5 The rail freight industry was privatised from 1994 and there have been several new entrants since; a total of five active operators currently. Operators have adapted to changing demand, developed new markets and can offer a viable alternative to road. The sector is highly competitive, this has driven efficiency through seeking economies of scale and scope (such as longer and heavier trains), higher staff productivity and increasing throughput at existing terminals. The rail freight sector has attracted over £1.5 billion of private sector investment, in rolling stock, terminals and IT. This capital investment has driven the 30% real unit cost reduction and brought improved service quality to the rail offering. However, due to competition, predominantly with road hauliers, it remains a low margin business earning 1.7% (Profit After Tax) across all rail operators in 2009.

3. *"Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and uk economic growth?"*

3.1 The UK economic climate did materially change after the publication of the Eddington report and the "credit crunch" had an immediate and negative impact on global and national trade; the demand for freight transport in the UK reduced as a consequence. The effect, however, has been short lived and there is now credible evidence of a recovery in traffic, particularly in the movement of deep-sea containers, where year to date (from April) port volumes are up 11.6% and rail volumes are up 12.6%.[90] We are aware of future further recessionary pressures but are advised any impact is unlikely to be lengthy or severe.

3.2 Long-term forecasts for growth of GDP and freight movements have not changed and we believe that the conclusions that the Eddington report reached remain valid. The downturn in traffic in 2008–09 led to some reduction in congestion on the UK road network but a return to pre-recession demand is already resulting in a similar level of road congestion (estimated to cost the UK economy between £7 and 8 billion per annum by Eddington).

3.3 Arguably a period downturn is the best time to make investment, as impacts on UK business will be minimised at a time of lower demand. However, the nature of spending on infrastructure schemes means investments take, at best, several years to complete; a short-term view is therefore impractical and decisions on transport spending should consider at least the medium term economic expectations, if national infrastructure is to be suitably prepared.

3.4 Alleviating congestion requires supply side investment characterised by enhancing the capacity of infrastructure or increasing the efficiency of the user of the infrastructure. Eddington concluded that incremental improvements to existing infrastructure, rather than building new infrastructure, would deliver the best ratio of benefits to cost. The current schemes of gauge clearance and train lengthening as part of the Strategic Freight Network are good examples of incremental investments that will make the most efficient use of existing infrastructure and increase the efficiency of the rail freight operator (thus increasing competitiveness with road).

3.5 Certainty of investment in infrastructure, such as the Strategic Freight Network programme, is a key driver of private sector investment, which in turn allows for best use of the delivered infrastructure. In the rail freight sector assets such as locomotives, wagons and cranes typically have a 30 year life span (versus 7–8 years for lorries), so certainty that future capacity on the rail network will be put in place facilitates private sector investment.

4. *"What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?"*

4.1 It is quite difficult to provide a detailed response to this question, as there is a lack of transparency as to how the current Department of Transport budget is spent; we are unable to undertake analysis in the way we would to our own business. However, from the position of the private sector, we would ration spending to where the value for money case is clearly demonstrable and deliverable, rather than aspirational. Transport spending should be targeted where most deliverable economic benefit can be realised, whilst aiming to reduce carbon emissions, deaths and injuries.

4.2 In a constrained funding environment, the private sector would make the best use of its' existing assets rather than undertaking large-scale unproven investments. This aligns well with the conclusions of Eddington and an incremental approach to improving existing infrastructure, rather than brand new infrastructure. In this context, careful consideration of "landmark" projects should be undertaken to ensure the benefits are deliverable. Multiple smaller investments on existing infrastructure could release more benefits for the same value, and can be staged, as funds become available.

4.3 From a rail freight perspective, the Strategic Freight Network, with a relatively modest budget of £200 million, is part way through a succession of key nationwide projects that will strengthen rail's position as a

[89] Excludes suicides and trespass, no more than one or two a year, most years zero although published statistics are not available for freight only all rail. Road deaths in accidents involving a HGV 2009—284—Reported Road Casualties Great Britain—DfT September 2010. Value of fatality £1.876 million on all road types and times of day—Unit 3.4 The Safety Objective—DfT

[90] In '10/11 Periods 1–6, Freightliner has moved 323,000 containers, versus 287,000 containers in '09/10.

viable alternative to road by improving the existing infrastructure to release capacity and also deliver economy of scale opportunities for operators, for instance, gauge clearance work on key routes[91] and signalling modifications to allow longer freight trains. By such means the existing infrastructure is made fit for purpose and the operators can more effectively compete with road, leading to modal shift from road. This is turn reduces the need for further investment in the road network as well as bringing carbon and safety benefits.

4.4 In order to maintain the benefits already achieved by rail freight growth and modal shift, the highest priority spending is the Modal Shift Revenue Support grant that is currently available to all rail freight operators and customers. Whilst modest in terms of budget (£20 million per annum), without this grant a considerable volume of rail freight traffic would return to the road. The grant makes up the difference between current road and rail costs and is critical to retaining business to rail. (£10 makes the difference between whether a container travels by rail or road). It should be noted that in real terms, revenue support has declined by 65% since privatisation, yet has delivered an increasing Value for Money from 1 to 1 at privatisation to currently greater than 5 to 1. The scheme is risk adjusted for government as it is only paid when it is delivered, and therefore it is certain that the benefits will be reaped, unlike capital schemes. Without the continuation of this grant, the potential benefits of the Strategic Freight Network investment may not be deliverable. There would be a significant reduction in volumes moved,[92] concentrated between the major deep-sea ports and the West Midlands (Birmingham). The consequence would be a dramatic surge on already heavily congestion roads, eg A14, A34, M6, and an urgent need for significant road enhancement works, which have been estimated as high as £21 million per mile.[93] The recently postponed A14 upgrade scheme was estimated to cost some £1.3 billion.

5. *"How should the balance between revenue and capital expenditure be altered?"*

5.1 In straitened times such as these, additional scrutiny of capital spend is required to ensure that the assessed returns are both realistic and deliverable. Because capital spending is depreciated over many years rather than directly impacting on the current account the actual cost of the cash of capital spending is not always as heavily scrutinised as revenue spending. In particular, schemes with very long accounting paybacks should be carefully reviewed and spending should be focused on schemes with a shorter payback.

5.2 Facing a shortage of available funds, the private sector would try to continue to invest in those capital schemes that will trigger future growth and efficiencies but would ensure that these capital schemes were cut to the pareto optimum, ie to only that which is really needed to secure the benefits. More emphasis on investments with a faster payback is likely to lead to investment in smaller incremental schemes rather than "big bang" projects.

5.3 In considering spending choices, consideration should also be given to how spending will impact on the private sector and in particular creating the right environment to enable private sector investment. A good example for this is the Modal Shift Revenue Support (detailed in 4.4 above). Certainty as to market viability derived from the continuation of this fund would enable rail freight operators and their customers to invest in new equipment, which makes rail more efficient, and reduces the gap between the cost of rail and road. This in turn will enable, in the future, a reduction in the grant paid and a growth in freight moved by rail.

6. *"Are the current methods for assessing proposed transport schemes satisfactory?"*

6.1 This is a complex area and there are many different impacts from investments that have to be considered and evaluated. We believe that much thought and consideration has been put into evaluation methodology already used ("NATA"—DfT's "New Approach To Appraisal"), and that this should be built upon rather than rebuilt from scratch. It is very difficult to measure accurately economic benefits from investment, however this is one of the most important drivers, particularly at this time and additional focus is needed in this area.

6.2 Network Rail recently published a document in conjunction with the CBI titled "Prioritising investment to support our economy", which helpfully focuses on this area. This report suggests a parallel approach to appraisal in order to capture the wider economic benefits of transport schemes, such as lowering costs of UK distribution and a focus on providing the same outcomes for less.

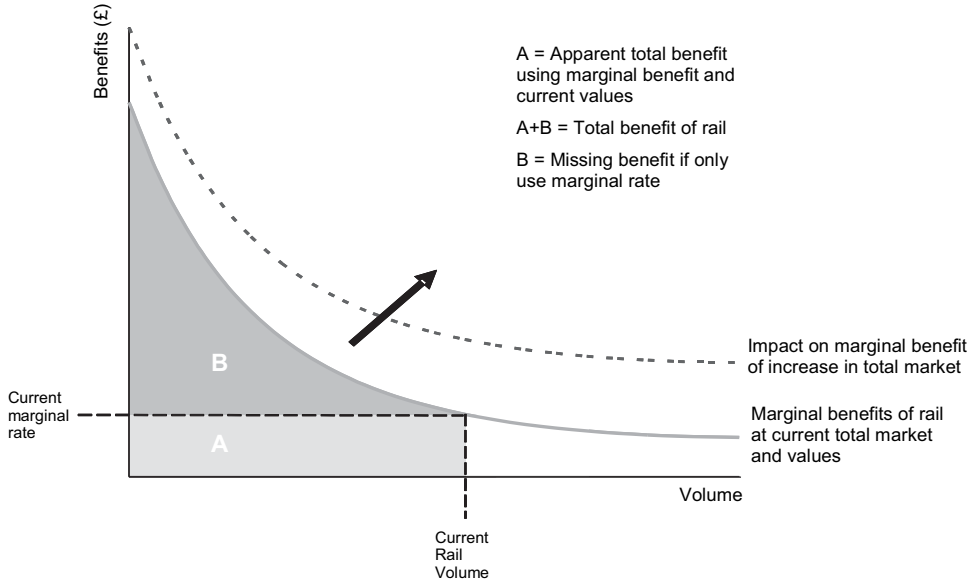
6.3 The current appraisal methodology includes only the marginal benefits of modal shift to rail rather than the full value of the modal shift already achieved. The mechanism calculates the benefit of the next lorry removed from the roads rather than the impact if all current rail volume returned to the road. Roads such as the A14, A34 and M6 would potentially gridlock if this were to occur. The net result is that the current appraisal methodology undervalues the value of modal shift, particularly when used to calculate the benefits to calculate the value for money in the Modal Shift Revenue Support Scheme, which enables existing rail freight volumes to be retained to rail rather than shifting to road. This is illustrated in the following diagram, with the marginal benefit being represented by area A, whereas the real total benefits of rail freight is the whole of the area under the marginal benefit curve, ie areas A + B.

[91] Examples include the gauge clearance of Southampton to the West Coast Main Line (WCML) and between Felixstowe and Nuneaton via Peterborough

[92] Freightliner estimates by as much as a third

[93] http://www.guardian.co.uk/uk/2007/may/06/transport.world

TOTAL BENEFIT OF RAIL FREIGHT (KPMG 2006)



6.4 We perceive that the current value generally attributed to carbon is too low,[94] and does not reflect likely future oil prices or the likely real market value of carbon, and we suggest that this reviewed. Additionally, carbon positive schemes have a perversely higher return because of the current method of discounting benefits of a scheme by the loss in revenue from lost fuel duty.

6.5 Another difficult area is how the value of externalities are captured across modes, and the validity of the values ascribed, are a key consideration, not least since the rail freight sector is disadvantaged as a more environmentally friendly mode of transport by the failure of the road sector to repay its' true external costs to society. The arising problems are twofold; it makes the external benefits of rail freight harder to capture, since they are not quantified adequately in economic terms, and since they distort the haulage market, keeping road haulage prices artificially low at the expense of the environment.

6.6 According to research published in April 2008 by MTRU,[95] "…even using the assumptions which are most favourable to HGVs and leaving out congestion, no study shows that tax revenues from HGVs cover their UK costs except on motorways: "*Current cost estimates in the UK used for comparing rail and road freight (the Sensitive Lorry Mile—SLM values) appear to be in the low to middle range of the study results for environmental factors and thus may underestimate HGV costs in the UK.*" The report, consistent with others in this country and abroad, stated that using Sensitive Lorry Mile calculations (those used by Department of Transport), and counting fuel duty and annual licences as income, Heavy Goods Vehicles met 36% of their external costs—a shortfall of £6.7 billion at 2006 prices.

6.7 It would be gainful to consider how levelling the playing field across transport modes might improve rail's critical mass generally, and unlock efficiencies in the rail sector and elsewhere. We consider lorry road user charging to represent such an opportunity, as demonstrated in countries such as Germany and Switzerland. Growth and improved efficiency in rail freight operations may be brought about whilst simultaneously addressing road congestion.

7. *"How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?"*

7.1 Transport generally is difficult to plan locally as, by its' very nature, it connects one place to another. In the context of rail freight goods are moved on average 220 miles and therefore there is a need for national planning of the rail network.

7.2 Development of existing or new rail freight terminals will be more difficult in the absence of regional bodies and there is a significant concern about the "nimby" effect. It will always be difficult for a local council to give planning permission for a development that has local impacts but the benefit is only seen at a national level. The concept of National Planning Statements was introduced to ensure that there was national guidance for planning that would assist local decisions. It is unclear whether the intention is now to proceed with National Planning Statements but we believe such guidance would assist local councils in reaching the right decisions.

September 2010

[94] Stern (2006) has values of carbon aligned to a USD price for a barrel of oil

[95] Metropolitan Transport Research Unit: Heavy Lorries—do they pay for the damage they cause?—April 2008

Written evidence from the Local Government Association (LGA) (TE 96)

Summary

Transport investment and the economy

— There remains a backlog of transport investment priorities largely due to underinvestment over a long period.

— Councils have identified priorities to reflect the needs of the local economy but they are severely constrained in addressing them.

— First, the institutional structure for transport in England is fragmented between different levels of government and different modes of transport and operating bodies: the LGA is advocating a radically different approach to planning and funding for infrastructure so a meaningful link can be forged with economic development at local level.

— Second, councils continue to be constrained in their ability to raise finance: unlocking this will be critical to delivering the infrastructure needed to support economic development.

Priorities for spend

— At local level, transport priorities should be determined locally alongside determination of other infrastructure needs.

— The Government's proposed national planning framework (to cover all forms of development and setting out national economic, environmental and social priorities) should be built from the bottom up to reflect the needs of local economies and to break down silos between Whitehall departments to produce a properly integrated national strategy.

Capital/revenue balance

— The revenue/capital balance is of less concern to councils than (a) the need for changes to the way capital funding is allocated at a local level and (b) the importance of enabling councils to raise funding.

— All capital investment for infrastructure should be devolved to the local level under control of councils who know how best to use it to support the local economy.

— Councils urgently need the freedom to develop new models of raising funding for essential infrastructure including transport.

Appraisal methodology

— A devolved and unified appraisal system which accurately reflects the costs and benefits of infrastructure investment, and allows comparison and integration with other development projects, is required if we are to make sure that that investment is targeted to deliver maximum value.

How will schemes be planned in the absence of regional bodies?

— The LGA believes that the sub-region provides the best framework for transport governance, and that such a geography based on labour markets areas is essential to move forward.

— This would mean aligning the transport planning function with funding decision-making at a level that reflects journey patterns and local economies. Councils working in partnership at sub-regional level would decide on successor arrangements to Regional Transport Boards.

Evidence

Thank you for inviting the Local Government Association to submit written evidence to your enquiry.

The LGA is a voluntary membership body and our 422 member authorities cover every part of England and Wales. Together they represent over 50 million people and spend around £113 billion a year on local services. They include county councils, metropolitan district councils, English unitary authorities, London boroughs and shire district councils, along with fire authorities, police authorities, national park authorities and passenger transport authorities.

Have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?

1. The prevailing view from most recent reports and commentators[96] is that, because the UK has under-resourced transport over the long term, a backlog of major investment needs remains, and the priorities

[96] Recent reports which have pointed to, and underlined the consequences of, continued under-investment in transport are: PTEG's 2010 publication *Transport Works: the case for investing in the city regions*; TCPA supported by the LGA Feb 2010 *Connecting local economies*; Policy Exchange 2009 *Delivering a 21st Century Infrastructure for Britain*; Institute of Directors, 2010 Leach, G, *Infrastructure—Mind the Gap*.

identified by Eddington [as per the Committee's brief ie "reducing congestion in urban areas, on key inter-urban corridors and at key international gateways (major ports and airports)"] continue to be salient today.

— Eg The backlog of work relating to highways and roads maintenance (an issue close the local authorities' hearts as Councils are responsible for the maintenance and up keep of more that 96% of the country's highways and roads), for example, has been recently estimated as in excess of £9.5 billion.[97]

2. The economic potential in many places in England remains untapped because of transport issues.

— Eg "Our transport links are very poor and we have a major problem with travel to labour markets. We are heavily reliant on improvements in transport for future growth." Hastings Council employee interview by LGA May 2010

— Eg The old mill town of Burnley, roughly the same distance from Manchester as Reading is from London, has virtually no commuter rail traffic to the city; the connection barely exists… Burnley's economy is languishing well behind that of Manchester, let alone the rest of England.[98]

3. Aligning transport plans and Local Development Frameworks with economic opportunities, councils have listed the sub-regional priorities for transport investment. There is a long list of transport investment priorities waiting in line as the vast backlog is chipped away at—or, more likely in the current economic circumstances—left in the queue.

— Example of priorities for transport investment identified across South East England:[99]

  — Subject to confirmation by the outcome of the M25 South West Quadrant study, funding needs to be made available to take forward work that will develop detailed proposals for improving access to Heathrow Airport by public transport as part of a wider strategy designed to address pressure on the transport system in the M25 corridor.

  — Detailed proposals to make more effective use of the existing highway capacity linking London and Dover/Channel Tunnel need to be prepared through partnership working.

  — Funding should be made available to enable Dover District Council and its partners develop a detailed implementation strategy that enables access to the Port of Dover to be improved and to help realise local growth ambitions.

  — The Department for Transport should commission further work in partnership with local authorities to bring forward a firm proposal for a "lower Thames crossing".

  — A commitment needs to be made through the High Level Output Specification for the Control Period commencing in 2014–15 that capacity issues at Oxford Station will be addressed and that the Western Section of East West Rail will be implemented.

  — A commitment needs to be made by the Government to deliver the comprehensive strategy for the Great Western route.

  — Funding should be made available to the unitary authorities in Berkshire in order to increase their joint capacity and capability to develop detailed proposals that support the Thames Valley economy.

  — Funding should be made available to Oxfordshire County Council in order to increase its capacity and capability to develop detailed proposals that will enable the potential for Science Vale to be realised.

  — Funding should be made available to the Partnership for Urban South Hampshire to support the development of detailed proposals to enable their implementation at the earliest opportunity.

  — Funding should be made available to West Sussex County Council and Brighton and Hove Council to develop a detailed implementation strategy that will enable the regeneration potential of the coastal area to be realised.

  — Funding should be made available, via the MKSM Executive, to develop detailed proposals for implementing the inter-urban bus/coach network.

4. There is likely to be a need for further work to identify priorities once the arbitrary structures of government regions give way to the more meaningful areas defined by Local Economic Partnerships. This is because local priorities need to be planned alongside other infrastructure investment decisions at the sub-regional level—ie the level at which economies work. (This is not to undermine the work of the Regional Transport Boards, simply to say there may be a case for supplementing it once structures are aligned with local labour markets.)

[97] AIA, Annual Local Authority Road Maintenance Survey, March 2010

[98] TCPA Feb 2010 pp25–26

[99] South East England Councils July 2010. http://www.se-partnershipboard.org.uk/pdf/transport/transport_report_july2010_seec.pdf

5. The link between transport spending and economic growth is not adequately reflected in current decision making processes. SEE BOX. The LGA is advocating a radically different approach to planning and funding for infrastructure to give councils more flexibility to target investment most effectively. (This is discussed in more detail under *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?* below.)

The link between transport spending and economic growth

A fundamental problem remains: bodies responsible for transport decision making do not have a sufficient handle on all the policy and funding levers they need to deliver an integrated transport strategy effectively for a coherent geographical area. The institutional structure for transport in England is split vertically between different levels of government, and horizontally between different modes of transport and operating bodies. In any one area there will be a complex web of interactions with the potential for mismatched objectives and "silo" management. *Prosperous Communities II—vive la devolution* (LGA 20007) sets out the issues in some detail. The key is that the bodies responsible for transport decision making do not have a sufficient handle on all the policy and funding levers they need to deliver an integrated transport strategy effectively for a coherent geographical area. The case was also made by the Eddington Study, which emphasises that existing agencies have limited incentives to consider travel options across modes or the interactions between user groups (HMT 2006 p256).

From Breaking the Gridlock LGA 2007

6. The other key point to make about how current conditions have, or have not, changed since the Eddington Report, is that, of course, funding (local authority budget specifically) is under extreme pressure—a position which *has* changed, but on the other hand councils continue to be constrained in their ability to raise finance—a position which has *not* changed. Unlocking this potential will be critical to making progress (covered in more detail under *How should the balance between revenue and capital expenditure be altered?* below).

What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

7. Local There is no one type of transport which should be prioritised—rather, each area (probably at sub-regional level), should prioritise their transport investment needs alongside their other infrastructure investment needs, allowing for comparison and integration with other development projects to make sure that that investment is targeted to deliver maximum value for money.

8. Projects of national significance/significance for more than one sub-region Despite having one of the most centralised planning systems of all advanced economies, we have long suffered from departmentalism and incoherence at the national level. Councils have long called for a national framework that provides certainty about national infrastructure projects. The government has committed to a consolidated national planning framework covering all forms of development and setting out national economic, environmental and social priorities. It is essential both that that framework is built from the bottom up to reflect the needs of local economies and that it breaks down silos between Whitehall departments to produce a properly integrated national strategy.

National infrastructure projects will have significant impacts on the local communities in close proximity to the development. Councils have an important role to play in making sure that their communities' interests are represented in consideration of national scale schemes. The consultation and assessment processes required will place significant extraordinary resource burdens in comparison to normal business of a Local Planning Authority. This could be resourced by requiring the scheme promoter to pay for the cost of the council carrying out a local impact assessment.

How should the balance between revenue and capital expenditure be altered?

9. The revenue/capital balance is of less concern to councils than (a) the need for changes to the way capital funding is allocated at a local level to support development for *all* infrastructure and (b) the critical importance of enabling councils to raise funding/removing constraints to them doing so. Taking these in turn:

10. Single capital pot The LGA is currently campaigning for a radically different approach to funding for infrastructure, advocating place-based budgets to include a single capital pot. These arguments are made in detail in *Place-based budgets: the future governance of local public services* and in *Funding and planning for infrastructure* (published by the LGA).

11. Removing constraints to allow councils to raise funding In times of constrained public spending, it is unlikely we will see significant increases in funding for roads in the near future. We therefore urgently need the freedom to develop new models of raising funding for essential infrastructure including roads. This includes models whereby councils can use their assets and future revenue streams to support infrastructure development and attract higher levels of investment from the private sector.

12. The specific issue arising for roads is the potential for using toll roads to support finance of expansion.

13. The paper *Funding and planning for infrastructure* also discusses other means by which councils could use or have used to support financing for instance congestion charging, charging for road use, Nottingham's Workplace Parking Levy, Newcastle City Council's £21 million of prudential borrowing investment through a 1.2% increase in council tax agreed in consultation with tax payers and the Tyne and Wear Integrated Transport Authority (ITA) Tyne Tunnel financed without recourse to government funding (the £260 million project is predicted to be self-financing with all debt serviced through income from tolls). The paper explains how councils are often frustrated by the requirement to satisfy central government of the case for implementing these models.

Are the current methods for assessing proposed transport schemes satisfactory?

14. Investing in infrastructure can and should deliver significant benefits and future savings in terms of public health, safety, pollution and crime reduction. Currently, however, these are not given sufficient weight in investment appraisal methodologies, and sometimes are not reflected at all. This means that current appraisal systems may not lead to the best allocation of resources.

15. The Cabinet Office's recent report on Urban Transport illustrated the point. It quantified the economic consequences of traffic congestion—which investment appraisal measures—at around £11 billion per year in urban areas. But the costs to society of poor air quality, ill health, and road accidents are each of a similar level, totalling at least £40 billion. Transport also contributes to negative experiences of urban streets and public spaces which whilst so far unquantifiable, are of major concern to those who live and work in cities.[100] The report found that current appraisal methodologies prioritise congestion relief (time savings to motorists) over other objectives such as health. This skews investment decisions and leads to mis-allocation of resources.

NATA (New Approach to Transport Appraisal) is the framework DfT uses to help inform major decisions about regulations, policy and investment.

- Local authorities bidding for capital funding have to demonstrate the case for transport schemes against five criteria.
- Value for money is the main criterion guiding scheme appraisal. Strategic fit; Financial; Commercial and Delivery criteria are also taken into account.

Judgements about value for money are informed by benefit cost ratios and qualitative evidence about the impact of a scheme.

- Carbon, physical fitness, noise, and accidents are quantitatively monetised. However, factors such as condition of walking and cycling environments, accessibility, air quality, ambience and townscape are not included in BCRs.
- Some of these factors are qualitatively assessed, and a judgement is made as to whether these are sufficiently large to change value for money rankings.
- However, it is more difficult to take account of qualitative factors in value for money assessments.
- This means schemes which significantly benefit or impact walking and cycling are not equally prioritised compared to other schemes, skewing investment decisions.

(From: Cabinet Office report on Urban Transport 2009

16. A recent report from Defra estimated that air pollution causes annual health costs of roughly £15 billion to UK citizens. Factoring air quality into decisions about how to reach climate change targets results in policy solutions with even greater benefits to society—£24 billion of additional savings could be made by 2050 from tackling climate change and air quality together.[101]

17. A devolved and unified appraisal system which accurately reflects the costs and benefits of infrastructure investment, and allows comparison and integration with other development projects is required if we are to make sure that that investment is targeted to deliver maximum value for money.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

18. The Local Government Group recognises good infrastructure networks are crucial to economic recovery, attracting jobs and investment to our towns and cities.

19. Decisions about investment in infrastructure, including transport, need to be made locally so that integrated transport strategy can be delivered effectively for coherent geographical areas, considering travel options across modes of transport or the interactions between user groups.

20. This will require a radically different approach to planning and funding for infrastructure to give councils more flexibility to target investment most effectively. All capital investment for infrastructure should be devolved to the local level under control of councils who know how best to use it to support the local economy.

[100] http://www.cabinetoffice.gov.uk/media/308292/urbantransportanalysis.pdf
[101] http://www.defra.gov.uk/environment/quality/air/airquality/strategy/documents/air-pollution.pdf

21. This would mean aligning the transport planning function with funding decision making at a level that reflects journey patterns and local economies. Councils working in partnership at sub-regional level would decide on successor arrangements to Regional Transport Boards (where local authorities took responsibility for collective decision making on identifying strategic investment priorities for transport) and any collective arrangements for local transport planning functions.

September 2010

Written evidence from Professor Alan Wenban-Smith (TE 104)

1. Introduction

Scope and perspective

1.1 This paper is provided as background to the evidence session on 19 October, and relates to the following two of the Committeee's questions:

(a) What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

(b) Are the current methods for assessing proposed transport schemes satisfactory?

1.2 My qualification to comment on these matters comes primarily from front-line experience as a local authority officer with responsibilities for transport, spatial and economic development planning in Newcastle upon Tyne, Tyne & Wear, Birmingham and the West Midlands.

Main conclusions

1.3 This paper complements the joint submission by the Royal Town Planning Institute (RTPI) and the Transport Planning Society (TPS), extending rather than repeating that material. The key conclusions are:

(a) Much better public transport is needed in the major provincial cities if they are to approach the economic productivity of the Greater South East (GSE—London and the South East).

(b) Priorities for improvements to national transport networks (road, rail or air) should be chosen (and wider complementary measures designed), to avoid increasing the imbalance between the GSE and the rest of the UK (which damages both North and South, and diminishes national prosperity).

(c) Conventional appraisal and planning processes are too much focused on short-term effects within the transport system to deal adequately with these wider and longer-term processes—which are critical to the economy.

2. Public Transport and Urban Agglomeration

2.1 Conventional transport evaluation relies primarily on time-savings from reducing congestion, treating productivity gains from proximity and interaction ("agglomeration") as an add-on. The effect is to favour transport investment as being where economic growth is already highest, and congestion worst—on roads and in the GSE.

2.2 However, the long-run statistics clearly show that such transport investments are more likely to widen locational choices than to ease congestion. The resulting more dispersed pattern of activity increases overall travel demand (trips are longer)[1], reduces the use of public transport and increases car-dependency. This pattern of change is only weakly influenced by planning policies because the turnover of *existing stock* ("churn") supplies 90% the market, and a much wider range of locational options than new build[2].

2.3 Churn enables accessibility improvements to drive changing patterns of residence and economic activity, with powerful economic, social and transport consequences, for example:

(a) Without road pricing, congestion is not cured by road building[3] so the more dispersed pattern of activity weakens the inter-company linkages essential to agglomeration.

(b) Improved transport links (road and rail) widen housing choices, but increase commuting distances. The best-off tend to travel travel furthest, while disadvantage tends to become more concentrated in inner cities. This social polarisation is a vicious circle, reducing the quality of life of cities and their attractiveness to knowledge industry workers.

2.4 The neglect of urban public transport in the UK relative to continental Europe means that, thanks to processes like these, only a few cities here exceed national GDP/head, while on the continent most do[4]. London illustrates the point: it is one of the few UK cities with a comprehensive public transport network (built before the dominance of roads). Its GDP relative to the nation is similar to Scandinavian cities—but well below that of German cities (typically more than double).

2.5 By focusing so single-mindedly on the problem of road congestion, national transport policy has fuelled increases in travel demand, and undermined the productivity of major cities. The efforts of individual households and businesses to improve their conditions by relocation just make matters worse for themselves, undermine economic growth and increase congestion.

2.6 In answer to the Committee's question about priorities, urban public transport should receive a much higher priority to counter these effects.

3. National Transport Networks and National Economic Output

3.1 It has long been recognised that the imbalance between English regions is an economic liability[5], but efforts so far made to reduce the North-South disparity have been ineffective. The preceding section suggests two reasons:

(a) The concentration in the North of large cities, which have been starved of the public transport investment need to realise their economic potential;

(b) Trunk Road and Motorway investment have tended to favour the North, but in the absence of road pricing and balancing urban transport spending this may have been counter-productive.

3.2 Eddington's priorities for congested urban areas, inter-urban corridors and international gateways depended for their economic logic on road pricing being implemented. This has been commented upon in Prof Goodwin's submission, with which I agree. A different issue concerns the current debate about High Speed Rail (HSR—which Eddington did not support).

3.3 The case for HSR has tended to be made in terms of (a) the benefits to the national economy of better access to London; (b) the need for additional capacity in the rail system, and (c) the potential for addtional fares income to reduce the cost to the Treasury. However, HSR is also relevant to the question of regional imbalance: this is crucial to the case for or against, but has so far had little traction in the discussion of transport priorities.

3.4 I prepared a report on the subject for the Greengauge HSR consortium[6], the key conclusions of which (for the purpose of this Inquiry) were:

(a) HSR could contribute decisively to changing the North-South balance of the UK, bringing great economic, social and environmental benefits to the nation as a whole;

(b) This outcome depends on complementary measures: HSR on its own could increase the dominance of the Greater South East within the UK;

(c) Current instruments of regional planning and investment (RESs, RSSs, RFAs, etc) are inadequate, and the effect of housing and congestion targets is to focus resources on the Greater South East;

(d) Current appraisal regimes do not provide an adequate basis for justifying complementary actions, but without them the HSR itself would struggle to have a helpful impact on regional economic differentials.

4. Methods of Assessing Transport Schemes

4.1 The RTPI/TPS submission to this Committee offers a critique of current appraisal methods that is relevant to the issues discussed here. Key points in this respect include:

(a) The need to re-visit Eddington's conclusions about priorities in the absence of road pricing;

(b) The need for a fundamental overhaul of DfT's appraisal system, so that it can address major economic issues of urban regeneration and regional development more directly;

(c) The need for an approach to transport appraisal that better integrates it into wider economic, social and environmental policy—that can, in particular, illuminate the wider impacts of policies such as road pricing, a national High Speed Rail network, or a step-change in urban public transport provision outside London;

(d) Planning concepts and processes should foster a more integrated relationship with other aspects of economic and spatial policy-making, to realise the potential for mutual reinforcement ("win/win") between agglomeration, quality of life, reduced transport demands, and reduced vulnerability to fossil fuel supply and price;

(e) Devolution of more responsibility for such plans to a more local level, at which the relationships between transport and other factors is more meaningful;

(f) Retention of central government responsibility for strategic national decision-making as cannot effectively be undertaken at a lower level—such as the balance between regions.

References

[1] David Metz's evidence.

[2] for example around 10% of the owner-occupied housing stock changes hands each year, or ~2 million houses in England, compared with a new build volume of ~150,000 in 2007–08. Demand for new development to a large extent follows the pattern established in the existing stock.

[3] Phil Goodwin's evidence

[4] M Parkinson et al (2006), "State of the English Cities", ODPM

[5] eg HMT (1997) RDAs White Paper: "The regional economies are the building blocks of a prosperous economy, affecting the performance of the UK as a whole. Wide variations in levels of economic activity—reflected in wage pressures, levels of unemployment and movements in house prices—make the task of providing a stable macroeconomic climate more difficult. In particular, setting a national interest rate which suits each region is more difficult when the regions themselves are widely divergent. The risk is lower overall growth and employment rates for the country as a whole."

[6] Urban & Regional Policy (2009) "*Complementary measures to facilitate regional benefits from High Speed Rail*"; http://www.greengauge21.net/assets/uploads/hsr-development-programme_17_1488055857.pdf

September 2010

Further written evidence from Professor Alan Wenban-Smith (TE 104a)

NOTE ON APPRAISALS IN DECISION-MAKING

1. Principles

1.1 At the Select Committee hearing on 19 October, there was substantial agreement among witnesses that:

(a) a good system of appraisal is a vital bulwark against "pet schemes" claiming "transformational" impacts; and

(b) rigorous testing of appraisal methods at Public Inquiries is a crucial safeguard.

2. The Mersey Gateway Bridge

2.1 The following day the Chancellor announced that the Mersey Gateway Bridge (MGB) was one of a handful of schemes that would be funded, ostensibly for its transformational contribution to the economic regeneration of Merseyside.

(a) The MGB scheme relies mainly on tolls funding most of the costs, with only £70 million or so of public costs to set against economic benefits. Over the 60 year appraisal period the net business benefits (mainly time and vehicle operating cost savings) were estimated by the promoters to be some £222 million, leading to a very favourable Cost-Benefit Ratio of nearly 4;

(b) However, the robustness of this estimate is undermined by the promoter's own figures, produced at the Publi Inquiry and summarised in the Table below. This uncontested evidence shows that cumulative benefits to users only start to outweigh the cumulative tolls they have paid after 14 years. Until then the MGB represents a net transfer out of the local economy and to the concessionaires;

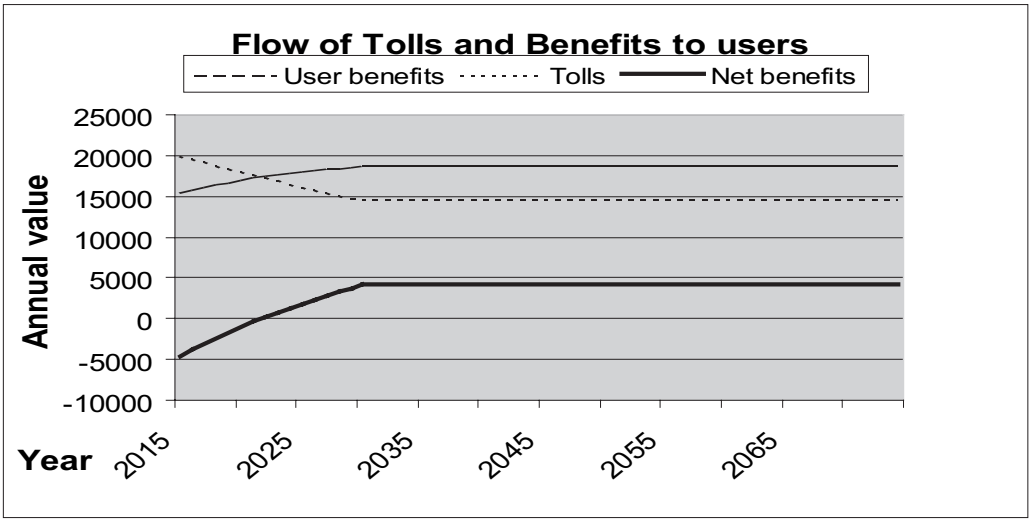
(c) 98% of the net economic benefit ascribed to the MGB (£226 million out of 229 million) arises after 2030. The estimate depends on assuming the forecast outcome for the year 2030 applies equally to each of the next 45 years.

ECONOMIC IMPACTS OF MGB: SUMMARY OF FLOWS OF TOLLS AND BENEFITS 2015–74 (£M)

Time period	*Value to users* (£m)*	*Tolls from users (£m)*	*Net impact (£m)*
2015–21	115	−132	−17
2022–29	145	−129	+16
2030	18.7	−14.5	+4.2
2031–74	569	−343	+226
Whole period	848	−618	+229

** time-savings plus vehicle operating cost reductions*

2.2 There are many reasons why traffic model outputs cannot be relied upon for such extended periods—this is not a matter of controversy. What is beyond question is that any figures put forward amount to little more than speculation. Thus MGB apppears a clear case of a pet scheme approved on a mistaken appraisal, without waiting for the report of the Public Inquiry that was supposed to test the case.



November 2010

Written evidence from the Department for Transport (TE 105)

Summary

This memorandum sets out the Department's response to the questions asked by the Transport Select Committee in their inquiry into transport and the economy. It is organised around the Committee's specific questions.

The memorandum concludes that although economic conditions have changed since the 2006 Eddington Transport Study, the fundamental relationships between transport spending and UK economic growth have not. It explains how the Spending Review process determined future transport investment priorities on the basis of a broad assessment of their impact but with a focus on sustainable economic growth. It describes how reform of the way decisions are made will continue to improve the Department's assessment of proposed transport schemes. Finally, it notes that local authorities remain responsible for planning transport priorities and interventions in their areas.

Introduction

1. The Government believes that a modern sustainable transport infrastructure is essential for a dynamic and entrepreneurial economy, and improves people's quality of life. Transport networks facilitate employment and ensure consumers and businesses can access a wide range of markets, products and services in the UK and overseas.

2. Given its pivotal role as a facilitator of economic activity, the efficiency of the transport network is a crucial determinant of productivity, and hence economic growth. Investment in transport infrastructure and maintenance demonstrates strong economic returns and is supported by the business community. At a time of constraint in public expenditure, the Government is prioritising spending on areas that maximise sustainable economic growth. These spending decisions are complemented by policies which seek to alleviate transport's negative impacts on, for example, road congestion, noise and emissions.

Question one: *have the UK's economic conditions materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK economic growth?*

3. This section describes the change in the economic conditions and the impact of these on Government priorities and traffic growth. It then examines the links the Eddington Transport Study found between transport spending and UK economic growth, and assesses whether these are affected by this change. It finds that economic conditions in the UK have changed since 2006, precipitated by the global financial crisis and the subsequent recession but this has not changed the fundamental relationships between well-judged transport investment and economic growth.

4. The UK's economic conditions are considerably less favourable now than in 2006. The global financial crisis triggered lower rates of growth and higher unemployment and the largest recession in Britain's peacetime history. Growth in 2006 was strong at 2.8%.[102] Following a fall of 4.9% in 2009, the OBR's Budget economic forecast is for a gradual recovery with growth of 1.2% in 2010,[103] as the legacy of unbalanced growth and excessive levels of debt continue to weigh on the economic outlook.

[102] ONS, Gross Domestic Product: chained volume measure, seasonally adjusted (series ABMI).
[103] Budget 2010, HM Treasury, TSO, June 2010.

5. The Government has stated that the most urgent task facing the country is to implement an accelerated plan to reduce the budget deficit, with the contribution being mainly from reduced spending rather than increased taxes. Restoring confidence in fiscal policy and acting quickly to tackle the deficit are prerequisites for sustained economic growth.[104]

6. Traffic growth has slowed since 2008, mainly due to the recession, resulting in less congestion than there would otherwise have been. However, transport investment today influences the growth potential of the economy decades into the future. The demand for transport has tended to rise with economic growth, partly because some of the underlying drivers are the same (eg population growth, resource productivity) and partly because a more vibrant economy with more affluent individuals tends to lead to more transport services being consumed, all other things equal. This suggests that as the economy regains momentum, so too will the demand for transport, which in turn means a continued need to manage it effectively and efficiently.

7. The 2006 Eddington Study[105] concluded that the exact nature of the relationship between transport spending and UK economic growth is complex and multi-faceted. Eddington explored the transmission mechanisms ("microeconomic drivers") by which transport spending increases productivity and thus economic growth. This note groups these into five: business efficiency; investment and innovation; agglomeration economies; labour markets; and competition, trade, and globally mobile activity. In order to determine whether current economic conditions are affecting the relationship between transport investment and economic growth, the remainder of this section will examine them in turn and assess whether and how they may have changed.

8. Transport investment that improves business efficiency directly increases productivity by enabling firms to produce more output with the same resources. For example, improved journey times or better ambience for business travellers increases time available for productive work. Improvements to journey reliability can have a similar effect by reducing the need to allow additional time for delays. This may allow more deliveries to be made by the same van. Reliability improvements also enable firms to hold less stock leading to further efficiency gains. These efficiencies will benefit economic growth under any economic conditions.

9. Well-targeted spending on transport supports business investment and innovation, for example through infrastructure investment that increases the capacity of the transport system attracting businesses to locate in the UK. The other factors above and below, which contribute to productivity, also encourage expansion and investment by businesses. This relationship holds under any economic conditions.

10. Agglomeration economies are the additional productivity benefits that can be generated by firms being close to each other and interacting, for example from knowledge sharing or having access to a pool of specialised labour. Transport investments can bring about agglomeration economies by bringing firms closer (either in space or time) to other firms and workers operating in the same sector. Where these agglomeration impacts occur, they will improve productivity at any stage in the economic cycle.

11. Transport improvements can improve labour market efficiency. Transport increases firms' access to pools of labour providing an efficient match between jobs and workers; in turn, workers are able to live in locations that best suit their lifestyles and commute to jobs that closely match their skills. This matching increases the productivity of each worker in all economic conditions.

12. Transport improvements or reductions in commuting costs can help unemployed people to gain employment.[106] Unemployment is currently higher than during the Eddington study: in December 2006, when the study was published, the rate of unemployment was 5.6%, while in the three months to July 2010 it was 8.0%.[107] The labour market impacts from transport spending therefore continue to be important. As local labour markets recover at different speeds, the ability to travel easily to where employment is growing helps improve labour market efficiency, supporting economic growth.

13. Appropriately targeted transport investment can support competition, trade, and globally mobile activities. A mature transport system allows firms to reach larger domestic and foreign markets and increase production. This can reduce costs through bulk-buying, employing specialised staff and spreading fixed costs over more output, for instance. Greater connectivity of product and service markets exposes UK firms to more global competition which can spur efficiency gains and innovation domestically. Globalisation also gives consumers access to a wider variety of goods while international networks support tourism. In order to meet the challenge of globalisation and the intense competition that it brings, a modern and efficient transport infrastructure is essential not just to remain competitive but in order to attract inward investment from overseas.[108]

[104] Ibid.

[105] The Eddington Transport Study, HM Treasury and Department for Transport, TSO, December 2006.

[106] Making the Connections: Final Report on Transport and Social Exclusion, Social Exclusion Unit, 2003.

[107] ONS, ILO Unemployment Rate for age 16–64 (series LF2Q), UK.

[108] Cushman and Wakefield (2006) found the top three factors which were "absolutely essential" to European senior executives for business location were: easy access to markets, customers and clients; availability of qualified staff; transport links with other cities and internationally. As well as being directly identified as the third factor, transport is a crucial determinant of the first two priorities.

14. The assessment above suggests that whilst different economic conditions may lead to short-term variations in the scale of the relationship between transport investment and economic growth, the underlying linkages remain. The fundamental relationship between transport investment and growth therefore remains consistent with the Eddington Study's findings.

Question two: *what type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?*

15. The Government is committed to reducing the deficit, facilitating long-term, sustainable growth and tackling carbon emissions. In the Budget, the Chancellor pledged to make the tough choices that will allow us to maintain investment in new and existing infrastructure that will support a growing economy, while eliminating the structural deficit over the lifetime of the Parliament.

16. The Department's Spending Review settlement is based on cutting waste and taking hard decisions about priorities that have allowed us to secure the investment in vital transport infrastructure that will support the national economic recovery. In the context of an overall reduction in spending by 15% in real terms, there have been tough choices on improving efficiency, refocusing lower priority programmes and raising revenue. Investment has been secured in rail (£18 billion), Highways Agency major projects, capital maintenance and enhancements (£4 billion) and local transport major projects, capital maintenance and enhancements (£6 billion) alongside funding for a further tranche of PFI projects and to ensure the Tube upgrades will go ahead. Further details are available on the Department's web site and a copy of the press release is attached.

Question three: *how should the balance between revenue and capital expenditure be altered?*

17. The Spending Review Guidance published by HM Treasury in June 2010[109] set out the process for how resource and capital would be allocated to departments and the results of this process have now been published, as described under question two.

18. The Spending Review process considered the priorities for government expenditure, examining both revenue and capital expenditure. For revenue spending, all departments are being asked to contribute to the deficit reduction. The Spending Review process allocated capital according to a bottom-up appraisal methodology, to identify the areas of spending that will achieve the greatest economic returns. The Department worked closely with HM Treasury to prioritise capital transport projects and programmes, according to analysis of their costs and benefits, and their contribution to Government priorities. The capital settlement the Department received reflects the important role transport can play in supporting economic recovery and in creating opportunities which are spread across the country.

Question four: *are the current methods for assessing proposed transport schemes satisfactory?*

19. Decisions on transport schemes are taken on the basis of a range of factors, including the strategic fit with the Government's objectives, economic costs and benefits, value for money, affordability and deliverability. In terms of the methods used for assessing proposed transport schemes, the appraisal process is vital to developing advice for ministers to take decisions based on the best available evidence. Given the multitude of considerations that are important, an element of judgement in decision making is inevitable and necessary.

20. The Department uses NATA (the New Approach To Appraisal) as the standard tool for assessing the expected impacts of transport investments.[110] It is based on HM Treasury's "Green Book" methodology for economic appraisal.[111] NATA draws together best practice in transport analysis, with projections from other Departments such as the values for monetising costs from carbon emissions (DECC), economic growth (HMT), and oil price forecasts (DECC), to provide the evidence for well-informed decision-making. NATA was reviewed in 2008 following the Stern Review and the Eddington Transport Study and the supporting evidence is kept under constant review and refreshed regularly.

21. The Government has committed to reform the way decisions are made on which transport projects to prioritise, so that the benefits of low carbon proposals (including light rail schemes) are fully recognised.[112] Spending Review decisions have been based on the priorities set out in the Coalition Programme for Government and informed by updated carbon values and the HM Treasury methodology used by all departments to assess value for money in a consistent way. Building on this, wider work is underway and the Department intends to introduce reformed decision-making procedures for new projects as soon as possible. At that point, projects seeking final approval will be expected to adhere to the new procedures.

[109] The Spending Review framework, HM Treasury, June 2010.
[110] http://www.dft.gov.uk/webtag/
[111] The Green Book: Appraisal and Evaluation in Central Government, HM Treasury, http://www.hm-treasury.gov.uk/d/green_book_complete.pdf
[112] The Coalition: our programme for government, May 2010.

Question five: *how will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?*

22. Local authorities remain responsible for planning transport priorities and interventions in their areas. Decisions about the available levels of Government funding to meet those ambitions have been taken as part of the Spending Review, as described under question two. Some schemes were announced as part of the Spending Review; the process for allocating money to local schemes will be announced shortly. The Department will also be looking to develop successor arrangements to the Regional Funding Allocations for transport that, over time, give a proper voice in scheme prioritisation to elected local authorities and business interests. We hope that Local Enterprise Partnerships will have an important role in this.

Conclusion

23. At a time of constraint in public spending, the Government is targeting investment in areas which support economic growth, alongside driving out procurement inefficiencies. Further work to reform the way decisions are made on prioritising transport projects will build on the Department's robust methods of assessment, to help ensure maximum impact from transport spending.

October 2010

Written evidence from Kingston upon Hull City Council (TE 106)

1. Introduction

1.1 Hull City Council welcomes this opportunity to contribute to this inquiry and would like to express strong support for the Government's aspiration to reduce the financial deficit and prioritise those transport investment schemes which support economic growth. This submission is structured around the questions as set out in the inquiry terms of reference.

2.0 *Have the UK's Economic Conditions Materially Changed Since the Eddington Transport Study and, if so, Does this Affect the Relationship Between Transport Spending and UK Economic Growth?*

2.1 Obviously since the Eddington Report was written in 2006 we have entered into a major global economic recession with its associated higher levels of unemployment and lower productivity. In parallel to this we have also experienced a growing global environmental awareness with associated aspirations to achieve carbon reduction targets. In transport planning terms addressing economic decline and achieving carbon reduction would traditionally have been seen as mutually exclusive but today we need to be more creative in investing in transport to achieve "Sustainable Economic Growth".

2.2 The headline findings outlined in Sir Rod Eddington's 2006 Study Report are even more relevant in the present economic climate, these include:

- The UK Transport Infrastructure is broadly adequate.
- We need to concentrate on improving existing road and rail links. There is little real need for major new infrastructure (and any such new infrastructure would inevitable be largely unaffordable anyway).
- There are still some key blockages in the transport system which need to be relieved.
- We should concentrate investment in relieving these blockages especially where these have a negative affect on International Gateways and Port Accesses which potentially offer opportunities for maximum economic growth particularly in the low carbon sectors.

2.3 This last point is now even more relevant with the prospect of growth in the emerging international renewable energy sector. This is currently being highlighted by the high levels of private sector interest in developing major new manufacturing and maintenance plants for "off shore" wind turbines. These new plants will, by necessity, need to be located in or around existing ports. As you will be aware, large areas of suitable land are available around the Humber Estuary and in the case of Hull; planning approvals are largely already in place at key sites within the Port. With relatively modest investments in the existing Transport Infrastructure we have the very real opportunity to create a European centre of activity on the Humber, with the potential for thousands of new jobs. These new jobs would help both the national economic recovery and also rebalance the local economy to give targeted relief to an area of the country particularly hard hit by the recession with some of the highest levels of unemployment and deprivation and direct exposure to significant public sector job losses.

2.4 To summarise national spending on transport needs to be maintained at an appropriate level in order to:

- Remove blockages to international gateways to facilitate efficient movement of goods to reduce transport costs and improve national economic competitiveness.
- Improve interurban links to achieve agglomeration benefits associated with affectively reducing distances between markets.

— Promote schemes which either deliver environmental benefits (reduce transport related carbon) or facilitate sustainable developments which in turn contribute to long term national carbon emission reduction.

— Stimulate employment and investment both in the construction industry, manufacturing and in the transport industry itself.

3.0 *What Type of Transport Spending Should be Prioritised, in the Context of an Overall Spending Reduction, in Order Best to Support Regional and National Economic Growth?*

3.1 In general terms we should be looking to deliver schemes which:

— Allow UK PLC (particularly the North) to enter and benefit from significant new areas of economic activity including renewables.

— Promote/support economic growth (usually by relieving blockages and reducing congestion on existing routes).

— Minimise the environmental impact of travel (reduce carbon emissions, improve air quality and promote shift to sustainable modes).

— Improve Public Health,

— Address Social inclusion; and

— Improve road safety.

We do however, support the Government in its aspiration to reduce the financial deficit and prioritise those transport investment schemes which support a step change in economic growth. In order to achieve this we now need to work more smartly to promote schemes which address more than one of the above objectives.

3.2 In a more local context we have worked closely with partners in neighbouring authorities around the Humber to identify the type of priority schemes required to address our joint challenges. These include:

— Schemes which improve access to Northern Ports. These will have the dual advantage of stimulating the struggling economy of the north and at the same time provide environmental benefits by reducing unnecessary road travel through congested networks in the south to the Channel Ports. Good examples of such schemes are the A63 Castle Street in Hull and the A160 on the South Humber Bank. These schemes have the potential to help unlock over 10,000 new jobs around the Humber. Other schemes include Rail gauge enhancements which are essential to link the Humber Ports to the wider strategic rail freight network to allow them to take full advantage of their development potential and to maximise the potential to relieve the already stressed national highway network.

— Schemes which address the general geographic remoteness of Hull and the sub-region. Better inter-urban links are needed to effectively reduce travel times/costs and to generate the agglomeration benefits needed to stimulate the local economy. Examples of schemes which could deliver on this challenge are improvement to the A164, A1079 and A15. Other schemes could also include the well documented removal of the Humber Bridge debt with associated toll reduction which was demonstrated in the Buchanan Study 2009 to have a positive business case. Although we welcome the recent announcement of improved services between Leeds and Manchester in the CSR we still need improvements to passenger rail service frequencies and line speeds between Hull and Leeds on the Trans Pennine service which is currently woefully inadequate compared to comparable services to other cities.

3.3 To optimise the Eddington proposals to maximise existing infrastructure, in Hull's case this is the re-use of Alexandra Dock for renewables which will create a quantum change in economic benefits and employment.

4.0 *How Should the Balance Between Revenue and Capital Expenditure be Altered?*

4.1 In these times of funding shortfalls we need to make best use of existing assets wherever possible. This approach inevitably is revenue hungry where, for example, highway maintenance becomes a priority. There would also be little point in delivering expensive capital schemes if insufficient revenue were then to be available to cover running costs as is likely to be the case with prestige public transport schemes and has historically been the case with the Humber Bridge. On the other hand, in some cases, early capital interventions to, for example, replace a highway or structure could lead to overall long term savings in ongoing maintenance expenditure. Clearly, the relationship between capital and revenue is complex and what is perhaps required is a more locally flexible and responsive relationship between the two rather than the existing largely separate formulaic approach to revenue allocation. Hopefully, this issue will be addressed by the simplification of the transport grant system proposed by the Government and through the recently announced Local Sustainable Transport Fund.

5.0 *Are the Current Methods for Assessing Proposed Transport Schemes Satisfactory?*

5.1 We welcome the advances made in the assessment process in recent years through the "New Approach to Appraisal" (NATA) which goes some way to giving weightings to environmental and wider economic

benefits/costs which are notoriously difficult to quantify. However, we would welcome further refinement to reflect increased weightings to be attributed to schemes which help promote the green economy or economic regeneration in especially deprived areas.

5.2 We would also welcome any further refinement which addressed the issue of car and heavy vehicle "values of time" being higher than those for green modes (public transport, cycling and walking). This has historically worked against schemes designed to promote shift to green modes and has given "road based solutions" an economic advantage. We would also welcome any advance in the assessment system to promote forward funding of essential transport investments needed to attract major international investors.

6.0 *How will Schemes be Planned in the Absence of Regional Bodies and Following the Revocation and Abolition of Regional Spatial Strategies?*

6.1 It is anticipated that in the future new major schemes will be generated through Local Economic Partnerships which will be influenced and led by the Private Sector. It is envisaged that the LEP will first agree a joint economic strategy for a functional area. A prioritised programme of transport interventions needed to facilitate the delivery of the economic strategy would then follow.

6.2 There will, inevitably, still be a role for the local authority to work outside the LEP to plan smaller more local schemes. These schemes would be generated through the Local Transport Plan (LTP) which we intend in the future to be more closely aligned and coordinated with the LTP of the neighbouring East Riding of Yorkshire Council to provide a more meaningful response to the transport needs across the functioning Hull travel to work area.

6.3 Some concerns do exist that on occasions a joint response to infrastructure planning issues will be needed at a level higher than individual LEPs and lower than the national level. Examples where this would be sensible include involvement with the Highways Agency and Network Rail in terms of network and service improvement changes. To this end the Regional Development Agencies and the Northern Way have proved useful in the past and if groups of LEPs come together to agree wider responses it is difficult to foresee whether they will have the dedicated resources and expertise to take the necessary lead on the coordination of national transport planning. This will need groups of local authorities to create a single voice.

6.4 The potential loss of local knowledge embedded in the local Government Office is also a cause for some concern and it is hoped that sufficient resources will be made available to the DFT central office to be able to respond to the needs of local authorities and to give informed guidance on transport issues at a local level.

October 2010

Written evidence from North Lincolnshire Council (TE 107)

Summary of the Key Points Raised in the Formal Submission

- As stated in Sir Rod Eddington's investigation into the relationship between transport and the UK's long-term economic growth, the priorities for investment are, "reducing congestion in urban areas, on key inter-urban corridors and **at key international gateways (major ports and airports).**
- The Humber Ports is the UK's busiest in terms of tonnage, (66 million tonnes in 2008) and home to the UK's biggest Refinery Cluster, providing 27% of total UK production. The advantages of the Humber does not stop there, the south bank of the Humber is also the largest remaining development site in the North of England fronting a deep water estuary, covering four square miles and potentially, the biggest job creator in the Region, or indeed the North with the prospect of 20,000 private sector jobs. **It is the best opportunity in the North of England to rebalance the UK economy.**
- Given the location of the Humber Ports, it is easy to see that it has the advantage of being accessible to most areas of the UK, with it being within the four hours' drivers' time directive—so the Humber's assets need to be reflected in Government transport policies. However, at the present time, given the recent DfT announcement's this week regarding the A160 to the Port of Immingham and the A63 scheme to the Port of Hull, this does not seem to be the case.
- The importance of providing the road and rail infrastructure in serving the Port of Immingham, given the annual tonnage highlighted above, should be obvious. The South Humber also has 20% of all UK rail freight passing through it.
- Relating these points back to the Government's focus on transport and the economy and in particular, providing the infrastructure to stimulate private sector investment and jobs, the construction of these major roads and rail schemes needs to be timed accordingly. Without it, the Ports will not be able to achieve its full employment potential. The implications for the Humber if this is the case, will be far reaching and against the overall objectives that the Government are trying to achieve.

In Summary

Nationally, investment in transport infrastructure needs to be at a level commensurate with maximising the economic benefits that such investment generates. Judged against the key indicators of this, principally as contained in the Eddington report, investment in the Humber ports will deliver, whether measured regionally or nationally, significant economic benefits. Additionally, the nature of the proposed South Humber port developments will provide the type of sustainable developments, both economically and environmentally, that will lead the way to achieving national carbon-reduction targets. The substantial private sector investment the area is already attracting clearly demonstrates its potential to boost the local and regional economy, creating an estimated 20,000 jobs over the next five to ten years. Critical to maximising the success of the South Humber is the provision of adequate transport infrastructure, both road and rail.

Humber Bridge

— While the Humber and its business community welcomes the recent announcement of a Treasury study into the impact of the tolls, there is a degree of frustration and impatience at the delay that this inevitably engenders. How many more studies are genuinely needed? We have already seen the 2008 and 2009 Buchanan study, phases one and two (which showed that, of all the policy instruments to support economic development in the Humber region, action on the tolls is likely to be the simplest and most effective); the £150,000 DfT commissioned study, which is due to report in the next couple of weeks and which the Treasury has had a watching brief over; and now the prospect of a Treasury led study, of which we have no details regarding its remit, start date or duration. What is now needed is action, not more good intentions or further studies.

— The Buchanan findings showed that toll abolition would bring economic benefits to the Humber of £1.1 billion by 2032, or £580 million if the toll is reduced to £1 for a car each way with corresponding reductions for all other classes of vehicle;

— There is a cross-party and business consensus, which extends to the wider region, that action on the actual level of the Humber Bridge tolls is a policy necessity. The high Humber Bridge tolls prevent the Humber sub-region realising its economic potential, with little labour mobility across both banks, creating two separate job by markets;

Further Thoughts

— We envisage that many future decisions on transport may come through a Local Enterprise Partnership or similar function. We will work with our public and private sector partners in the Humber to prioritise areas of funding that will drive the economy, both regionally and nationally, and restructure local economies. North Lincolnshire Council, the Hull and Humber Chamber of Commerce, the Humber Chemical Focus, the FSB and the majority of the Humber's MPs support a pan-Humber LEP. At the present time, unfortunately there is no cross-estuary agreement on this among the four Humber unitary councils. Business though is unequivocal in its support for pan-Humber working through a single LEP.

1. *Introduction*

1.1 This is North Lincolnshire Council's formal response to the inquiry into Transport and the economy, in addition to the oral evidence given on Tuesday 2 November 2010.

1.2 In the present economic climate, and given recent announcements on future transport investment, North Lincolnshire Council welcomes the opportunity to respond and support the Government in its support for transport schemes that will rebalance the UK's economy.

1.3 The following response is structured around the questions as outlined in the Terms of Reference and Call for Evidence.

2. *Have the UK's Economic Conditions Materially Changed Since the Eddington Transport Study and, if so, Does this Affect the Relationship between Transport Spending and UK Economic Growth?*

2.1 The UK's economic conditions have substantially changed since the Eddington Study in 2006 and, as such, it is more important than ever that transport spending is invested in schemes that will support economic growth.

2.2 Of course, it is also fair to say that, whilst supporting economic growth is vital, there is also an increasing awareness of environmental issues and climate change and transport's role in addressing both issues. It is particularly crucial now that both should be addressed in unity rather than as two separate issues. This is the only way we will achieve real sustainable economic growth.

2.3 In the current economic climate, Sir Rod Eddington's study into the relationship between transport and the UK's long-term economic growth stated that the priorities for investment should be, "reducing congestion in urban areas, on key inter-urban corridors and at key international gateways (major ports and airports)." This has never been more important in stimulating economic growth. Further, where Eddington refers to maximising

economic growth whilst also responding to the challenge of climate change, this is of particular importance to the Humber, as detailed below.

2.4 The Humber Ports is the UK's busiest in terms of tonnage, (66 million tonnes in 2008) and home to the UK's biggest Refinery cluster, providing 27% of total UK production. The advantages of the Humber do not stop there. The south bank of the Humber is the largest remaining development site in the North of England fronting a deep-water estuary, covering four square miles and, potentially, the biggest job creator in the Region, or indeed the North, with the prospect of 20,000 private sector jobs. It is the best opportunity in the North of England to rebalance the UK economy.

2.5 Considering the economic potential with the low carbon, sustainable sectors, the south bank of the Humber has plans for the biggest environmental and port developments involving renewable energy, in the UK. A £400 million Marine Energy Park and a 1,600 quay will create the infrastructure for the offshore wind sector bringing with it up to 20,000 jobs. It will provide the facilities for manufacturing, commissioning and the installation base for offshore wind turbines and become the largest energy cluster in the UK. In addition it is worth noting that, due to the proximity to three offshore wind farms, delivery costs will be significantly lower than the rest of the UK and Europe. But the Government, too, has to play its part in helping us to rebalance our economy. The uncertainty created by a delay to the A160 scheme is perhaps not the best example of a supportive relationship.

2.6 Given this and the location of the ports to the rest of the mainland in the UK (most areas are within the four hours' drivers' time directive), the Humber's assets clearly reflect Eddington and Government's transport policies. Therefore, recent DfT announcement's regarding the delays to the A160 scheme to the port of Immingham and the A63 scheme to the port of Hull, are baffling to comprehend. An explanation is sought.

2.7 In the previous Government's November 2008 Pre-Budget Statement, up to an extra £30 million was awarded by the DfT to enhance the quality of the A160 scheme. This was part of a programme aimed at removing bottlenecks at key UK airports and ports (in line with Eddington). And yet two years later, we find the scheme has been put back to start "at the earliest" in 2015. This is in marked contrast to the Yorkshire and Humber Regional Transport Advisory Board's intentions in February 2010 (with DfT present), where it was identified as a key priority and the scheme's start date was brought forward by ten months (to early 2013).

2.8 Given the Government's focus on providing the infrastructure to stimulate private sector jobs, the construction of these major road schemes needs to be timed accordingly. Without it, the Humber ports will not be able to achieve their full economic potential. The implications for the Humber if this is the case, will be far reaching and against the overall objectives that the Government are trying to achieve. The Humber is absolutely united and clear, with the unequivocal support of business, that an early start on its two strategic road schemes to the ports of Immingham and Hull—the A160 and A63 respectively—are vitally important and inextricably-linked to any serious attempt to help rebalance its economy and improve its economic performance.

2.9 *In Summary*

Nationally, investment in transport infrastructure needs to be at a level commensurate with maximising the economic benefits that such investment generates. Judged against the key indicators of this, principally as contained in the Eddington report, investment in the Humber ports will deliver, whether measured regionally or nationally, significant economic benefits. Additionally, the nature of the proposed South Humber port developments will provide the type of sustainable developments, both economically and environmentally, that will lead the way to achieving national carbon-reduction targets. The substantial private sector investment the area is already attracting clearly demonstrates its potential to boost the local and regional economy, creating an estimated 20,000 jobs over the next five to ten years. Critical to maximising the success of the South Humber is the provision of adequate transport infrastructure, both road and rail.

3. *What Type of Transport Spending Should be Prioritised, in the Context of an Overall Spending Reduction, in Order to Support Regional and National Economic Growth?*

3.1 We recognise that in the current economic climate tough decisions have to be made on transport investment. Therefore, we feel that transport spending has to be prioritised in those areas that offer the greatest benefits in terms of:

- — Facilitating/supporting economic growth, particularly from the private sector.
- — Promoting sustainable growth (reducing carbon emissions, supporting investment in the renewables sector, opportunities for sustainable travel and so forth).
- — Improving road safety,
- — Offering best value for public sector money; and
- — Creating jobs.

3.2 With this in mind, the points raised above, in answer to the previous question, are also relevant here. In addition, we would like to offer the following comments looking at our work on a Humber-wide level:

3.3 The A160 scheme for the port of Immingham (using DfT's methodology) has a benefit cost ratio of over 10. This is the highest of any scheme in the Yorkshire and Humber and one of the best in the country.

3.4 Providing rail infrastructure is vitally important, given the points above (particularly on sustainability). The South Humber has 20% of all UK rail freight passing through it. Gauge enhancements from the South Humber Ports (Immingham and Grimsby) to the East Coast Mainline (to W10 and W12 standard, allowing the passage of large containers) cost approximately £5.5 million and will provide significant economic benefits to the region and indeed nationally. In the absence of such investment, by 2014, the Humber ports will be the only major port in the UK without the benefits of these improvements.

3.5 There has long existed a cross-party and business consensus, which extends to the wider region, that action on the actual level of the Humber Bridge tolls is a policy necessity. This is, manifestly, not a transport spending demand, but a financial issue for Government. The infrastructure is in place and has been for almost thirty years. It is not the estuary that is the problem—simply the level of the tolls. Set at an unrealistically high level from the outset, the tolls prevent the Humber sub-region from realising its economic potential. As a result, there exists little labour mobility across both banks, creating two separate job markets. It is essential, with the prospect of significant offshore wind investment, that both sides of the bank can reap the benefits.

3.6 While the Humber and its business community welcomes the recent announcement of a Treasury study into the impact of the tolls, there is a degree of frustration and impatience at the delay that this inevitably engenders. How many more studies are genuinely needed? We have already seen the 2008 and 2009 Buchanan study, phases one and two (which showed that, of all the policy instruments to support economic development in the Humber region, action on the tolls is likely to be the simplest and most effective); the £150,000 DfT commissioned study, which is due to report in the next couple of weeks and which the Treasury has had a watching brief over; and now the prospect of a Treasury led study, of which we have no details regarding its remit, start date or duration. What is now needed is action, not more good intentions or further studies.

3.7 The Buchanan findings showed that toll abolition would bring economic benefits to the Humber of £1.1billion over the period 2009 to 2032, or £580 million if the toll is reduced to £1 for a car each way (with corresponding reductions for all other classes of vehicle).

3.8 Annual operational and routine maintenance costs amount to around £3.5 million a year. The Bridge Board receives over £21 million a year in toll revenue. At the last public inquiry (March 2009), the Bridge Board confirmed that toll income over the period 1981 to 2008, amounted to £342.3 million. Interest and capital paid to the Government, excluding grant over the same period, was £292.2 million. The Humber Bridge toll is nothing other than a brake on the Humber's competitiveness and a local tax on businesses and individuals. It is hoped that the recently announced Treasury-led review into the impact of the tolls on the Humber's prosperity will recognise the heavy price paid by business and individuals since 1981—and act accordingly.

3.9 The Humber, after years of poor economic performance, now has the opportunity, through Ports, logistics and offshore wind investment, to transform its economic base and the life chances of its residents on both banks. Of course, the two major road schemes need to be given the go ahead, but the issue of the prohibitively high Humber Bridge tolls must be addressed if the Humber is to realise its potential. We must have a skilled and mobile workforce able and willing to take advantage of job opportunities on either bank. With the tolls at their present level, this will not happen.

4. *How Should the Balance Between Revenue and Capital Expenditure be Altered?*

4.1 Whilst, given the reasons above, there are obvious benefits to funding major capital schemes, particularly those that stimulate sustainable economic development and private sector investment, we also need to ensure that we can maintain the assets we already have and of course, should new capital schemes be built, we need to ensure we have the level of funding available to be able to maintain them. The relationship between the two is interlinked and complex.

4.2 To some degree, it is possible that a decision on where funding is spent (on smaller levels of funding), should be made at a local level in an informed way based on current assets and local needs. Therefore we welcome any changes to a more simplified transport funding system and await the outcomes on the recent transport allocation consultation from DfT.

5. *Are the Current Methods for Assessing Proposed Transport Schemes Satisfactory?*

5.1 In this economic climate, we would welcome a process that takes further account of the scheme's ability to drive economic recovery and rebalance the UK's economy. It also seems relevant at this time to take account of predicted levels of private sector investment and job creation. Fundamental to all assessment of schemes is a value for money factor and the use of the benefit cost ratio methodology (BCR).

5.2 As mentioned earlier in paragraph 2.7, the Regional Transport Advisory Board, in February 2010, viewed the A160 as such a key regional priority that members agreed to bring forward the proposed start date for the scheme by ten months to start construction in early 2013. In the current assessment mechanism, no account appears to be taken of the Region's intentions. Dependent on the government's intentions with regards to regional tiers or indeed local prioritisation mechanisms, it is fundamental to include this in methods of assessment.

5.3 Whilst it is understood that assessment criteria for assessing proposed transport schemes can be complex, taking into account these economic benefits appears to be fundamental in the current economic circumstances.

5.4 We do also recognise that environmental issues should be taken into account, particularly in the government's drive to reduce greenhouse gas emissions and transport's key role in achieving the targets. Schemes should also therefore, be considered on their ability to reduce these emissions and options be considered that promote the use of sustainable modes of transport. We do acknowledge and welcome that, through the "New Approach to Appraisal" (NATA), some of these steps have already been taken both from an environmental and economic perspective.

6. *How Will Schemes be Planned in the Absence of Regional Bodies and Following Revocation and Abolition of Regional Spatial Strategies?*

6.1 We envisage that many future decisions on transport may come through a Local Enterprise Partnership or similar function. We will work with our public and private sector partners in the Humber to prioritise areas of funding that will drive the economy, both regionally and nationally, and restructure local economies. North Lincolnshire Council, the Hull and Humber Chamber of Commerce, the Humber Chemical Focus, the FSB and the majority of the Humber's MPs support a pan-Humber LEP. At the present time, unfortunately there is no cross-estuary agreement on this among the four Humber unitary councils. Business though is unequivocal in its support for pan-Humber working through a single LEP.

6.2 Further explanation would be welcomed on how some of the issues that fall between the local priorities and issues of national significance will be dealt with without the presence of regional bodies providing the wider knowledge and expertise often needed on these types of schemes. It is felt that on some issues, including major transport infrastructure, a regional perspective (or equivalent) is needed to allow appropriate strategic decisions to be taken on a wider scale, such has been provided by the Regional Transport Advisory Board in the past. However, as also mentioned in paragraph 5.2, should such a body be in place, the government should recognise and assess schemes against criteria that takes the decisions of the region into account.

November 2010

Written evidence from Chris Riley (TE 108)

1. The Committee has invited evidence on five issues relevant to its inquiry on Transport and the Economy. This paper considers each in turn.

Have the UK's Economic Conditions Materially changed since the Eddington Transport Study and, if so, does this affect the relationship between transport spending and UK Economic Growth?

2. Since the Eddington Study was completed in 2006, estimates of sustainable growth and the productive potential of the economy have been reduced in light of the recession and the impact of the financial crisis. Estimates by the OBR in June suggest that trend GDP is 9% below the estimates made immediately before the recession, and is likely to grow less rapidly in the future. This means that both the level and the growth rate of transport demand will be lower in the medium and longer term than previously thought. The recession has depressed demand for all transport modes, and while demand will recover it cannot be expected to reach the path assumed in 2006.

3. This means that pressure on existing transport capacity will be less than if the economy had remained on its previous track, and hence the need for investment in capacity will be correspondingly reduced. Rates of return and Benefit-Cost Ratios (BCRs) for transport schemes in all modes will be lower than otherwise.

4. Looking at causation the other way invites the question: could more or better transport spending help boost economic growth and offset some of the recent deterioration in economic prospects? The answer in principle is yes, given the kind of economic impacts identified in transport appraisals and other sources of evidence. A DfT working paper on wider economic benefits in 2005 set out how appraisal effects translate into effects on GDP.[113]

5. But Eddington concluded that:

- in mature economies like the UK, with well-developed transport networks, transport improvements can help primarily by relaxing constraints on growth, for example by reducing congestion, journey times and other transport costs, increasing the effective size of local labour markets, removing obstacles to development and agglomeration; and
- improving connectivity by making new destinations available, and thus previously inaccessible places accessible, could in principle have substantial effects, but that is less likely to be important in the UK than in countries with less well developed transport systems.

[113] "Transport, Wider Economic Benefits and Impacts on GDP", DfT, 2005

6. These conclusions still seem valid. Improved transport is unlikely to boost growth much in areas of the economy where the underlying growth conditions are not favourable. The two-way-road argument[114] means that improved transport can in some circumstances reduce economic activity in places which become better connected.

7. A key question for policy makers is whether transport improvements are more effective in boosting growth than other forms of spending, such as education and skills, lower taxes etc. The available literature does not provide clear cut answers to this question.

What type of Transport Spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?

8. Eddington argued that the priority for transport policy in the UK should be improving the performance of existing transport networks: especially congested urban areas, key inter-urban corridors and key international gateways. That still seems right. This is where the constraints on growth are likely to be greatest. Many commentators stress the key importance of improving urban transport systems.

9. Eddington also argued that it was vital to "get prices right". That too is still correct; we should focus on pricing for roads as well as public transport, and it's far from clear that prices are currently right. Some road users currently pay less than the social costs they impose—including congestion and climate change.

10. If the aim is to make the greatest possible contribution to economic growth, transport spending should focus on schemes which offer the greatest economic returns. This would mean adopting a narrower criterion than the BCR currently used in appraisal, omitting for example environmental and social impacts. Ranking transport options by their contribution to the economy would not correspond to a ranking based on the wider concept of welfare currently used, though there would be considerable overlap.

11. The version of DfT methodology employed by Eddington would probably in general have favoured road schemes over more expensive rail schemes, and smaller schemes over more speculative grand projects. But the changes introduced in 2009 (notably to the treatment of indirect taxes) would now tip the balance more towards public transport.

12. Phil Goodwin's evidence to the Committee discusses this in more detail. His estimates confirm the high rates of return for small schemes such as cycling and "smarter choices"—measures to influence travel behaviour, such as travel plans—but suggest a very different ordering of priorities between roads and public transport. Returns for roads are now estimated by Goodwin to be much lower, but the numbers need to be examined very carefully. Two key assumptions in particular, and hence the conclusion itself, may be questioned:

- that lower road traffic growth causes as large a reduction in the benefits of road investment as the introduction of road pricing would. This is not borne out by other studies, including the DfT's Road Pricing Feasibility Study in 2004;[115] and
- that demand for public transport, and hence investment returns, are not affected by lower growth in the economy. This too is not borne out by empirical evidence.

13. Much depends on how well the appraisals of individual schemes—particularly large infrastructure schemes—capture the wider benefits associated with land use changes and dynamic factors which can lead to cumulative changes in the economy. The formal models used in transport appraisal are not always very good at dealing with such effects, and is desirable to use the best available evidence on this from whatever source, as discussed below.

14. High Speed Rail is evidently a priority for the current Government, and the case for this rests on three main planks:

- rapidly increasing demand for rail travel, which will put increasing pressure on existing capacity (notably the West Coast Main Line);
- the fact that speed is very important for medium and long distance journeys, and values of time are high for some travellers who are therefore prepared to pay more for high speed services; and
- environmental benefits, which are likely to be significant if passengers are attracted in significant numbers from domestic air services.

15. Extending the high speed network up to and beyond Birmingham could therefore be very worthwhile if appraisal demonstrates high BCRs by comparison with other schemes. But the numbers produced by HS2 are not particularly high. The economic benefits of additional investment in high speed rail could be substantial, but have yet to be demonstrated.

How should the balance between Revenue and Capital Expenditure be altered?

16. It is not clear in macro terms how the overall balance between current and capital spending should be changed. Ultimately, this depends on assessments of value for money (VfM) for particular projects. But there are some general points of principle to be made.

[114] See the Appendix to Phil Goodwin's submission of evidence to this Inquiry, September 2010.
[115] "Feasibility Study of Road Pricing in the UK", DfT, 2004

17. First, capital projects with a good case on VfM grounds could and should be financed by borrowing, not by current taxpayers, because the benefits accrue to future taxpayers. This is the "golden rule". Failure to invest in worthwhile projects reduces future economic growth—it reduces debt, but also reduces GDP. Investing now, when there are spare resources in the economy and cost pressures are relatively subdued, makes very good economic sense. If the projects are demonstrably good VfM, it is very unlikely that more borrowing for this purpose would lead to a loss of confidence in financial markets.

18. Second, maintenance of existing transport assets—for example roads and the rail network—should not be neglected, because that simply stores up a need for higher capital spending in the future. Any unwarranted saving in maintenance spending may help to reduce public borrowing and debt, but it also leads to a reduction in the value of national assets.

19. Third, existing assets should be used as efficiently as possible, especially at times of fiscal stringency when investment in new capacity has to be strictly rationed. That is clearly a priority for rail, but also for the road network.

20. Road pricing, as championed by Eddington and others (eg the RAC Foundation), is the most economically efficient way of achieving this, and has the added advantage that it generates revenue which can be used to fund capital and current spending—whether on transport or elsewhere—while reducing the need for additional investment in road capacity. It is the politics of road pricing which appears to be the biggest obstacle to progress; the economic case is clear.

21. There is a read across to rail fares and subsidy for the rail industry. Current rail subsidies are partly a reflection of the fact that roads are under-priced—road users don't meet the full social costs of road travel (in particular congestion, but also carbon). Simply putting up rail fares to help fund increases in capacity will discourage rail demand and push more traffic onto the roads, but with road pricing this would not be a problem and rail subsidies could be reduced.

22. Finally, there is clear scope for better targeting of bus subsidy, as a recent Oxera study for the LGA has argued.[116] The existing concessionary fares policy is not well targeted on those in need, and Bus Service Operators Grant (BSOG) is not well designed to address local conditions and the environment. Better targeting would permit funds either to be reallocated more productively within the bus industry or to local transport more generally, or savings to be made without damaging it. But the economic case for well designed bus subsidy is strong (as Phil Goodwin's numbers suggest).

Are the current methods for assessing proposed transport schemes satisfactory?

23. The appraisal methods used have improved in recent years, but further improvements are needed. The degree of sophistication and the type of modelling used will depend on the type of scheme or strategy to be appraised and the stage which the decision process has reached. But the basic methodology is the same.

24. Some commentators criticise the welfare economics basis of present methods, but this approach has the great advantage of covering the full range of impacts on the public in a coherent and transparent manner. The main problems with implementing the present approach are empirical, and some impacts are very difficult to measure. But empirical improvements are being made all the time, with formal measurement and monetisation being applied to an increasing range of impacts.

25. Where evidence on welfare impacts is incomplete, or where particular emphasis is needed on specific kinds of effect, other analyses can be used to supplement the basic welfare approach—for example analysis of distributional effects, impacts on economic growth or the environment, or other criteria. If necessary these various analyses and other factors can be combined in a more formal multi-criteria decision analysis (MCDA) approach. But a simple checklist approach, as some have advocated, or a focus solely on contributions of transport schemes to government objectives—which may or may not be sensible—are not adequate substitutes for rigorous analysis within a sound conceptual framework.

26. Some commentators criticise the important role of time savings in transport appraisal, but this is misguided. The benefits of transport arise because of the connectivity they provide, and as a recent Oxera study has made clear, this essentially reflects the availability of potential travel destinations and the time, reliability and cost—or generalised cost—incurred in reaching them.[117] In the UK, with its highly developed transport system, the latter will be most important. Improvements in journey times, reliability and cost may of course lead to a range of wider effects on the economy, and these can and should be modelled for inclusion in the appraisal.

27. Some argue that small time savings in particular should be ignored, because people don't appear to value them. But this makes no sense. Small changes may eventually cumulate to larger changes and cannot be ignored. To do so would introduce a wholly unjustified distinction between the overall benefits of a succession of small scale projects, each leading to incremental changes, and large scale projects delivering the same overall effect. There are no doubt some improvements that can be made to the treatment of time savings—for

[116] "Subsidising buses:how to get the best from taxpayers' money", Oxera, June 2009
[117] "To Timbuktu and back again: why transport connectivity is important", Oxera, October 2010

example the valuation of working time spent on public transport—but the basic approach is sound. It is, of course, possible to include the distribution of time savings as a supplementary analysis, as DfT proposes.

28. Some commentators argue that environmental and some other impacts should not be monetised, because such impacts—for example on human life, or endangered species—are beyond price.[118] There is no evidence that this is so. Society is neither willing nor able to pay an infinite amount to reduce risks to human life—or to preserve tigers. Valuation helps to make judgements on these matters transparent, and should be pursued as far as our techniques allow. It has already been extended to a range of environmental and safety impacts, for example. Willingness to pay for reductions in risk or to mitigate adverse impacts is a sound measure of social preferences. Where good data are not available, or where it is not possible to design suitable studies to obtain them, informed judgements need to be made.

29. The current approach to appraisal takes account of wider economic benefits of transport, going well beyond time savings, including agglomeration effects, higher output in imperfectly competitive markets, and labour market effects. This is an important step forward.

30. Agglomeration benefits are potentially very significant, for example, as seen in the Crossrail appraisal. But as well as effects resulting from lower transport costs, which are included in the standard approach, it is also very important to take full account of land use changes and relocation of jobs. At the moment this doesn't necessarily happen; it is allowed only as an optional variant on the central assessment. Good land use transport interaction (LUTI) models are needed to do this properly, and this approach should be encouraged because wider benefits may otherwise be considerably understated. Such modelling is not straightforward, not least because of interaction with the planning system, but it is an important area for future development. Even when such modelling of wider benefits is available, however, it may well be desirable to utilise the results of non model-based studies to inform assessment of such effects, not all of which may be susceptible to formal modelling given the current state of knowledge.

31. Some kinds of wider effect are omitted completely in the current methodology, such as impacts on competition, overseas trade and investment. In principle these effects could be important, and should be analysed. But the evidence base is weak in this area.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of Regional Spatial Strategies?

32. The nature of transport planning and decision taking should be different for strategic national networks, like strategic roads and inter-urban rail systems, and local networks. The former remain the responsibility of central government, and the latter will now be the responsibility of local authorities and/or Local Enterprise Partnerships.

33. Local authority boundaries do not necessarily relate well to the wider areas served by local transport systems. London is a very good example, and the mayor has a central role in regional transport planning. A similar regime could potentially bring benefits to other city regions, though it is generally accepted that administrative or statistical regions, as covered by the RDAs, are not the appropriate concept.

34. In the absence of mayors for city regions, local authorities need to coordinate their planning of transport schemes, and the Government should take responsibility for facilitating this. Whether the new Local Economic Partnerships will fit the bill remains to be seen. It will depend on the way they are set up and the powers they have. In principle they could be very effective, but the scope and coverage of partnerships announced so far do not appear to obviate the need for further coordination.

35. However local and regional transport planning is organised, central government remains responsible for allocating transport funding across the regions. In doing so it is necessary to distinguish between the overall benefits of transport spending to the country and the economy as a whole, and the benefits to individual regions and the objective of reducing regional imbalances.

36. If the objective is to maximise benefit to the national economy, funds should be directed to where the potential returns are highest—for example where congestion and overcrowding are greatest. That may in practice mean disproportionate spending in regions which are already richer and growing fastest—for example London—and less in slower growth regions where pressures on existing infrastructure are less. This applies whether the DfT is allocating funds to lower tiers of government or prioritising improvements to strategic national networks.

37. But insofar as the aim is to reduce regional inequalities and give greater help to less buoyant regions, transport funding can be allocated to them specifically to help stimulate growth. But it should be recognised that this would probably mean less benefit to the national economy as a whole. And the benefits to the regions concerned may be weak unless the underlying conditions for growth are favourable.

[118] See, for example: "Getting Transport Right", Campaign for Better Transport and Green Alliance, 2008

38. It is worth noting in this context that, in the current appraisal methodology, use of common national values of time in less buoyant regions, where prices and incomes are typically lower than average, implies a bias in favour of these regions. This is difficult to justify on efficiency grounds and the overall benefits to economic growth, and has the effect of giving additional weight to the regional equity objective.

Chris Riley
Chief Economist of DfT until 2005, now working as a consultant

November 2010

Written evidence from the West Midlands Regional Sustainability Forum (TE 109)

Background

Involved in the Transport Debate in the West Midlands over 20 years.

Chairman of the Alliance Against the Birmingham Northern Relief Road during the M6 Toll Debate.

On Steering Group for West Midlands and Midlands to North West Multi-Modal Studies.

On Steering Group for Black County Study and Western Access to the Black Country Study.

Engaged in development of RSS Policies and Member of Regional Planning Executive.

Vice-chair of the Regional Transport Partnership, involved in Regional Funding Allocation process.

Key Points

We need to address economic failure in the region, particularly in urban areas such as Stoke on Trent and the Black Country, which lag behind the rest of the region. In seeking to improve economic performance we need to ensure the environment is protected and everyone benefits. Transport funding should underpin urban regeneration and resources should not be diverted away from this.

We need to invest in smaller scale schemes, such as walking and cycling, which are effective at unlocking economic potential but which also support the environmental regeneration of areas.

The types of transport interventions we pursue have impacts on the attractiveness of areas and transport lifestyles of residents and this is not given enough weight. Transport investment is not an end in itself.

We are concerned that too much weight is given to promoting and funding road schemes and long distance rail and that the role of buses is significantly undervalued, even though they are the workhorse of public transport. Changes to public funding that would reduce support for rural and less used bus services would undermine the network and its attractiveness to users.

Congestion, particularly in Peak Hours, is endemic in our urban areas and may never be reduced without significant increases in the cost of driving. Too much attention is paid to removing it rather than managing it. The emphasis should be on increasing journey time predictability and modal shift to more space efficient modes of transport.

Obtaining revenue funding as well as capital remains an issue. Local authorities should be encouraged to generate revenue through parking charges and levies, as well as taking up existing powers to decriminalise enforcement of parking and other minor contraventions.

Specific Schemes

M6 Toll

The evidence that objectors to the scheme gave to the Public Inquiry in the mid-1990s has been vindicated. Perceived benefits are often not real and it is largely a white elephant. The toll road is particularly poorly used by heavy goods vehicles. A reduction in toll rates is unlikely because there is insufficient traffic to make that economically attractive.

Reducing the toll rates or buying back the road would not deal with congestion on the M6 because 1. most M6 traffic is local/regional, 2. the M6 would refill with new traffic if some existing traffic were to be attracted away from it.

We would like to see greater use of the toll roads by Heavy Goods Vehicles. We were the only people who argued that lorry tolls should be pegged to car tolls at the Public Inquiry.

Access to the Black Country

This should continue to be via the M5 and M6. There is no alternative which would not be more expensive, environmentally damaging and damage attractive areas of the Black Country. Improvements to M5 Junctions 1 and 2 would help improve access, but in the long term investment in public transport is needed.

Managed Motorways

A stop gap measure that should not be seen as a long term solution as traffic is allowed to increase causing jams elsewhere. While there can be some immediate congestion and carbon benefits these are likely to be undermined over time. Allowing increased traffic on motorways in congested areas is also likely to exacerbate congestion in those areas if nothing else is done.

Other Road Schemes

A number of towns are pursuing road schemes, some of which have been around for a long time. Notable are the Hereford Outer Relief Road/Shrewsbury North West Relief Road. They are often linked with new green field housing and employment sites. There are cheaper alternatives which we believe should be pursued rather than spending time and energy on outdated proposals.

Rail

Increasing rail provision is important across the region. There has been a failure to fully capitalise on some opportunities. Development of rail in the Black Country, for example, where a new hub could be developed at Walsall using existing underused assets, could change perception as well as bring transport benefits. However it can be a chicken and egg situation—ie rail access leads to retail/housing prioritisation which leads to social regeneration while lack of access leads to decline. Double tracking to Hereford from Great Malvern is another important example.

High Speed Rail

Note that CENTRO say that many economic benefits rely on additional public transport investment. Essential that any services goes to the centre of Birmingham and is integrated into a step change in the West Midlands' public transport network without which many of the economic benefits will not materialise. Parkway Station likely to generate significant new regional road trips. Accept the need for more capacity to London but is this the right line, will it take money from other transport investment and does the carbon equation add up?

Midland Metro (Tram)

Support investment in Metro but needs to be balanced against cost. There is also a need to integrate Metro with heavy rail investment on corridors such as Wednesbury to Merry Hill.

Bus

Concerned that changes to bus grants and free bus passes could affect viability of services. Once lost they do not return. Buses play a key role in urban regeneration and in supporting rural communities.

Aviation

The economic impact of aviation tends to be exaggerated. It represents, after all, a two way street, for example in creating a tourism deficit. We accept the Birmingham International should be the main airport in the region. However, we do not support unrestrained expansion, especially a second runway. It is not a solution to simply transfer London flights to Birmingham via High Speed Rail.

November 2010

Written evidence from Birmingham City Council (TE 111)

1. Background

A separate note has been supplied on the recent trends in the local economy and transport. The Council considers there are important links between the health of the local economy and ease of connectivity/ accessibility. Other factors such as quality of life, a sense of place and education/training are also important. The combining of the transport and regeneration portfolios recognises their inter connectivity.

Responses to Questions

2. *Have the UK's economic conditions materially changed since the Eddington Transport Study (2006) and, if so does this effect, the relationship between Transport Spending and UK Economic Growth?*

The conditions have significantly changed and the West Midlands has been particularly hard hit. The relevant data is in the separate note.

The three priorities for transport investment set out by Eddington still hold true ie international Gateways, National links and Urban networks. This is why the City Council is supporting High Speed Rail, freight links to the ports, Birmingham Airport expansion and quality public transport. The work undertaken by Professor

Parkinson in preparation for the Big City Plan identified the role of Core Cities in driving forward the national economy.

3. *What type of Transport Spending should be prioritised in the context of an overall spending reduction, in order to best support Regional and National Economic Growth?*

Capital Transport spending has risen slightly (from 15% in 2010–11 to 19% in 2014–15) as a proportion of total government capital and this is to be welcomed. While support for major projects (such as Crossrail) has held up relatively, local transport sees a near 30% fall.

Schemes that help local communities are likely to suffer. The withdrawal of a range of specific grants will assist local discretion but the new funds subject to bidding rounds (Local Sustainable Transport Fund and Regional Growth Fund) are at a modest level. This will result in only a limited number of projects being able to proceed—as there is a limit to how much the private sector will pick up in the current development environment. The West Midlands has pioneered Impact Investment Locations (see RDA evidence)—clearly identifying the key priorities.

Overall Eddington's priorities are still relevant although a sustainable, low carbon approach can result in some scheme changes.

4. *How should the balance between revenue and capital expenditure be altered?*

The budget reductions more severely impact on the revenues field. While some expenditure on smarter choices could come from the Sustainable Transport Fund, staff resources for travel planning, road safety education/cameras, public transport promotion, cycling and walking will be hit. The sustainability agenda will be affected with businesses and operators unlikely to fill the gap.

The cut in BSOG to bus operators and the pressure on concessionary travel budgets (including new guidance which is expected to reduce payments by 10%) is likely to result in fare increases and need the for higher subsidies. It is right that the users will need to pay a higher proportion of fares but local authorities are not well placed to step into the breach.

Therefore increased support for such activities does need to be built into future plans.

5. *Are the current methods for assessing proposed Transport Schemes satisfactory?*

This is well covered by evidence from a range of academics, although the principle of value for money and wider economic, environmental and social impact is accepted, what is needed, is a lighter touch from Government with local government able to take most decisions e.g. the major scheme threshold of £5 million has remained the same for over ten years. The guidance from DfT has become more onerous and can cost 10% of total costs.

6. *How will schemes be planned in the absence of regional bodies and following the revocation and abolition of Regional Spatial Strategies?*

Birmingham City Council has and will continue to be capable of planning and executing the full range of schemes. It took the leading role in assembling the funding package for the Birmingham Gateway project. The Government is intent on replacing the Regional Funding Allocation process with a new regime, suggesting some autonomy, perhaps to Local Enterprise Partnerships. The metropolitan authorities have a history of working together on transport priorities and cross boundary issues through the Transport Partnerships and the Local Transport Plan.

November 2010

Written evidence from Stop HS2 (TE 112)

Stop HS2 welcomes the opportunity to contribute to this inquiry and would like to express strong support for the committees' assertion that at a time of major public expenditure cut-backs, it is vital that every pound is invested to greatest effect. This submission focuses on HS2, the current proposals for high-speed rail, which we believe is a perfect example of the shortfalls currently embedded in transport decision making, and the methodologies used to arrive at these decisions.

1. Introduction

The Eddington Transport Study of 2006 highlighted the dangers presented by the political momentum which had built up behind the lobby for high-speed rail which belied the facts and risks accompanying the proposed project. In relation to high-speed rail, Sir Rod made the following conclusions which unfortunately have been ignored by Government:

1.1 A new high-speed rail line between two cities would not offer the economy significant new connectivity or trading opportunities, if those cities were already a day-trip away from each other by existing rail, road or air links.

1.2 It is critical that the government enforces a strong, strategic approach to option generation, so that it can avoid momentum building up behind particular solutions and the UK can avoid costly mistakes which will not be the most effective way of delivering on its strategic priorities.

1.3 The evidence for transformational benefits is at best unproven.

1.4 A potential benefit (which should be included in the wider BCR) is that of freeing up capacity on existing rail lines. Whilst this is true, it is not at all clear that creating new networks is the most appropriate or cost-effective method to achieve increased capacity.

1.5 High speed options should be assessed coldly alongside other polices for achieving the same objective. Other transport investments are very likely to offer superior returns compared to where projects rely on new and largely untested technologies.

1.6 Even if a transformation in connectivity could be achieved, the evidence is very quiet on the scale of resulting economic benefit, and in France business use of the high speed train network is low.

1.7 In short, step change measures, such as a new nation-wide very high-speed train network, are not, in a world of constrained resources, likely to be a priority.

2. Prioritisation

The committee asks the question; "What type of transport spending should be prioritised, in the context of an overall spending reduction, in order best to support regional and national economic growth?". Irrespective of the context of spending reduction, the answer should surely always be the options which, after careful comparison with other options, provide the greatest overall benefit to the regional and/or national economies. Taking this question within the context of the need for reductions in expenditure, one should also take account of the projects which require the least capital investment and present the lowest risk. Additional factors, such as our commitment to an 80% reduction in carbon emissions by 2050 and other negative environmental and social impacts must also form part of the appraisal process when prioritising projects.

3. Appraisal

The committee asks the question *"Are the current methods for assessing proposed transport schemes satisfactory?"* In the case of HS2, they are far from satisfactory and have seemingly been misused, simply to support the desired project. HS2 represents a case of *"This is the solution, now what is the problem?"*. This viewpoint was echoed by HS2 Ltds Chief Engineer, Andrew McNaughton, who in a meeting with action groups from the Kenilworth and Southam constituency on 17 August 2010 stated; *"We need to build something politically which is a statement of a modern form of transport. If the French can do it, why can't we?"*

The significant flaws in assessing the case for HS2 include:

3.1 *Inflating passenger demand*

3.1.1 HS2 Ltd forecast *background* growth of 133% in long distance travel by rail (2008–33), ie the growth expected without building HS2. They also claim that in the same period domestic air travel will increase by 178% and car usage by 43%.

3.1.2 However, HS2 Ltd then forecast that *overall* growth as a result of building HS2 will be 267%. Chapter 3 of "High Speed Rail for Britain", the report produced by HS2 Ltd, states; *"In 2008 there were approximately 45,000 long distance passengers per day using inter-city trains on the southern section of the WCML. According to standard industry forecasts, by 2033 long distance demand on the WCML is expected to more than double."* and goes on to state that by 2033; *"Overall the number of passengers on this corridor would increase by around 61,000 (a 57% increase). This is made up of a reduction of some 84,000 trips on the WCML into London and an increase of 145,000 trips on HS2."*.

3.1.3 Other bodies are far more conservative in their predictions for the increase in rail demand. The Independent Transport Commission projects an increase of 35% (2005–30) and Network Rail projects a 70% increase (2008–34). DfT figures predict a 73% increase (2006–30).

3.1.4 HS2 Ltd claim 8% of the 145,000 users will switch from the air. This volume is higher than current air volumes between Heathrow and the North West and Scottish lowlands combined.

3.1.5 Despite projecting a 178% increase in domestic air travel, internal flights to London has been declining year on year since peaking in 2004.

3.1.6 Growth in train travel since 1995 comes from an unsustainable modal shift from coaches resulting from lower price internet advance fares, whilst full fare demand has dropped and real prices are going up. It is more than conceivable given the proposed price increases for rail travel that modal shift could reverse.

3.1.7 All projections for the values of regional and national economic benefits start from a basis of accepting the HS2 passenger projections, and are therefore flawed.

3.1.8 Similar forecasts were made with HS1, the only comparable project. In 2009 CTRL carried a total of 9.2 million passengers, this is against an original forecast of 25 million for 2006.

3.2. *Including unrealistic benefits*

3.2.1 The benefits to the country of HS2 are assumed up to 2085. Whilst this may be standard practice, this a high risk and well beyond any reputable economic forecasting horizon. This practice is akin to making a projection in 1935 as to how a project commissioned then would benefit and be relevant to the world of today.

3.2.2 One large error arising from using the DfT webtag methodology is that is starts from a position that all time spent travelling is wasted and unproductive. This completely ignores the fact that, notwithstanding overcrowding, many business users find the time spent on trains amongst the most productive time they have, as it allows for focussed working. It is reasonable to assume that the ability to work on computers, facilitated by wireless hotspots on trains has been a driver in the recent increase of business passengers on the railways. Although speculative, it could be argued that a reduction in journey times would be of a detriment to these travellers.

3.2.3 By assuming that time spent on trains is non-productive and inflating values by 2% per annum. leads HS2 Ltd to present a total of £28.7 billion worth of benefits to the economy derived through time savings. This is made up of business users saving £17.6 billion and leisure passengers saving £11.1 billion. In this, HS2 Ltd has implied an average salary for business users of £70,000. Whilst there may be a case claiming a reduced journey time of around 30 minutes for business travellers will be of some benefit to the economy, it is unclear how leisure passengers "getting there quicker" will derive this level of benefit.

3.3 *Stretching the rules on costs*

3.3.1 HS2 Ltd present discounted rates for costs. By presenting all expenditure on 2009 levels, their report ignores the costs of financing HS2.

3.3.2 Whilst assuming a commercial operator will operate HS2, HS2 Ltd ignore the fact such an operator will wish to operate at a profit.

3.4 *Assuming no competitive response*

3.4.1 In line with previous DfT failures in appraisal, HS2 Ltd assume that there will be no competitive response from other transport providers. This was a key factor as to why HS1, both internally and connecting to the continent via Eurotunnel has failed to meet demand forecasts, as the response from low cost airlines and ferry operators was not considered.

3.4.2 It is reasonable to assume that other rail operators such as Virgin and Chiltern Railways will respond to the competition to their services presented by HS2, unless prevented in doing so by legislation or changes to the conditions of their franchises.

3.4.3 It is also reasonable to assume that airlines operating services from the North of England and Scotland will provide a competitive response to the introduction of HS2.

3.5. *Ignoring shifting trends*

3.5.1 HS2 Ltd have made no assessment as to how shifting trends in the requirement to travel for work will affect future demand forecasts for travel. Whilst the canal builders did not see the railways coming and the railway builders did not see improvements in roads and the internal combustion engine coming, in the case of HS2 the alternatives to long distance travel are already here and progressing.

3.5.2 HS2 Ltd make no attempt to assess the impact on electronic communication on future business travel patterns. Major businesses such as VW, JLR and GlaxoSmithKline have told employees not to travel for meetings and use video conferencing instead wherever possible. Perhaps the most relevant company to cite in this respect would be ARUP, the company which designed the plans for HS2. Cisco Systems have reported that their investment in video conferencing has already paid for itself.

3.5.3 Within HM Government, G-Cloud is expected to significantly reduce the travelling requirements and Norman Baker MP has recently been given a remit of encouraging "non-travel". HS2 expect that 27% of users, or 39,420 passengers per day, will not travel until HS2 is built.

3.5.4 No assessment has been made as to how home working, better connectivity delivered through high-speed broadband, or future technological advancements will reduce the requirement to travel. 15 years ago, email was hardly used (or even heard of) in the UK outside of the sphere of universities. Now it is an essential part of life and working patterns. On the completion of first stage of HS2, which is planned for in 15 years time, who knows what progressions will have been made?

3.6 *Ignoring all detrimental effects*

3.6.1 Cities and towns such as Coventry, Milton Keynes, Wolverhampton and Rugby will suffer less frequent services to London.

3.6.2 In the case of Coventry, the current service to London runs three times per hour and will be reduced to one train per hour, taking approximately 25 minutes longer due to there being more stops. This severely threatens the Friargate redevelopment in the city, which is primarily concerned by building new office complexes adjoining the station site. Centro have claimed that Coventry would gain by having four services per hour to Royal Leamington Spa, but this would not happen until the track between Coventry and Leamington is doubled and electrified, and even the first stage of the "NUCKLE" programme which would bring this about is now under threat.

3.6.3 HS2 Ltd make no assessment of the effect to the economy of the transport disruption which will be brought about by seven years of construction, either in road-works, works adjoining existing rail lines or the building of new track and platforms at Euston.

3.6.4 HS2 Ltd make no assessment of the loss of economic output suffered by businesses which will be forced to relocate or cease trading, lost agricultural output and decreased revenues from tourism which will come as a result of construction and operation of HS2.

3.6.5 HS2 Ltd pay no attention to the reduction of property and land values.

3.7. Overstating the Economic Benefits

3.7.1 HS2 Ltd have ignored the research they commissioned from Imperial College. IC concluded that new economic growth created by HS2 would be "very small indeed", maybe just £8 million per annum.

3.7.2 HS2 will redistribute (not create) economic activity between places. Many expert studies suggest that this is a significant effect, and that in general the larger the local economy the more it will benefit. So-called "agglomeration benefits" flow primarily to the most economically powerful existing agglomerations, ie London.

3.7.3 London is also likely to gain because any economic growth would be concentrated in the service sector, not manufacturing or agriculture.

3.7.4 Most of the wider economic benefits claimed by government from HS2 do not depend on the new high speed connectivity, but on improvements to local services. These however would require additional subsidies which seem highly unlikely in the current economic climate. It is likely that many such local projects will not receive funding, due to HS2 requiring an ongoing estimate of 33% p.a. of the Transport Capital Budget from 2015.

3.7.5 There is no robust evidence yet on whether Birmingham would benefit and if so how much. HS2 Ltd have stated they will not have such evidence until the end of the public consultation.

3.7.6 If London and Birmingham do benefit this can only be at the expense areas not served by stations on the proposed route.

3.8. *Ignoring the environmental impact*

3.8.1 Whilst the coalition agreement states; "We will establish a high speed rail network as part of our programme to fulfil our joint ambitions for creating a low carbon economy.", the Booz Allen Hamilton report to the DfT from 2007 entitled "Estimated Carbon Impact of New North-South Line" states; "In essence, the additional carbon emitted by building and operating a new rail route is larger than the entire quantity of carbon emitted by the air services."

3.8.2 The Cato Institute Policy Analysis No 625 from Randal O'Toole in October 2008 states; "High-speed rail proposals are high cost, high-risk megaprojects that promise little or no congestion relief, energy savings, or other environmental benefits."

3.8.3 As The Eddington Study states; "There would be significant landscape costs from building new track, including implications for biodiversity, national parks and national heritage."

3.9. *Ignoring the Alternatives*

3.9.1 As previously stated, The Eddington Transport Study suggested that; *"High speed options should be assessed coldly alongside other polices for achieving the same objective."*, however they have not. The options for HS2 have been assessed against the alternative of doing nothing besides what has already been committed to, ie effectively doing nothing. Given this, it is unsurprising that HS2 has proved to be the best solution.

3.9.2 65% extra capacity is possible just from extra rolling stock on WCML.

3.9.3 Rail Package two, the DfT's own alternative to HS2 (which HS2 was not assessed against) would de-bottleneck the WCML, delivering required capacity for just £2 billion and gives a better (3.63) NBR than HS2. This can all be done incrementally against need, not relying on long-term forecasts.

3.9.4 There is massive potential on The Chiltern Line and Midland Mainline. Uses which might unlock this potential have not been explored.

4. Conclusion

In conclusion, it is clear that HS2 is the perfect case study which shows everything that is wrong in the current processes, assessments and methodology which define transport spending priorities. The methods employed for analysing this project are simply not sound. Methodologies are over complicated, out of date and completely unfit for purpose. In short they were biased towards reaching the conclusion that HS2 should be built and is in the best interests of the country. If realistic demand forecasting and Treasury rules are applied to HSR, the revised NBR stands at 0.28, meaning for every pound spent, 72p will be thrown away.

In line with Sir Rod Eddingtons' conclusion, the challenge to be tackled was not fully understood before a solution was generated, due to intense political lobbying from advocates. The decision on this scheme was not informed by detailed appraisals of specific high-speed rail proposals, or against appraisals of other policy options for achieving the same objectives.

To quote Mark Twain, the approach regarding HS2 was more along the lines of "Start off by collecting all the facts, then you can distort them to your own purposes."

November 2010

Further supplementary written evidence from Malcolm Griffiths (Bluespace Thinking Ltd) (TE 07D)

Further Submission Concerning Economic Benefits of High Speed Rail

1. *Key Points*

1.1 Since the start of the Transport Select Committee inquiry further published information shows that DfT's appraisal methodology (as applied to HS2) is unsound and that the Government view, that High Speed Rail (250mph) will benefit the economy, is not supported by analysis.

1.2 Network Rail's West Coast Main Line Route Utilisation Strategy (RUS) December 2010 shows that the HS2 Ltd forecasts of demand are about double those expected by the rail industry professionals.

1.3 A Centro/KPMG report, widely quoted at the time of the Conservative party conference in September 2010 concludes that based on recent data for the West Midlands the correlations between economic growth and public transport connectivity are not very robust. The calculated benefits are significantly less than national data had previously predicted.

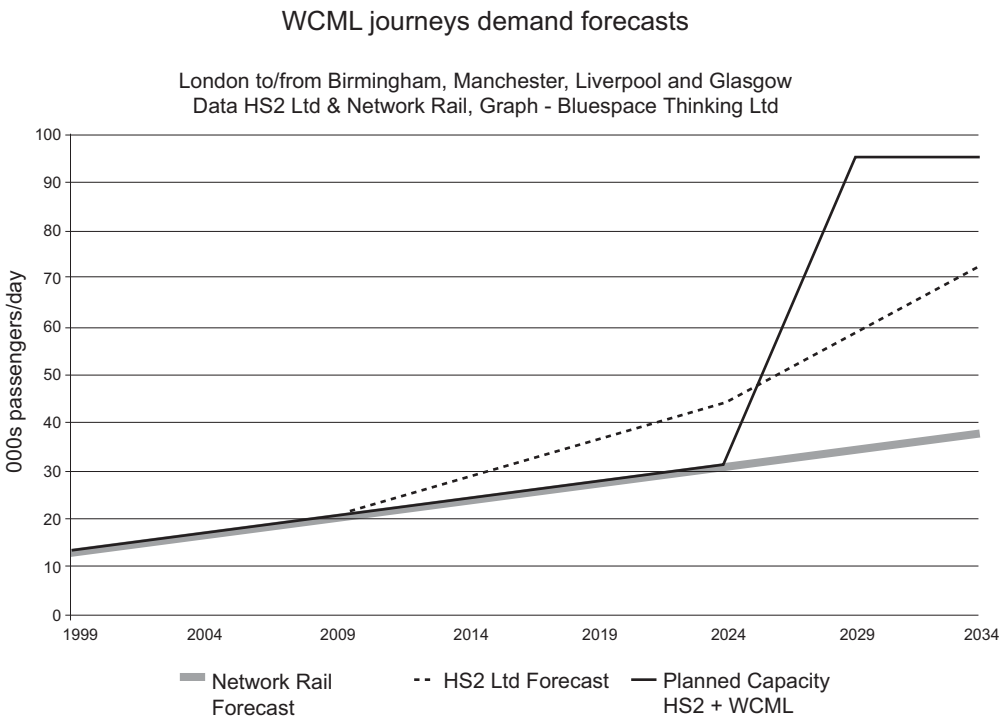
1.4 In a recent survey by the West Midlands Chamber of Commerce 55% of businesses considered HS2 would help their business however respondents anticipated making just 100 journeys per day (all businesses, total return trips) on the new line.

1.5 Comments made in debates referencing £ billions/year of regional benefits as a result of HS2 would appear to be due to misquotes of analytical reports, we found no evidence in the original documents to suggest HSR would be "transformational" in terms of regional economic development.

1.6 Analysis by Bluespace Thinking Ltd shows that health inequalities and education are far more relevant to closing the UK economic development gap than faster train journeys to London.

2. *HS2 Ltd vs Network Rail's WCML Demand Forecasts*

2.1 Comparing Network Rail's West Coast Main Line Route Utilisation Strategy (RUS) Dec 2010 forecasts of journeys between Birmingham, Manchester, Liverpool, Glasgow and London with those predicted by HS2 Ltd shows that HS2 Ltd estimates are about twice those anticipated by Network Rail. They also appear to be about twice those assumed by the DfT, DECC, the Climate Change Committee and the views of the Association of Train Operating Companies. Although this point has been put to HS2 Ltd and the DfT repeatedly, neither organisation has responded.



3. *Redistribution of benefits*

3.1. DfT's appraisal methodology estimates the economic benefit of transport systems by considering predominantly the benefit in time saving, over crowding reduction and agglomeration benefits. The DfT and industry/academic analysts recognise that for rail travel the methodology does not allow for the fact that travellers carry out productive work on trains. The combination of over demand forecasting and the over estimate of the value of time saved result in a HS2 Ltd calculated Net Benefit Ratio (NBR) of about 2.7–3. When corrected for demand and the true value of time saved the NBR will probably be about 1, meaning there will no economic benefit as a result of the investment.

3.2. Each year there are 1 million return air trips from Birmingham Airport to Spain, most of these are leisure trips. Based on ONS data about £500/trip is transferred from the West Midlands to holiday resorts, plane operators and manufacturers, fuel suppliers and others. This transfer of £500 million/year is about 0.7% of the West Midlands total gross disposable household income (GDHI).

3.3. Less well understood is that HS2 passenger forecasts suggest that at the levels of fare subsidy proposed the transfer of leisure expenditure from the West Midlands to London will be at a similar or higher level. Advance return tickets from Birmingham to London cost £15, it is easy to see why the level of leisure travel to London has and will increase.

3.4. Understanding redistribution effects is crucial if transport is to be used to try and engineer regional economic growth. While subsidy focussed at getting people to work or dealing with social inequality may make sense, subsidy for leisure travel with large re distribution effects is debatable.

4. *Economic benefit of High Speed Rail*

4.1 Recent studies in support of HSR generally and HS2 specifically have been carried out by Steer Davies Glieve and Centro/KMPG.

4.2 The Steer Davies and Glieve (SDG) work looks at the combined impact of two HSR lines running from the North East and North West to London along with a Trans Pennine HSR line running directly between the East and the West. SDG estimate the wider economic/agglomeration benefits that would be additive to the basic DfT approach.

4.3 SDG provides a summary table of annual added benefit results for different locations showing that London is the major beneficiary at £82 million for the entire network, it shows that the gains anticipated for the West Midlands in the range of £18 to £21 million. Although this is some 2 to 10 times greater than the Imperial College assessment carried out for HS2 Ltd, when compared with the total cost of these major transportation investments, it shows that these added benefits are minor.

4.4 Centro/KPMG explain that their report "examines how transport can support growth and change in economic activity as measured by Gross Value Added (GVA). The analysis is therefore asking a different

question from a conventional appraisal and the results are therefore not additive to a welfare cost benefit analysis".

4.5 As far as we can tell the methodology used by KPMG is not dependant on whether there is demand for the trains or whether the proposed increased services are economic. The methodology is based on observed mathematical correlations between transport (rail) connectivity and wages as a substitute for GVA, the correlations may or may not be causal.

4.6 In previous analysis, using national datasets, KPMG calculated that an area with 10% higher rail connectivity will tend to have an overall wage level which is 1.3% higher, an elasticity of wages to rail connectivity of 0.13, yet this analysis showed much smaller elasticities of 0.05 to 0.09 for the West Midlands. In this latest study current regional data produced results that were not as statistically robust. The statistical analysis showed even smaller elasticities of 0.02 to 0.06. However, rather than using the current elasticities applicable to West Midlands a combination of all three sets of data including the national/London figures were used to calculate the West Midlands benefits.

4.7 The study calculates that "total annual workplace GVA impacts for the West Midlands Metropolitan Area with a High Speed link to London is estimated at £620 million in 2026, with a growth in workplace employment of 10,000". These figures may halve if the recent data alone were used. These results are an estimate of the total benefits and would include those identified by HS2 Ltd in their more conventional analysis, but they do not include the cost of the line or dis-benefits to other areas or regions.

4.8 The report summary however states that the findings are that "HSR and supporting investments could support approximately an additional 22,000 jobs in the West Midlands metropolitan area". They say "these effects combine to support a GVA impact on the metropolitan area of around £1,500 million in 2026". Centro/ KPMG point out that "the benefits are concentrated in central Birmingham and around the new Birmingham International HS station" and that "around 87% of these benefits could arise as new businesses start up within the metropolitan area that may otherwise have started up in other parts of the West Midlands"

4.9 The additional £900 million GVA is apparently due to significantly increased train services in the West Midlands. Trains from Birmingham to London are assumed to stay at 4 trains/hour: however to other locations included in the report the trains rise from 52 to 69. While Coventry trains to London also stay at four/hour trains to other locations rise from 24 to 45. It is assumed that Walsall gets 2 trains to London plus trains to other locations will go from 6 to 28 per hour. The report does not comment on the extent of Government subsidy that will be required to operate these lines or whether similar funding made available to other areas with higher exhibited elasticities may be more beneficial.

4.10 It is clear that as different entities and individuals have picked up on different aspects of these studies there has been misinterpretation of the Centro/KPMG and SDG analysis. During the HS2 adjournment debate, as a consequence of this misinterpretation, it was claimed that HS2 would add £5.3 billion/year to the West Midland's and £10.8 billion/year to the North West's economies.

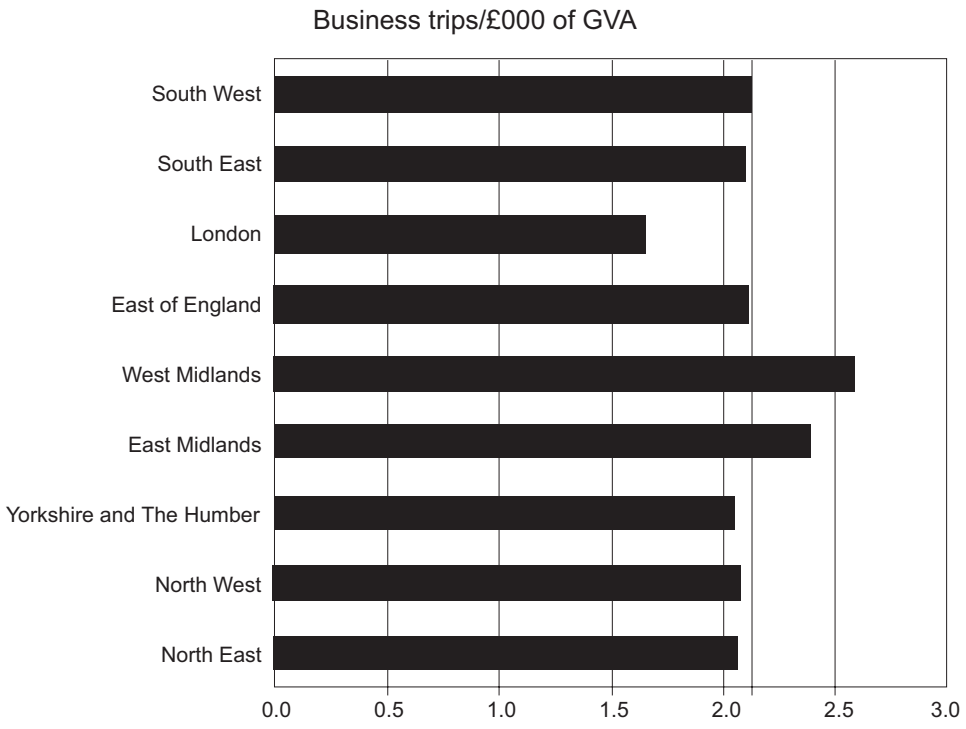
4.11 Businesses in the West Midlands probably understand the impacts of HS2 and may have read the various reports with more attention to the detail and the caveats. In a recent survey of members of the West Midlands Chamber of Commerce 510 responses were completed. Of these 75% considered that improvement of roads to reduce congestion was the highest transport priority. About half, 55%, considered that HS2 with associated local rail improvements would help their business although their intended business travel to London totalled less than 100 return trips/day. This is a very small percentage of the 72,500 total return trips forecast for the line by HS2 Ltd.

5. *Linkage between long distance inter-regional travel and GVA growth*

5.1 The Government are proposing that transformational change in the economic inequality that exists between the North and the South can be achieved by HSR.

5.2 Based on available data from ONS we looked at the correlation between the provision of transport and GVA/capita of the regions. Even with the impact of London's high GVA/capita and high incidence of rail travel we found no significant correlation between the modes used for in-region transport and GVA. Higher distance commuter travel (all modes) did correlate with higher GVA/capita. We found a negative correlation between the extent of inter regional rail travel and GVA/ head.

5.3 We also found a negative correlation between the number of business trips and GVA. Notably West Midlands has the highest rate of business travel with one of the lowest rates of GVA/capita and the lowest GVA/ capita growth rates over the last 10 years.



5.4 This negative relationship may not be causal although most businesses recognise that excessive expenditure of both time and money on business travel is not good for profitability or growth. It is possible that the difference is due to business mix or a lower level of information and communications technologies use in the East and West Midlands.

5.5 The Victoria Transport Policy Institute (Canada) has researched the impact of travel on economic development and have concluded that above certain levels increased travel becomes counter productive to economic development. It may be that the West Midlands are above the optimal level for business travel which may explain KPMG's finding, based on current data, that West Midlands does not exhibit the expected trends/ elasticities in the transport/wages relationship.

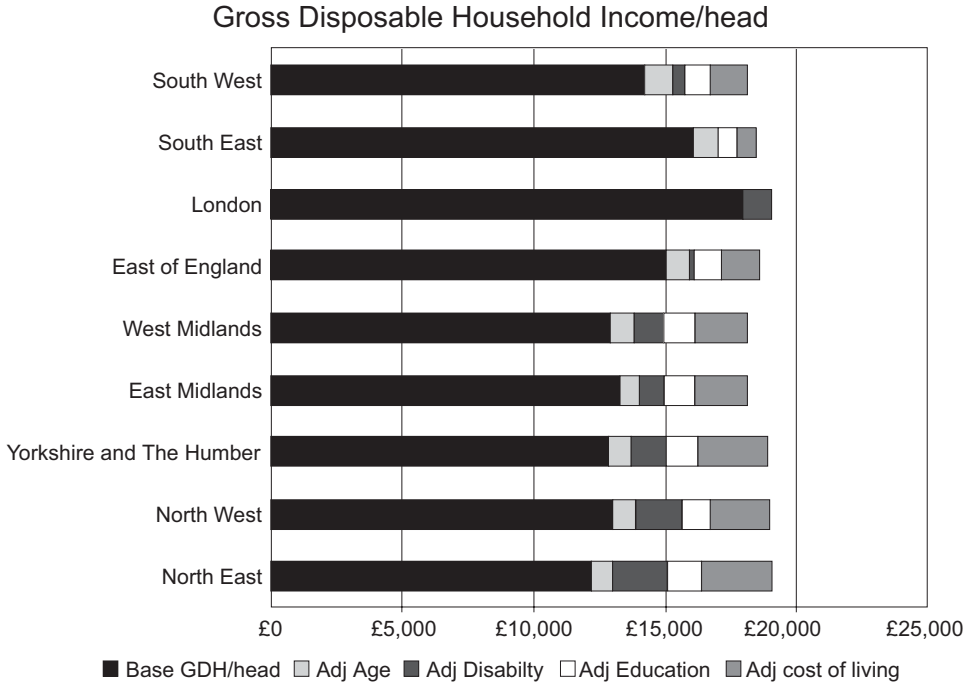
5.6 The VTPI's very comprehensive study interestingly quotes the UK DfT SACTRA Committee, "The available evidence does not support arguments that new transport investment in general has a major impact on economic growth in a country with an already well- developed infrastructure. At the regional and local level, in particular, the issue of impact is made more complex by the possibility that changes in quality of access can either benefit or harm the area in question. We do not accept the results of macroeconomic studies which purport to identify very large returns from infrastructure investment."

5.7 It would appear that the work, findings and recommendations of the SANTRA Committee have been lost, or are no longer accepted by the UK Government.

6. *Other causes of differential economic development between regions*

6.1 We found little correlation between the provision of transport and GVA/capita. However we found strong correlations between health & education and GVA/capita & GDHI/capita. Disability free life expectancy and levels of higher education both had very strong correlations (above 0.99) with GVA/capita. Percentage of population at working age also, as would be expected, correlates strongly.

6.2 These conclusions are logical as the North East's disability free life expectancy at birth is 57.1 years versus the South East's 64.7 years. On average 15% of the working population of the North East have higher (level 4/5) education versus 21.8% for the South East. Given that earnings are directly related to the duration one is able to work and salaries are related to education level, it is not surprising that GDHI/head is higher for the SE than the North East.



6.3 We have attempted to normalise the effect of the regions' cost of living, working age population, life expectancy and education profiles to the level of the best region. This suggests they are significant contributory factors, potentially explaining the reasons for regional GDHI variance. Given the Inquiry is about transportation we do not attempt to hypothesise on the root causes or the solutions to these inequality issues in this paper, However, unless the best thing about the regions is the train to London it is unlikely that 30 minutes faster rail journeys will address these issues. They will however need to be addressed if economic equality, measured by regional GVA or GDHI/capita, is the objective.

7. *Summary*

7.1 Government strategy that seeks to enhance the economy needs to encourage and support business and high earners. However, other than the Rail Industries Association members, it is not clear which sectors of industry and business believe that High Speed Rail (at 250 mph) is a priority to help them grow their businesses.

7.2 Strategies to enable and improve the economy by helping people get into higher value adding work are applicable to all regions. Transport has a part to play but there is strong evidence to show that health and education are more significant, along with other aspects of Government responsibility. Further transparency of the issues and their relationships supported by high level analysis has the potential to significantly improve Government and Parliamentary decision making.

Acknowledgements

Our thanks to the authors of the papers and reports quoted, in addition thanks to the Office of National Statistics (ONS) and PopAnalyser.com for help to access and analyse the data.

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January 2011

Further supplementary written evidence from British Air Transport Association (BATA) (TE 61a)

Air Passenger Duty

1. In our submission of September 2010, we made reference (paragraph 6–7) to the increasing level of Air Passenger Duty. In the light of exchanges between the Committee Chair and the Minister for Transport on the subject at the evidence hearing on 14th December, BATA wishes to add a little more detail on the quantum of the tax and its total take in comparison to other Treasury revenue.

2. The Government dramatically increased the tax on flying from 1 November this year with increases of up to 50%. After one of the most disastrous years on record for aviation, this was a kick in the undercarriage that the industry could ill afford. Aviation already more than pays for the environmental costs of the 6% of total UK CO_2 emissions it produces through the imposition of Air Passenger Duty (APD) and Britain now suffers from the heaviest tax on flying in the world with as much as £170 on a single ticket. Indeed, the Treasury now makes more money from the tax on flying than it does from the Bank Levy or from duties on alcoholic spirits, intending to raise over £15 billion from APD in the next five years. This level of taxation is especially damaging to regional airports where routes have been lost over the last few years to our near continental competitors who impose little or no similar tax on flying. Instead, they are actively building new runways to accommodate new traffic and the anticipated growth in tourism from the Far East.

3. The Prime Minister has stated an aspiration to grow the numbers of tourists visiting the UK and thus help stimulate the economy. Yet the cost of a visa and APD totals £612 for a visitor from China on a round trip flying economy to the UK. By comparison, it costs that same Chinese tourist £212 to go to Paris. In 2008, France received 688,000 Chinese tourists compared to just 108,000 visiting the UK. With such a disparity in tax on tourism between the UK and our continental competitors, the challenge of increasing our tourist numbers is made all the more difficult.

4. In its recent Budget, the Irish Government reduced their tax on flying on the grounds that the quantum of the tax was damaging to tourism. It is notable that a Government facing arguably a far more serious fiscal crisis than the UK has taken the decision to reduce its tax on flying in order to stimulate the economy.

December 2010

Supplementary written evidence from the Department for Transport (TE 105a)

I would like to thank the Chair and Members of the Committee for the opportunity to give evidence as part of their inquiry into Transport and the Economy. At the session I agreed to write on a number of points. This additional material is set out below:

Q507

I promised to provide more detail of the equalities assessment undertaken as part of the decision to allow regulated fares to rise by 3% above inflation for three years from 2012**.** An Equalities Impact Assessment Screening Proforma was carried out to identify whether the policy was relevant to the equality duties and therefore needed to be impact assessed. The available evidence showed that the policy was not relevant and so a full EqIA was not required in this case.

Q516

The Crossrail business case was updated in June 2010. The business case update included the conventional benefits of Crossrail, such as travel time savings and congestion relief. In addition to these conventional benefits, the wider impacts to the economy arising from Crossrail were also estimated. These benefits comprise of:

- Agglomeration.
- Move to more productive jobs.
- Impacts on output under Imperfect Competition.
- Increase in Labour Force participation.

The June 2010 update estimated that these wider impacts could add up to £50 billion to UK GDP over the 60 year appraisal period. This is the benefits number I quoted in the evidence session and is higher than the £20 billion previously estimated, reflecting a number of significant changes made to the Department's guidance on the estimates of these impacts, as well as updated models and model inputs.

Q520

I promised to provide additional information about the Department's motor traffic forecasts. The total amount of car traffic in Great Britain has grown over the last five decades, only slowing temporarily for recessions and when oil prices have risen quickly.

However, the rate of growth has slowed in the 1990s and 2000s, as shown in Table 1 below. Overall, the average length of all car trips has remained fairly constant over time at around 17 miles and 21 minutes.

Table 1

AVERAGE ANNUAL GROWTH IN CAR TRAFFIC (VEHICLE MILES), GREAT BRITAIN

1960s	8.6%
1970s	3.3%
1980s	4.6%
1990s	1.2%
2000s	0.7%

Source—DfT statistics

The Department forecasts that the recent downturn in road traffic, including car traffic, will reverse as the economy begins to grow again, and that the long term trend will be for road traffic to grow to 2035 at an average rate of 1.1% per annum, compared to around 2.1% over the last 25 years. These forecasts are based on expectations that population and GDP will continue to grow, and driving costs will fall as vehicle fuel efficiency increases.

Our forecasts show the most likely path of demand, given the expected trajectory of its drivers. There is of course some uncertainty over the path of the key drivers and the forecast range takes these uncertainties into account. There may also be long term changes in society which could lead to the relationships between the key drivers and outturn traffic changing in strength, but the evidence suggests that the relationship between the key drivers and traffic growth is sufficiently strong to explain the recent slowing of growth.

Q537

I promised to let the Committee know what work had been done on the impact of cuts to bus subsidy on people travelling to work by bus.

Table 2 below draws on our analysis and shows the possible impacts on fares and service mileage, in England outside London, as a direct result of the 20% reduction in Bus Service Operators Grant (BSOG). It also shows the proportion of local bus boardings in each area which are made by people commuting to work.

Table 2

POTENTIAL IMPACT OF BSOG CUTS, BY AREA

	Potential fares increases	*Potential service mileage reductions*	*Proportion of commuter boardings*
Rural areas	2%	2%	13%
Small towns	1%	2%	15%
Larger non-metropolitan conurbations	1%	1%	20%
Metropolitan areas	2%	1%	23%

Source—DfT analysis

This shows that, in areas where services might contract by around 2% (small towns and rural areas), there is a relatively small proportion of overall bus trips that are made by commuters. A greater share of bus journeys is made by commuters in metropolitan and larger urban areas where our analysis suggests that services might contract by around 1%.

These estimates are based on DfT modelling of potential bus operator responses following a reduction to BSOG and show possible fare increases in each area. However, as the bus market is deregulated, it is not possible to predict with any certainty how bus operators will actually respond. In practice, the impact will depend on the commercial decisions of bus operators and, where relevant, local authorities and Transport for London. My colleague, Norman Baker, spoke to the Confederation of Passenger Transport UK, which represents the bus industry, following the Chancellor's announcement on 20 October. They were hopeful that, in general, the 20% reduction in BSOG could be absorbed without fares having to rise.

Q560

The Committee asked about the Department's programme of work to improve NATA. The Department's business plan committed to review and revise DfT guidance on appraising transport projects. We will in due course announce the changes to be made as a result of this review.

Two changes were made to assist decision making during the Spending Review. These were the use of DECC's latest carbon values and a change to treatment of indirect tax revenues in the BCR formula so that changes in indirect taxation are treated as a benefit to non-transport users (via the exchequer) rather than a deduction from project costs.

These changes will be made definitive in the appraisal guidance later this month. In addition, the Department will also release further updates and changes to the appraisal guidance to reflect the Government's priorities ready for use in the revised decision-making processes in April 2011.

We will also consider what further work is necessary on a broad range of current appraisal issues, including how to better account for new and emerging low-carbon vehicle technologies as the transport sector continues to de-carbonise over coming decades.

Additional Information

The Committee requested clarification of the appraisal and decision making process used by my Department. In broad terms, there are three key stages in the decision making process:

- option identification and sifting to provide a short list of options for further development;
- further appraisal of the shortlisted options leading to identification of a preferred option; and
- implementation, monitoring and evaluation.

The Department has developed improved guidance on these stages. This is published as TAG Units 2.1.1 to 2.1.4 and is available here: http://www.dft.gov.uk/webtag/documents/project-manager/unit2.1.php#2.1

The Department uses the Treasury five cases model. This considers the case for a project in terms of:

- its strategic fit;
- its value for money;
- the ability of the promoter to deliver the project;
- the project's affordability and financial stability; and
- evidence that the project can be satisfactorily procured.

Of these, the assessment of strategic fit is essentially a policy matter, as is the relative weight to be given to each of the five cases. The other cases are more technical in their nature. If they wish to, ministers can consider issues such as regional equity, modal distribution and modal equity (as well as other policy issues such as carbon impact and compatibility with housing policy) when considering the first case ie the strategic fit.

I recognise that past guidance on these issues, released in 2000, was not as comprehensive as it could have been. Current "for consultation" guidance improves on that, but the Department continues to keep this field under review.

For local authority promoted schemes, such as the Mersey Gateway, the promoting authority is required to publish its business case on its website at the same time as it is sent to the Department. Appraisal information relating to Highways Agency major schemes is published at key points in each project's lifecycle, for example prior to public consultation on options or the commencement of public inquiry.

The Committee also asked for an explanation of why NATA uses standard (national) rates of the value of passenger time, regardless of location, despite the variations in hourly wage rates from region to region.

NATA uses a standard national rate for the value of time. To vary the value of time between regions would skew investment towards regions with a higher average income. For example, using regional average income levels would divert investment from the North to the South East. The regional aspect of a proposed investment can be considered as part of the strategic case for the decision.

January 2011

Further written evidence from the Northern Way (TE 34b)

Introduction

1. The Northern Way has made two previous submissions to the Transport Committee's on-going inquiry into Transport and the Economy. The first of these was in response to the original call for evidence and was submitted on 22 September last year. A supplementary response was submitted on 24 November reflecting developments following our 22 September submission, namely the conclusion of the Spending Review on 20 October, subsequent ministerial statements on local major schemes and the Highways Agency's programme, the publication of the National Infrastructure Plan, as well as the Government's 4 October announcement on high speed rail. John Jarvis, Northern Way Transport Director, in addition gave oral evidence to the Committee at the 30 November hearings.

2. Since the submission of our written evidence and our appearance before the Committee at the end of November further relevant data has been published which the Northern Way considers the Committee would find helpful as it develops its findings.

3. A theme of the Northern Way's written and oral evidence is that well specified transport investments in the North can deliver comparable returns to transport investment in the South East. The relative economic

performance of alternative investment opportunities has also been covered by a number of other submissions and witnesses.

Value for Money of Highways Agency Schemes

4. Between Christmas and the New Year for enhancement schemes for the strategic road network considered as part of the Spending Review, the Department for Transport and the Highways Agency published details on their assessments of costs and benefits that informed Ministers' decisions on which schemes would be supported, which would be remitted to the Highways Agency for further work and which would be cancelled. While data for each scheme has been published on the internet, it is not available in a single location. We have, however, collated the data and this is attached as Annex A. The information is presented for:

- Table 1: Schemes to be prepared for start of construction in the current Spending Review period.
- Table 2: Schemes to be prepared for start of construction in future Spending Review periods.
- Table 3: Cancelled Schemes.

5. Schemes in the three Northern regions are highlighted in yellow in these three tables.

6. The Value for Money indicator used by the Department for their Spending Review assessment is the ratio of "Adjusted Net Present Value (NPV)/Future Capital Cost". When considering this measure there are two important points to note. First, this measure is not the same as a Benefit Cost Ratio (BCR) and it cannot be directly compared with a BCR, such as those derived for road enhancement proposals promoted by local authorities, or those for rail and urban public transport schemes, or indeed previously published BCRs for the HA schemes considered in the Spending Review. Second, as part of the Spending Review process the benefits of the HA schemes under consideration have been adjusted to capture an amended approach to benefit assessment that takes into account revised values for carbon emissions as well as wider impacts (such as agglomeration), an assessment of reliability impacts and landscape impacts. No details on the adjustment methodology have been published.

7. Using the Adjusted NPV/Future Capital Cost as a measure of the relative value for money of the Highways Agency programme, it can be seen from the analysis presented in Annex A that supported enhancements to the strategic road network in the North perform well against the DfT's measure and comparably with enhancements elsewhere in the country. For enhancements to the strategic road network, this additional evidence supports the case that well specified schemes in the North can deliver equal, if not better, returns than schemes in the South.

8. Two questions naturally arise, namely: how does the value for money case for investments in the strategic road network compare with proposals for investment in urban public transport schemes or in the national rail network, and how does the case for investment in urban public transport schemes or in the national rail network in the North compare with the South? The first of these questions was touched upon by the Secretary of State when he first appeared before the Committee on 26 July to answer questions on the Government's transport priorities. Responding to a question from Lillian Greenwood (Q30), the Secretary of State said:

> "You have surmised that a strict cost benefit analysis would benefit London. I think probably the clearer answer is that a strict cost benefit analysis would mean that you would be putting most of your money into the strategic highway network rather than into investment in roads and other forms of transport."

Value for Money of Local Authority Promoted Major Schemes

9. As part of the Spending Review process the DfT has also considered and made adjustments to the BCR of local authority major schemes. On 4 February the DfT published the outcomes of this assessment in its document *Investment in Local Major Transport Schemes: Update*. The adjusted BCRs had previously been shared with scheme promoters on a case-by-case basis. The data shows that using the DfT's adjusted BCRs, local authority promoted road and public transport enhancements in the North return comparable returns on investment as schemes elsewhere in the country.

Value for Money of Rail Schemes

10. We are not aware of any published comprehensive compendium of the value for money assessment of supported rail schemes, for example rail investments that form part of the committed Control Period 4 programme.

Comparative Value for Money of Alternative Investment Strategies

11. In the context of the Spending Review decisions, it is difficult to draw any conclusions from published data on the comparative value for money assessment of supported schemes across modes and between Highways Agency and local schemes. The issue of comparable value for money was considered, however, as part of the Eddington Transport Study. A casual inspection of the Eddington analysis could lead to the conclusion that the return on investment in inter-urban schemes is greater than that for urban networks and that within this category, enhancements to the strategic road network offer greater returns than investments in rail. There has also been work that has looked at the comparative value for money of different scales of

investment which has led some to conclude that smaller investments offer better returns than more capital intensive ones.

12. We would counsel against both these interpretations. There are two reasons for this.

13. First, caution needs to be exercised when comparing the BCRs calculated for different transport modes and for different scale schemes. The need for caution is independent from the on-going debates that have been aired before the Committee on the appropriateness or otherwise of the Department's approach to cost benefit analysis, such as the questions around the merit of including the monetary value of small time savings. Rather, it arises simply because there are questions around the comparable accuracy and precision of benefit estimates calculated using different methodologies (and it is inevitable that the benefits for different types of scheme will be calculated in different ways).

14. Second, the BCR (and also the Adjusted NPV/Future Capital Cost measure) does not capture all the benefits and costs of a scheme. This is why as a multi-criteria framework the New Approach to Appraisal (NATA) allows qualitative and non-monetised quantitative impacts of a scheme to be captured. As we set out in our original submission, the Northern Way strongly supports the conceptual approach of NATA as well as its further development so potential GVA benefits are encompassed.

15. This second issue is particularly pertinent to the Northern Way as the DfT's approach to cost benefit appraisal adopts a restrictive assumption that there is no impact of a scheme on the distribution of population and employment, nor on the sectoral make-up of employment. Rather, it assumes that population and employment are static between do-minimum and do-something scenarios and that economic gains arise simply because of increased efficiency and productivity. This means that the BCR does not necessarily capture the principal impact that the Northern Way is seeking to bring about, ie sustainable economic development of the North towards the level of more prosperous regions by growing the North's economy faster.

16. The conventional approach to calculating BCRs means that transport investments that are focussed on relieving existing or forecast congestion, and/or deliver significant journey time savings for established flows deliver strong benefits. However, transport investments that are focussed principally on securing economic development through supporting and facilitating structural changes in the make-up of population and employment do not necessarily deliver a strong benefit stream in the conventional framework. This has a further consequence, namely scheme promoters are reluctant to bring forward such schemes for consideration for major scheme funding as they consider the risks of not achieving funding as too great (noting that scheme promotion is time and resource intensive for a local authority).

17. Given that there are these economic impacts beyond wider impacts that are already encompassed by the DfT's approach to cost benefit analysis, there has been interest in recent years in the development of techniques to assess the impacts of transport investment on GVA. We touched on this at the oral hearing. Work has been undertaken by the Manchester authorities in the context of their proposals to enhance the city region's public transport network and the Northern Hub, by Greengauge21 looking at high speed rail and by the Northern Way looking at the productivity impacts of connectivity improvements in the trans-Pennine corridor. Last year the Northern Way commissioned the Institute for Transport Studies at Leeds University to consider the theoretical basis for this work and review the various methods that had been applied. We referred to this in our original evidence as well as at the oral hearing.

18. In summary, the conclusions of this work are that while techniques to calculate the GVA impacts of transport investments are in their infancy, the work to date indicates that GVA impacts can be very significant, indeed much bigger than the benefits calculated using conventional methods. Also and very importantly, the review found that GVA benefits of rail investments can be large and overall the evidence thus far suggests that on a per traveller basis rail investment has a greater productivity impact than road investment. Also the review identified that a prioritisation on the basis of GVA per pound spent would give a different answer to prioritisation based on conventional benefits costs ratios.

19. From the ITS work and the wider evidence base, the Northern Way has concluded that there are no grounds to suggest that prioritising on the basis of GVA benefits per pound would favour the South over the North and that well specified transport investments in the North have equal if not greater potential to deliver GVA benefits per pound invested when compared with investments in the South East.

20. As can be seen from the value for money assessments that underpinned the Department for Transport's Spending Review assessments and have been published to date, a similar conclusion must be drawn from considering conventional benefit cost benefit assessment, namely there are no grounds to suggest that prioritising on the basis of conventional economic benefits per pound spent will favour the South over the North and that well specified transport investments in the North have equal if not greater potential to deliver conventional economic benefits per pound invested when compared with investments in the South East.

Regional Equity

21. A further issue not addressed by considering the BCR alone is the question of regional equity. The Government has set out its goal of rebalancing the economy away from the South East as well as promoting private sector growth in areas that currently have an above average reliance on the public sector for employment. In this context, where benefits arise is an important consideration, not just the size of those benefits and the return on capital (although it would, of course, be sensible to maintain a requirement for a minimum expected return on public sector investment). At present, there is little clarity on how issues of regional equity are, and will in future be, factored into Ministerial decision making.

Annex A

Table 1

SCHEMES TO BE PREPARED FOR START OF CONSTRUCTION IN THE CURRENT SPENDING REVIEW PERIOD

Scheme Name	Latest Net Present Value (NPV)	Adjusted NPV	Capital cost	NPV/£
A11 Fiveways to Thetford	£684m	£1162m	£98m	11.9
M4 J19-20 and M5 J15-17	£517m	£1103m	£100m	11.1
M60 Junctions 12 – 15	£145m	£415m	£46m	9.0
M62 Junctions 18 – 20	£327m	£765m	£93m	8.2
M60 Junctions 8 – 12	£222m	£684m	£87m	7.9
M62 Junctions 25 – 30	£530m	£1491m	£197m	7.6
M1 Junctions 39 – 42	£795m	£1260m	£185m	6.8
M25 J5-6/7	£368m	£1226m	£200m	6.1
M1 Junctions 28 - 31	£791m	£1732m	£295m	5.9
M6 J5-8	£346m	£850m	£154m	5.5
A556 Knutsford - Bowdon	£500m	£864m	£167m	5.2
A23 Handcross to Warninglid	£185m	£374m	£80m	4.7
M1 Junctions 32 - 35a	£219m	£632m	£156m	4.0
M25 J23-27	£471m	£1186m	£335m	3.5

Table 2

SCHEMES TO BE PREPARED FOR START OF CONSTRUCTION IN FUTURE SPENDING REVIEW PERIODS

Scheme Name	Latest Net Present Value (NPV)	Adjusted NPV	Capital cost	NPV/£
A38 Derby Junctions	£647m	£1346m	£168m	8.0
A5-M1 Link	£494m	£975m	£146m	6.7
A160/A180 Immingham	£316m	£603m	£108m	5.6
A27 Chichester Bypass	£295m	£467m	£85m	5.5
A45/A46 Tollbar End	£277m	£615m	£116m	5.3
A19 Testos	£82m	£181m	£49m	3.7
M6 J10a-13	£160m	£563m	£168m	3.3
A19/A1058 Coast Road Junction	£213m	£449m	£140m	3.2
A14 Kettering Bypass	£179m	£353m	£110m	3.2
A63 Castle Street	£250m	£457m	£151m	3.0
A21 Tonbridge to Pembury	£152m	£316m	£117m	2.7
A453 Widening	£222m	£391m	£153m	2.5
M1/M6 Junction 19 Improvement	£293m	£472m	£213m	2.2
M25 Junction 30*	Not Available	Not Available	Circa £400m	Not Available

*Note as per DfT source, "Information on Highways Schemes—data release", DfT website: "One scheme, M25 Junction 30, has no NPV. This was because none of the explored options for the scheme were preferred, and the process of identifying options for this scheme is ongoing. The scheme is at a particularly significant point on the strategic road network, and qualified for inclusion as a post-2015 scheme on this basis alone."

Table 3

CANCELLED SCHEMES

Scheme Name	Latest Net Present Value (NPV)	Adjusted NPV	Capital cost	NPV/£
A19 Moor Farm	£91m	£202m	£90m	2.2
A21 Kippings Cross	£118m	£185m	£97m	1.9
A21 Baldslow	£19m	£40m	£28m	1.4
A19 Seaton Burn Interchange	£64m	£111m	£72m	1.5
A1 Leeming to Barton	£162m	£313m	£315m	1.0
A21 Flimwell to Robertsbridge**	See note below from the DfT website			
A47 Blofield to North Burlingham **	See note below from the DfT website			

*Note as per DfT source, "Information on Highways Schemes—data release", DfT website: "Two schemes, A21 Flimwell to Robertsbridge and A47 Blofield to North Burlingham, were removed from the forward programme at the request of Regional Assemblies. The decision to formally cancel both schemes was taken in response to this, and was separate from the wider process of analysis and prioritisation."

February 2011

Written evidence from the Association of Train Operating Companies (ATOC) (TE 115)

As you know, ATOC represents the views of train operating companies. I am grateful to you for the chance to submit views in the light of this week's Spending Review which, from a rail perspective, might aid your current inquiry.

We believe that rail plays an essential role in driving sustainable economic growth. Our ambition, with our partners in the industry, is to increase rail's significant contribution to Britain's economic, social and environmental welfare. In the document *Planning Ahead 2010*[119], published in August jointly by ATOC, Network Rail and the Rail Freight Operators Association, we set out how rail can do this together with our priorities over the medium and long terms to achieve that.

We very much endorse the opening premises in the inquiry terms of reference, that a good transport system is a pre-condition of the long-term economic growth required to drive the UK's economic recovery, and that at a time of major public expenditure cut-backs, it is vital that every pound is invested to greatest effect. We also support the key recommendations of the comprehensive 2006 Eddington study into transport and the economy:

- Government should focus policy and investment on improving existing networks in places important to our economic success.
- The key strategic economic priorities for transport policy over the next 20 years are congested growing cities[120], key inter-urban corridors and international gateways.
- There needs to be a sophisticated policy mix, including getting prices right across modes, better use of existing networks and sustained investment (including smaller schemes[121]).
- The policy process needs to be rigorous, focusing on objectives and ensuring that spending is focused on the best policies.
- The delivery system, such as the planning process, needs to be made ready to meet future challenges.

[119] http://www.atoc.org/clientfiles/File/Planning%20Ahead%20(August%202010)%20(2).pdf

[120] See the Centre for Cities report recently commissioned by ATOC on the value arising from five planned rail improvements to the urban areas they serve—http://www.centreforcities.org/assets/files/pdfs/10–07–21%20On%20Track.pdf

[121] The Committee has previously noted the June 2009 ATOC report *Connecting Communities* which identified a business case for relatively small capital schemes providing rail access to 14 communities with a population of 15,000 or more

We believe the findings of the Eddington study remain highly relevant and appropriate in 2010. Over the next 25 years, the railways will need to provide capacity to accommodate twice as many passengers as today: sustained public and private investment is essential if we are to do this while providing attractive services. The recent economic recession has had an impact on demand, but in every quarter demand has grown in at least one part of the rail market (whether commuting, regional or long-distance): stronger demand during 2010 in all sectors has underpinned overall growth at levels not seen since before the recession (see figure 1).

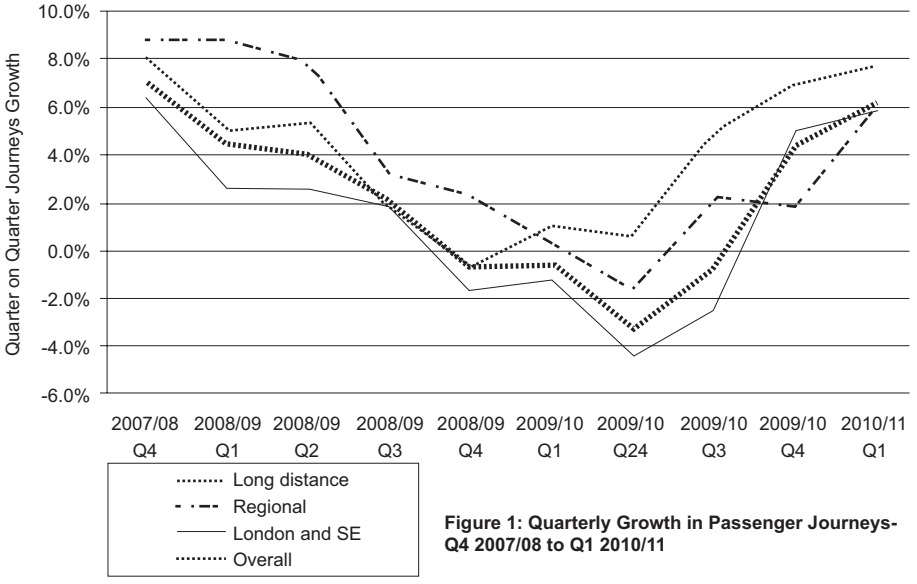

Figure 1: Quarterly Growth in Passenger Journeys- Q4 2007/08 to Q1 2010/11

The pressure on public spending also underlines the Eddington priority on ensuring that transport spending is focused on the best policies: this is particularly important for our sector, given that half the costs of the railways are currently met by the taxpayer. We believe there are two important dimensions to this:

— getting the most out of the current investment programme.

Sustained investment in maintaining and renewing the network is a key priority (planned to be over £15 billion in the current control period, CP4): failure to do so adequately is a false economy and ends up being more costly in the long run, although Network Rail must achieve or better its efficiency goals in carrying out this work. Within the significant network enhancement programme in CP4, particular priority should be given to schemes which improve line speed (and so help generate revenue) and reduce overcrowding (and so help our centres of economic activity), while reviewing how other schemes are delivered to see if they can be done more cheaply. In terms of rolling stock, there is likely still to be a strong case for proceeding with at least some of the vehicles yet to be ordered in the DfT's "HLOS 1300" programme, given the ongoing level of passenger demand

— promoting better value for money in rail through wider industry reform.

This area is currently being review by Sir Roy McNulty, and in our view there are two major areas of opportunity. Moving to longer, smarter franchises, combined with closer alignment of track and train (for example, by devolving more authority and resource to Network Rail route directors working in stronger partnership with train operators[122]), has the potential to achieve a number of things. It improves the prospects for attracting private investment into the railways, and by promoting a more customer-focused and commercial railway, drives both greater cost-efficiency and improved focus on projects which deliver passenger and revenue benefits.

In the recent Spending Review, the Chancellor gave welcome recognition to the need to invest in the nation's infrastructure. The ability of the DfT to fund capital investment in transport seems to have emerged well compared with other Departments and there is welcome reference to a number of rail improvements across the country in the Spending Review. However, it is too early to understand the full implications of the review for rail. Apart from needing to understand better whether Network Rail's enhancement programme for CP4 remains as planned, important decisions are due to follow on replacement of the inter-city high speed fleet and the related issues of electrification, wider rolling stock deployment (the HLOS 1300 vehicles) and Thameslink.

Finally, while the relative priority given to transport investment in the Spending Review appears consistent with Eddington, public policy has moved on since 2006 in a number of important respects. First, while Eddington was cautious about the merits of high speed rail, the Government has announced its support to develop a Y-shaped route linking the north and south of the country. Second, while Government appears not to support widespread use of congestion pricing on the roads (something highlighted in Eddington), it has announced as part of the Spending Review an increase in the cap on regulated rail fares (from RPI+1 to RPI+3)

[122] The ATOC paper on track and train alignment can be found at http://www.atoc.org/clientfiles/File/ATOC%20-%20Better%20Alignment%20of%20Train%20and%20Track%20-%20September%202010.pdf

to take effect from 2012. And third, it remains to be seen whether the forthcoming publication of the National Infrastructure Plan and changes in regional/local planning meet the challenges set out by Eddington.

The Committee may therefore wish to consider whether the time is approaching when Government needs to re-state its overall strategy for transport, possibly next year once there is greater clarity on the direction of rail industry reform and on the outcomes of the McNulty review. Much of the focus of Government policy since the General Election, for understandable reasons, has been driven by the need to tackle the public spending challenge. The need now is to build on that and develop a clear narrative which takes stock of developments since Eddington and shows how Government policies towards different transport modes are "joined-up" in promoting economic growth, social progress and environmental improvement. Far from being an academic exercise, this is essential in ensuring there is a coherent framework within which the private sector among others can play a full and effective part in delivering Britain's transport needs.

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