



## **Transport & the Economy:**

### **ITS submits evidence to the House of Commons Transport Committee's inquiry**

The evidence to the Committee addresses the changing role of transport in the current economic climate. Whilst the focus of the Committee's inquiry is around investment in transport and its role in stimulating economic growth, the evidence notes that a holistic approach should be taken. The benefits and costs of transport are broader than just the economic impacts and transport spending is only a part of the strategic picture; pricing and regulatory policy are others.

Our interpretation of the current position is that 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 and the case for capacity related investment is weakened relative to pre-crisis. 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.

Whilst there is much on-going debate about the role of the assessment process (NATA) we believe that much of this debate is generated because of the lack of tools for strategic transport assessment for which NATA is not ideal. Other technical weaknesses reflect the difficulties of keeping the evidence base up to speed with changing policy priorities such as reliability and resilience. We see a case for revisions to scheme approval, in particular with a significant increase in the minimum value of scheme over which central government needs approval rights - to match the rhetoric of devolution and 'smaller government'. However, Government must retain and potentially grow its relationship with local partners, the Highways Agency and Network Rail for the process of planning the many schemes that will be both local and national in nature and which neither party has the locus or funds to support alone.

**Prof. Peter Mackie and Dr. Greg Marsden**  
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## Transport and the Economy - Evidence to Select Committee on Transport

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### 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.<sup>1</sup> 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

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<sup>1</sup> 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.

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.

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 (e.g. in climate impacts). The low discount rate and sixty 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 choose 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 £10m definition of a major scheme is far too restrictive – this might be relaxed to £100m. 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 (e.g. 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.