FINAL

Transport Select Committee Inquiry

Transport and the Economy

Statement of Evidence

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Matt Brunt
Assistant Director

pteg Support Unit
Wellington House
40-50 Wellington Street
Leeds – LS1 2DE
0113 251 7445
info@pteg.net

Content

1. Introduction

1.1. ***pteg*** represents the six English Passenger Transport Executives (PTEs) in England which between them serve more than eleven million people in Tyne and Wear ('Nexus'), West Yorkshire ('Metro'), South Yorkshire, Greater Manchester, Merseyside ('Merseytravel') and the West Midlands ('Centro'). Leicester City Council, Nottingham City Council, Transport for London (TfL) and Strathclyde Partnership for Transport (SPT) are associate members of ***pteg***, though this response does not represent their views. The PTEs plan, procure, provide and promote public transport in some of Britain's largest city regions, with the aim of providing integrated public transport networks accessible to all.

1.2. ***pteg*** welcomes the opportunity to respond to the Committee's inquiry into this important topic and would be willing to appear before the Select Committee, should the Committee wish us to expand on any of the points made in this response.

2. Transport investment in the city regions

2.1. There is compelling evidence, particularly from the Eddington Transport Study[1], to show that investing in transport in urban areas is one of the most effective forms of investment there is. Indeed it has been recognised that investing in transport can pay economic dividends – one estimate is £3 of benefits to every £1 spent[2]. More recently the Cabinet Office has quantified the costs of congestion and other disbenefits arising from the relatively poor quality of transport in urban areas as at least £40bn, with congestion accounting for around one third[3].

2.2. However, pressure on the public finances means that every area of expenditure is under intense scrutiny. In the past, transport (along with other capital investment) has been subject to disproportionate cutbacks during periods of public spending reductions. The result of this has been a stop-start approach to investment in better transport infrastructure and the services that depend on it, which has impacted upon the UK's overall competitiveness. The Coalition Government has recognised that to make the same mistakes this time round will make it harder to create and sustain new jobs[4]. Nevertheless the June 2010 Budget outlined reductions to total capital expenditure of £49 billion in 2009/10 to £20 billion 2013/14 – a reduction of 63%[5].

2.3. We believe that investing in urban transport, as well as devolving more powers and responsibilities to city regions, is therefore especially important in the current context since it makes it possible for large numbers of people to access work[6]. Nowhere is this truer than in the city regions of the North and Midlands, where the concentration of labour, capital, knowledge and other significant assets makes them key to economic recovery and growth. However, it is also in these areas where the impacts of the recession are being felt most strongly; where there has been a historic imbalance in the funding levels received for transport when compared with London; and where transport budgets risk being disproportionately affected by wider reductions in spending.

3. Transport and the Economy

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 economic conditions within the UK have been altered substantially by the recession and subsequent financial crisis. There have been some relatively short term impacts upon demand for transport and congestion, but based on past evidence there is likely to be an upsurge in demand as the economy recovers (for example, Network Rail estimates that passenger numbers on rail networks serving our cities will more than double by 2034[7]). Therefore any short term slow down in demand does not negate the need to invest in transport (particularly given the long lead-in times for capital projects) and high value public sector investment can, therefore, make a significant contribution to the economic recovery.

3.2. Unemployment has risen disproportionately higher in the North and Midlands and at a faster rate than London and the South East. Some parts of our city regions (often those areas most formerly reliant on single heavy industries) were only beginning to feel the benefits of wider economic growth when the recession struck. In these places, local economies are still very fragile and considerably more vulnerable to the impacts of recession than major cities, despite often being geographically close.

3.3. Despite these changes, it is our contention that the Eddington Transport Study still represents the best analysis of the transport challenges we face. Critically for our city regions, this work reiterated the link between transport investment and improved economic performance in urban areas in particular, noting:

"A good transport network is important in sustaining economic success in modern economies: the transport system links people to jobs; delivers products to markets; underpins supply chains and logistics networks; and is the lifeblood of domestic and international trade." (Eddington, 2006:11)

3.4. Whilst it is welcome that the Coalition Government has recognised the need to rebalance the economy, our analysis shows a gap has opened up between spending per head on transport between London and the regions[8]. It is also worth noting that the gap is far greater for transport than for many other key areas of public spending, such as health and education. The latest (2008/9) Treasury figures on relative transport spend per head figures between London and the regions shows what's happened[9]:

- London: £641
- North West: £287
- West Midlands: £259
- Yorkshire and Humber: £248
- North East: £234

3.5. Furthermore, we are concerned that both in year spending cuts and projected cuts to transport budgets nationally are having or will have disproportionate impact on our areas. Our research shows that our areas suffered higher than expected cuts to revenue (£12.45 per head of population compared to £8.75 for England) and capital (£7.25 compared £4.12)

expenditure in this year's spending reductions; and that 21 out of 62 (i.e. 34%) of Major Transport Schemes halted were in our areas.

3.6. We recognise that London needs and deserves a good quality public transport system and has made an effective case for investment. However, because we start from a lower base and do not the long term deals that are in place for London and for national rail, we are likely to be disproportionately hit by reductions in funding[10]. Our cities need a fair share of the available transport spend going forwards and any reductions in transport spending need to be carefully thought through to ensure that the major city regions of the Midlands and the North are not disproportionately affected.

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?

3.7. The Coalition Government has indicated that transport investment must be focused on those schemes which are likely to deliver relatively high rates of return on investment in terms of jobs and economic growth. The Government has also expressed a desire to 'rebalance the economy' and to focus on supporting those areas of the country which have become heavily reliant on public sector employment. We support these objectives and believe that they can be realised by focusing on investment which delivers jobs and growth in areas hit hardest by wider public expenditure reductions.

3.8. Our position is supported by the work of the Eddington report, which made three important points in relation to types of intervention that lead to the greatest returns on investment within city regions:

- the cumulative impact of several relatively small improvements to the transport system can often be at least as big as that of the large projects;
- the rate of return on transport investment is highest in large urban areas, in part because of agglomeration/productivity effects not recognised in standard transport appraisal[11]; and
- the failure to address key constraints and bottlenecks in the transport network, such as the capacity constraints now affecting heavy rail commuter routes in many city regions given several years of steady growth, can seriously constrain the ability of cities to compete internationally against places with less congestion and better quality public transport.

3.9. PTEs are responsible for the delivery of integrated transport in the city regions. They have a track record of investment across all modes of transport, from investment in passenger information, bus priority and interchanges right through to major scheme developments for light rail schemes. We would argue that PTEs have been at the forefront of delivering on Eddington's recommendations.

Small schemes

3.10. Small schemes, such as many of the projects delivered by PTEs, can deliver high rates of return. Recent analysis by Professor Phil Goodwin[12] suggests that low cost measures, such as cycling and smarter choices can have benefit to cost ratios (BCR) as high as 20 and 30, respectively; other measures, such as bus improvements (best BCRs around 10) and rail infrastructure (best BCRs around 6) also represent excellent value for money. By comparison, Professor Goodwin suggests that large road schemes are typically likely to have

a much lower impact per £ spent. His analysis highlights the potential to achieve a greater rate of return by focusing on more localised, targeted and sustainable schemes.

3.11. One further consideration is that the short term impact of the recession on car ownership and usage also creates an ideal opportunity to promote a longer term behavioural shift to more sustainable modes of transport, since the public may be more willing to consider the alternatives. Moreover, in times where funding is in short supply, the promotion of 'smarter and active choices'[1] may offer the most cost effective investment opportunities. The work of the Sustainable Travel Towns is important in this regard[13]. We welcome the Government's recent announcement that these issues will be addressed specifically in future local transport funding streams[14].

Urban investment

3.12. The impact of transport investment on the urban economy can be significant. Research has shown that the relative economic returns in our city regions are at least as high as those obtained elsewhere, for example London[15]. The wider impacts can be significant:

- analysis of the Leeds trolleybus proposal (by Steer Davies Gleave) shows the impacts in terms of job creation and economic output are approximately the same order of magnitude as the direct benefits to transport users (i.e. in travel time savings);
- analysis of the Coventry Spirit Bus Rapid Transit scheme (by CEBR) showed benefits in terms of job creation alone 30% higher than the capital cost of the scheme; and
- phase I of the Midland Metro light rail scheme estimated generated GVA benefits almost 50% higher than its capital cost.

Tackling constraints to growth

3.13. Research by KPMG[16] illustrates how public transport accessibility to the city centres of metropolitan areas can make a critical contribution to higher productivity and wages, job creation and direct foreign investment. According to their analysis, rising overcrowding on the local rail networks radiating from Leeds and Manchester represents a growing constraint on economic growth and could be losing the national economy £250 million of GVA per annum. They therefore argue that the appraisal of investment in new rolling stock must recognise the role that rail plays in supporting a shift of economic activity towards the densest and most productive locations and sectors of the economy.

3.14. These findings are echoed by the analysis of the Northern Rail Hub scheme in Manchester[17] and the Centre for Cities report on agglomeration and growth in the Leeds City Region[18]. These reports agree that public transport schemes improving city centre accessibility can generate wider economic benefits corresponding to 20-25% of total benefits, which are not currently taken into account by the Department for Transport.

Addressing Worklessness

3.15. At times of rising unemployment, access to jobs also needs to be a key driver for transport investment in order that the flexibility of the labour market is maintained. PTEs play a lead

[1] Smarter and active choices are about encouraging people to think about the range of transport modes they could use to reach their destination and enabling them to choose the most sustainable option – in many case the best option might be to walk, cycle or use public transport

role in this respect through promoting schemes such as WorkWise, which shows that relatively straight-forward, low cost projects allowing unemployed people free travel on public transport to get to interviews, and for the first 'make or break' weeks of employment, have a dramatic effect on their chances of getting, and staying in, work. In the West Midlands, for example, more than 80 per cent of WorkWise customers said they would have struggled to get to new jobs or interviews without the free travel passes. Furthermore, 80 per cent of customers were still in employment after 13 weeks.

3.16. More broadly, our research[19] also shows that investing in sustainable modes of transport has a positive effect on direct employment. The research found that:

"A reduction in car travel, and a transfer to public transport, would result in a net increase in jobs as, on average, rail and bus transport employ more people per passenger km than car travel."

How should the balance between revenue and capital expenditure be altered?

3.17. As noted above, small investments can often have the greatest relative impact in the context of tightly constrained budgets[20]. However, many of the most cost effective measures (for example, the promotion of smarter and active choices[21]) require revenue support. The lack of flexibility in budgets and the current restrictions on financing through capital grants (i.e. due to the HMT's 'Golden Rule'[22]) mean these measures are often difficult to fund. Perversely the impact of some of these measures, for example through their impact on carbon emissions and climate change, could have long-lasting benefits. In terms of our experience of implementing projects, we also feel that there should be a much greater recognition of the fact that capital expenditure is often reliant on revenue streams over the longer term and that this can be critical for the achievement of the long term objectives of a given project. We wish to see, therefore, much greater flexibility at local level in the definition of capital and revenue expenditure.

Are the current methods for assessing proposed transport schemes satisfactory?

3.18. The current system of appraisal provides a useful tool for assessing transport schemes. However, it does have some significant weaknesses. We are concerned that, as currently constructed, it does not give sufficient weight to investments which help generate economic growth, nor does it necessarily promote more sustainable investments such as public transport. Therefore, we welcome the Coalition Government's intention to review the process for transport appraisal.

3.19. The Eddington Study led to a significant shift in DfT thinking regarding the appraisal of the wider economic benefits of transport investment, which culminated in the publication of guidance[23] which acknowledged that transport investment may generate additional benefits relative to those considered to date, including:

- agglomeration benefits translating into increased in productivity in areas with higher concentration of economic activity; and
- impacts on national economic output due to improved labour supply and the move towards more productive jobs.

3.20. Recent evidence[24] shows that wider economic benefits can represent in excess of 25% of the total benefits in large urban areas and that this figure is likely to be highest for schemes that provide the greatest improvement to city centre accessibility. The exclusion of wider

economic benefits from the appraisal of transport projects may therefore lead to sub-optimal decisions, particularly if economic growth and jobs are a priority for investment. We are therefore calling for this methodology to become part of the formal appraisal process with the effect that investment decisions will be better aligned with the objective to support economic growth.

3.21. There is also a growing debate at a more fundamental level, which:

- argues that even the DfT's wider benefits approach fails to fully take into account the potential for some forms of transport to support a step change in economic growth; and
- in any case should be focusing on economic potential, i.e. by assessing the economic potential (through the impact on GVA) of investment[25].

Such an approach can help prioritise transport investment according to its economic impact, rather than focusing on the welfare benefits captured in the NATA type appraisal.

3.22. With respect to smaller, higher impact schemes, such as cycling and smarter choices, it is still a significant challenge to demonstrate their health, social inclusion and access to employment benefits using standard DfT appraisal methods. This is because such methods have been historically geared towards quantifying travel time savings for more conventional interventions. Additionally the carbon impacts of transport investments are not well captured by the current system and would therefore need to be given a greater emphasis in a revised appraisal system, if the intention is to prioritise more sustainable modes of transport.

3.23. We could also see merit in DfT appraisal methodology having greater overlap with the methods used by other government departments such as DWP, which focuses its assessment of interventions on their direct impact on government revenue and expenditure. This may facilitate the joining up of investment decisions by different government departments more easily.

3.24. In addition, we also wish to see a more proportionate approach to appraisal for transport schemes - currently schemes over £5m need full approval by DfT. We believe the limit should be increased to £25m, with a lighter touch appraisal of smaller schemes carried out. We believe that this would free up capacity, improve decision-making times and reduce costs.

How will schemes be planned in the absence of regional bodies and following the revocation and abolition of regional spatial strategies?

3.25. We believe that under any new arrangements, the city regions should be given the scope to plan, prioritise and allocate resources within their areas in pursuit of clear, shared and agreed economic objectives. The Integrated Transport Authorities (ITAs) currently have responsibility for the preparation of the Local Transport Plans (LTPs) for the city regions, with the PTEs responsible for delivering the policies contained within them.

3.26. With the proposed removal of Regional Strategies, LTPs have become the main statutory policy framework covering transport at the sub regional level, and put ITAs/PTEs at the centre of local decision-making and delivery. Given the need for efficiency and to avoid 'reinventing the wheel', particularly in a constrained public spending environment, it would seem logical for any new arrangements, i.e. such as those developed as part of Local Enterprise Partnerships (LEPs), to build upon these existing arrangements for delivering strategic transport in the city regions.

4. References

[1] http://www.dft.gov.uk/about/strategy/transportstrategy/eddingtonstudy

[2] http://www.citiesmanifesto.org/transport

[3] Cabinet Office (2009) An Analysis of Urban Transport

[4] HM Government (2010) The Coalition: our programme for government

[5] Office Budget Responsibility 2010

[6] Over 50% of households on the lowest real income quintile do not have access to a car (DfT National Travel Survey, 2008).

[7] http://www.networkrail.co.uk/browseDirectory.aspx?dir=%5CPlanning%20for%20CP5& pageid=5669&root

[8] http://www.pteg.net/NR/rdonlyres/34058AE6-C6D4-47F0-AB93-A53D36658676/0/The2010ptegFundingGapreportfinal.pdf

[9] All figures are annual public spend per head of population

[10] http://www.pteg.net/NR/rdonlyres/3B1DCAA1-0452-4E27-A825-B0B883130941/0/GovernmentspendingcutsGTreport

[11] A report for London First (http://www.london-first.co.uk/documents/TRANSPORT_DOC_FINAL_SPREADS.pdf) shows that the impact of wider economic benefits on the rate of return of transport investment is likely to be of the same order of magnitude in the city regions as in London due to higher congestion and construction costs in the capital.

[12] Goodwin, P. (2010) Improving value for money in the context of transport expenditure cuts: feasibility study, University of the West of England.

[13] http://www.dft.gov.uk/pgr/sustainable/demonstrationtowns/sustainabletraveldemonstrati5772

[14] http://nds.coi.gov.uk/content/detail.aspx?ReleaseID=415581&NewsAreaID=2&HUserID=895,777,888,850,772,866,710,705,765,674,677,767,684,762,718,674,708,683,706,718,674

[15] http://www.london-first.co.uk/documents/TRANSPORT_DOC_FINAL_SPREADS.pdf

[16] KPMG (2010) Value for money in tackling overcrowding on northern city rail services. Report to the Northern PTEs

[17] http://www.thenorthernway.co.uk/document.asp?id=718

[18] http://www.centreforcities.org/assets/files/pdfs/071127LeedsPaperFINAL.pdf

[19] http://www.pteg.net/NR/rdonlyres/D09F59E8-72C6-438C-8964-60A1993A8F48/0/EmploymentintheSustainableTransportSectorpdf.pdf

[20] Goodwin (2010) Improving value for money in the context of transport expenditure cuts: feasibility study, UWE (DRAFT)

[21] See footnote 1

[22] The HMT Golden Rule is based on the principle of intergenerational equity whereby the proportion of expenditure going towards revenue support is constrained since it is assumed all benefits from that sort of expenditure will be felt ‘today’.

[23] Transport Analysis Guidance (TAG) Unit 2.8C on “Wider Impacts and Regeneration” September 2009

[24] http://www.london-first.co.uk/documents/TRANSPORT_DOC_FINAL_SPREADS.pdf; http://www.centreforcities.org/assets/files/pdfs/071127LeedsPaperFINAL.pdf

[25]see http://www.networkrailmediacentre.co.uk/Press-Releases/INVESTING-TO-BUILD-BRITAIN-S-ECONOMY-1561.aspx