

Transport policy and the needs of the UK economy

‘The UK needs a modern, efficient public infrastructure to enable business to reduce costs, increase efficiency and improve its competitiveness’

DTI, 2002

Transport is an essential driver of economic growth. Our European neighbours invest about 1% of national income each year on transport infrastructure. Yet over the last 25 years, the UK has invested about 30% less than this per capita. The result is a large gap in the quality and competitiveness of our transport systems. This under-spend was recognised in the government’s Ten-Year Plan for Transport published in 2000, which forecast more investment by 2010.

But many of the original targets in the Ten-Year Plan have now been dropped or downgraded, while most transport users have seen little improvement and the public has low expectations for the future. There has been some improvement but business has no certainty that the gap will now be bridged between the current quality and capacity of our transport system and what we really need to support a strong UK economy.

Past transport failings will only be overcome if transport is given higher priority by future governments. If business is to compete and serve customers efficiently, we need a sustained transport strategy that:

‘These are the key challenges that business expects – and needs – any future government to respond to.’

SIR DIGBY JONES, DIRECTOR-GENERAL, CBI

1 Commits to an ambitious vision

As the economy grows, the demand for transport will grow for passengers and freight. Increased capacity and better network management are needed to serve areas of future economic growth and to reduce the costs of congestion for business and private users. A clearer longer-term vision is vital, showing how the transport network will support business competitiveness and economic growth.

2 Increases funding and delivers better value for money

We see a need for £300bn investment in transport over the next ten years. This is much higher than the indicated spend levels in the 2004 white paper. A focus on better value for money and short-term ‘wins’ will help, but there will still be a gap. Road user charging may help, and we need to develop a consensus with government on funding by looking at innovative solutions.

3 Includes effective implementation plans

There needs to be a stronger focus on outputs and outcomes in an implementation programme giving an even flow of projects, so that transport and infrastructure suppliers can invest with confidence in the skills and resources necessary for on-time delivery and value for money.

4 Is better integrated with other policy areas

Transport policy needs a coherent approach that fully joins up with policies on economic growth, land use planning and the environment, and which ensures consistency between national and regional priorities.

Transport policy is letting the UK down

The UK economy depends on transport

Transport connects businesses with their customers, employees and suppliers. Technology is changing the way we all use transport, but so too are globalisation and demographic changes. In a thriving economy business will still move goods and people. The significant economic growth projected by government over the next 20 years will add to that demand, but growth will be constrained unless we develop a higher quality transport network.

We are not well placed against our competitors

Senior business people believe that the quality of UK transport infrastructure is still 'poor' or 'very poor'. Compared with other countries:

- Our transport system is less reliable, with our roads suffering much longer periods of congestion
- Transport users generally pay more to use our road and public transport systems
- Our extensive air and sea connections are being threatened by capacity constraints and congestion on road and rail access routes
- We have failed over many decades to match the level of investment and strategic approach to transport provision in other countries.

Transport failings add to business costs

Past failings mean that businesses in the UK face higher direct transport costs, which can account for up to 10% of total costs. Added to this are the indirect effects and costs of having to allow for unreliable journeys or time wasted in jams. UK business has developed world-class logistics operations to help overcome some of the challenges of operating on a crowded island – but past gains are being eroded by growing congestion and other factors.

Failings have a high cost for everyone

The upward pressure on costs is bad news for firms at a time when profitability is low by historical standards. This means less scope for companies to invest in improving their productivity. But it also means they pay less tax which would otherwise help fund other priorities such as schools and hospitals.

'Transport failings cost £1,220 a year for every worker in Central London. This is about 1.1% of GDP.'

GLA ECONOMICS—2005

EXHIBIT 1

Cost of moving freight by road in the EU

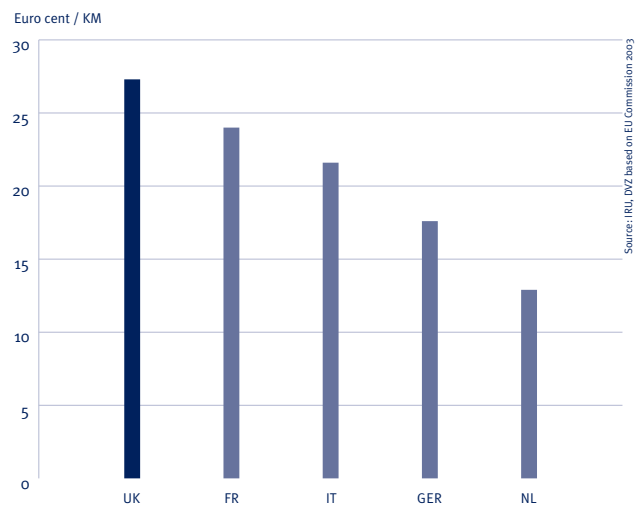
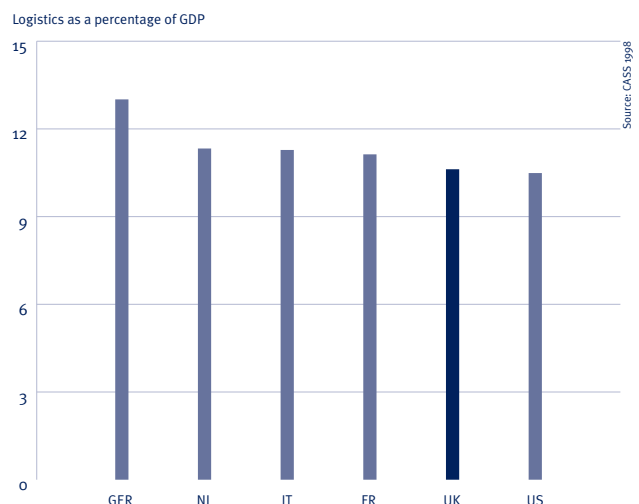


EXHIBIT 2

Cost of logistics to EU economies



‘Probably the area where insufficient infrastructure investment has most impinged on long-term growth prospects of the UK is transport.’

SOURCE: OECD, ECONOMIC SURVEY OF THE UNITED KINGDOM—2004

EXHIBIT 3

Predicted increase in average road journey times

	2002–2006
London – Leeds	+ 14.5%
Birmingham – Bristol	+ 13.7%
Oxford – Southampton	+ 14.8%
Cambridge – Ipswich	+ 19.6%

Source: Trafficmaster—2004

FACT: *Transport costs account for 14% of total household expenditure in England.*

SOURCE: ONS FAMILY EXPENDITURE SURVEY—1998 TO 2001

FACT: *Voters are far less satisfied with transport than health services or education. 43% rate transport as ‘bad’ compared with 23% for the NHS and 21% for schools.*

SOURCE: POPULUS / THE TIMES—MARCH 2005

‘We have real infrastructure issues in this country. We are competing with one hand tied behind our back.’

ROD EDDINGTON, BRITISH AIRWAYS—FEB 2005

The impact of an inefficient transport system is bad news in other ways for the country as a whole. It affects our daily lives in making our journeys to work, to school or to the shops more difficult. And where it leads to road congestion, it can harm the environment through fuel wasted in traffic jams.

Future prospects are not good

Key transport players, such as national and local government, the Highways Agency and Network Rail, are trying to tackle some of the immediate problems. The commitments on higher funding and policy goals in the Ten-Year Transport Plan announced in 2000 were a welcome attempt to put future transport policy on a better footing.

But overall these moves have proved an inadequate response to the policy mistakes and under-investment of previous decades. There is little sign yet that the new plan announced in 2004 will make much difference and every sign that the quality of the transport network is not going to improve materially in the foreseeable future. Businesses and the public will continue to pay a high daily price through taxes, congestion and fares for what is often a second-class transport system.

Business needs all political parties to set their sights higher

We do not believe this situation is acceptable for one of the world’s leading economies, nor is it sustainable if we want the UK to continue to be an attractive place to do business and create wealth for its citizens.

The forthcoming General Election is a chance for all parties to commit to raising their game on transport. Businesses need to see greater priority given not just to accelerating short-term improvements, but also to a sustained effort over the long term.

Such commitment is difficult. But just as it cannot be ducked in other key policy areas such as pensions or education or health, so commitment is vital for transport. We set out in this brief the four aspects of transport policy – vision, funding, delivery and integration – where business most needs to see the next government make a difference.

BUSINESS REQUIRES...

...more ambition and a clearer vision of what the future transport network will look like

Where we are today

Recent and past improvements mean that the UK transport system now handles more movement than it did before. But key parts of our network are also at times under strain – on the main inter-urban corridors, in major urban areas, and at our international gateways. The Transport Ten-Year Plan of 2000 saw government boldly commit to deliver a transport system to rival the best in Europe, backed by targets for reducing road congestion and rail traffic growth. But policy setbacks and competing claims on public spending have all made government pull back from its commitments to transport users.

We need an ambitious vision for transport policy...

Without a clear vision, business can have no confidence that transport policy will either meet the needs of regional areas for future economic growth, or address the big challenges for current congestion hotspots posed by official traffic projections. Working with key transport players, government must restore a clear sense of ambition to policy by setting out:

- How the network is intended to look in 20-30 years time, in terms of capacity and how that capacity is managed
- Standards for the performance of the network to be achieved over time – for example, improved journey times and reliability.

A government vision for the future of the transport network might include:

- Provision of inter-urban motorways and high-speed rail links which better match those seen in other countries
- Improved and sustainable urban transport integrating private and public, road and rail systems
- Measures to better link increased capacity at our international gateways of ports and airports to national networks through road and rail access
- Better demand management measures, potentially including road user pricing, travel planning and improved information for users.

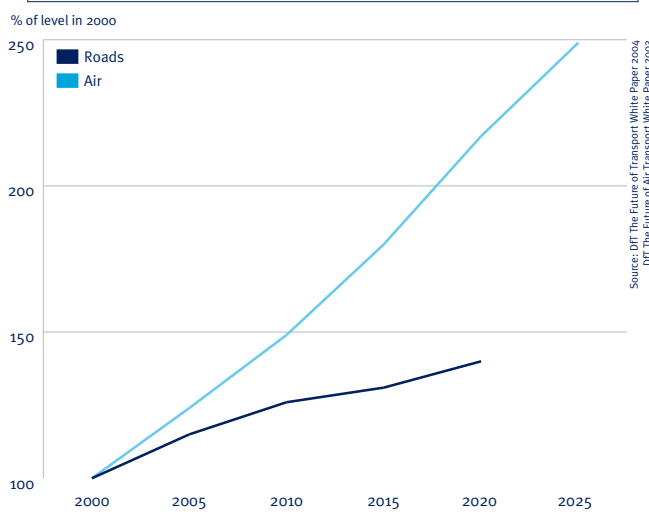
‘We manage time-critical supply chains across the country. Reliable journey times are crucial to give customers the service they need.’

DAVID FRANKISH, MD NFT DISTRIBUTION

Constraints in current policy	Implications for business
Low overall levels of public investment	Transport will be a continuing constraint on the competitiveness of the British economy and GDP growth. The UK’s attractiveness to potential investors from overseas will be reduced
Imbalance in spending with budgets constrained by the size of the increase for rail	Continuing congestion and capacity constraints increase business costs and reduce the mobility of employees
Low emphasis on international benchmarking of transport systems and performance delivery for users	Constraints on productivity improvement in comparison with our international competitors
Vacuum between longer-term government objectives and short-term plans and funding indicators	Reduced confidence among transport-related suppliers about the government’s commitment to ensuring delivery will increase project costs

EXHIBIT 4

Projected growth in road and air transport



Source: DfT The Future of Transport White Paper 2004
DfT The Future of Air Transport White Paper 2003

...supported by a comprehensive set of measures

Our transport network will fail to serve the economy better – strategically and operationally – unless there is also ambition in the scale and range of measures adopted.

We need to see government strategy commit to:

- Securing much greater public and private funding to replace outdated transport assets and provide additional capacity
- Managing capacity more efficiently by implementing conventional measures and considering potentially more innovative approaches – for example, road pricing
- Enhancing the role that technological developments could play in transport problems eg in influencing the need for transport as well as improving the performance of transport assets
- Improving significantly the integration between different modes of transport.

Potential performance standards which transport policy should deliver include:

- Quicker average journey times and better journey reliability on key modes
- Good access to overseas markets through international gateways – eg in terms of range of destinations
- Measures of increased customer satisfaction
- Better environmental standards in the provision and use of transport assets – eg infrastructure and vehicles.

...and capable of being realised

But business also recognises that there needs to be realism in tackling the legacy of past transport policy shortcomings, as well as major future challenges:

- The programme of key projects aimed at delivering the government’s vision should increase the pace of improvement, but in a way which is manageable and which allows the transport industry to develop the necessary capacity
- Standards for network performance should aspire to meet international benchmarks. But in the short term there may first be a need simply to halt further deterioration or to focus on the weakest parts of the transport system.

Business challenges to government	The benefits
Commit to and publish a clear long-term vision for an integrated transport system	Would allow higher use with less congestion for business and public
Develop meaningful criteria for assessing and comparing the quality and performance of the UK transport system, for example journey-time targets	A clearer focus on the key priorities with a benchmark for comparison against the transport systems of our competitors
Commit to increased capacity combined with better management on both road and rail networks to support future demand	Improved reliability and lower costs from transport resulting in a significant boost in GDP
Commit to enlargement of port and airport capacity with improved road and rail access	Increased competitiveness for UK plc with the maximising of economic growth

BUSINESS REQUIRES... ...more funding and better value for money

Where we are today

Over the last 20–30 years, Germany has invested two-thirds more per person than the UK in transport, and France half as much more. Our assessment of latest plans anticipates UK public investment in transport for the next ten years rising to about 1% of GDP at most. This is better than historic UK levels, but still does not match the long-term European average of over 1%.

Investment must increase significantly...

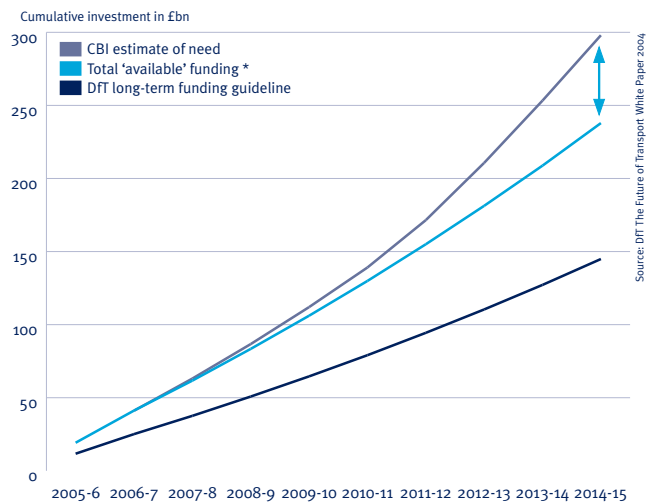
Over the next ten years, total public and private sector investment in the transport system inferred from the 2004 white paper is approximately £240bn, and then mainly for England. We believe that at least £300bn over this period is needed simply to deliver projects already identified and necessary additional schemes, with proportionate investment also in Scotland and Wales.

If the £60bn gap were plugged only through greater government spending, public investment would rise to an average of 1.4% of GDP through to the year 2015. Although high by past standards of UK and EU investment, this is a reasonable level if we are to begin to catch up with the problems caused by the low levels of investment over many decades.

Increasing public spending by another £60bn to 2015 is feasible if considered in the wider context of public finances. And we believe it is affordable without new taxes – but only if transport benefits as a priority from wider efficiency gains in government and increased tax receipts gained from forecast economic growth.

EXHIBIT 5

The ten-year investment gap



FACT: *Nearly half of all trips made by people involve some form of interaction with business.*

SOURCE: NATIONAL TRAFFIC SURVEY—2003

‘Even after planned increases, government investment will be low relative to other OECD countries and may be inadequate to correct years of neglect.’

SOURCE: OECD ‘GOING FOR GROWTH’—MARCH 2005

Constraints in current policy	Implications for business
The comparatively low level of committed funding	Delays to the projects identified as the priorities to support economic growth
Procurement procedures increasing costs and delays and giving lower value for money with the danger of gold-plating across some projects	Lower returns from investments and increased costs and extended delivery lead-times which can lead to projects being discontinued
Silo-based view of transport proposals	The limited number of road/rail interchanges and the low integration of road/rail access with port and airport developments restricts efficient use
Lack of definition on new and alternative funding mechanisms	Restricted scope for transport improvements

* Note: Total ‘available’ funding includes DfT funding guidelines as white paper 2004 plus estimates for Local Authority Revenue Spending and private sector investment as the Ten-Year Plan

Potential types of project for investment

- **Capacity management schemes**
– eg extension of M25 variable speed limits to other key motorway sections and remodelling of road junctions on congested routes
- **Infrastructure upgrade**
– eg improvements to key rail freight lines such as Southampton-West Midlands and higher environmental standards for roads such as A3 and A303
- **Additional physical capacity**
– eg widened or parallel motorways such as M6, new north-south high-speed rail capacity and CrossRail in London

Examples of potential funding mechanisms

CBI view

Increase in general taxes	Opposed
Make transport a higher priority against other public spending	Only from future GDP growth and efficiency gains
Road user charging	Qualified support
Tax Incremental Financing	Worth exploring
Planning Gain Supplement	Offers opportunities
Business Growth Incentive	Support
Business Improvement Districts	Support

...including a wider range of options...

But ideally over this period, and certainly for the longer term, a more sustainable approach to maintaining adequate levels of transport investment needs to be found. Whether that investment is made initially by the public or private sector, ultimately it is paid for in one of two ways: by taxpayers, or by those who benefit directly from such investment – who are mainly users.

Businesses do not want to see taxes rise. Other mechanisms may offer some scope to increase the contribution made by beneficiaries of transport investment. Road user charging could provide a substantial revenue stream to finance investment, about £9bn a year gross according to government advisers. But its acceptability to business will depend heavily on what happens to existing taxes on road users, and how flexible charges are according to time and place. Government has the key responsibility for establishing which of these options can be taken forward in consensus with business and other users.

...with more focus on better value for money

A key principle with all options is to ensure a better return on investment in at least two ways:

- In terms of process, government and its agencies need a strong procurement function, with continued focus on improved efficiency and project management
- In terms of projects, where new capacity is provided, measures need to be adopted to 'lock in' the benefits to transport users by ensuring proper capacity management

FACT: *As a share of GDP, investment in motorways and trunk roads more than halved between 1991 and 2003.*

SOURCE: TRANSPORT STATISTICS GREAT BRITAIN – 2004

Business challenges to government	The benefits
Increase public spending commitments by 40% in real terms over the ten-year period	Reduced congestion and improved efficiency supporting economic growth and employment
Commit funding for key business priority projects with the focus on unit cost reductions rather than de-scoping of individual projects	Better value for money on projects without reducing performance levels
Commit to a more extensive and strategic network of facilities for inter-modal exchange	Extra capacity and efficiencies for passengers and freight, more choice, less road congestion
Commit to flexible road user charging to support transport improvements and work with business on the future role of Alternative Funding Mechanisms	Potential generation of additional funding in an acceptable and workable way for business

BUSINESS REQUIRES...

...effective implementation plans for delivering improvements

Where we are today

Government investment plans have long translated into programmes carried out by public and private sector organisations. Recent measures have sought to avoid the past damaging effects on publicly-funded programmes of ‘stop-go’ investment patterns – and to reduce delays previously caused to many significant projects through the land use planning process. The full benefits of such welcome moves remain to be seen.

We need an implementation programme which sustains a steady flow of projects...

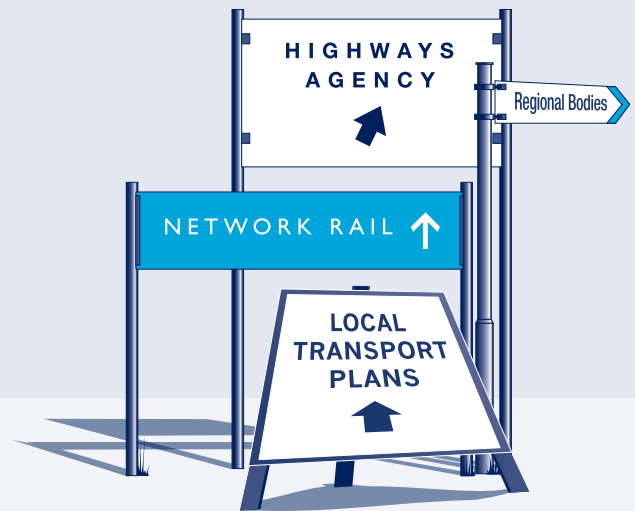
But the lack of an overall implementation plan – bringing together clearly the different programmes and indicating what will be delivered when – undermines the confidence of transport users and providers in government’s ability to convert general strategy into real improvement and better network performance.

As fare-payers and significant contributors of transport-related tax revenues, businesses expect the large sums of money devoted to investment to be spent efficiently. Commitment to – and delivery of – an integrated implementation plan with clear timetables and milestones is key to restoring users’ trust in the competence of transport providers and government. It is also important in enabling businesses to make informed decisions about where to locate.

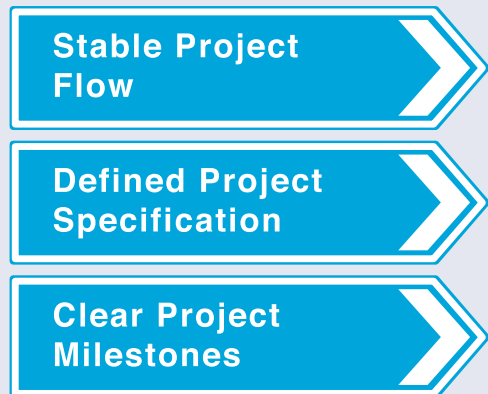
...allowing a clear focus on value for money

But the private sector is also a major investor in transport and a major player in the implementation of the government’s transport ambitions. Companies need to invest in the skills and resources required to carry out their role efficiently.

CURRENT SITUATION



TARGET



<i>Constraints in current policy</i>	<i>Implications for business</i>
Limited emphasis on implementation plans with a lack of clear project flow.	Reduced confidence in the government’s commitment to delivery of projects leading to loss of skills, reduction in capacity and increased costs
Little sign of improvement in planning processes – for example failure to implement simplification of the consents procedure in Modern Ports 2000	Delays in project delivery, concern about whether the Planning Inspectorate is adequately resourced, high number of projects going to public inquiry
Limited ‘client skills’ in many parts of public sector with a culture of risk avoidance rather than risk management	The lack of strong processes and management significantly increases the operational and financial risk for private sector suppliers
Limited duration of rail franchises	Investment undermined, improvements more limited

FACT: *In the first two years of the Ten-Year Plan, private sector investment undershot original targets by £1.2bn – or 12%.*

SOURCE: DFT ‘PROGRESS REPORT’ AND ‘TRANSPORT 2010’ DOCUMENTS

FACT: *Over half the UK workforce finds their journey to work more stressful than even four years ago.*

SOURCE: REED.CO.UK – May 2004

FACT: *87% of people believe the government has only delivered a ‘little’ or ‘not at all’ on its promises for road and rail improvements.*

SOURCE: YOUNG & RUBICAM SURVEY FOR CPA – SEP 2004

FACT: *68% of people believe that the transport situation is going to get worse.*

SOURCE: YOUNG & RUBICAM SURVEY FOR TRANSPORT 2000 – JAN 2005

Unless there is greater certainty in the flow of transport projects, we may lose vital capacity and increase costs in the future.

The status of the Ten-Year Plan and the projects it incorporated is now unclear – and in the absence of an overarching delivery framework there is greater uncertainty for business. This needs to be addressed urgently to allow the transport supplier base to optimise its skills, resources and finances against a stable flow of projects and help deliver the government’s plans on time and to budget.

...supported by an effective planning system

Securing planning approval for transport schemes is one part of the process of project implementation. But it takes on particular importance because a refusal to grant permission often comes after much resource has gone into developing a proposal – and the process can be lengthy for large or contentious projects. Among the range of possible procedural improvements, the welcome principle of establishing the strategic need for projects before rather than during public inquiry, as in the case of the Air Transport White Paper, will need to be defended rigorously in practice. It is important that government establishes a full forward view of the flow of key schemes due to seek planning approval, and ensures the process is resourced and managed to deliver timely decisions.

Business challenges to government	The benefits
Publish an implementation plan setting out key deliverables, timescales and milestones with meaningful targets for business	Enables business to plan investment and delivery resources to support and enhance government objectives
Clarify how the planning process will be improved	This will underpin delivery and ensure adequate resourcing for local planning authorities and the Planning Inspectorate
Improve project management and public sector skills as ‘informed client/buyer’ with clearer project specification and risk/reward balance	Greater private sector involvement leading to lower project costs, faster delivery and better value for money
Promote series of ‘quicker wins’	Will help to build business confidence and deliver improvements in the shorter term.

BUSINESS REQUIRES... ...integration with other policies

Where we are today

Transport policy affects and is affected by many other policy areas. It also operates at different levels: local, regional, national and international. All these policies must be more joined-up if we are to have a stronger economy alongside social progress and a better environment – and to help business contribute more effectively to those goals. Current government thinking uses the language of integration, but has a long way to go to convert good intentions into effective practice.

Regional decisions must be consistent with national priorities

Recent announcements to strengthen regional decision-making on transport could help deliver better results. We have also welcomed the growing involvement of RDAs in setting transport priorities. But there are real risks that this move could make decision-making more complicated and lead to further delays in delivering much needed improvements. Government must ensure that:

- There is more clarity and coherence about what government wants regional policy to achieve – and how that can be supported by transport decisions
- Co-ordination of different bodies and strategies is efficiently managed and properly resourced – eg on transport, housing, economic development
- Delegation of funding decisions to regional level does not lead to inadequate funding for transport improvements of national significance.

‘...it is increasingly likely that we will end up with a large number of badly built houses in poorly designed communities with limited transport infrastructure that have severe environmental impacts, rather than the “sustainable communities” that are the government’s stated aim.’

HOUSING: BUILDING A SUSTAINABLE FUTURE, HOUSE OF COMMONS ENVIRONMENTAL AUDIT COMMITTEE – JANUARY 2005

‘This is a clear example of central government not prepared to listen to regional opinion.’

STEVE HINDLEY, CHAIRMAN MIDAS GROUP OF COMPANIES – REFERRING TO THE DECISION TO UPGRADE THE A358 INSTEAD OF THE A303 IN THE SOUTH WEST

‘The current transport infrastructure is inadequate to meet present or future needs. The resultant problems and costs of delay and congestion are a major impediment to improving the region’s productivity.’

NORTH WEST REGIONAL DEVELOPMENT AGENCY REGIONAL ECONOMIC STRATEGY – 2003

Constraints	Implications for business
Transport infrastructure is not considered early enough in the planning process with insufficient funding to deliver key priorities (new Community Infrastructure Fund only a small step with £200m)	New developments are less effective, economically, socially and environmentally with overall failure to support economic and housing growth
Lack of clarity in how the regional framework will operate in practice	Potentially slower delivery of existing commitments and lack of integration between national and regional priorities
Lack of definition in the new regional approach to try to join-up strategies	Potential duplication of costs in dealing with multiple regional authorities on a common problem
Reduction in government support for environmentally positive transport improvements – eg Sustainable Distribution Fund	Possible downgrading of concerns about the impact of freight transport on congestion and the environment

‘The East of England Regional Assembly deplores the government’s grossly inadequate funding of the transport infrastructure costs associated with the additional 478,000 houses planned for this region between 2001–2021.’

EERA PRESS RELEASE—DECEMBER 2004

FACT: *Fuel efficiency for cars and aircraft is improving by 1–2% a year. Emissions of key air pollutants from road transport should reduce by 25% over the next decade.*

DFT WHITE PAPER—JULY 2004

‘We will need to go further to deliver faster, greener and more reliable journeys – especially in urban areas.’

TONY BLAIR, FORWARD TO ‘THE FUTURE OF TRANSPORT’ 2004

Transport at the centre of land development

The development of land is key to many economic activities – housing, industry, retail, leisure – and these cannot succeed without good supporting transport. Yet there are serious concerns about the insufficient consideration given – for example, to the transport implications of planned housing in the south east under the government’s Sustainable Communities agenda. To ensure that the patterns of transport use created by this provision are sustainable, early thinking is vital to avoid future problems – as is the need to fund properly the transport improvements needed to support such development.

Support for environmental objectives

Transport improvements that help business will only stand the test of time if they also deal with associated negative environmental impacts. Local community concerns about air quality, noise and severance, and global challenges such as climate change, can be addressed. The government can help sustain and enhance the important positive contribution which businesses make as transport users and providers through:

- Using taxes and regulation to send more consistent signals which influence investment decisions and the ways in which businesses use transport – eg tax and regulation on favoured technologies and fuels
- Promoting new solutions to transport challenges – eg emissions trading to deal with the climate change impacts of aviation or innovative designs for infrastructure
- Providing sufficient funds to pay for infrastructure which meets higher environmental standards – eg tunnelling on sensitive routes such as the A303.

Business challenges to government	The benefits
Integrate transport with housing, employment and planning at local, regional and national levels	Delivery of sustainable housing and economic growth targets
Ensure that business priorities are reflected at the regional level within an effective system of decision-making and management	Better integration with regional economic strategies, housing and spatial planning
Support new or improved transport technologies as a contribution towards emissions reduction	Greater contribution from business transport towards reductions in greenhouse gas emissions
Ensure consistent government policies for higher environmental standards	Minimised environmental impact

Copyright © CBI 2004

The Content may not be copied, distributed, reported or dealt with in whole or in part without prior consent of the CBI.

MARCH 2005

£10.00

ISBN 0 85201 608 5

For further copies of this report, please go to: www.cbi.org.uk/bookshop

For a copy of this report in a large text format, please contact Graham Morton

T: +44 (0)20 7395 8067 E: graham.morton@cbi.org.uk