



House of Commons
Transport Committee

**Transport and the
economy: Government
response to the
Committee's Third
Report of Session
2010–12**

**Fourth Special Report of Session
2010–12**

*Ordered by the House of Commons
to be printed 3 May 2011*

The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its Associate Public Bodies.

Current membership

Mrs Louise Ellman (Labour/Co-operative, Liverpool Riverside) (Chair)
Steve Baker (Conservative, Wycombe)
Jim Dobbin (Labour/Co-operative, Heywood and Middleton)
Mr Tom Harris (Labour, Glasgow South)
Julie Hilling (Labour, Bolton West)
Kwasi Kwarteng (Conservative, Spelthorne)
Mr John Leech (Liberal Democrat, Manchester Withington)
Paul Maynard (Conservative, Blackpool North and Cleveleys)
Gavin Shuker (Labour/Co-operative, Luton South)
Iain Stewart (Conservative, Milton Keynes South)
Julian Sturdy (Conservative, York Outer)

The following were also members of the committee during the Parliament.

Angie Bray (Conservative, Ealing Central and Acton)
Lilian Greenwood (Labour, Nottingham South)
Kelvin Hopkins (Labour, Luton North)
Angela Smith (Labour, Penistone and Stocksbridge)

Powers

The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at <http://www.parliament.uk/transcom>. A list of Reports of the Committee in the present Parliament is at the back of this volume.

Committee staff

The current staff of the Committee are Mark Egan (Clerk), Marek Kubala (Second Clerk), David Davies (Committee Specialist), Tony Catinella (Senior Committee Assistant), Edward Faulkner (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Hannah Pearce (Media Officer).

Contacts

All correspondence should be addressed to the Clerk of the Transport Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 6263; the Committee's email address is transcom@parliament.uk

Fourth Special Report

On 28 April we received a response from the Government to the Transport Committee's Third Report of 2010–12, *Transport and the economy*,¹ which we publish with this Special Report.

Government response

Introduction

This paper sets out the Government's response to the third report of session 2010-2011 (HC473) on "Transport and the Economy".

The Government welcomes the Committee's report and we are particularly pleased to see the Committee's support for the devolution of power and budgetary control to local authorities and communities. We believe greater local control is the most effective way to enable long term, sustainable economic growth and improve people's quality of life.

We appreciate the recommendations of the Committee and the evidence provided to the inquiry.

Response to the Committee's Recommendations

Recommendation 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.

DfT response

Transport investment can directly increase productivity if efficiency improvements allow firms to produce more output with the same resources. Transport improvements can also improve labour market efficiency by increasing firms' access to pools of labour. New transport links can bring firms closer to other firms and workers operating in the same industry, generating additional productivity benefits. Transport investment allows businesses to increase production by exploiting new markets, bringing cost advantages. In addition, transport investment provides opportunities to access new customers and attract new investment. Increasing productivity benefits the country as a whole and improves the competitiveness of UK PLC.

For example, High Speed 2 (HS2) could improve competitiveness and support economic growth by transforming connectivity – through enhanced capacity, reduced journey times and improved reliability – between Britain's major urban centres, where high levels of productivity and innovation are located. It would improve access to the London and South East markets for businesses based in the Midlands and the North, and provide a direct

¹ HC 473, published on 2 March 2011

connection to Heathrow from these regions, enhancing their attractiveness to international investors and their access to international markets. HS2 could also improve connectivity between the largest conurbations of the West Midlands and the North. This would promote economic specialisation and competition, as well as helping to widen labour markets and customer bases. By increasing the potential of these cities to act as a counterweight to the economic strength of London and the Southeast, HS2 could make a significant contribution to closing the North-South prosperity gap.

As well as enabling access to work, transport offers significant direct employment and economic opportunities through the development, manufacture and application of new technologies and the construction and maintenance of infrastructure. For example, the first phase of HS2 alone would support the creation of around 40,000 new jobs, in the construction and operation of the new line and through the regeneration of urban areas around new stations.

To support economic growth across the country we are delivering transport projects in every region, with a significant amount of investment in both road and rail outside the South East. For example, over half of the strategic road schemes approved to start work before 2015 are in the North. This includes schemes on the M1 and M62 in Yorkshire and on the M60, M62 and A556 in the North West. Of the 11 major local transport projects approved, almost half of the £310 million funding the Department is contributing is for projects in the North.

Recommendation 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.

DfT response

The Government fully recognises the importance of the transport system to the UK economy, as shown by the Department for Transport's favourable settlement in the Spending Review. The impact of congestion, as identified by Eddington, is a priority as it damages both the economy and the environment. For example, roads operating above capacity have worse accident rates, and emissions are higher from slow-moving vehicles. This has costs in terms of injuries and deaths, increased journey times, unreliability, and costs to those particular locations with bottlenecks. Therefore, alleviating transport's negative impacts, including congestion, is a priority area of investment to enable the transport network to effectively support economic growth.

For example, as part of the £1.4 billion funding for new strategic road schemes up to 2015, three major bottlenecks on the strategic road network have been addressed. These are completing the dualling of the A11 between the M11 and Norwich; widening the A23 between Handcross and Warninglid on the route from London and Gatwick Airport to Brighton and the south coast; and construction of a dual carriageway to

replace the existing A556 route from the M6 into Manchester. These schemes will reduce congestion and add capacity to the network. In addition, our Managed Motorway schemes allow us to turn the hard shoulder into a running lane at busy periods, adding capacity to some of the most congested sections of the motorway network.

Recommendation 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.

DfT response

The Government agrees that, to obtain the maximum benefit from any transport investment, there needs to be close coordination with economic development strategies. However, we expect economic development strategies to be developed at a lower spatial level than national government. That is why the Government is committed to devolving as much funding and responsibility as possible to the local level, as well as radically simplifying funding streams.

The Government realises the vital importance of integrating the planned HS2 rail links with local economic development plans, and integrating stations with urban transport networks. The proposals for the initial London-West Midlands phase of HS2 reflect this. Old Oak Common and Birmingham Eastside are identified by the respective local authorities as sites with significant regeneration potential, and have extant development plans which new high speed rail stations would help to support. High speed rail stations can act as a catalyst to local development and attract new offices, shops, homes and leisure spaces.

Station options have also been drawn up with careful consideration given to opportunities for integration with existing and planned transport networks. For example, the Crossrail interchange at Old Oak Common would enable passengers to interchange between HS2, the Great Western Main Line, Heathrow Express and Crossrail. HS2 Ltd is continuing to follow this approach as it takes forward its work on route proposals for the second phase of the proposed network to Manchester and Leeds.

Recommendation 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.

DfT response

The Government recognises the vital contribution of our ports and airports to the economy and the Department has set out a number of actions relating to our international

gateways in the Business Plan (published in November 2010). The Government does not fund airport or port development, but our policies ensure a commercial and competitive environment for private industry to operate in.

We have one of the most competitive, adaptable and dynamic ports sectors in the world, which is very well placed to respond to a sustained upturn in international trade. Consents have been given for expansion at deep sea and feeder terminals around England for containers. Gauge clearance has been undertaken, with funding from Government and from ports, to improve rail connectivity. Ports are actively looking for opportunities to engage in the manufacture, assembly and maintenance of offshore wind turbines. Capacity exists to enable a flexible response to evolving patterns of demand for both liquid and dry bulks. Dover's application for a major terminal development is under consideration, and other terminals have capacity to accept new business. The National Policy Statement for ports, subject to Parliament, will be designated later this year. This will again underscore the vital importance of these international gateways to the national economy, as well as the increasing role they can play in domestic distribution.

The Government understands the importance of aviation to the economy and the Department's Business Plan set out our intention to create a sustainable framework for UK aviation. As part of this we have recently issued a scoping document, setting out the strategic questions we are seeking to answer to inform the draft policy framework, which we intend to publish for consultation in March 2012. During the policy development process, we will talk to a range of stakeholders to seek their views, and to ensure that the right balance is struck between the economic and social benefits of aviation and its environmental impacts.

Recommendation 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.

DfT response

The Department has set out its objectives for transport spending in the Business Plan. The Department's vision is for a transport system that is an engine for economic growth but is also greener and safer and improves quality of life in our communities. The Business Plan clearly sets out how we are going to deliver this, including the development of a new high-speed railway, tackling carbon and congestion on the UK's roads and promoting sustainable aviation.

On 27 April 2011, the Department published '*The Transport Business Case*', which explains our approach to producing business cases to support ministerial decisions. This approach ensures decisions are made taking account of all the relevant information set out in five cases, which is consistent with the Treasury Green Book. This model is used to assess whether schemes:

are supported by a robust **case for change** that fits with wider public policy objectives – the ‘strategic case’;

demonstrate **value for money** – the ‘economic case’;

are **commercially viable** – the ‘commercial case’;

are **financially affordable** – the ‘financial case’; and

are **achievable** – the ‘management case’.

The Department has a robust analytical framework, as set out in WebTAG, the Department’s website for guidance on the conduct of transport studies. This framework delivers consistent evidence to inform these cases, including the economic case via the Value for Money assessment.

As the Committee recognises, transport can play an important role in supporting and stimulating economic growth. The Government favours investment in schemes that demonstrate they play such a role.

In respect of local schemes, communities should be free to decide what their priorities are and will be able to set their budgets according to local – not national – priorities. For example, the move from twenty six grant streams to just four maximises local flexibility and minimises bureaucracy. The Government believes that this is the most effective way to increase the sustainability of local transport systems.

Recommendation 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.

DfT response

The Government agrees that local control of budgets leads to better social and economic outcomes. We are considering a more decentralised approach to prioritisation and decisions on major local transport schemes for future Spending Review periods. In considering how a more decentralised system will function, we will decide whether any changes should be made to the threshold. This has been £5 million for some time, and we welcome the Committee’s advice on this.

However, there is an immediate opportunity within the existing system for sub-national bodies to move away from lobbying central government about investment priorities towards acting as endorsers of local solutions. For example, sub-national bodies could, where affordable, mobilise part funding for schemes as well as being a valuable delivery partner. This potentially involves LEPs or groups of LEPs, together with other sub-national bodies, helping to choose and endorse major bids with realistic, well-evidenced comments on which projects might contribute most to future economic growth.

In addition, the Government is keen to promote locally important transport projects through the Regional Growth Fund, where these meet the objectives of the Fund and have been considered by the independent Advisory Panel.

Recommendation 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.

DfT response

The Department appreciates that smaller-scale transport schemes can be very high value for money, encourage growth and reduce local carbon emissions. We are providing over £1.3 billion over four years through the Integrated Transport Block for small transport improvements, which is crucial to helping local authorities improve road safety and stimulating local economies by reducing congestion. The Government believes that effective sustainable local transport is best delivered by solutions developed at a local level and tailored towards the area they serve.

The Local Sustainable Transport Fund (LSTF) will support packages of small scale measures identified by local authorities to address the particular transport problems in their areas. In deciding how best to rationalise resources, we expect authorities to consider their future staffing needs to ensure continued support to sustainable travel initiatives.

The LSTF replaces the five previous grants for sustainable travel, simplifying the funding structure and increasing local control. Total capital and revenue funding available through the Local Sustainable Transport Fund are below.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m
Local Sustainable Transport Fund	80	140	160	180

In 2010/11, the following sustainable transport grants were provided:

Grants	£m
Cycling/school travel	63.5
Urban congestion	12
Smart ticketing	10
Green bus fund	11
Other bus challenge grants	1
TOTAL	96.5

This shows that, over the spending review period, there is a significant increase in funding provided for sustainable transport².

The Department understands the importance of maintaining the strategic and local road network. We will spend on average £700 million per annum over the next four years on maintaining the strategic road network³ in a safe and serviceable condition. This is a substantial cost reduction on the previous average annual spend of over £900 million and is contributing to the restoration of the public finances. This will be achieved through improved commercial and asset management, reviewing maintenance technical standards and looking at where and when less costly forms of maintenance activity work can take place.

Despite a tough public spending climate, we are allocating £3 billion of capital over the next four years for local highways maintenance (outside of London). In recognition of the abnormal damage caused by the exceptional winter weather at the end of 2010, we have allocated £200 million of extra resource funding to local highway authorities in England. However, it remains the responsibility of local highways authorities to ensure their highways are well maintained. We are also providing £6 million over the next two years to assist authorities in delivering highways maintenance more efficiently and effectively in the longer term.

Recommendation 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.

DfT response

Economic appraisal is an important part of the Department's decision making process. However, it is only one part. Decisions are made with reference to all five parts of a business case – the strategic, economic, financial, commercial and management cases.

The Benefit to Cost Ratio (BCR) summarises a lot of information in a single metric that lends itself to the comparison of proposals. However, it should be remembered that a BCR only captures those impacts that are amenable to quantitative analysis and monetisation, and obscures the detailed trade-offs that are being made within its calculation. As such, it can be a useful device for a first comparison of many different proposals, but not a substitute for a more detailed consideration of the impacts or, indeed, reasoned discretion when making decisions.

The Department shares the Committee's view that the economic appraisal process should be as robust and widely-accepted as possible. We independently review new appraisal methodologies and provide at least three months for users to comment on new guidance via our WebTAG website. We recognise that this process plays an important role in ensuring that the guidance is rigorous and as widely accepted as possible, and have

² Figure includes grants which reflect the aims of the fund, although the precise definition of sustainable transport funding will be open to some interpretation

³ The strategic road network comprises England's network of motorways and major A roads.

therefore safeguarded the resources required to manage the process in our Departmental restructuring.

Recommendation 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.

DfT response

The Department's appraisal process has included an assessment of regeneration benefits since 2003, although we understand that the current title of the WebTAG units ('Wider Economic Impacts') may have caused some confusion. We have re-titled the units, to ensure that it is clear that they address the analysis of regeneration benefits, as part of a recent set of changes to the guidance.

We will continue to keep developments in all aspects of appraising economic impacts, conventional and wider, regeneration and additional, under review and develop our guidance accordingly.

Recommendation 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.

DfT response

As the Committee recognises, the Government has made a clear commitment to transparency. We have already improved transparency by publishing the business case information used to prioritise Highways Agency and Local Authority major schemes in the Spending Review.

'*The Transport Business Case*', published on 27 April 2011, clearly describes the approach followed by the Department and ministers when making major investment decisions. As explained above, WebTAG sets out the methods and assumptions used when conducting transport studies.

Recommendation 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.

DfT response

The Government acknowledges the need for coordination at a spatial level higher than individual local planning authorities on strategic issues, such as sub-national transport planning. However, we are committed to ending the top-down decision making which ignores the specific needs and behaviour patterns of local communities. We believe that groups of LEPs, covering appropriate sub-national geographies, are well placed to work together on strategic transport issues.

The Department is facilitating thematic LEP groups on international gateways and local transport schemes. The Government is also looking at the options to devolve decision making and prioritisation of transport schemes to local areas, including to LEPs or consortia of LEPs.

There are already emerging examples of LEPs working together on strategic transport issues. For example, in the West Midlands, Centro is promoting the development of an integrated transport strategy across three LEPs: the Black Country, Birmingham/Solihull and Coventry/ Warwickshire.

Recommendation 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.

DfT response

The recent national LEP summit, which was hosted by the Prime Minister and the Deputy Prime Minister, considered how best to take forward current and future infrastructure needs for growth, including transport. The Government is committed to considering how best to incentivise partnerships of LEPs to come together in consortia to reach the geographical critical mass needed to advise and decide on strategic transport priorities.

The Department is working closely with BIS and DCLG to ensure transport considerations are fully integrated into LEP activity, recognising its critical contribution to economic

growth. DfT, DCLG and BIS recently held a joint infrastructure delivery and growth seminar with LEPs.

The Department is engaging directly with LEPs in a coordinated way with other local partners, through its newly established hub teams. The Government remains keen for LEPs to begin to engage with local transport prioritisation immediately for the current Spending Review period. As set out in the Local Transport White Paper, the Department will also be seeking to work directly with a small number of LEPs to agree a joint approach to tackling the worst congestion hotspots in the major urban areas.