

EMBARGOED UNTIL 1 AM 21ST SEPTEMBER 2010

THE CASE FOR TRANSPORT INVESTMENT: A REVIEW OF SOCIAL COST BENEFIT ANALYSIS

Overview of Problem:

Britain faces an age of austerity. Investment in roads and railways is going to be cut. How can both government and electorate be sure that projects which do survive are worth while? With the House of Commons Select Committee beginning an inquiry into Transport and the Economy and the Government's Spending Review due in October, the time is right to seek answers to that question.

A Discussion Paper (1) published today by the **Independent Transport Commission (ITC)** identifies the problems and points the way ahead.

The ITC believes that transport is *good* at showing returns on investment. The combination of stringent tests prior to spending, and before-and-after measurements of delivery means that the Treasury can be confident every penny spent on transport earns good returns. This strong sentiment led to this Occasional Paper on **Social Cost-Benefit Analysis (SCBA)**, the current method of spending appraisal.

The Strength of Transport's funding case:

Social Cost-Benefit Analysis came into transport in the 1960s, to appraise spending on road building. Today it is used for all transport investments in excess of £5 million and many smaller scale local investments. The basic principles underpinning SCBA have not changed: it measures what we deliver to society in return for expenditure on transport.

Unlike other spending areas, transport currently only claims as 'benefits' those things directly part of transport – such as increased revenues, reduced costs, reduced accidents, and travel time savings. All those extra impacts which transport schemes have on jobs, education, health, society count as "below the line" in transport, but they are often included "above the line" in other spending areas.

This rigour often means that Transport investment plans understate benefits that other Departments would overstate. In the October review, therefore, it is critical that Treasury demands the same rigorous analysis in other spending areas.

Opportunities for Improvement:

The UK has a well-developed methodology for SCBA and strong expertise in its application. That said, the **Independent Transport Commission** proposes improvements to the SCBA method: better consideration of non-monetary impacts; greater room for citizen-led prioritisation of policies; more explicit risk assessment around forecasts given their long timescale, and an audit trail between the value-for-money assessment and political decision-making.

Recommendations:

What should be done? The ITC recommends:

- In the *short term*, the following aspects of the technique should be reviewed.



- i. Carbon savings should, given the difficulties of monetising their effects, be assessed on a least-cost rather than a benefit-cost basis.
 - ii. As not all time savings have the same value and as they are sometimes used as proxies for local spending and increased employment, they need reconsideration.
 - iii. The costs and benefits of transport investment differ depending on social group and geographical area. Recent developments in mapping social and local transport impacts should be used.
 - iv. Given the prospect of cuts, cost-benefit analysis should be adapted to deal with infrastructure contraction as well as expansion. For example, the narrow terms used by Dr Beeching to decide railway cuts in the 1960s failed to recognise the varied impacts of closure.
- In the *longer term*, transport appraisal needs to be subject to a root and branch review that would incorporate approaches used in other industries and countries. The current moratorium on major schemes presents a unique opportunity to undertake a fundamental review without prejudicing investment.

Given this context the ITC urges the Government, the transport industry and the academic world to open a debate on transport appraisal methods. This paper is intended to set that debate in motion and so promote better decision making.

NOTES FOR EDITORS

1. This ITC Discussion Paper began to take shape on 17 June 2010 at a debate led by Professor Andrew McNaughton of High Speed 2, Professor Stephen Glaister of the RAC Foundation, and Elizabeth Gilliard of London Underground. The meeting was chaired by Willy Rickett CB and a summary of it is available on the ITC website [http://www.trg.soton.ac.uk/itc/itc_discuss_100617.pdf].

The paper, called *The Benefit, or Hidden Costs, of Social Cost Benefit Analysis*, was co-written by a steering group led by Professor Peter Jones. Dr Greg Marsden, William Tyson OBE and Simon Linnett contributed. It will be put on the ITC website later today.

2. The Independent Transport Commission was Britain's first transport and land use think tank and founded in 1999. It has ten unpaid Members, a part-time Secretariat, and enjoys links with the Universities of Southampton and Oxford. The current chairman is Simon Linnett, vice-chairman of N.M.Rothschild & Sons. The ITC is a charity funded through private donations. Its chief sponsors are Go-Ahead Group and Stagecoach.

Contacts

Matthew Niblett, Secretary: mobile 0781 317 4582, email: matthew.niblett@keble.oxon.org

Members of the ITC

Alan Baxter, Kristine Beuret OBE, Mary Bonar, Leon Daniels, John Dawson, Elizabeth Gilliard, Nigel Hugill, Professor Peter Jones, Simon Linnett, Dr Gregory Marsden, William Tyson OBE

