



INDEPENDENT TRANSPORT COMMISSION

Britain's independent research charity for transport and land use policy

www.independenttransportcommission.org.uk

Response to the Independent Review of Infrastructure Inquiry led by Sir John Armitt

Call for Evidence Submission

January 2013

Introduction:

The Independent Transport Commission (ITC) was founded in 2000. It was created in response to the establishment by the Government of the (now defunct) Commission for Integrated Transport (CfIT), in order to meet the need for a politically neutral body that was not reliant on the public purse. Today it remains the only independent pan-transport research charity/think tank investigating the full range of related transport, travel and land use issues. Its Commissioners represent the broadest cross-section of expertise from across the sector, including transport providers, academics, ex-civil servants, former politicians and consultants.

The ITC is funded through charitable grants provided by a broad cross-section of the transport and land use firms active in the UK, but are independent of any direct influence from our sponsors. The ITC is not a lobby group, and maintains through its research work a very active and constructive dialogue with Government and representatives of all political parties. This reflects our belief that major transport and infrastructure issues are usually apolitical, and that the key to solving such challenges is to develop cross-party consensus.

As a reflection of the reputation that the ITC has earned, we have been privileged to welcome addresses from the four most recent Secretaries of State, starting with Lord Andrew Adonis (now a patron). In addition we have enjoyed dialogue with Shadow Ministers, including Maria Eagle MP who spoke to us in Summer 2012. This interaction is reinforced by good dialogue with leading officials in Whitehall.

We conduct our debate/interactions with industry and Government through specific major research projects (sometimes co-sponsored with other independent organisations) and also through discussion groups. For further information on our current portfolio of work, discussion events, past reports and our membership please visit our website on www.theitc.org.uk

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Independent Armitth Review of Infrastructure

Independent Transport Commission (ITC) Submission

1. Overview:

The ITC believes that there is a clear need to develop better decision making for the purpose of long-term strategic infrastructure planning in the UK. We therefore very much welcome the discussion introduced by the Independent Armitth Review of Infrastructure, and are keen to contribute towards the thinking in which it is engaged.

As a research charity the ITC is not involved in the funding or delivery of transport infrastructure, but our role is to inform and stimulate thinking on this and similar questions. We are pleased therefore to make this submission which, it should be noted, reflects the view of the ITC and not those of our benefactors.

We believe that the challenge of developing a consistent strategy in our transport planning has been a major barrier to development. The ITC understands that longer-term transport and infrastructure planning are usually issues that should be above party politics, and that the key to solving such challenges is to develop cross-party consensus. As a result, we believe a body of the type described in the form of an Independent Infrastructure Commission (“IIC”) could, properly constituted and authorised, play a useful role.

In this submission, therefore, we will focus on aspects of the Call for Evidence where we believe we have particular insights to offer. First, we will provide perspectives from our own position as an independent commission on the role and remit of the proposed IIC, and thereby explore the issues raised through Section 3 from the Call for Evidence. Secondly, we submit as an Appendix reports from our recent Discussion Events on value-for-money and the appropriate ownership structures for UK infrastructure, which provide observations relating to a number of the remaining questions in the Call for Evidence document.

2. The proposed Independent Infrastructure Commission:

The Call for Evidence asks what kind of institutional structure supports long-term strategic decision making, and proposes an Independent Infrastructure Commission (IIC). This is of direct interest to the ITC, which was created as an independent commission to explore longer-term transportation issues and strategy.

To address the questions surrounding the proposed IIC, we have collected our thoughts under the following heads: the areas the body should cover; its competence/remit; the most suitable constitution for the body, and how it can achieve a durable consensus.

2.1 Coverage

The Call for Evidence asks what coverage the proposed IIC should include, and what factors it should consider. From the perspective of the ITC, and given our experience in the transport field, it is our belief that any attempt to cover this area must recognise the need to develop an integrated approach that envelops the interrelationship between the full breadth of transport, technology and land use issues. A lesson from the Infrastructure Planning Commission (IPC) was that transport infrastructure has to be considered broadly in order that, for example, road and rail routes for freight can tie in with our main distribution centres. Other examples include:

- Our recent co-sponsored research report *On the Move: Making Sense of Car and Rail Travel Trends in Britain* and our *Long Distance Domestic Travel* study suggests that changing patterns of behaviour have consequences that result in impacts across many modes of travel. We are also seeing evidence that connectivity is now as much about technology as it is about physical movement.



- One of the key debates about the future of our aviation infrastructure is the importance of providing good surface access to any expanded airport and the issues of investment, congestion and air pollution that this raises. Such concerns demonstrate the need to consider all modes of travel when we plan transport infrastructure, and the unintended consequences of such planning. The ITC will be drawing out many of these connections in our initial submission to the Davies Commission in March 2013.
- We must consider the effects of transport infrastructure on the shape of our economy and built environment. The land use consequences of poor transport infrastructure planning can result in social, environmental and economic damage. The ITC believes it is essential to integrate these aspects: for example, our study into the spatial effects of High Speed Rail is considering how proposals will affect the economic geography of the UK and what needs to be done in planning terms so that any investment can deliver best value.

We believe that it is essential that any IIC which has transport as part of its brief must also have visibility over related land-use issues. While it might be possible to create a single IIC with a remit over all infrastructure, just as for economic regulators, we see less need for one body to be all-embracing. There may well be merit in considering a number of IICs that each have broad sectoral overlap with the utility economic regulators: for example, Postcomm, Ofgem, ORR/CAA and Ofwat.

2.2 Competence

In the Call for Evidence it is asked what the remit of the IIC should include. We do not believe that it is realistic to expect that an IIC should ever take decisions on specific projects. For reasons of accountability, this has to be ultimately the responsibility of our politicians.

- It should ensure that the framework for judging projects is robust. As an example the ITC's co-sponsored research into road and rail travel trends may well influence the way in which forecasting models are constructed and evaluated (both in terms of their accuracy and their role in justifying projects). The Sir Howard Davies' Aviation Commission, to which we are contributing, has a similar role.
- If its competence includes transportation, it should look at the effect of long term "externalities" on the sector. These issues are often neglected or downplayed in conventional appraisal due to the difficulty of measuring their effects. Such externalities might include the potential of new energy technology, the effect of an ageing population, or the costs and impacts of a tax on CO₂ emissions if implemented across the transport sector.
- The IIC should also be encouraged to have views on the way in which transport infrastructure is constituted, and the appropriate models for ownership (whether through public ownership, a Company Limited by Guarantee, and/or the private sector). Please see Appendix 2 for further comments arising from ITC discussions.

We would urge the Review to consider proposing a Commission that is encouraged to seek collaborative understanding between industry and government in relation to transportation needs and key decisions.

2.3 Constitution

A number of factors need to be taken into consideration when determining the best constitution for the proposed IIC. These include the length of its tenure, the breadth of its coverage, and the powers it might be given. It might be presumed that an IIC would need to be constituted as a government-sponsored entity. We question whether this is optimal for a permanent body (rather than, as with the Howard Davies Commission, for a temporary and single-issue organisation) since the temptation could be to become captured by the political agenda, thereby losing public confidence. The only way of resisting such a challenge is to embody

a defined output from a government-sponsored commission (as seen with the Monetary Policy Committee) but, under this model, the Committee has the power to set our interest rates. We do not believe that politicians are likely to delegate to any such body the ability to make decisions that could have local impacts, including on MPs directly.

If a Commission is to have a real impact on the way in which transport is continually evaluated and re-evaluated we suggest that the ITC's constitution has some lessons:

- We have to be of relevance to the totality of the transport industry
- We have to be listened to by Government or risk losing our support. In practice that means developing a constructive (but not uncritical) dialogue, which seeks consensus and provides robust analysis.
- We have to be robustly independent of political interference or risk losing our legitimacy.

The other model to consider might be the Environment Agency which interprets European legislation into the UK water sector, but, with the exception of Thames Tideway, its latitude tend to be limited and it has limited responsibility for establishing consensus (see 2.4 below). What seems clear is that the role proposed cannot be the responsibility of an economic regulator.

2.4 Consensus

The ITC believes it is vitally important that the IIC is capable of attracting consensus for its work and findings, not only across party political lines but also from across the industry. We believe it will be necessary for the IIC therefore to develop a sound understanding of the views of the industry, politicians, and of the public. The ITC, for example, has taken the view that the key to building consensus (including political consensus) is to depoliticise some of the decisions and to use good analysis to both understand and answer concerns in order to address these with robust analysis. This is reflected in our research work, where we pay attention to public attitudes and acceptability dimensions of key challenges. Consultation work with the public and stakeholders is underway across three of our research projects, on changing road and rail travel trends, on reform of road user charging, and on the local and regional impacts of High Speed Rail.

2.5 Conclusions

These reflections stem from the experience and philosophy of the ITC. We offer the following conclusions on the role and remit of the proposed IIC:

- The principle of creating an IIC to enable better long-term infrastructure planning in Britain is sensible, and we welcome the opportunity to advise on its remit and role.
- Transportation infrastructure is probably a sensible remit for an IIC, but it must be considered in an integrated way such that it recognises the breadth of the issues involved, and its interrelationship with the issues of land use, planning, and socio-economic change.
- We do not believe that the IIC can take over the decision-making role of politicians.
- But we do believe it could have an important role in drawing together different stakeholders and building consensus, including political consensus.

Simon Linnett
ITC Chairman
28 January 2013



APPENDIX 1:

How can we obtain better value for money from Britain's Transport Infrastructure?

ITC Report from Discussion Evening, 30th January 2012

In an age of austerity it is increasingly apparent that Britain needs to extract better value for money from her national transport infrastructure. How can we affordably build and maintain networks that will serve our transport needs in the coming decades? What changes are needed to improve the cost-effectiveness of our infrastructure? And what lessons can we learn from the way other nations build their networks? In the light of a number of recent reviews of our national transport infrastructure the ITC hosted an expert Discussion Evening on 30th January 2012 to investigate these questions.

The event welcomed more than 40 senior experts from the worlds of finance, engineering, infrastructure provision, transport operations, consultancy and the civil service. The discussion was chaired by Steven Norris, ITC Commissioner and Chairman of NIPA. Leading the discussion was a highly distinguished panel comprising: **Alan Cook CBE**, Chairman of the Highways Agency; **Andrew Wolstenholme OBE**, Chief Executive of Crossrail; and **Andrew Rose**, a partner at AgFe and former Chief Executive of Infrastructure UK. **Dr Heiner Bente**, Chairman of the advisory board for the German consultancy group Civity, offered a response from a European perspective.

Key issues raised by the speakers:

- Alan Cook argued that **long-term planning is critical if we are to improve the cost-effectiveness of our transport infrastructure**. He highlighted a number of areas where this should be applied in the strategic roads network, including the development of a clear, outcome-based network strategy for at least a 5-year period and the need for greater permanence within the decision-making leadership. These issues were reflected in his recent green paper calling for a remodelling of the Highways Agency.
- Alan Cook noted that, in the case of the road network, the public should be encouraged to use the network more cost-effectively. In order to do so, there needed to be a greater strategic focus on the needs of road users in order to prevent over-delivery of services. **It is crucial that infrastructure agencies understand what needs to be delivered.**
- Andrew Wolstenholme suggested that many **value for money issues were interchangeable across the infrastructure field rather than mode specific**. He highlighted the need to achieve the correct balance between the Client/Sponsor, the Owner/Operator and the delivery partners in the supply chain. Where there were multiple sponsors of a project it was particularly important that their strategic visions were aligned.
- Andrew Rose focused on **the need to think carefully about procurement models, particularly where infrastructure development involved both public and private sector stakeholders**. He noted it was important that strong procurement teams in the private sector were matched by equally competent and skilled teams from the public sector. Inefficiencies were caused by having too many procurement teams.
- Heiner Bente responded by noting that most national treasuries struggle to comprehend the long-term planning necessary for building and maintaining infrastructure. However, he argued that the situation was improving in Britain, observing that Network Rail was diminishing the efficiency gap between the UK and European rail networks.

Discussion Issues:

1. **Streamlining the supply chain.** Guests drew attention to the cost-inefficiencies that were incurred by using long chains of subcontractors. One problem was that contractors often had no certainty over workload, having been poorly guided by project sponsors. Infrastructure Ontario was raised as a good example of the efficiencies that could be obtained by using a single, highly skilled, infrastructure sponsor, capable of offering good guidance to contractors.
2. **Long-Term Vision.** Some attendees highlighted the need for a holistic infrastructure vision that looked a generation or more ahead. The example of the Spanish rail network was offered as an illustration of the way in which visionary planning could transform national infrastructure. It was noted that one of the key obstacles facing such visionary planning in Britain was a media culture geared towards the short-term public response to infrastructure proposals.
3. **Developing better procurement skills.** Some participants suggested better procurement skills were needed within the public sector in order to ensure that taxpayer money was spent wisely. It was suggested that the civil service should move some of its emphasis away from policy expertise towards delivery skills.
4. **Value for money has a social dimension.** Concern was expressed that ‘value for money’ should not only be interpreted in economic terms but should also embrace social aspects. In this respect, guests noted that there was a need for social impact analysis as well as cost-benefit analysis when developing infrastructure schemes.
5. **The problem of consensus.** It was observed that one of the reasons why Britain struggled to meet long-term infrastructure challenges was an obsession with achieving public consensus. Some argued that the resulting indecision, causing major infrastructure projects to be delayed or indefinitely postponed, resulted in higher economic costs later. The lack of finalised national policy statements on subjects such as energy and aviation was symptomatic of this problem.
6. **UK infrastructure can be innovative.** Some participants stressed that we should be alive to the ways in which Britain does provide value for money through its infrastructure. The road network was highlighted as an example, with many projects embracing innovative technologies, while aspects of the procurement process were also less cumbersome than in other nations. Furthermore, the UK had in many cases pioneered the involvement of the private sector in the building and maintenance of national infrastructure.
7. **Smaller infrastructure issues are also important.** It was noted that to achieve widespread efficiency savings small and medium scale schemes required attention as well as the largest infrastructure projects. In the Highways field, for example, improving the efficiency of maintenance schemes such as line painting could significantly reduce costs.

Further work: It is apparent we face a number of structural problems obstructing the delivery of a fast, efficient programme of investment in major transport infrastructure projects in the UK. These include: different private/public ownership models across our transport sectors; inconsistent public procurement procedures; skill shortages when handling contractual negotiations with the private sector; and a planning system that exercises a unique drag on the speed of decision making. Nevertheless, the Government is heavily committed to a growth strategy and is working hard to remove barriers to infrastructure investment. The ITC’s future programme will include research investigating how to overcome these obstacles and achieve the progress needed to realise these objectives.

APPENDIX 2:

Different models of ownership in UK Transport: do they matter?

ITC Report from Discussion Evening, 9th July 2012

The ongoing liberalisation of the UK's transport industry has seen the emergence of a wide range of ownership models across the sector. These range from the PLC shareholder model increasingly used by many operators, to control by private equity groups, public ownership, or the use of a regulated company limited by guarantee. The jury is out on how these various models affect the running of our transport networks, and which have best served users and stakeholders. With fresh changes in ownership being mooted in the light of a number of recent reports the time is ripe to consider how and why these different ownership models matter. In response to these developments the ITC invited leading figures in UK transport to debate the question of models of ownership at a discussion evening on 9th July 2012.

Simon Linnett, ITC Chairman and an Executive Vice-Chairman at Rothschild, chaired the evening, which involved more than 50 leading experts. Delegates listened to a distinguished panel representing the four main modes and comprising: **Graham Dalton**, Chief Executive of the Highways Agency; **Paul Plummer**, Group Strategy Director at Network Rail; **Patrick Walters**, Commercial Director of Associated British Ports; and **Roger Maynard**, Special Advisor to International Airlines Group.

Different models of ownership in UK Transport: Issues highlighted by the speakers:

- The **Government Agency model** is currently used to operate the Highways Agency, which manages the strategic road network. The road infrastructure is Crown property and maintained out of public funds: aspects that have been used to justify full public ownership. Disadvantages associated with this model include a fluctuating capital budget, limited regulation over spending, the need to cope with frequent changes in government policy, and challenges in creating the right incentives to attract talent. Advantages of the model highlighted include the benefits arising from consistent management over the entire strategic network, lean overheads as a result of the ability to source expertise from elsewhere in Government, and fewer perverse incentives that might otherwise arise from the need to pursue profit.
- The model of a **regulated Company Limited by Guarantee** is currently used to run Network Rail, which owns and operates Britain's rail infrastructure. This runs as a not-for-dividend company, with members instead of shareholders, and benefits from financial indemnity provided by the Secretary of State for Transport on behalf of the UK Government. The unusual nature of the model was highlighted as a response to the peculiarities of a national infrastructure monopoly, and it was stressed that this was a model open to evolution. Advantages included very strong capital raising powers due to Government backing, as well as the ability to plan for long-term investment. Disagreement existed over whether the model provided enough incentives to attract talent, however, and also whether the membership structure was effective at holding the executive to account. Nonetheless, the model offered the possibility of evolution along a number of routes, including devolving responsibility, introducing more contestability, and the use of a more streamlined membership giving oversight.
- The **Private Limited Company** model was discussed in the context of UK Port groups, about half of which now were owned in this way, including ABP. The suitability of the model for Ports ownership was emphasised, matching the need for long-term capital planning and providing good

governance in a sector that is largely free from central government interference (other than being subject to Statutory controls). Many of the advantages of this model were noted, including the benefits of having long-term investors when planning strategic capital spending. This not only avoided short-termism when making investment decisions, but also provided confidence when raising capital from the debt markets. The model also ensured good governance, with its few shareholders taking a much closer interest in the workings of the company than was often the case with a public company.

- The use of the **Public Limited Company model** was becoming commonplace among airlines, and it was noted that BA had led the way in this respect after privatization in the 1980s. The widespread practice of government ownership, it was argued, had led to significant inefficiencies, including overcapacity and restrictive practices. The profitability of BA after privatization showed that a PLC model could deliver greater efficiencies, and this model was later followed in much of Europe. Such a model was particularly suitable for the airline industry, where carriers are replaceable and operate in a very fluid corporate environment. It allows for mergers and acquisitions to take place across national boundaries in a way that would be very difficult if the carriers were publicly owned. Nonetheless, there were drawbacks to the model, including the problem of short-termism and the whimsical behaviour of shareholders. It was notable that the advantages of the model had often been more apparent to customers, who had benefitted from lower air fares and much greater travel choice, than it had to shareholders, who had only seen modest appreciation in share prices.

Key Themes raised in Discussion:

1. **The source of funding is critical when determining the best ownership model.** Attendees noted that there was a correlation between funding and ownership. It was normally taken as given that public subsidies to an organization make a strong degree of public ownership necessary in order to achieve taxpayer accountability. The use of charges and fares to raise revenue allowed more flexibility, though often these practices were seen by governments as requiring a degree of regulation.
2. **The level of risk is also a key factor in determining the best model.** Some guests argued that the level of risk associated with the largest infrastructure projects was often too great to be absorbed wholly by private sector shareholder companies. In these cases some degree of government guarantee or involvement was often necessary in order to raise sufficient capital.
3. **A good model will have incentives to attract and keep talented people.** A number of attendees noted that in order to deploy capital and expenditure effectively it was essential to have skilled and talented people to running the organization. Creating the right incentives to attract and keep such capable people is therefore a critical test of any ownership model. Too tight a regulatory regime can limit such incentives.
4. **We should not forget the importance of customer benefit.** Some guests argued that the customer dimension required more much attention when analysing the effectiveness of ownership models. Customer needs differed depending on the type of asset in question. Private ownership in the airline industry, for instance, had delivered strong customer benefits in the form of lower fares and greater choice. However, public ownership was well placed to provide access and services where otherwise they would be uneconomic, such as transport in remote areas.
5. **Competition almost always helps to improve efficiency.** The importance of competition for

driving down costs was stressed by a number of guests. Some suggested that the reason that the cost of building infrastructure had not reduced over time was due to the lack of competition inherent in the ownership models used.

6. **We should be aware of the impact of global investment on ownership.** Several delegates noted the importance of foreign investment on UK transport ownership. It was very difficult to get public bodies to co-operate internationally, but private ownership models had opened the door for substantial capital investment from overseas. One concern mooted was that foreign ownership reduced public accountability and diverted research and development to locations outside the UK. On the other hand such ownership brought the advantage of exposure to a broader range of management cultures.
7. **We should distinguish movable assets from fixed assets when determining the most appropriate model of ownership.** Organisations involved with the operation of movable assets, such as airlines or train operating companies, are usually replaceable, and are therefore better suited to forms of ownership that are directly subject to market forces. Where infrastructure assets exist in a competitive market with feasible alternatives, as often occurs with ports and airports, this is also the case. However, fixed assets in sectors where natural monopolies operate, such as the rail and road infrastructure, require different models, often with a stronger degree of public ownership.

The **Independent Transport Commission (ITC)** is Britain's leading think tank and research charity devoted to the fields of transport and land use. If you would like to support our important work, or find further information about our activities, please visit www.theitc.org.uk.

