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'Driving economic recovery – tackling barriers to growth on the road network'

Speech for Highways Term Maintenance Association 4th Annual Conference, *Facing*

the future in hard times

Wednesday 6th April 2011

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Embargoed until 12.30 Wednesday 6 April 2011

The Chancellor's Budget speech a fortnight ago aimed to inject "fuel into the tank of the British economy."

An apt choice of words.

Movement on our transport network, and particularly roads, which carry 80 per cent of journeys in the UK,¹ is not just a bellwether of economic activity. It's a driver for economic growth.

The Chancellor's plan for growth sees a renewed focus on manufacturing, with Britain carried 'aloft by the march of the maker'.

But in my mind success depends much upon how quickly and how efficiently we can move goods and people to and from our cities, and from factories in the UK to markets far afield.

The CBI speaks for businesses from all sectors and across the different regions and nations of the UK, and our view is clear.

¹ RAC Foundation analysis

To ensure the private sector can pick up the slack from reduced government and consumer spending, and to create jobs, it needs confidence in the UK as a place to invest. A world-class transport network, supporting a world-class logistics sector, will help provide this confidence.

The direct return on investment in our transport infrastructure in terms of jobs and growth is considerable. Analysis commissioned by the CBI and the UK Contractors Group shows that every £1 spent on major construction projects delivers GDP growth of close to £3.²

And, long term, improved efficiency in our transport networks boosts the bottom line of companies in all sectors, for whom transport costs account for between five and ten per cent of total expenditure.

But we're some way from the goal of a 'world-class' transport network. In large parts of the UK, and especially at peak times, the network is saturated.

Congestion on our roads in particular is a brake on British business, as freight deliveries, commuters and business travellers lose time stuck in traffic.

² LEK analysis (December 2009) commissioned by the CBI and the UK Contractors Group

The costs aren't just measured in frustration.

It's estimated UK business loses £8bn a year as a result of road congestion, a figure set to double by 2025.³

Journey time reliability for freight and for passengers was identified as the 'number one' priority issue by businesses in our 2009 report on transport networks, and 85 per cent of our members say poor reliability damages their productivity.⁴

So when the network fails to deliver, it hits business hard.

A year ago the CBI published a new report called *Tackling Congestion, Driving Growth*, looking at the impact of road hold-ups on the UK economy – and how we can reduce them.

Since then, much has changed.

We have a new coalition government.

And we've had an emergency Budget and a Spending Review to put us on a path to fiscal health.

³ Figures from the Eddington Review, cited in *Tackling Congestion*

⁴ CBI London Business Survey (December 2010)

In the run-up to that Spending Review, the CBI lobbied hard for public capital expenditure on infrastructure to be maintained, and we were pleased that significant levels of spending have been protected over the next five years.

And the Prime Minister launched the first-ever and very welcome National Infrastructure Plan at the CBI's annual conference in the autumn, which sets out a new vision for transport policy.

We've seen a green light for Crossrail, detailed plans for a new high-speed rail line, £18bn of investments in rail projects, changes to the infrastructure planning system and some movement towards a new strategy for aviation.

While we might not agree on some of the specifics, the government's commitment to action is evident.

There's one significant absence: roads.

Instead of a strategic vision, we have a policy of make-do and mend. While £200m of investment in tackling potholes is welcome and vital to fix roads up and down the country, it won't deliver network-wide improvements.

The lack of a vision is tying us to a roads policy that is tentative, unplanned and consistently falling short.

So I would like to address three things today:

One, what the CBI wants, in terms of a clear plan of action for the roads network.

Two, how we can attract private sector investment to pay for it.

And three, how we can bring road users on board – demonstrating value by ensuring reliable journey times.

What we want – a strategic vision for the road network

The government's Plan for Growth, published with last month's Budget, provides no such vision for the road network.

But we're very pleased the government has learnt from the long-term consequences of previous recessions and opted to protect capital investment in transport, with £30bn over five years, including £4bn for the Highways Agency to invest in strategic roads.

However, with road traffic likely to increase by a third by 2025,⁵ these spending commitments need to be accompanied by a clear vision for the major road network.

The CBI has supported a national policy statement for our road and rail networks that would do just this.

The fact that this statement is still sitting in a drawer in Whitehall is worrying.

We urgently need this to set out the missing strategy and give investors, supply chain operators and business users confidence.

⁵ Department for Transport, National Traffic Forecasts

Initiatives such as the 'managed motorway' scheme and the roll-out of charging points for electric vehicles demonstrate the value of a clear strategic oversight – approaching the network as a whole, with a focus on key objectives.

As planning decisions affecting roads could be devolved to a local level under plans in the government's Localism Bill, direction from central government has become more important than ever to establish long-term faith in the planning regime – and unlock necessary private investment.

So we repeat our call for a national policy statement for our road and rail network to be delivered as a matter of urgency.

But that's not all. We think the government should go further.

We also need to see an independent Highways Agency able to deliver better outcomes for road users and support private-sector investment in the road network.

The agency currently has limited strategic planning powers and no direct influence over its future outputs and funding.

Expected outcomes are subject to change year on year, the agency is unable to develop a long-term vision beyond an annual business plan, and funding streams are subject to uncertainty.

This must change if we are to convince investors and users that we have a coherent plan for our roads.

We have called for a Highways Agency independent of government, with fixed medium-term, output-based funding settlements.

Like other regulated utilities, this could help deliver certainty of funding and outcome over a fixed period.

The government has underlined its commitment to change with the appointment of an independent chair and with a review of the agency. And we welcome that.

But such 'first step' changes need to be just that, and should not stifle wider ambition.

We need to establish an agency that has the space, the funding and the security to think strategically, and to deliver long term.

How can we pay for it?

With public finances constrained we need to unlock private capital.

The road network pioneered public-private partnerships – through England's first 'turnpike revolution'.

In the 18th century, the dire state of England's roads alarmed travellers and had freight across the country literally stuck in the mud, with travellers complaining poetically of 'ponds of liquid dirt.'

This unlocked a wave of innovation, with public-private partnerships established to invest in good-quality roads, recovering their investment with revenue collected at turnpikes.

By the early 19th century, 942 turnpike trusts had been founded – with more than 22,000 miles of new roads. This private finance revolution transformed connections between Britain's cities, reducing travel times by more than two-thirds. It also unblocked the country's logistic arteries, reducing freight costs by more than 20 per cent and underpinning the industrial revolution.

Private sector capital can still provide a secure stream of long-term investment in the roads network – bringing with it the benefits of due diligence and financial transparency that guarantee the feasibility of projects.

It's already delivered many successful transport projects in the UK using a range of public-private partnership models, including PFI. And we believe these can continue to play a major role in modernising the road network.

We underlined their benefits in our report last year, and also strongly supported the expansion of tax-incremental financing schemes to fund local transport infrastructure projects, a welcome announcement in the Budget.

New models of smart procurement, delivered at scale, could also help drive the government's efficiency ambition of 20 per cent savings in highways projects, ensuring we get best value for money for public investment and attract private sector capital on good terms.

And while it's not all of the answer, road charging can form part of this picture – using tolls at a local level to allow additional investment in new strategic road links or in additional lanes at congestion pinch points.

So we need to open the debate on road charging. We need to discuss the issues openly, look at international examples and understand properly its impact on freight and passenger traffic.

The CBI has a long-standing view that road pricing has a role to play in tackling congestion, and together with the FTA and the former Commission for Integrated Transport, commissioned analysis of the business impacts of road pricing which concluded that such schemes could deliver net business benefits.

It is important that tolls do not place businesses – and particularly road-use intensive freight industries – at a disadvantage. But where is a clear business case for tolls, where they deliver significantly improved journey time reliability and associated cost benefits, we would support them.

International examples underline the benefits of such schemes, and offer lessons in how best to deliver them.

New toll charging motorway projects in Sydney, Australia delivered through public-private partnership models over the last 15 years have radically improved journey times on key cross-city routes, reduced emissions by up to a fifth with smoother traffic flows, outperformed traditional public works in keeping to budgets and deadlines, and produced economic benefits for the city measured in billions.

As we reform the system, we have to deliver value for users

So let's have this debate in the UK. We cannot continue to ignore the cost of inaction to the freight, logistics and commuter travel that underpin our economy.

Figures from the FTA show that since 1990 the volume of goods coming into the UK has almost tripled and domestic inland freight transport has increased by 21 per cent. This attests to a key growth industry in an increasingly mobile economy, but it also presents a unique challenge.

Eighty-three per cent of goods by weight transported in the UK are carried by road. Targeted road charging could be one of a variety of approaches to delivering a more efficient and better managed road network for users.

But only one.

We also support active traffic management schemes, including hard-shoulder running, and mechanisms such as the minister's innovative 'alternatives to travel' to maximise the potential for changing daily working patterns.

The benefits of such initiatives go beyond simply tackling congestion. They help us address another pressing issue on our transport networks: reducing emissions.

Business is up for this low-carbon challenge, whether this involves getting commuters and business traffic off the road through increased teleconferencing and flexible working, pioneering new low-carbon modes of getting freight to market, or promoting yellow school bus schemes to reduce the need for the school run.

There's clear potential here.

We need to build on this – to ensure we are making full use of all the tools at our disposal to unlock free-flowing, lower-carbon road networks.

We cannot afford to put off tough choices until tomorrow

So, to sum up, we need three things.

One, a strategic vision for our roads – starting with a National Policy Statement and a full review of the Highways Agency.

Two, the full potential of private capital and innovative finance mechanisms must be brought to bear to support investment in our roads.

Three, a clear look at how we can best deliver value for users. This needs to include an open debate on road charging, alongside other schemes to manage traffic more intelligently.

These are challenges we need to meet without delay, which makes today's conference very timely indeed.

Thank you very much.