

4.1 NATIONAL DECISION MAKING

WHAT'S NEEDED FROM THE NATIONAL DECISION-MAKING PROCESS

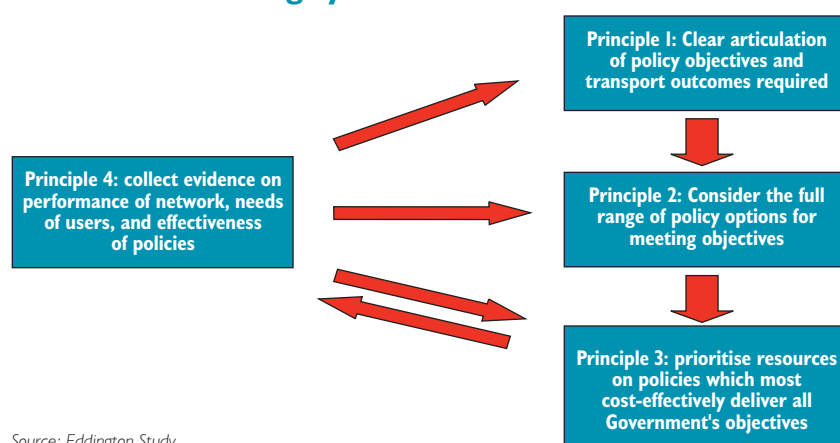
I.1 This chapter assesses how national decision making in England may need to develop in order to reflect the guiding principles that have been developed by this Study and concludes with recommendations as to how they should be implemented.

Principles for transport decision making

I.2 Chapter 1.4, Volume 1, considered what would be needed from the transport decision-making process to support productivity and growth, and set out four key principles that should form part of a transport strategy aimed at identifying and funding those policies which most cost-effectively deliver Government's objectives:

1. start with a clear articulation of the policy objectives, and the transport outcomes required to deliver these objectives, focusing where relevant on the 'whole journey' rather than particular stages or modes in a journey;
2. consider the full range of policy options for meeting the policy objectives, including different modal options, and policies for making more efficient use of existing capacity as well as small and larger scale capacity enhancements and packages of policy measures;
3. prioritise limited public resources on those policies that most cost-effectively deliver Government's objectives, taking account of the full social, environmental and economic costs and benefits of policy options; and
4. ensure the evidence base can support this process, providing information on the needs of users, current and anticipated use and performance of the network, supporting option generation through modelling and appraisal of options, and evaluating impacts to inform future decision making.

Figure I.1: Principles to inform transport decision making: the decision making cycle



Long term approach to decision making

I.3 It was also argued in Volume 1 that Government should develop a long-term framework for transport strategy, which identifies the pressures, opportunities and requirements from the transport system over a 20-30 year period, and which provides a measure of transparency about the Government's policy priorities and the way decisions about transport policies and funding will be made. There are a number of reasons why it is important to take a long term approach to transport strategy:

- the challenges facing transport policy are long term issues rather than short term problems;
- there are often long lead times involved in developing and delivering policies to address these long term challenges, and
- transport infrastructure lasts for many decades and it is important that long term requirements and risks are taken into consideration in the design of different policy options.

I.4 There will always be a balance to be struck between the need to provide certainty to businesses and other transport users about the schemes and policies that will be implemented, and the need to retain some flexibility to respond to changing pressures and opportunities and take account of emerging evidence on the effectiveness of different policies. On balance, transparency about the long term strategic framework and increased certainty about nearer term plans provide benefits to business and incentives for good decision making.

I.5 The rest of this chapter considers the extent to which the current system of decision making for transport links of national importance provides these dimensions of a long-term decision-making cycle. It then makes some proposals for future priorities, to further develop the national decision-making process to meet the challenges ahead.

I.6 This chapter focuses on decision making in relation to key inter-urban corridors and international passenger and freight gateways. The following chapter on sub-national decision making looks at how decisions are made in relation to the third strategic priority of growing and congested urban areas.

Principle 1: Start with a clear articulation of the policy objectives, and the transport outcomes required to deliver these objectives, focusing where relevant on the 'whole journey' rather than particular stages or modes in a journey.

Clear articulation of the policy objectives

I.7 The first step in the decision-making process should be to identify the policy goal or goals that Government, or other decision makers, are aiming to achieve. Government's overarching objectives are likely to include economic, environmental and social goals. Beneath these first order objectives, may sit more specific ones. This Study does not seek to specify what DfT's objectives should be, but it may help readers to provide illustrative examples of the types of statement that might be used. For, given economic goals, an objective of transport policy might be 'to support productivity and competitiveness through improving the performance of inter-urban corridors of strategic national importance, growing and congested urban areas, and key international gateways'. For given environmental objectives, another objective might be 'to reduce transport's impact on the environment through cost-effective measures to reduce carbon and air quality emissions'.

Current objectives and performance indicators

1.8 Government objectives are given expression in a number of ways, including in departmental Public Service Agreements, and the analytical frameworks used to guide decision making.

1.9 As part of its Public Service Agreement (PSA), the DfT has objectives to ‘support the economy through the provision of efficient and reliable inter-regional transport systems’ and to ‘deliver improvements to accessibility, punctuality and reliability of local and regional public transport systems’.

1.10 These objectives are underpinned by targets to improve the performance of inter-urban road and rail networks (the latter covering all rail services and not just those of national strategic importance) and to address urban congestion. The Department also has a PSA objective to ‘improve cost-effectiveness through sound financial management, robust cost control, and clear appraisal of transport investment choices across different modes and locations’. Figure 1.2 gives more details of the DfT’s existing objectives and targets.

Figure 1.2 The Department for Transport’s Public Service Agreement objectives and performance targets^a

The DfT’s Public Service Agreement includes the following objectives and targets aimed at supporting the economy, improving the performance and reliability of the transport network, and improving value for money from spending:

Objective I: Support the economy through the provision of efficient and reliable inter-regional transport systems by making better use of the existing road network; reforming rail services and industry structures to deliver significant performance improvements for users; and investing in additional capacity to meet growing demand.

- *The Department is developing better measures of inter-urban congestion and will publish a new target by July 2005. The Department will also publish annual long term projections of congestion.*

Objective II: Deliver improvements to the accessibility, punctuality and reliability of local and regional transport systems through the approaches set out in Objective I and through increased use of public transport and other appropriate local solutions.

- *The Department is developing better measures of urban congestion and will publish a new target by July 2005. The Department will also publish annual long term projections of congestion.*

Objective IV: Improve cost-effectiveness through sound financial management, robust cost control, and clear appraisal of transport investment choices across different modes and locations.

It also includes the following objectives and targets to reflect social and environmental objectives:

Objective III: Balance the need to travel with the need to improve quality of life by improving safety and respecting the environment.

- *Reduce the number of people killed or seriously injured in Great Britain in road accidents by 40 per cent and the number of children killed or seriously injured by 50 per cent, by 2010 compared with the average for 1994-98, tackling the significantly higher incidence in disadvantaged communities.*
- *Improve air quality by meeting the Air Quality Strategy targets for carbon monoxide, lead, nitrogen dioxide, particles, sulphur dioxide, benzene and 1,3 butadiene. Joint with the Department for Environment, Food and Rural Affairs.*
- *Reduce greenhouse gas emissions to 12.5 per cent below 1990 levels in line with our Kyoto commitment and move towards a 20 per cent reduction in carbon dioxide emissions below 1990 levels by 2010, through measures including energy efficiency and renewables. Joint with the Department for Environment, Food and Rural Affairs and the Department of Trade and Industry.*

DfT’s full PSA objectives are available at: www.dft.gov.uk/stellent/groups/dft_about/documents/page/dft_about_030577.hcsp

^a These were set in the Government’s 2004 Spending Review.

Objectives 1.1 Although these objectives and targets are not cross modal, they identify the need to improve the performance of links which correspond reasonably closely with two of the three strategic priority links and highlight a range of policy options from better use to additional capacity. Importantly, they also identify the Department’s social and environmental objectives.

International gateways **I.12** The DfT sub-objectives do not include any reference to international passenger and freight gateways. Given that many of the levers for delivering improvements to performance and capacity of these links are held by the private sector, government cannot take sole responsibility for delivering these outcomes. However, as government has an important role in providing the policy framework for both ports and airports (eg through planning policy, environmental policies such as carbon pricing, the Air Transport White Paper), there would be benefits to recognising this.

I.13 Given that the challenges and issues involved in improving the performance of key international freight and passenger links are similar, there may be a case for a joint, cross-modal objective on these two links, to reflect the need for a coordinated approach to delivering international passenger and freight objectives.

I.14 There is also a question over whether the existing targets are sufficiently long term given the long lead times that can be involved in delivering sustained improvements to the performance of transport links. There may therefore be a case for adding longer-term indicators.

HMT productivity drivers **I.15** Transport is also acknowledged in the joint HM Treasury and Department of Trade and Industry's productivity framework, which identifies the drivers that contribute to long-term productivity in the UK. Transport contributes to the 'Investment' driver, but there is no specific transport indicator underlying the driver framework, and therefore transport does not directly feature in the assessment of how the conditions necessary to drive productivity are measured and assessed.

Developing objectives and indicators to reflect an improved understanding of transport's potential to contribute to productivity

Supporting productivity **I.16** Government's objectives should reflect the improved understanding of the contribution that transport can make to productivity provided by this Study and the associated evidence. As noted above, DfT already has an objective to support the economy, alongside its social and environmental objectives. This Study has examined new evidence on the mechanisms through which transport can contribute to productivity and growth, the parts of the transport network that are most important in supporting the economy, and on the outcomes that are required from these links and networks. It has also emphasised the importance of considering the 'whole journey', rather than the modal components or separate legs of a journey, and of looking across the full policy spectrum to identify the policies that make the most effective contribution to government's objectives.

I.17 Departments periodically review their objectives and performance indicators to ensure they remain fit for purpose and reflect the latest evidence. As part of this process, DfT may want to consider how best to embed the evidence and conclusions from this Study in its objectives and performance indicators. There are a number of options for doing this, some of which are explored below.

I.18 This Study has emphasised the importance of three strategic economic priorities in supporting growth:

1. the UK's congested and growing urban areas and their catchments;
2. the UK's key international gateways; and
3. key inter-urban corridors.

I.19 There would therefore be benefits from developing a set of indicators that monitored the performance of these links to underpin an overarching productivity objective. For example, the current inter-urban congestion indicator and rail reliability indicators could be developed to measure the performance of key inter-urban road and rail links. This can either be done through the reliability and usage of these strategic networks over time, or through indicators for the annual time lost through delay and unreliability on these corridors.

I.20 Another, complementary, indicator would be to measure and seek to improve the value for money that the Department expects to obtain from its spending in any one year, or over a certain spending period. This should take account of the full social, environmental and economic costs and benefits of the Department's policies and investments, based on appraisal information. Such an indicator would provide transparency about the value for money obtained from public spending, and an incentive for DfT and other delivery bodies to identify and prioritise the policies which make the most effective contribution to the Government's social, environmental and economic objectives.

I.21 There would be challenges in obtaining this information for all areas of the Department's spending, and for spending devolved to local authorities and other delivery bodies. It is also likely that the methodology for estimating the costs and benefits of policies will improve over time, meaning data series may not be compatible. These are not arguments against such an indicator, but are issues that would need to be considered when developing more detailed propositions.

The impact of transport on productivity

I.22 The analysis and conclusions from this Study will also have implications for HM Treasury and DTI's productivity agenda. This Study has presented significant new evidence assessing transport's very considerable potential to contribute to productivity and growth, and suggests that the departments should consider how to improve monitoring and assessment of transport's impact on productivity.

Option generation

Principle 2: Consider the full range of policy options for meeting the policy goal, including different modal options, and policies for making more efficient use of existing capacity as well as small and larger scale capacity enhancements.

Principle 3: Prioritise spending on those policies which offer the best value for money, taking account of the full social, environmental and economic costs and benefits of policy options.

Consider full range of policy options

I.23 After setting out a detailed analysis of the policy goals, and the challenges involved in meeting them, transport strategy should assess the full range of policy levers for meeting the policy goal. In many cases there will be a range of different options for solving a particular transport problem, and they will probably vary in terms of cost and the scale of benefits delivered. Volume 3 showed just how much transport returns vary across options, suggesting that it is important to assess a wide range of options to target policy action where it will make most difference. The evidence also suggested that higher returns tend to be associated with better use and pricing measures, and with relatively small-scale options focused on tackling bottlenecks. That is not to say that such options will always be sufficient, rather to suggest that the potential offered by small options should be assessed even in the face of apparently large transport challenges.

I.24 On the basis of this evidence, there is a strong argument that policy makers should examine all relevant options on a policy menu which spans policies for making more efficient use of existing capacity (including pricing options) as well as small and larger scale capacity enhancements, across the relevant modes. This will require evidence and analytical tools to drive option generation and allow comparison between different policy options. Such analysis will need to be proportionate to the problem being addressed, and multi-modal when there are significant cross-effects between modes. These analytical issues are discussed in more detail later in this chapter.

Prioritising spending

I.25 There are several dimensions to prioritisation of this kind.

Prioritise spending on value for money policies

I.26 First, after identifying the range of potential policies for meeting a particular objective, detailed, comparable analysis would be needed to estimate the full costs and benefits of the most promising policies, including social, environmental and economic impacts. Appraisal information of this kind can then be used to compare the returns available from alternative calls on funding, in order to guide spending choices towards those policies and projects which will provide the greatest benefits from available funds¹.

I.27 Second, it seems likely that this process of project development and appraisal would need to be informed by some guideline indication of the cost envelope within which options need to be developed, and/or the value for money thresholds which a project will need to meet in order to be a good candidate for funding. Such signals are important and should help to avoid raising expectations that every good scheme or policy can be funded, and to provide an incentive to focus on the most effective policies.

I.28 Third, to decide on overall funding allocations between specific policy proposals and projects, decision makers need to compare the returns available from different options. The more the benefit:cost ratios can be developed to reflect the full range of relevant impacts, the easier this process will be. However, there are always likely to be some impacts that are hard to monetise. Some social, environmental and economic impacts will show threshold effects and inter-dependencies which make valuation particularly difficult. The aim should be to integrate these considerations where they are important to decision making, without discarding the valuable information provided by the appraisal. In some, but not all, areas, sensitivity analysis will provide an effective way of reflecting the potential of such impacts to affect the overall prioritisation.

Current system for option generation and funding allocation

DfT has levers to consider full range of options

I.29 The transport sector is now on a more stable footing after a period of turbulence, which provides greater opportunity to take a forward-looking, strategic approach to option generation and decision making. DfT and other delivery bodies are well placed and already have many of the levers to consider a full range of policy options. As set out in volume 3, both the Highways Agency and Network Rail consider a range of policy options when identifying policies to improve the performance and capacity of the networks, from better use through to marginal capacity enhancements to large scale infrastructure improvements.

¹ See Volume 3, Chapter 3.5 to understand in more detail how cost-benefit analysis is used to appraise and compare options.

I.30 In recent years, the Highways Agency has placed increased emphasis on better use measures, including the use of traffic officers, and the current pilot of active traffic management and hard shoulder running on the M42. Similarly, Network Rail makes a thorough assessment of the potential for better use measures as part of the development of its route utilisation strategies, looking at policy options such as timetabling changes, longer platforms and trains, and investment to relieve congestion at pinch points on the network.

I.31 More broadly, the Government explored the case for using price signals to make better use of the road network in its Road Pricing Feasibility Study published in July 2004.

I.32 The Air Transport White Paper, published in December 2003, also assessed a number of options, including the use of a carbon pricing mechanism to ensure users pay the external costs of their journey, and measures such as 'mixed mode' which increase the effective capacity of runways by enabling planes to take off and land from the same runway.

Some problems addressed at modal level

I.33 Some problems are addressed at a modal level, rather than through a top down cross modal approach to identifying the most effective policy solution. This approach can risk missing promising options, and may end up focusing on problems which do not feature as priorities at the strategic level. This also has implications for sub-national decision making, and these issues are discussed further in chapter 4.2.

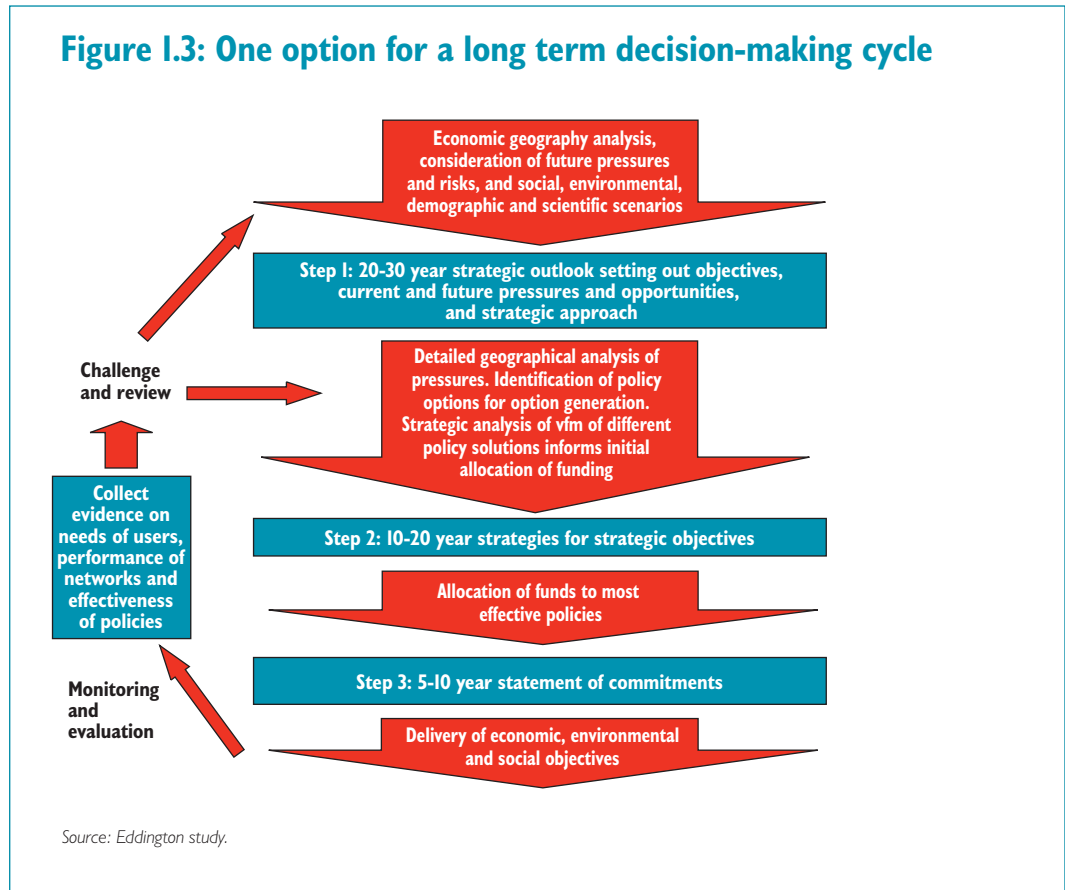
I.34 However, the Transport Innovation Fund is a non-modal spending pot that has begun to examine enhancements across modes against objectives such as relieving pressure on the strategic freight networks, and will allocate funding according to those proposals with the highest returns. This type of funding arrangement could provide incentives to look across modes, and options, thereby improving the effectiveness of the policy solutions being put forward. There would be advantages from adopting a more cross-modal approach to option generation in other areas of the Department's strategy and spending.

Proposals for building on the current system

I.35 In order to further embed a systematic cross-modal option generation and prioritisation process, Figure 1.3 draws the four strategic principles identified in figure 1.1 together to set out one proposition for how these principles might be applied in practice, to further develop the long term strategic framework for transport. Many of these outputs and processes already exist in some form, meaning this is more about developing and building on existing strategic process than a radical shake up.

I.36 The process moves from understanding the challenges which need to be addressed, bringing forward and narrowing down the choice of options to meet those challenges, through to making final decisions about the allocation of funding. It attempts to balance the need to look long-term and provide certainty to stakeholders, with the desirability of being able to respond quickly to new challenges and priorities.

Figure I.3: One option for a long term decision-making cycle



A long-term decision-making cycle I.37 The public outputs from this indicative model of a strategic cycle (marked in blue), which correspond to the strategic principles identified in figure 1.3, might be:

1. first, a **30-year strategic outlook**, setting out the long-term objectives, together with a high-level identification of problems and opportunities that transport policy is seeking to address. This should provide the long term context to focus policy on the big strategic challenges, drive the option generation process, and provide transparency about the long-term decision-making process;
2. second, a more detailed **medium-term 10-20 year strategy** for delivering the objectives in the 30-year outlook, bringing forward options focused on meeting the challenges set out in (1), so that they can be developed, appraised and put forward for funding at the appropriate point in time. (Some initial spending will be needed to develop options to sufficient degree of confidence on their time, costs and risks for good decisions to be taken on whether to proceed or stop); and
3. third, **detailed 5-10 year statement of commitments** of policy commitments and known decision points, identifying the most effective policies for delivering the objectives and transport outcomes set out in the medium term strategy.

I.38 Whilst these are described as separate stages, they will in practice form a continuous cycle. At any one point in time, government will be developing and implementing at all three stages simultaneously, not least because they cover differing time horizons. These potential outputs from a long term strategic cycle are discussed in more detail below.

30-year strategic outlook

Defining objectives and identifying challenges and opportunities

I.39 The 30-year strategic outlook would include a clear articulation of the Government's economic, social and environmental objectives for transport, reflecting evidence and conclusions from this Study, the Stern Review, and other relevant evidence. This strategic outlook would set out analysis of the current and anticipated pressures on and requirements from the transport system over the next 20-30 years, including consideration of risks and opportunities associated with economic, environmental, social, demographic, scientific and technological scenarios and trends. It would also provide transparency about the principles Government would apply in identifying and allocating funding to the most effective policies.

I.40 Given the long lead times involved in delivering many transport projects, this outlook is crucial to defining the start of the option generation process. By articulating the long-term challenges that need to be met in order to deliver on its objectives, the Government will be able to drive subsequent option generation to focus in the areas and on the right types of issue. Such an outlook should directly shape the options being prioritised for funding in years to come, and if the challenges and opportunities are not defined clearly enough then it seems unlikely that appropriate solutions will emerge.

Medium-term strategy or strategies

Setting out the most promising policy options

I.41 A medium term strategy would taken option generation to the next stage by providing more detailed analysis on specific strategic objectives, such as improving performance of the strategic priority links, or meeting the Government's social and environmental objectives. This would include a more detailed assessment of the policy goals and current and anticipated pressures, including geographically specific 'whole journey' analysis where relevant. These strategies would look across modes and the policy spectrum from better use to additional capacity, to identify at the strategic level the policies that would be expected to be most effective, and to narrow down the options that are in play.

I.42 Given the long lead times involved in delivering many transport objectives, it would be important for these strategies to look over a 10-20 year period. This would also provide an opportunity to drive option generation for the medium term, where there is arguably more opportunity for flexibility and genuine consideration of a full range of policy options.

I.43 Both the 30-year strategic outlook and the medium term strategies would need to be reviewed periodically, to reflect an up-to-date understanding of Government policy objectives for transport, external pressures and risks (including economic trends and implications for economic geography), and evaluation evidence on the most effective policies.

5-10 year statement of commitments

Setting out policies and schemes to be delivered **I.44** The policies set out in the 5-10 year statement of commitments would be selected after a thorough assessment of the costs and benefits of the policy options identified in the strategies, with funding allocated to those policies and investment options that offer the best returns to society. These plans would set out the policies and schemes that would be delivered over the subsequent 5-10 year period, including timescales, to provide users and investors with the information they need to inform their own investment and location decisions. To provide transparency these statements of commitments should identify the value for money which will be provided by government's spending plans.

I.45 There would be a greater amount of detail in the first 5 years of the statement of commitments, recognising the need to balance greater certainty about Government delivery plans for users and the private sector with the need to maintain some flexibility to respond to changing pressures, objectives or evidence. These policies will have been identified after consideration of the different cross-modal options. In some cases it may be efficient to deliver these policies in a more modal way once a decision has been made on the mode or combination of modes that is most effective.

Funding allocation

I.46 The final allocation of funds to the highest return projects needs to be decided in order to provide the statement of commitments, however early stages in the process will need to be informed by a realistic idea of the scale of available funding.

I.47 Likely budget constraints need to be anticipated in developing the medium-term strategies, and in developing particular propositions for appraisal. This need not mean making firm budget allocations to particular strategic policy priorities, but could involve setting out a range of the likely funding availability, to give a sense of the overall budget constraints that must be worked within. Indicative budget guidelines could be informed by a strategic analysis of the likely value for money of policies in that area. These guidelines could then be firmed up as more evidence became available on the value for money offered by specific spending proposals or programmes. Alternatively, value for money thresholds could be used during strategy development, to provide an early signal of the scale of return that projects will need to deliver in order to be realistic candidates for funding.

Listen intelligently to the numbers **I.48** To decide on overall funding allocations between specific policy proposals and projects, decision makers need to “listen to the numbers” so that appraisal information on value for money can be used intelligently to guide spending decisions. At the funding allocation stage, decisions should reflect the relative returns provided by competing schemes. The more the benefit:cost ratios can be developed to reflect the full range of relevant impacts, the easier this process will be. However, as argued earlier in this chapter there are always likely to be some impacts that are hard to monetise and the decision-making process must be able to reflect these dimensions, without discarding the valuable information provided by the appraisal.

I.49 The Study has also shown that in a globalising world, the needs of the UK economy are dynamic and in some circumstances economic change might be quite rapid. This can mean that it will be desirable to respond quickly to new priorities as they come along, and this may have implications for the way in which funds are allocated. In practice there will also be real-world constraints on funding availability and the cost and value for money of policies may change through time due to a number of factors including planning costs, inflation and other risk factors. A balance will need to be struck between providing responsiveness to change and providing business investors with the certainty and transparency they desire.

Implications of other policy developments for the long-term decision-making cycle

Ensuring read-across with other policy objectives

I.51 Transport policy will have important implications for the delivery of other Government objectives, including those on housing, environment, social inclusion and productivity, and vice-versa. The decision-making cycle will need to include opportunities for periodic reviews of the long-term strategic outlook and the medium term strategies to test read across with policy developments in other areas, and ensure that, as far as possible, objectives and timescales are aligned.

I.52 Other chapters in this Volume have set out analysis and recommendations on other delivery issues, including planning and sub-national decision making. Some of these recommendations, should Government choose to accept them, could have implications for the long-term decision-making cycle described above.

Implications of other Eddington recommendations

I.53 One of the recommendations in the planning chapter is that the Government should publish Statements of Strategic Objectives, setting out its view on the need for strategic transport capacity and development, balancing national economic, environmental and social considerations and between national needs and possible local impacts. These Statements might be published alongside the medium term strategy or strategies described above. For example, if the Government were to publish a medium term strategy on key international passenger and freight gateways, this might be accompanied by a Statement of Strategic Objectives setting out the Government's view on the need for additional ports and airports capacity.

I.54 Government would want to consider both the level of specificity needed from these Statements should it choose to take forward the planning recommendations set out in chapter, and the appropriate role for sub-national decision-making bodies in this process.

Principle 4: Ensure the evidence base can support this process, providing information on the needs of users, the use and performance of the network, supporting option generation through modelling and appraisal of options, and evaluating impacts to inform future decision making.

Evidence-based policy **I.55** It is essential to have the right evidence base and analytical tools in place to inform option generation and allow assessment of the most effective policies and strategies. This includes:

1. information and analysis on the use and performance of the current network, and forecasts of future demand and performance under different social, environmental and economic scenarios, to help identify current and future challenges and drive the option generation process;
2. models which allow assessment of the costs and benefits of (i) different modal options and (ii) the full range of policy options on the strategic priority links, including pricing mechanisms, to inform option generation and decisions on most effective policies;
3. methodologies for estimating and monetising, where possible, the impacts of policy options on social, environmental and economic objectives; and
4. evidence on what policies deliver in practice, to test and refine appraisal assumptions and inform option generation.

Existing evidence base and analytical tools

DfT has a good existing evidence base and analytical tools **I.56** DfT has good information on the level of usage and performance of strategic road and rail networks and of international passenger links. It, however, has less information on complete journeys, or who uses the network on the strategic economic priorities identified in this report.

I.57 As discussed previously, delivery bodies are increasingly considering better use options alongside options for increasing capacity and improving performance of the networks.

I.58 Chapter 1.3, Volume 1 noted that transport appraisal has evolved considerably over the last 30 years, and that internationally, the UK is considered to be at the forefront of thinking on appraisal of transport's impacts on the economy, society and the environment. Recent developments have included the publication of draft guidance on capturing wider economic impacts of transport schemes, for use in assessing schemes competing for DfT's Transport Innovation Fund programme, and guidance that scheme appraisals must take account of carbon impacts, whether positive or negative.

I.59 There is scope to improve the evidence base on what policies deliver in practice, through evaluations of policies and schemes.

Proposals for building on current strengths

I.60 Volume 1 identified a number of ways in which the appraisal guidance could be further improved, to better capture the full range of social, environmental and economic impacts (figure 1.4). Similarly, there would be benefits from further work to understand the impacts that different schemes and policies have, and how users respond. These proposals are discussed in more detail below. DfT is widely acknowledged to be building from a position of strength in this area.

Figure 1.4: Capturing the impacts of transport on the performance of the economy

The Study suggests that consideration should be given to the following issues in appraisal:

- **valuations of time savings:** valuation of time based on local wages is essential to capture the true economic gain from a transport improvement in a particular region and to correct for the current anomaly between the calculation of costs and benefits in appraisal;
- **freight valuations:** the full GDP benefits realised from freight traffic could be considerably higher than currently assumed, reflecting the wider impact of transport on business operations and logistics. There is a strong case for exploring whether the current valuation of freight time fully reflects the benefits to this sector;
- **reliability:** it is clear that the performance of the transport network in terms of reliability often matters just as much, if not more, than any direct time savings from a transport journey. Evidence seems to suggest that these are considerably higher than has been appreciated in the past. There is a strong case for reliability valuations to reflect developing evidence in this field;
- **agglomeration economies:** thinking on transport's relationship with agglomeration economies is relatively new. There is very little literature that attempts to explain and measure this relationship, particularly in the context of service agglomerations. The UK is at the forefront of establishing techniques on how this relationship can be modelled. However, it is clear that there is merit in better understanding this relationship, not least because of the continuing importance of urban agglomerations to the future prosperity of the UK. The DfT's developing methodology on agglomeration economies should be applied to the appraisal of all transport schemes. This could increase the assessed value of schemes, especially in urban areas;
- **gains from trade:** the contribution of transport policy in supporting trade is not well understood or quantified. But it is clear that acknowledging this relationship and quantifying its scale through appraisal, is pivotal to informing good transport policy, particularly around ports and airports, and surface access routes. These are not captured currently in appraisal. New research would need to be undertaken to consider how such gains could be captured and reflected;
- **globally mobile activity:** additional GDP gains are difficult to quantify for individual schemes, but analysis suggests that it will be important for transport policy to reflect this driver at relevant times.

1.61 Because decisions about the most effective policies need to be based on as full as possible an assessment of the environmental, social and economic impacts, it will also be important to continue to develop methodologies for better estimating social and environmental costs and benefits as new evidence becomes available, and for ensuring appraisals for different modal schemes are comparable.²

1.62 There is a need to build on the existing evaluation evidence to develop a better understanding of what policies and schemes deliver in practice, to test and refine appraisal assumptions and inform option generation.

²Where there are strong cross effects, this will often suggest a need for multi-modal models.

RECOMMENDATIONS

Recommendation 4

In order to meet these transport challenges, the policy process needs to: start with the strategic economic priorities; define the problems; consider the full range of options and ensure that spending is focused on the best policies:

(i) Transport's contribution to productivity should be reflected in both DfT and Treasury's objectives and performance indicators. In particular;

- DfT's objective should include an objective on enabling productivity, supported by performance indicators for each of the strategic economic priorities (congested and growing urban areas, key international passenger and freight gateways, and key inter-urban corridors), and by an indicator of the value for money of DfT's spending plans, drawing on appraisal evidence.
- HMT should consider how to better monitor and assess the impact of transport on productivity.

(ii) DfT should work with local and regional bodies to put in place a process to drive option generation which is both cross-modal and which encompasses both better use and investment options; it should ensure funds are allocated to the policies which most cost-effectively contribute to DfT's objectives.

(iii) To do this, DfT should develop a three-part decision-making cycle:

- One, a long-term outlook of economic, environmental and social pressures and challenges over the next 20-30 years.
- Two, a medium-term strategy for delivering on each of its objectives, including a detailed analysis of the nature of the problem or challenge, the transport outcomes required, and the policy options for delivering those outcomes over 10-20 years; and
- Three, published 5-10 year statement of commitments, identifying those policies and schemes in place which will most cost-effectively deliver the required transport outcomes over the next 5-10 year period, providing updates of committed policies and schemes, and timings of forthcoming decisions.

(iv) To inform periodic reviews of these strategic outputs, DfT should continue to improve its evidence base and analytical tools, including through:

- Research and evaluation to monitor the impacts of policies; and significantly improve our understanding of the most effective transport measures, both in urban areas and in supporting international trade.
- Collecting information on the performance and usage of the network, and the requirements of users.
- Building the findings of this study into its methods of appraising the value for money of transport policies.
- Continuing to improve its methodologies and modelling tools for measuring the full social, environmental and economic impacts of transport policies, and quantifying these impacts where possible.

1.63 The next chapter considers the third strategic economic priority of congested and growing urban areas, where the primary function and impact of journeys is at the sub-national level.

