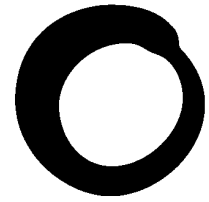


Briefing



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the Earth**

Paying for rail

Funding the railway of the future

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Introduction

In January 2002 the Government announced a £64.5 billion investment plan for Britain's railways over the next decade. Impressive though this sounds, it will not be sufficient to build the railway the country needs to provide a real alternative to the car and the lorry. As the House of Commons Transport Select Committee has acknowledged¹, more money is needed.

In a few months time, the Government will announce the results of its Comprehensive Spending Review. This is an opportunity for Gordon Brown to give the railways the money they really need.

This briefing explains why extra funding is needed, and how the Government could increase public investment in the railways by 75%. If the Chancellor decides not to increase funding for the railways, he will undermine the Government policy of "*persuading people to use their cars a little less - and public transport a little more*"².

The Government's plans

The Government acknowledged the poor state of the nation's railways in Transport 2010, its 10-year plan for transport, published in July 2000. This set two targets: increasing rail passenger miles by 50% and rail freight carried by 80% by 2010. To deliver this, it announced a £60 billion program of investment in the railways.. This was broadly broken down as follows:

- £38 billion of enhancement and renewals investment for passenger services.
- £7 billion investment in new and replacement rolling stock.
- £4 billion investment in rail freight
- £11 billion in subsidy to train operators

In mid January, the Government announced a further £4.5 billion of investment, taking the total to £64.5 billion over 10 years. Approximately half of this will come from the public purse and half from the private sector.

The Strategic Plan

This money will be used to implement the Strategic Plan for the industry drawn up by the Strategic Rail Authority (SRA). This set out how the SRA intended to meet the Government's rail targets. It listed the investment plans of the SRA itself (in new infrastructure, such as track and signals) and of the train operators (in rolling stock and stations). Major schemes to be completed in the next decade include the West Coast Main Line upgrade, the Channel Tunnel Rail Link, the fitting of the Train Protection Warning System safety measures and compliance with the Disability Discrimination Act. There will also be an extension to the East London Line and new trains and platforms to start to address problems of overcrowding in the South East.

The main concerns

Impressive though £64.5 billion sounds, it is not enough to deliver the safe, efficient, reliable and affordable railway needed throughout Britain for the 21st century. Friends of the Earth (FOE) has four concerns about the SRA's Strategic Plan and the Government's proposed investment:

- The level of investment proposed is inadequate;
- The hoped-for private sector contribution may not materialise;
- Investment is biased towards the South East; and
- It will undermine integrated transport.

The level of investment: what won't be built in the next decade

The Strategic Plan lists schemes for which “*there is unlikely to be sufficient funding ... available to support implementation before 2010*”³ although the SRA does add that “*if increased funding becomes available ... it may be possible to make progress more quickly on some of them*”⁴. These include many vital schemes such as:

- investment in new capacity for the West Midlands and Greater Manchester (such as building cross-city schemes to relieve congestion);;
- development of a South London Metro (this would provide frequencies and standards of service on overground rail lines in South London similar to those provided by the Underground in North London);
- major infrastructure improvements to the Great Western Main Line; and
- providing more capacity for North-South freight.

These are the type of schemes which need to be built if we are to provide the railway the country needs.

Other important measures are not mentioned in the Strategic Plan at all. These include the expansion of electrification and the implementation of the Automated Train Protection safety scheme recommended by the Cullen inquiry into the Southall and Ladbroke Grove crashes.

Private sector contribution

The Government has forecast that it will only need to pay for roughly half of its £64.5 billion investment plans for rail - the rest, it predicts will come from the private sector. FOE shares the widespread concern that this figure may be hugely optimistic for two reasons.

First, private capital is invested to earn a return which in this case would come from ticket sales and freight charges. In predicting over £34 billion of private investment the Government assumed that this revenue stream would continue to grow as fast as in the last few years of the nineties. But these were exceptional years and since then the economy has slowed and disruption on the railways has increased, due in large part to basic safety work. The private sector is less likely to invest the amounts that the Government hoped it would over a year ago.

Second, the collapse of Railtrack has compounded the problem of attracting the private capital. The industry is demoralised. The scale of the vital task of rebuilding the railways and, more significantly, the cost of doing so has been put into sharp political relief.

Investment from the private sector will be crucial to rebuilding this core part of Britain's infrastructure but primary responsibility for doing so lies with the Government and public investment. As the Transport Select Committee observed “*the modernisation work requires continuing large sums of money over a period of many years ... The Treasury must accept this reality and provide the money needed to pay for these projects*”⁵.

South East bias

The narrow focus of the Government's rail passenger target has led to a concentration of investment in the Home Counties. In the Strategic Plan the SRA admits that *"major investment must be directed where it is likely to be most effective in addressing the core targets. In terms of increasing passenger volumes, this means focussing investment on the main routes serving London, both inter-urban and London commuter. Around 70% of all passenger journeys made nationally use the network in the South East"*⁶. The SRA claims that *"these programmes should not divert funds from Regional Networks"*⁷ but there has been an outcry from local and regional bodies in the South West, the Midlands and the North. Huge investment is essential in the South East, but all areas of the country have the right to a safe, efficient, reliable and affordable rail system.

Undermining integrated transport

The Strategic Plan announced that funding for major rail schemes to relieve congestion on trunk roads could also be delayed to beyond 2010.

Following the review of its road-building program in 1998, the Government set up a number of studies to look at problems on the strategic trunk road network. However, rather than simply recommend a road-building solution, these multi-modal studies would look at problems and solutions affecting all modes of travel. The studies are considering major transport corridors such as the M1 between London and the Midlands, the M25 around London and the M6 between the West Midlands and the North West. In many cases, rail is an integral part of the solutions being proposed.

However, in the Strategic Plan, the SRA included rail-based projects identified in these studies in the list of schemes which could not be progressed unless more funding became available. Some funding might be available for smaller-scale projects through the Rail Passenger Partnership scheme.

The SRA's statement potentially undermines multi-modal studies, and hence the delivery of integrated transport by casting doubt on whether or not key rail schemes will be built. Local and regional bodies seeking answers to transport problems will be less likely to propose rail schemes if there are severe doubts over whether they will be built in time to have a real impact. This could lead to more road-building.

Why more money is needed

The SRA states that the Strategic Plan will not necessarily lead to the achievement of the Government's target for rail passenger growth. It expects growth of between 40% and 50% by 2010⁸. But even if this target is achieved, it is too narrowly-focussed and will lead to an over-concentration of investment in the South East.

Additional investment will allow the rail industry to:

- ensure that all regions get a railway fit for the purpose;
- bring forward work on the 'beyond 2010' priorities identified by the SRA;
- build rail schemes arising from multi-modal studies;
- embark on a programme of electrification; and
- implement recommended safety measures.

Without this additional investment, Britain's transport problems will continue to grow, with no solution to congestion, air pollution or rising emissions of greenhouse gases. This will perpetuate the environmental, economic and social consequences of traffic growth.

The need for more investment has been supported by the influential House of Commons Transport Select Committee, which recently concluded that "*the economy of the United Kingdom depends on an efficient railway. This will not be achieved without investment on a scale which dwarfs the figures proposed in the first 10 Year Plan*"⁹. The increase of £4.5 billion announced earlier this year represents only a 7.5% increase in funding overall.

The general public also believes that more money should be invested. In a major opinion survey last year, only 14% of those questioned agreed with the statement "*the necessary investment is being made in Britain's railways to meet the needs of passengers*" whereas 55% disagreed¹⁰ (the remainder did not know or did not express a view).

Why should the Government pay?

A safe, efficient, reliable and affordable railway would provide the spine of a system of integrated transport throughout Britain. If it was well-connected with local buses and light rail and with walking and cycling routes, it could provide for rapid movement between towns, and within larger cities, in a way that could compete with the car and protect the environment. This is in line with the Government's policy of "*persuading people to use their cars a little less - and public transport a little more*"¹¹.

The main responsibility for providing this vital infrastructure, as with the trunk road network, must lie with the Government. Private sector contributions should be sought and encouraged, but the prime responsibility must be for additional public investment.

The need for further public investment was strongly supported by the Transport Select Committee, which concluded that "*there is no simple solution to the conundrum of how to upgrade railway infrastructure ... the fundamental problem is that the modernisation work requires continuing large sums of public money over a period of many years, which cannot be funded from the farebox alone. The Treasury must accept this reality and provide the money needed to pay for these projects*"¹².

How much more money is needed?

As Railtrack and the Strategic Rail Authority have found, it is extremely difficult to put a precise figure on the cost of rail infrastructure and how much money is needed. However the current investment program clearly falls short of what is needed. However, the balance of public against private funding (see above) is further compounded by the 'Ford Factor'.

The 'Ford Factor' is the name given to the conclusion of calculations made by Roger Ford, Industry & Technology Editor of Modern Railways magazine, comparing the cost of rail maintenance and upgrades under British Rail and currently. He concluded that the cost of maintaining, enhancing or renewing rail infrastructure was now between two and three times greater than in the days of British Rail. This is the result of poor project management, the lack of real rail experience at the top of Railtrack and the complexity of contracting arrangements.

Reducing the 'Ford Factor' - cutting down on the costs of maintenance and upgrades - is essential if

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additional funding is not to be seen as pouring good money after bad.

As it is impossible to give a precise figure for the additional money needed, FOE has decided to identify potential sources of funding that could increase the Government's contribution to rail investment by 75% and thus help finance the omissions listed above. This figure is indicative of what is possible, rather than an exact calculation of what is necessary.

Where can additional money be found?

FOE has identified two potential sources of additional funding:

- cutting spending on unnecessary road-building
- keeping motoring costs constant through raising fuel tax (rather than letting them fall, as is currently projected)

Together these sources could provide between £32.7 and £46.2 billion over the next decade to be invested in transport. This would allow not only a 75% increase in rail funding (approximately £25 billion extra) but also additional investment in other transport measures such as Safe Routes to Schools and traffic calming.

If the Government does shift the transport spending plans away from road-building to rail and raise more money from increasing road fuel duty and introducing congestion charging it will stand a better chance of attracting appropriate levels of private capital.

Cutting roads spending

The Government plans to spend £26.7 billion on road-building in the decade up to 2010¹³. In most cases road-building is not the solution to transport problems. New roads have been shown to generate more traffic.

The Government's Standing Advisory Committee on Trunk Road Assessment concluded that "*induced traffic, can and does occur, probably quite extensively*"¹⁴. This is corroborated by findings from the Government's Scheme Forecast Monitoring which compares observed traffic flows on recently completed trunk road schemes against the forecast traffic flows. This shows that the Highways Agency has consistently under-forecast traffic levels for proposed trunk road schemes. For the 35 schemes where longer-term monitoring information was available, traffic levels 5 years after the construction of the scheme were, on average, 9.24% higher than the growth forecast by the Highways Agency.

FOE believes that a total of £16 billion can be cut from the road-building budget and transferred to the rail budget. This is made up as follows:

- £6 billion from the strategic budget
- £8 billion from the local budget
- £2 billion from the London budget

This would leave approximately £10.5 billion to be spent on local and strategic road-building. The Government is committed to spending £27.4 billion on road maintenance in the period up to 2010. Friends of the Earth does not propose a change in this amount.

Fuel tax

At the last Budget, the Chancellor cut road fuel duty by around £1 billion a year. This was in response to the high price of oil at the time. There was also anger that a proportion of the revenues had never been reinvested in providing convenient, efficient and affordable alternatives to the car. Oil prices peaked at \$30 per barrel and have fallen to around \$20 and are set to fall to around \$16 by 2010. The Chancellor has also now committed the Government to spending the revenue from any future fuel duty increases on transport¹⁵. It would be sensible and reasonable for the Chancellor to raise fuel duty in a manner that kept motoring costs stable and use the additional revenues to ensure a properly-funded rail modernisation programme.

One of the underlying assumptions of Transport 2010 is that the costs of motoring will fall by 20% over the period of the plan¹⁶.

Transport 2010 assumes that there will be *“improvements in new car fuel efficiency sufficient to deliver the EC voluntary agreements with car manufacturers”*¹⁷ and that together with other assumptions (*“no change in car ownership costs, non-fuel running costs or fuel duty in real terms”*¹⁸) there will be *“an average reduction in motoring costs per car kilometre across the car fleet as a whole of some 20% in real terms between 2000 and 2010”*¹⁹.

At the same time, rail fares are assumed to fall by 3% in real terms (for commuter fares²⁰), to fall 1% below the Retail Price Index (RPI) (for non-commuting regulated fares²¹) or to stand level with RPI (for unregulated fares²²).

These cost trends would run counter to Government policy, stated above, of getting people to use cars less and public transport more. Cutting the costs of motoring will encourage people to use their cars more, drive further and make journeys by car that would have otherwise been made by other modes, particularly if rail fares rise relative to motoring costs.

FOE is not calling for motoring costs to rise, but to remain constant over the next decade. The Government has acknowledged that this would lead to greater reductions in congestion and carbon dioxide emissions²³ - both Government targets.

This could be achieved by a gradual increase in fuel tax in parallel with the improvements in fuel efficiency. FOE has commissioned research²⁴ to estimate the changes in fuel tax that would be needed to maintain the real price of fuels at current levels. These figures were then multiplied by the estimates of future fuel consumption to calculate the expected increases in revenue.

The fuel duty rise needed to keep motoring costs constant is affected by the price of oil. Figures are given for revenue from lower and higher oil price scenarios. The lower price scenario assumed (as did the Government's most recent National Road Traffic Forecasts, published in 1997) that the underlying price of fuel would remain constant in real terms after 2000. The higher price scenario assumed (as did the background analysis for Transport 2010) that the real price of oil would fall to around \$16 per barrel, and that this would be reflected in the pre-tax price of petrol. Thus a higher rise in fuel tax would be needed to keep prices constant.

The research concluded that, by 2010, petrol tax would have to rise by between 13.5p/litre and 21.3 p/litre; and that diesel tax would have to rise by between 15.6 p/litre and 24.1 p/litre to keep motoring costs comparable with those of today. The term 'tax' here covers both duty and VAT. These rises

would not be immediate: they would be phased in over the next decade in line with increases in fuel efficiency. Full details are shown in Table 1 below.

TABLE 1: ESTIMATED DUTY INCREASES NEEDED TO KEEP MOTORING COSTS LEVEL (p/litre)				
	Lower price scenario		Higher price scenario	
	Petrol	Diesel	Petrol	Diesel
2002	0.0	0.0	1.2	1.5
2003	0.8	1.1	2.8	3.5
2004	1.9	2.3	4.7	5.6
2005	3.1	3.7	6.7	7.9
2006	4.6	5.4	9.0	10.4
2007	6.4	7.5	11.7	13.4
2008	8.5	10.0	14.6	16.7
2009	10.9	12.8	17.9	20.4
2010	13.5	15.6	21.3	24.1

This would raise a stream of revenue over the next decade as follows:

TABLE 2: ESTIMATED REVENUE INCREASES GENERATED (£million 2002 prices)				
	ANNUAL INCOME		CUMULATIVE INCOME	
	Lower price scenario	Higher price scenario	Lower price scenario	Higher price scenario
2002	0	405.2	0	405.2
2003	297	984.3	297	1389.5
2004	654	1624.1	951	3013.6
2005	1080	2330.9	2031	5344.5
2006	1583	3109.6	3614	8454.1
2007	2181	3974.3	5795	12428.4
2008	2880	4929.0	8675	17357.4
2009	3643	5933.9	12318	23291.3
2010	4426	6950.3	16744	30241.6

Thus, over the period to 2010, between £16.7 billion and £30.2 billion would be raised by increasing fuel tax to keep motoring costs constant.

It is important to note that these calculations refer only to revenue from car drivers. There would be additional funding from vans and lorries if diesel duty were raised as indicated.

Other possible sources of revenue

FOE believes that cutting unnecessary spending on road-building and keeping motoring costs constant are sensible and practical ways of raising the money needed to invest in the railways. However clearly there could be concerns about raising fuel tax. If it was felt that raising fuel tax was too politically controversial then other sources of revenue, such as congestion charging, could also be used either in place of or in combination with smaller rises in fuel tax to achieve the same effect.

Should all the revenue be used for the railways?

Even if revenue from fuel duty was at the level shown under the lower scenario, then in addition to a 75% increase in rail funding, there would be a substantial amount left over for other purposes. This could be used for small-scale local transport measures such as Safe Routes to Schools, traffic calming and Home Zones²⁵. The cost of providing a Safe Route to School for every child in the country has been estimated at £2 billion. Traffic calming on all appropriate residential roads would cost £3 billion. Providing 6,500 Home Zones (as many as in the Netherlands) would cost £1.4 billion²⁶. These measures would also help persuade people to use their cars less and make streets safer.

Conclusion

The state of Britain's railways has led to a vigorous national debate on the future of the rail system. The Strategic Rail Authority's plan for the future of the industry is insufficiently radical, over-concentrated on the South East and most importantly, under-funded. This view is shared by many commentators and by the influential House of Commons Transport Select Committee. More money must be found if Britain is to get the railway it needs and deserves within a reasonable timescale.

The extra funding needed could be found through cutting spending on road-building - at best a short-term fix for transport problems - and through gradually increasing fuel tax to keep motoring costs level over the next decade, rather than allowing them to fall as the Government currently intends. This would allow a 75% increase in Government investment in further improvements to and expansion of the national rail network.

Notes

1. House of Commons Select Committee on Transport, Local Government and the Regions (2002), *Passenger Rail Franchising and the Future of Railway Infrastructure*
2. HM Government (1998), *A New Deal for Transport: Better for Everyone*, Department of the Environment, Transport & the Regions, Foreword
3. Strategic Rail Authority (2002), *The strategic plan*, section 5
4. Ibid
5. House of Commons Select Committee on Transport, Local Government and the Regions (2002), *Passenger Rail Franchising and the Future of Railway Infrastructure*, paragraph 30
6. Strategic Rail Authority (2002), *The strategic plan*, section 1
7. Ibid
8. Ibid

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9. House of Commons Select Committee on Transport, Local Government and the Regions (2002), *Passenger Rail Franchising and the Future of Railway Infrastructure*, paragraph 40
10. Commission for Integrated Transport (2001), *The CfIT Report 2001 - Public Attitudes to Transport in England*
11. HM Government (1998), *A New Deal for Transport: Better for Everyone*, Department of the Environment, Transport & the Regions, Foreword
12. House of Commons Select Committee on Transport, Local Government and the Regions (2002), *Passenger Rail Franchising and the Future of Railway Infrastructure*, paragraph 30
13. FOE calculations based on figures in HM Government (2000), *Transport 2010 - the 10 year plan*, Department of the Environment, Transport & the Regions
14. Standing Advisory Committee on Trunk Road Assessment (1999), *Transport and the Economy*, Department of the Environment, Transport & the Regions, Executive Summary paragraph 10
15. HM Treasury (1999), *Pre-Budget Report*, paragraph 6.62
16. HM Government (2000), *Transport 2010 - the background analysis*, Department of the Environment, Transport & the Regions, paragraph 36
17. Ibid - the agreement with European car manufacturers is to reduce average carbon dioxide emissions (and hence fuel consumption) of new cars by at least 25% by 2008.
18. Ibid
19. Ibid
20. HM Government (2000), *Transport 2010 - the background analysis*, Department of the Environment, Transport & the Regions, paragraph 13
21. HM Government (2000), *Transport 2010 - the background analysis*, Department of the Environment, Transport & the Regions, paragraph 11
22. Ibid
23. HM Government (2000), *Transport 2010 - the 10 year plan*, Department of the Environment, Transport & the Regions charts 9b and 9c
24. Institute for European Environmental Policy (2002), *Calculating Car Fuel Duty Increases to 2010*
25. Home zones are residential areas that have been made safer through giving priority on roads to pedestrians and cyclists rather than cars, a changed street layout and 10 mph speed limit.
26. All costs from Transport 2000