LONDON'S CONNECTIVITY COMMISSION

London, Britain and the world: Transport links for economic growth

February 2012

Executive Summary

London First

London's Connectivity Commission

The London First Connectivity Commission was established in early 2011 to consider how best to maintain and improve London's transport links with the UK and the rest of the world in order to support London's continued economic growth.

The Commission was chaired by Peter Robinson, Chairman of Berwin Leighton Paisner. It comprised senior business people from a range of business sectors who expressed their personal views, rather than those of their companies.

The Commission took written evidence from 40 parties, held witness hearings with 20 key individuals and sought the views of a reference group of practitioners and experts. Detailed discussions were held with more than 70 London First members and stakeholders throughout the process.

The Commission's full report is available on the London First website.

Commissioners

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Context

London is undeniably one of the premier World Cities, trading goods and services across the UK and around the globe. It is home to many of the world's leading companies and has globally competitive industries including medical science, creative industries, professional and financial services and design-led manufacturing, as well as a dense cluster of world-class universities. This global talent hub is some 30 per cent more productive than the rest of the UK. It is the powerhouse driving the nation's economic well-being and consistently contributes more in tax than it receives.

Among the key factors in London's historic success has been its connectivity – its transport links with the rest of the UK and the international links that have enabled it to export its skills to new markets as they have emerged. These, in turn, have allowed London to attract talent and investment from around the world.

However, London's ability to maintain these links is under threat. Congested roads, overcrowded trains and aircraft circling above the South East waiting for permission to land at Britain's only hub airport, Heathrow, are all signs of our critical strategic transport infrastructure operating at its limits and lacking resilience when put under pressure.

Significant improvement is therefore required in London's connectivity, both with the rest of the UK and, even more crucially, with emerging international markets. Access to markets, and accessibility for individuals, are fundamental to creating and supporting jobs and enabling the capital to continue to spearhead the UK's growth.

This pressing need is the legacy of historic failures in transport planning. But these failings can be rectified if government grasps the severity of the problem and is prepared to make decisions in the interests of the UK's medium and long-term prosperity. This report proposes a more effective planning framework and a series of policy and practical recommendations to deliver short, medium and long-term improvements to London's road, rail and air links. It does so in recognition of current global economic uncertainties and the constraints on public spending, but with the conviction that these steps must be taken if London's future as a leading World City is to be secured.

This summary is drawn from the full report ***London, Britain and the world: Transport links for economic growth***, available at www.londonfirst.co.uk.

Improving the institutional framework for decision making

The Treasury has described the UK's approach to infrastructure investment as "timid, uncoordinated, incremental, wasteful in its procurement and insufficiently targeted to supporting balanced and sustainable growth in the economy." The UK's transport infrastructure has been victim to prolonged underinvestment and a failure by successive governments to plan ahead.

Demand for the UK's transport links has grown significantly in the past thirty years, and is set to continue rising. Given that London's key transport links are now operating at or close to capacity, and 'virtual' meetings have not – and will not – substantially replace the need to travel, the only rational response is to plan to meet future demand, while keeping changing patterns of demand under review. The Commission identified four areas of institutional reform that government should pursue to result in better plans, together with the funding needed to deliver them.

i. A strategic, long-term approach to infrastructure policymaking to provide the policy certainty needed by infrastructure investors. Sectoral policy frameworks should set down how strategic infrastructure is to be planned, evaluated, delivered and funded.

ii. A more predictable approach to land use planning to give promoters and investors greater certainty of delivery.

Recommendation 1: The government must now deliver on its planning reforms for infrastructure by ensuring they provide timeliness and predictability, in tandem to improving democratic accountability.

iii. A joined-up transport policy that considers, in particular, the interfaces between various modes of transport and from national or international links to local ones.

Recommendation 2: The Department for Transport (DfT) should deliver on its stated ambition to improve end to end journeys for passengers. Its forthcoming national rail and air strategies should contain the practical and policy means to define, measure and benchmark improvements to the interfaces between London's road, rail and air networks.

iv. Consistent prioritising of investment to focus on the provision of infrastructure most likely to yield the greatest contribution to economic growth.

Recommendation 3: In order to prioritise limited public resources to secure the best returns, the government should capture the likely Gross Domestic Product (GDP) impact of investment in road and rail infrastructure, and incorporate it into any analysis of benefits and costs. A new national aviation policy should similarly consider which investment in air transport infrastructure is most likely to yield the greatest contribution to sustainable economic growth.

Increasing the quality and capacity of London's road, rail and air links

Road links

On the strategic road network of motorways and trunk roads linking London to other cities, demand has outstripped supply, particularly at peak. On the major roads converging on the capital, heavy congestion is common for most of the time in the morning and evening rush hours. Last year a fifth of all delays on the motorway network occurred on the M25 alone.

A comprehensive and sustained strategy is needed to improve the reliability of the network. It should combine more efficient utilisation of the current network assets; a framework to provide new capacity where need is justified; and in the longer term a role for charging to ration capacity at times of peak congestion.

In the short term, the only practical way to cut congestion and improve reliability is for the Highways Agency to manage its road assets ever more effectively. Given the value to the economy of those journeys on routes into and around major urban centres at peak, a targeted performance regime should be put in place to cut congestion on these roads.

In parallel, the Highways Agency should be enabled and encouraged to deliver additional capacity from existing roads through accelerating its programme of hard shoulder running. Sections of the network should be prioritised according to a clear framework that incorporates the wider economic benefits of additional capacity.

Recommendation 4: Tailored performance regimes should be applied to those parts of the network of most importance to the economy. The Highways Agency should publish annual statements of delivery against those targets set.

In addition, existing roads will require ever more focused management from the Highways Agency. Alongside current measures to minimise congestion, the Highways Agency should accelerate its programme of hard shoulder running.

An objective assessment should identify those parts of the network facing greatest pressure now. On the basis that all options to relieve those pressures and meet growing demand by sweating the assets have been exhausted, it should establish the benefits of targeted expansion. The government has committed to a strategy to decarbonise surface transport over the next twenty to thirty years. Should there be extensive take-up of low-carbon vehicles, one of the arguments against new road building – its carbon impact – would effectively be removed as would wider environmental concerns over, for example, particulate emissions.

In the medium term, the Highways Agency should seek to procure efficient outcomes from the private sector – including new network capacity – without prescribing the technology or methods to achieve them. It should have greater autonomy in doing so and work at a greater distance from government, with the Transport Secretary playing a stronger client role as a representative of road users and applying greater pressure and scrutiny on performance.

In parallel, the Commission believes that the way in which strategy and funding for the rail network is set has proved effective, and should be replicated. Decisions determining investment in road infrastructure are too short term. Funding is subject to significant variation between and within years, driven not by the needs of the road network but by the needs of the Treasury at any given time to balance the books.

Recommendation 5: The government should put the Highways Agency on a firmer, more independent footing with a wholesale modernisation and a recasting of its relationship with the private sector. The Transport Secretary should play a stronger client role for an agency that has a clearer remit and a greater separation of its functions.

Recommendation 6: In turn, a modernised Highways Agency should be supported by a clearer, longer term policy framework from government. The government should introduce five-year planning and funding cycles, set in the context of a longer term strategy, as exist for rail.

The road network is the one part of our transport infrastructure which is generally free at the point of consumption. The efficient allocation and management of this scarce resource will, in the long term, depend on the introduction of charging, both on the most congested parts of the strategic road network, and in the dense urban areas linked by this network.

A system of charging could target, and differentiate, those parts of the strategic road network or dense urban areas that experience the worst congestion by requiring motorists to pay for access at certain times of the day. Securing public – and thus political – acceptability would require some reductions in other forms of motoring taxation.

Recommendation 7: The Commission believes the economic case for charging to cut congestion and its impact on the environment is strong, and the case for it will grow stronger as congestion grows. The government should identify those urban areas and sections of the strategic network with the worst congestion. It should then, with local authorities, develop and consult on a variable charging system with the aim of cutting this congestion, particularly at peak.

Rail links

The last two decades have seen considerable and sustained public investment in the rail network to boost capacity and improve service quality. However, while London is well served by the range, frequency and, increasingly, the reliability of rail services, demand outstrips supply. Over 500,000 people enter central London by rail in the rush hour – fourteen times more than do in England's next largest city. The ten most overcrowded rail services in the UK serve the capital and half of rail passengers travelling to London in the rush hour do so in conditions classed as overcrowded.

There is a strong economic case for increasing the capacity of London's commuter and long-distance rail links, as well as their interchanges with London's transport. Crossrail and Thameslink, vital additions to London's transport infrastructure capacity and integral to improvements on the national rail network, must now be delivered, efficiently and on time.

On London's international rail links, the growth of services is unlikely to be constrained by limits on capacity in the short term. But as the European rail market is opened up, more effective regulation of individual national railways and the Channel Tunnel will be needed to enable competition to flourish.

Recommendation 8: The Intergovernmental Commission (IGC) should complete its review of access charges to the Channel Tunnel swiftly to maintain the long-term stability and certainty required by existing concessions and needed to attract future investment. The IGC should bring greater transparency to the calculation of charges and the investment they support.

In tandem, the government should press for regulatory reform and modernisation to support a competitive market for international rail services, as it has done in modernising the economic regulation of UK airports.

Ahead of its next funding settlement, Network Rail has identified an initial range of options for increasing capacity on key routes serving London in the period to 2019. These are principally incremental improvements to track, signalling, trains and stations rather than major new projects such as Thameslink. They assume the completion of the Tube modernisation programme, which remains unfunded beyond this parliament. In setting high level outputs for the rail network, the DfT should confirm the role the Tube upgrade programme will play in meeting demand.

Recommendation 9: Investment to grow rail capacity in London and the South East will continue to be required, and for the next control period should generally take the form of incremental upgrades rather than major new schemes.

Despite a 57 per cent growth in passengers since 1997, rail industry unit costs in 2010 are in real terms almost exactly the same. Over the same period there has been a 75 per cent real-term increase in passenger revenues and government subsidy has roughly trebled. The industry is running a £4.3 billion operating deficit.

Services in London and the South East generate about half of all fare revenue. They also receive the lowest levels of subsidy in the country. The Commission believes that the delivery of essential new capacity on the national rail network will, for the foreseeable future, continue to depend on a significant contribution from public expenditure. However, the case for this subsidy will need to be accompanied by demonstrable improvement in services, significant efficiency improvements and some continued contribution from fare payers.

Recommendation 10: The high annual fare increases now in place are not sustainable in the medium term. Tangible progress on cost reductions by the industry must demonstrably be made. While investment in new capacity will need to be supported by a contribution from both taxpayer and fare payer, government should review the allocation of scarce subsidy, and ensure that economic growth is being sufficiently prioritised.

In the long term, the Commission believes that if a new high speed rail (HSR) network is to deliver its promise by bringing much-needed new capacity to commuter and intercity routes, and retain the support of London business, certain conditions must be met.

If we are to start, we must finish. The real transformative benefits of HSR come from linking a network of cities to London and to each other: first Birmingham; then Leeds/Manchester; and ultimately Scotland. Moreover, HSR must be an 'and' not an 'or'. This visionary, potentially transformative, grand project must be in addition to other vital work needed to upgrade the existing transport network, to address both historic underinvestment and to meet future demand. This includes completing upgrades to the Tube and rail networks to relieve overcrowding, as well as planning for longer term projects needed to meet demand, such as Crossrail 2.

Recommendation 11: Proposals for a new HSR network should come with commitment from government to sustained and sufficient levels of investment in other essential transport infrastructure; a clear strategy for a link to Heathrow that meets the growing demand for flights; and a comprehensive strategy to reduce forecast congestion at Euston.

Air links

London's international air links are critical to the capital's, and indeed the country's, economic success. The Organisation for Economic Co-operation and Development (OECD) states that GDP, GDP per capita and international trade are the major drivers of demand for travel. It predicts highest economic growth in the next twenty years in the Asia-Pacific region, and expects this to translate into rapid growth in trade and demand for transport.

The International Monetary Fund (IMF) predicts that over the next decade approximately half of all the economic growth in the world will be in the eight largest emerging market countries (including China, Indonesia, Korea, Russia and Brazil). Moreover, emerging market economies are forecast to overtake advanced economies' share of global GDP by around 2024. With much of Europe facing a prolonged period of low growth, business is increasingly looking to these markets for opportunities to expand.

London is served by four major point-to-point airports and the UK's only international hub airport, Heathrow. While Heathrow supports frequent services to established US and European markets, the absence of spare capacity constrains its ability to offer the range of international long-haul routes to the fastest growing economies that its rivals offer. London is currently at a competitive disadvantage as a result of its increasingly poor connections with growing markets in Asia and Latin America.

London has fewer weekly flights than its European rivals to half of the emerging market economies, and seven of the eight growth economies identified by the IMF. And it has no direct air links to the emerging economies of Chile, Colombia, Peru, Venezuela, Indonesia and the Philippines – links that other European cities possess.

London requires new hub capacity now and will require further investment in point-to-point capacity over time. There is no easy course of action to meet this need. All options for new hub capacity present substantial challenges in terms of their financing, funding and local environmental impact, and all will require political will. But without urgent action to meet this need, government runs the risk that investment decisions being taken both by businesses in growing economies and by the airlines that serve them will be difficult, if not impossible, to reverse. Policy drift will lead to a gradual erosion of London and the UK's competitiveness.

The Commission believes that proposals for new hub capacity should be assessed on the basis of their deliverability in the short and medium term (the next fifteen years), given the urgent need to tackle the consequences of Heathrow's overutilised capacity.

In the next five years, the only measure capable of bringing an increase in hub capacity is an operational one, namely enabling Heathrow to use its existing runways more efficiently by allowing planes to land and take-off concurrently on both runways. Freedom to operate in this way could increase runway capacity by 10–15 per cent.

Recommendation 12: Heathrow airport should have greater freedom to operate more efficiently by allowing planes to land and take-off concurrently on both runways. The capacity released should be used both to improve resilience and to provide an increase in the overall number of flights.

Recommendation 13: Freedom to optimise the use of current capacity should be accompanied by credible, deliverable and independently enforced measures to mitigate and compensate for the local impact of additional noise. In support of this, the government should commission expert advice from the regulator on ways to minimise and manage the distribution of noise from different flight patterns.

Additional hub runway capacity is required as soon as possible. The Commission's approach has been to take a step back from the immediate politics of aviation and look at the evidence – what London needs and how these needs can be met. It has sought to understand whether or not London's need for additional hub capacity can be met by proposals in the medium term (the next fifteen years), and in doing has considered the range of options.

i. 'Do nothing'

Economic modelling has estimated the impact on the economy of doing nothing. While there are many variables, and a range of forecasts from £20 billion to £47 billion, the Commission is in no doubt that the cost to the economy of doing nothing would be high. In this scenario, government would come under pressure to intervene to redistribute the use of existing capacity at Heathrow to prioritise flights to certain types of destination. We do not believe such an attempt would deliver acceptable or efficient outcomes; and we believe this would be a distraction from the real need: more hub capacity to provide greater connectivity.

ii. A 'dual hub' involving Heathrow and another airport

It is suggested that a hub at Heathrow could be sustained by expanding capacity elsewhere (for example Gatwick) and improving surface transport links between the sites to enable passengers to connect. The Commission is not persuaded that this could work. In particular it is sceptical that these options could deliver the minimum connection time required by passengers (and for their bags and other cargo), and available at other European hubs with co-located facilities.

iii. A new hub airport

A new hub airport could offer state of the art infrastructure in a location with world-class transport links and the scale to meet London's needs against the most stretching forecasts of demand growth. Depending on its precise location, it also offers the potential to disperse

local environmental impacts, such as noise, over a less populated area. Although there are no comprehensive, fully costed plans in place, the vision for a new hub airport represents the sort of long-term infrastructure planning that London will need if it is to remain competitive.

The Commission believes a new hub airport is likely to take at least twenty to thirty years to deliver and cannot therefore meet the urgent need for new hub capacity that London faces today. The critical constraint is that if it is to be built, even within twenty to thirty years, it will require political leadership and consensus now: not just over its location but over the specific planning process and significant public investment required. And while a new hub airport may have merit, the cost of failing to address the need for new capacity in the short and medium term must be acknowledged, understood and factored into any assessment of it.

iv. The expansion of Heathrow

A third runway at Heathrow is the most developed option for expansion in the next decade, with a planning application, financing and funding in place. It could thus be delivered within the next decade. It is also, in part because it is a developed scheme, the most controversial.

The Commission believes that, overall, the case for expanding Heathrow is strong. Britain faces severe public sector financial constraints and low growth from its traditional major export markets. The need to seek out growth and demand in new markets makes the case for a privately financed, fundable and deliverable means of growing London's connectivity in the next decade even stronger. In its development of a new national aviation policy, government should examine all options including Heathrow and the case for a new hub airport, to meet London's long-term needs.

Recommendation 14: We call on the government to amend the criteria for its review of national aviation policy to include the option of Heathrow expansion and to choose the best option for Britain. A third runway at Heathrow appears to the Commission to be the most credible solution to meeting London and the UK's vital need for increased hub capacity in the medium term (the next fifteen years).

Recommendation 15: The government should similarly consider how further point-to-point capacity in London and the South East should be provided in the next fifteen years where merited by demand.

Given that the delivery of a new hub airport is likely to take at least twenty years, in examining the case for a new hub airport, government should include a calculation of the tangible cost – or opportunity cost – of rejecting each credible proposal, including the costs of failing to expand Heathrow in the intervening period.

Recommendation 16: The government's review of national aviation policy should include the option of a new hub airport and examine the opportunity costs of all credible proposals. It should verify that London and the UK have sufficient hub capacity to support economic growth.

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