Campaign for Better Transport

Briefing on the risks of toll road investment in the UK

Introduction

There are some important problems with the suggestion that private pension schemes should invest in long-term toll road projects in the UK, a proposal that is currently a potential new Government initiative to promote growth.

Campaign for Better Transport supports the principle of enabling pension funds to be invested in many types of long-term infrastructure projects, including stations, light rail, urban transport hubs, green energy facilities and energy saving. However, there are a number of serious issues that should deter private investors and pension schemes from funding new and expanded roads in this way.

These include:

- Uncertainty about timescales for regulatory approval and delivery of the new infrastructure, caused by community opposition
- The need for large guarantees from Government to make these investments attractive, which are vulnerable to political changes and pressure
- Evidence that forecasts for traffic on existing toll roads are over-optimistic
- In the longer term, the likelihood that that other Government policies in the UK will affect traffic levels negatively. This trend is already evident in flat levels of traffic growth since 2006/7

What is being proposed?

The UK Government is rumoured to be looking for ways to build new roads, and expand existing roads, by attracting private investment. For road projects, tolls are being proposed by industry groups as a way of maintaining an income stream for these projects,[1] and it is possible that these proposals may gain support from the Government in the autumn statement by the Treasury, due on 29 November 2011.

Of the roads maintained by the Highways Agency, the A14 between Rugby and Felixstowe and the A1 in the North East of England have been put forward as likely projects to be offered to the private sector as toll roads in the near future.[2,3]

Local authority-maintained roads are also likely to be included in any plans. Of these, the Mersey Gateway Bridge project would be the first, as this PFI-funded toll bridge proposal has already reached the stage of seeking bids from interested parties.

[1] http://www.racfoundation.org/assets/rac_foundation/content/downloadables/providing_and_funding_strategic_roads-arup-071111.pdf
[2] http://www.ft.com/cms/s/0/12cbdf3a-0a11-11e1-8d46-00144feabdc0.html
[2] http://www.ft.com/cms/s/0/12cbdf3a-0a11-11e1-8d46-00144feabdc0.html
[3] http://www.cbi.org.uk/media-centre/press-releases/2011/11/time-is-right-for-plan-a-plus-cbi/

One major toll road in the UK has already been built through private investment – the M6 Toll in the West Midlands, which opened in 2003. In August 2010, Campaign for Better Transport completed a detailed study into problems with this project, finding the investor is losing around £26 million a year because traffic levels on the motorway are far lower than expected. The conclusions from this report are also summarised here.

Problems with the Mersey Gateway Bridge

In January 2011, Campaign for Better Transport and the regional group North West Transport Activists' Roundtable asked consultants experienced in private finance projects to look at the Mersey Gateway Bridge proposal and see what the risks were.

The resulting report highlighted that the bridge had a very high risk of shortfall in toll income due to the need to set a level that was comparable with other Mersey crossings (two non-tolled tunnels, a motorway and an existing bridge that would be tolled as part of the package). This was made more serious by local proposals to provide discounts for nearby residents, following public pressure. Data suggests these discounts might affect 90% of traffic on the bridge.[4]

After further guarantees from the local authority, Halton Borough Council, this scheme is currently seeking tenders from contractors. However, investor risks from lower than expected toll levels and traffic still remain and we understand that at least one major contractor has already reconsidered its involvement because of these risks.

Problems with the M6 toll road

Our report '*The M6 Toll, five years on'* can be downloaded from:
http://www.bettertransport.org.uk/system/files/M6-Toll-Report-Aug-10.pdf

This project notably failed to bring in the expected toll revenue, and proved a poor investment.

- Whilst traffic on the M6 has continued to rise since the opening of the toll road, the average daily flow on the M6 Toll has not met expectations, and has been falling sharply since 2006.
- Five years after opening, weekday traffic was down 3-5%, Friday traffic by 14-15%, and Saturday traffic by 30%
- As a result of lower than expected traffic levels and toll income, and high debt financing commitments, Midland Expressway Ltd posted losses of around £26 million a year between the road's opening in 2003 and 2010
- Revenue is now in steady decline, as traffic on the toll road has been falling since 2006.
- Even when the road was busiest (when there were major roadworks on the M6), MEL was still losing millions of pounds a year

In addition, the Highways Agency has recently expanded the existing M6 in order to relieve congestion, which has persisted despite the availability of the M6 Toll. This has added to problems with low traffic levels on the toll road. Since our report was published, traffic levels have continued to fall, with some estimates suggesting a 5% drop in vehicle use during 2010.

[4] http://www.bettertransport.org.uk/system/files/mersey-gateway-report.pdf

Other problems facing private toll roads in the UK:

Falling traffic levels not reflected in forecasts

Flat traffic growth in the UK has been seen since 2006/7,[5] and is not simply a product of the economic recession but also of a positive and growing desire – particularly among younger people in towns and cities – to live without car ownership and make use of high quality alternatives.[6]

Traffic forecasts used to appraise major transport proposals within the Department for Transport have yet to take this trend fully into account. This is a serious issue but, because the aim of appraisal is simply to compare schemes in a consistent way, not critical. However, questions should be asked if these same forecasts are used as the basis for a long-term investment proposal, especially one upon which people's pensions will depend.

This problem with predicting traffic levels is only likely to become more acute in future. The UK has legally binding climate change targets which make it necessary to achieve significant carbon reductions across all sectors.

The Committee on Climate Change sees the expansion of electric vehicles as key to achieving this but, even with the most optimistic scenario for roll-out of electric vehicles, cuts to the distance travelled by car are still needed to achieve the required carbon reductions from surface transport over the next ten years.[7] Given the slow take-up of electric vehicles so far, policies to reduce traffic levels will become more likely over time.

Wider inaccuracies in traffic forecasts

Internationally, forecasts supporting toll roads have also been shown consistently to overestimate traffic and revenue from tolls. Consultant Robert Bain has recently analysed 100 completed toll road projects around the world and found that:[8]

> *"…on average toll road traffic forecasts were over-optimistic by 20-25%. The range of forecasting error, denoted by the large standard deviation, is considerable. In some toll projects, traffic performance exceeded expectations by 50%. In others, outturn traffic was less than 20% of the respective forecast."*

Diversionary routes

In addition to the general problems with traffic forecasts in the UK and internationally, it is important to note a major difference between the road network in the UK, compared with Australia, the USA and Europe.

The UK's road network is already built to a very high density in a well-connected system. The Eddington Transport study in 2006 looked at the links between transport and the economy for the UK Government. It found that:[9]

> *"The UK has a higher percentage of its urban population connected to the strategic road and rail network than our major European competitors (over 45 per cent are connected to the strategic road network); over two-thirds of the UK's 73 town and cities with more than 100,000 inhabitants are directly connected to the motorway network and nearly two-thirds to the rail network."*

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[5] http://assets.dft.gov.uk/statistics/releases/road-traffic-quarter-3-2011/road-traffic-estimates-quarter-3-2011.pdf
[6] http://www.rudi.net/node/22123
[7] Meeting Carbon Budgets – the need for a step change: Progress report to Parliament, Committee on Climate Change, October 2009
[8] http://www.robbain.com/TTI%20Interview%20Feb%202011.pdf
[9] http://www.thepep.org/ClearingHouse/docfiles/Eddington.Transport.Study%20-%20Rod.pdf

The large number of diversionary routes available to drivers this implies would introduce another degree of unpredictability to traffic forecasts and make them more sensitive to the level of any toll. This is yet another reason to question any firm revenue predictions for toll roads in the UK.

Political risks and delays in delivery

If specific road proposals emerge from this process, they will be subject to severe political risks due to the unpopularity of the toll road concept in the UK.

Motorists here are a very vocal campaigning constituency, acutely sensitive to any payment being added to their existing costs for vehicle excise and fuel duty. They are very unlikely to accept widespread tolling, especially if applied to existing roads, putting investments at risk from changes in Government policy and other political factors throughout the life of any contract.

- When proposals for road pricing were mooted in 2007, the petition against it on the official Government 'Downing Street' website was the most popular ever recorded, with more than 1.8 million signatures against the whole concept of pay-to-drive, calling it "*sinister and wrong*".
- The extreme unpopularity of a new toll bridge to the Hebridean island of Skye led to the bridge project being renationalised just 9 years into a PFI-funded deal. The charge was scrapped by the Scottish Government in 2004[10]
- This year, rising fuel duty has again sparked a mass petition from motorists, with a call to further delay increases being one of the first petitions to force a debate in the House of Commons.

Local communities and environmental campaigners along the route of any new road are also likely to be effective in opposing and delaying any specific scheme proposals. Campaign for Better Transport's experience of working with local campaign groups in affected areas has been that they are some of the most committed campaigners of all.

Road projects have also been delayed and cancelled as a result of delays to statutory processes, legal challenges, protest action and occupations, and the commitment of local people and environmentalists to protecting vital areas of countryside should not be underestimated when weighing up the risks of investing in a major road project.

Better options

Public transport infrastructure represents a much more secure and good value investment. Where rail re-openings have occurred there is strong evidence that the returns on investment are stronger than expected, with higher rates of usage than forecasts predicted.[11] For instance, the Ebbw Vale – Cardiff line (reopened February 2008) was, by October 2009, carrying one million passengers against a projected 'estimate' of just 400,000 by 2012.

Campaign for Better Transport has looked in detail at private finance options for rail station development, which we also believe to be a far more promising prospect for private investment than toll roads. With law firm Norton Rose, we organised a conference in London in June 2011, which looked at the practical needs, opportunities and financing of station improvements in the UK.

[10] http://news.bbc.co.uk/1/hi/scotland/4112085.stm

[11] For examples, see *How Actual Rail Demand Far Exceeds Theoretical Modelling 'Forecasts': The Need for Fairer and More Representative Assessment Procedures*, Railfuture Scotland, 2009.

Speakers from the Department for Transport, Network Rail, local authorities, train operating companies, and experts in law and finance discussed how long-term private investment in stations could be brought about by simplifying the process of making agreements between investors and different stakeholders.

The presentations from this conference can be downloaded here:
http://www.nortonrose.com/invitations/2011/the-future-of-station-development-50520.aspx

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Campaign for Better Transport

Campaign for Better Transport's vision is a country where communities have affordable transport that improves quality of life and protects the environment. Achieving our vision requires substantial changes to UK transport policy which we aim to achieve by providing well-researched, practical solutions that gain support from both decision-makers and the public.

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