How are we going to pay for our future transport infrastructure?

Graham Winter

Further investment to improve roads and railways in Wales will be vital to the regeneration of Wales' economy but public sector funding for such schemes will be drastically reduced over the next few years.

The case for investment

The lack of investment in high quality and sustainable transport infrastructure is a key concern to the business community in Wales. The economic case for targeted new infrastructure is strong and can offer very high returns. Smaller projects which unblock 'pinch-points', plus schemes to support public transport in urban areas are likely to offer the very highest returns, sometimes higher than £10 for every pound spent.

The last Welsh Government's Economic Renewal Programme called for a new emphasis on investment in road and rail improvements across Wales as an important way of regenerating the economy after the recent downturn.

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Future plans

The last Welsh Government's National Transport Plan published in 2010 contains an ambitious programme of road enhancements that are to be built over the next five years to 2015 such as:

- further improvements to the A470 north-south Trunk Road;
- dualling the A465 Heads of the Valleys route by 2020;
- a package of measures to provide relief for the M4 in south-east Wales.

Rail enhancements in the plan include:

- removing major line capacity constraints between Wrexham and Chester and in West Wales near Gowerton;
- further investment to improve the capacity of the Valleys Lines network.

Most of these schemes will depend on capital funding from the Welsh Government. When railway lines are improved and platforms are extended then money also needs to be found to pay for the extra train services and rolling stock that is needed following the capital investment.

There are also proposals for future large-scale investment in the railways, such as electrification of the south Wales mainline and of the Cardiff and Valleys Lines that will not go ahead without substantial funding from the UK Government. This is because responsibility for such schemes is not devolved to Wales at the moment. The cost of the electrification of the south Wales mainline from Didcot via Bristol to Cardiff is likely to be at least £700 million or closer to £1 billion if the project does eventually go all the way to Swansea.

Looking beyond this, public bodies in Wales have joined forces as the Great Western Partnership to campaign for a completely new high speed railway line to carry trains at speeds of at least 200 mph from Wales and the west of England to London and so on to the rest of Europe. The cost of such a line would be many billions of pounds including an expensive new Severn Crossing or tunnel.

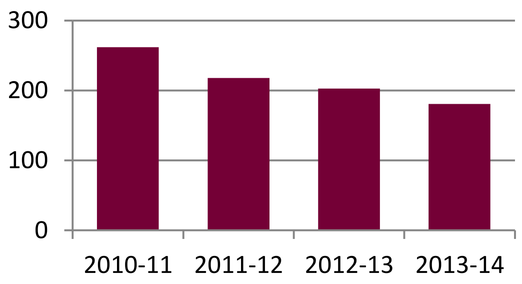
Comprehensive Spending Review

The in-coming UK Government's comprehensive spending review of last autumn had a knock-on impact on the Welsh block grant so that the money available for road and rail schemes is likely to be severely squeezed over the next few years. The budget set by the last Welsh Government included a reduction of more than 35 per cent in real terms capital expenditure on transport over the next three years.

> ***The money available for road and rail schemes will be severely squeezed over the next few years***

European Union money has been used in eligible areas to supplement transport budgets but will not be able to compensate for the budget reductions in the next few years.

Reduction in the Transport Capital budget (£ millions)



Source: Welsh Government

Where else could the money come from?

At present the Welsh Government cannot directly borrow money but local authorities can.

Different ways of funding transport projects using private finance are not new. Part of the A55 Trunk Road was improved and the Newport Southern Distributor Road was built under the Private Finance Initiative. The last Welsh Government did not favour the use of private funding initiatives for transport projects until towards the end of its term in office when it started to look on them more favourably.

Two options for future transport funding:

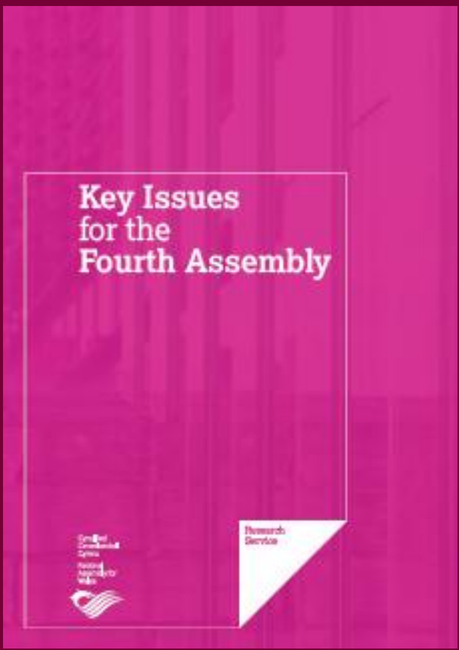
Private Finance Initiative (PFI) – a form of Public Private Partnership (PPP) where the private sector provides an asset against an agreed specification of required outputs prepared by the public sector. The private sector is responsible for designing, financing, constructing, maintaining and operating the infrastructure. The public sector pays for the project over a number of years.

Road Pricing –charging directly for the use of roads. Examples include traditional methods using toll booths on toll roads, as well as more modern schemes of electronic toll collection such as the London Congestion Charge.

The last Scottish Government has set up the Scottish Futures Trust to come up with novel funding models. So far the Trust has a couple of models working. One of these is Tax Incremental Financing, which is a 'US style' tool that lets local authorities borrow money for regeneration and infrastructure against their future income from business rates.

It is clear that the new Welsh Government will need to adopt a strategic approach to alternative models of financing transport infrastructure, including various forms of Public Private Partnership or road pricing, if it wants to deliver the National Transport Plan over the next few years and future transport projects in the longer term.

Article taken from Research Service publication



Key Issues for the **Fourth Assembly**

This document has been specially prepared for Assembly Members by the Research Service. It sets out some of the key issues likely to matter to Members during the Fourth Assembly.

Key Issues for the Fourth Assembly

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