

Contents	Pages
<hr/>	
REPORTS OF MEETINGS	
The Greater London Authority <i>Tony Travers, Greater London Group, LSE</i> <i>Keith Gardner, London Planning Advisory Committee</i> October 1997	1 - 11
Developments in Canadian Transport <i>Mark Bunting, P.M. Bunting & Associates</i> November 1997	12 - 19
European Union Transport Policy <i>John Fawkner, London Transport</i> December 1997	20 - 24
<hr/>	
ARTICLE	
Observations on the Cost of Private Finance <i>Peter White, University of Westminster</i>	25 - 27
<hr/>	
PAMPHLET REVIEW	
Three Steps to Integration: Information, Investment, Innovation <i>Reviewed by Stephen Bennett</i>	28
<hr/>	
TEG NEWS	
Meetings April-May 1998	30
Recent Publications	30
Report of Annual General Meeting: Treasurer's Report and Accounts	31 - 33
The TEG Committee for 1998	34
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THE TRANSPORT ECONOMIST

Volume 25 Number 1
Spring 1998

The Journal of the Transport Economists' Group

TRANSPORT AND THE ECONOMY

Editorial Board
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Volume 25 Number 1
Spring 1998

Editorial Board

Editor
Laurie Baker, London Borough of Camden

CONTENTS

	Page
REPORTS OF MEETINGS	
Transport and the Greater London Authority <i>Tony Travers, Greater London Group, LSE</i> <i>Keith Gardner, London Planning Advisory Committee</i> October 1997	1
Developments in Canadian Transport <i>Mark Bunting, P.M. Bunting & Associates</i> November 1997	12
The Rôle of Public Transport in Europe <i>John Fawkner, London Transport</i> December 1997	20
ARTICLE	
Observations on the Cost of Private Finance <i>Peter White, University of Westminster</i>	25
PAMPHLET REVIEW	
Three Steps to Integration: Information, Investment, Innovation <i>Reviewed by Stephen Bennett</i>	28
TEG NEWS	
Meetings April-May 1998	30
Recent Publications	30
Report of Annual General Meeting: Treasurer's Report and Accounts	31
The TEG Committee for 1998	34

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TRANSPORT AND THE GREATER LONDON AUTHORITY

Tony Travers, Director, Greater London Group, London School of Economics and
Keith Gardner, Assistant Chief Planner (Transportation), London Planning
Advisory Committee.

Funding and Responsibilities of a GLA

Tony Travers considered the broad strategic issues that are raised by the proposals put forward in the Government's Green Paper for a Greater London Authority: "*New Leadership for London*". He talked about the sources of funding and responsibilities of the new authority.

These proposals are that a mayor and an assembly be directly elected and that together they would fulfil various functions in the running of the Greater London Authority (GLA). The GLA would be housed in a small building and have a lean organisation.

The mayor's office would be responsible for:

- appointments to various boards;
- setting annual budgets; and,
- making policy.

The constituency that would elect the mayor and the assembly would comprise seven million people and this enormous constituency might be expected to confer enormous power on the mayor. "At the other end of the corridor", in the GLA building, the assembly keeps a check on the mayor's activities. The assembly will probably have 24 members. It is likely that some form of proportional representation will elect the mayor and the assembly. With the GLA constituted in this way, a different kind of local government to that which exists at the moment is going to be created; already national politicians are positioning themselves as candidates for the post of mayor.

Since the assembly scrutinises the mayor's actions, some form of conflict resolution is required. The assembly is unlikely to be Borough based. US style primary elections will probably take place, where the political parties will choose their candidates.

Early opinion polls suggest that independent candidates may be favoured. For example, there are 400,000 people of Indian descent in the greater London area; independent candidates for the post of mayor, or for a position as an assembly

member, could campaign with the objective of appealing to Indian voters (for example). Given the size of the constituency which will elect the mayor and the assembly, less emphasis will be placed on where voters live than occurs with the present parliamentary and local government constituencies, rather the ability of candidates to appeal to particular interest groups will become more important.

It is envisaged that various deputy mayors will also be elected.

The Gross Budgets for the existing providers which at present carry out the functions that are likely to be taken over by the GLA are:

	<u>£m</u>
London Transport	1,540
Metropolitan Police	1,940
London Fire and Civil Defence Authority (LFCDA)	293
Highways Agency	74
London Arts Board	14.4
English Partnerships	c50 (inc Greenwich)
Traffic Director for London	17
London Boroughs Grant Committee	29.4
London Pensions Fund Authority	22.7
Traffic Control Systems Unit (TCSU)	28

The Metropolitan Police, London Transport and the London Fire and Civil Defence Authority (LFCDA) have substantially larger budgets than the other providers. These agencies receive funding from different sources, for example, London Transport gathers farebox revenue. Will the GLA have a general budget from which funding for these various providers is extracted?

Funding of services provided by the GLA may come from:

- **Precept** - a levy on boroughs to pay for services provided centrally
- **General government grant**
- **Specific grants**
- **Charges**

Possible new income sources include revenue from off-street and on-street parking charges, congestion charging and a tourism tax.

The existing providers within London are divided between a myriad of institutions:

- **Environmental protection** is divided between the Environment Agency and the boroughs.
- **Arts, heritage and sports** are provided by the Arts Council, London Arts Board, Sports Council (London Region) and the boroughs.
- **Grants to voluntary organisations** are given by the London Boroughs Grants Committee and, individually, by boroughs.
- **Pensions** are covered by the London Pensions Fund Authority.
- **Tourism and economic promotion** are provided by the London Tourist Board and London First.
- **Research** is done by London Research Centre.
- **Strategic land use planning** is done by the Department of the Environment, Transport and Regions, the Government Office for London (GOL), London Planning Advisory Committee and the boroughs.
- **Fire and Civil Defence** is provided by the LFCDA.
- **Urban Regeneration** is covered by GOL, English Partnerships, London Docklands Development Corporation, the boroughs and Single Regeneration Budget partnerships.
- **Public transport** is provided by London Transport, LDDC, Train Operating Companies, boroughs and London Committee on Accessible Transport.
- **Roads and traffic management** are divided between the Highways Agency, Metropolitan Police and City Police, Traffic Director for London, TCSU and the boroughs.
- **Policing** is done by the Metropolitan Police, City Police, British Transport Police and Royal Parks Police.

The GLA and transport

The roles proposed to be played by the mayor and the assembly in the operation of the various authorities, set up under the GLA are:

- to appoint senior staff within the mayor's office and assembly's office;
- to appoint board members;

- to approve chair/chief executive;
- to set policy;
- to set annual budget;
- the assembly will scrutinise mayor and agencies;
- the London Transport Authority (LTA) will be one of the key agencies.

The organisations whose activities the LTA would be expected to co-ordinate and influence are:

- London Transport, subject to major reforms.
- Traffic Director for London.
- TCSU.
- Some borough roads.
- Some Highway Agency roads (Trunk Roads).
- Traffic management functions for these roads.

The LTA will have links to:

- boroughs
- Port of London Authority
- Office of Passenger Rail Franchising (OPRAF)
- all other transport providers.

London Underground, in particular, is likely to experience major reforms in that, essentially, ways of funding the renewal of approaching-life-expired infrastructure is being sought. This may involve the participation of the private sector.

The LTA could carry out the award and supervision of passenger rail franchises, as presently undertaken by OPRAF, within the greater London area. This may enable co-ordination between the levels of service offered by the various train operating companies and London Underground.

The likely timetable for the reform of London Government is:

- Green Paper *New Leadership for London*, July 1997
- White Paper: March 1998
- Referendum: 7 May 1998
- elections for mayor and assembly in May 2000
- start of new system in autumn 2000 ?

Tony Travers concluded by saying that this represents a radical reform which, in effect, starts with a blank sheet of paper. The essence of the proposals are that the

power of the mayor is constrained by the assembly; there is no precedent for this type of arrangement in the United Kingdom. It is similar to that practised in New York where the commissioners from the various city departments are brought to task, if necessary, by the mayor's office.

Land Use and Transport Planning with a GLA

Keith Gardner then spoke about the land-use and transport planning rôle of the GLA. The role of the mayor is crucial: whilst the mayor will lead on policy development, they will also need to build on the consensus approach of the last ten years, involving both the Assembly and the London Boroughs.

The key to land use planning of the GLA is *Sustainable Development*, combining environmental, economic and social goals. To do this properly, the GLA needs to have a strategic rather than the existing parochial focus of the boroughs. The land use planning framework will provide the essential tool for delivering an overall strategic vision that meets the sustainability goal. Therefore, the GLA must integrate strategic land use planning with economic development, transport, environment and other strategies.

The GLA must develop its land use plans quickly, relying on partnership and co-operation to minimise the risk of conflict and delay. It should focus on genuinely strategic issues, be inclusive and not deal with those issues best left at the local level. It is envisaged that the GLA will carry out the strategic planning functions of GOL and LPAC, and will also represent London's interests in the South East.

Two options were proposed for the preparation of land use plans:

- **Strategic Planning Guidance** for the boroughs to reflect in Unitary Development Plans (UDP), subject to consultation and some form of independent examination in public.
- **Structure Plan for London** to replace Part 1 of the UDP, subject to examination in public.

The Secretary of State would not be required to approve either Guidance or Structure Plan but would have fall-back powers to direct changes if they depart from national guidance. The GLA would not have powers of direction if boroughs ignore Guidance/Structure Plan but could request the Secretary of State to do so.

As far as development control is concerned, the primary responsibility will remain with the boroughs, but they must consult the GLA on issues of strategic importance. The GLA would not have powers to direct boroughs on issues of strategic importance, but could request the Secretary of State to "call-in" proposals. The GLA may be given development control powers for specific types of development, such as waste, minerals, roads for which GLA are responsible and boroughs own development.

Transport issues

The Green Paper looks to the LTA to deliver "the GLA sustainable transport strategy". The LTA will be appointed by and report to GLA and be directly responsible for:

Underground
Buses
Traffic signals
Strategic roads
Borough transport initiatives
Docklands Light Railway

The LTA will have a multi-modal remit and be responsible for securing, in partnership with the boroughs, the Bus Priority Network, London Cycle Network, Lorry Bans, co-ordinated parking and Air Quality Strategy.

The GLA/LTA would be expected to have a strong voice in certain aspects of transport policy and projects, while other aspects would be determined by central government. The GLA is expected to have a strong voice in commuter rail, Thames transport, heliports, taxis/minicabs, bridges and pedestrianisation. Those that are expected to remain with government are commuter rail, airports and airport policy, international rail, the Port of London Authority, and M25 and spurs.

Whilst the GLA/LTA would be expected to have a strong voice in commuter rail, central government is likely to determine overall strategy (probably through a National Rail Authority). The lack of a clear responsibility for commuter rail services in London is the key transport weakness of the Green Paper.

LPAC responded to the Green Paper, suggesting that the key weaknesses are:

- a policy/implementation confusion (tied to the GLA/Agency rôles),
- the split between land use and transport functions which can be contrasted with that found in the Integrated Transport Policy Green Paper,
- a lack of real planning powers to influence the boroughs,

- funding issues, since it does not specify the way in which additional investment funding is to be found; bringing sources of funding together will provide some efficiency gains, but will not produce sufficient savings to make up for the present investment funding shortfall.

LPAC's response was based on the use of the *Subsidiarity Principle* and ethos of "Constructive Engagement" with mutual stakeholding by public, private and voluntary sectors from the outset to secure their ownership of plans and strategies. It is questionable whether constructive engagement is compatible with the idea of having a strong mayor.

LPAC suggests that:

- the GLA should set a series of output-based targets which the various agencies (such as the LTA) would then seek to achieve;
- a strong policy-setting GLA with the power to direct agencies should be initiated, rather than a weak GLA with strong sectoral agencies (e.g. LTA).

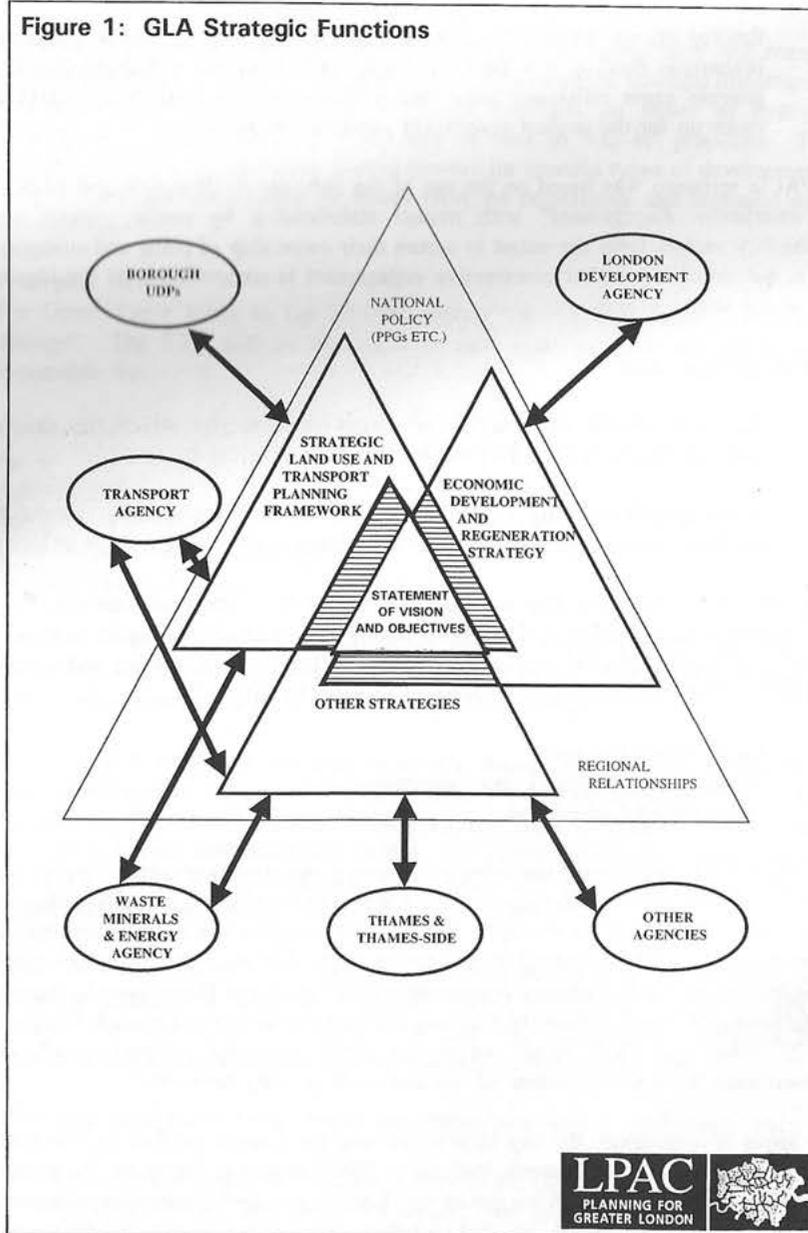
Figure 1 shows LPAC's diagrammatic view of the GLA strategic functions. The GLA would be the policy-making body with agencies implementing its strategies. The GLA should set over-arching statement of Vision and Objectives and a series of inter-related strategies which the agencies would deliver:

- land use and transport
- economic development and regeneration
- environmental protection.

LPAC would prefer to see the transport planning and service provision functions in the GLA. The powers and responsibilities would be vested in the GLA which could then delegate them to, for example, the LTA and boroughs as it deemed appropriate. Transport should be delivered by an agency rather than an authority, which would implement the GLA's strategy (comparable to the proposed Development Agency). The boroughs would remain the highway maintenance authority for roads within the M25, while the GLA would act as the traffic authority for main roads and co-ordinate the implementation of bus and cycle priority networks.

In terms of investment, the key issue is the need for a major increase in investment to clear the LUL investment backlog. The Integrated Transport Programme prepared by LPAC in 1996 suggested that London required transport investment of about £2 billion per annum, but that £3 billion per annum was required for the next five years to make up the investment shortfall. The government should decide on

Figure 1: GLA Strategic Functions



how much it is prepared to invest in transport in London, but leave the GLA responsible for deciding how to split this across the modes.

Ideally funds from new sources should be available when the GLA begins to function. Two sources suggested include:

- charges on private non-residential parking; and,
- congestion charging.

In conclusion, the GLA provides a chance to develop a truly strategic authority with influence over the key issues facing London, Keith Gardner hoped that the inevitable political fudging does not mean that we miss this golden opportunity to give London what it needs.

Discussion

Q: Roger Ferreria (Gibb): What role will the Government Office for London (GOL) play if the GLA goes ahead ?

Tony Travers: At this stage in the GLA development process the type of role GOL will play is unclear. It may be best if GOL were retained to fight London's corner. One point to consider is whether Transport Supplementary Grant (TSG) or Single Regeneration Budgets (SRBs) would be allocated by GOL or whether GOL would be bidding for these funds, for use within London, against other agencies. A future role for GOL could be the distribution of these monies to Boroughs/projects within London. The London Boroughs would probably prefer GOL to distribute these funds rather than the GLA.

Q: Michael Collela (The Portman Group): Speaking as a former New Yorker, I would comment that the current mayor can be seen as effective because the system within which he works does not oblige him to be seek consensus. Turning to the GLA proposals, are there to be any tax raising powers that will enable the GLA to raise monies to fund infrastructure improvements ?

Tony Travers: A recent survey has shown that New Yorkers are now optimistic about the future which represents an achievement compared with their previously observed pessimism. The London Bus Priority Network provides an example of where it may have been preferable to "rail road" a project on to the streets, judging the strategic perspective to be important, without having to seek consensus with every shopkeeper, for example, who was affected. Sources of funding should be clarified as the GLA proposals are further developed.

Keith Gardner: The small size of the Borough ward constituencies mean that local issues are bound to predominate. One source of funding would be the General precept levied on Boroughs.

Q: Stephen Bennett (National Railways): It would be difficult to bring the London operations of OPRAF, for example, under GLA control given the current organisation of the rail industry and the differences between the various Train Operating Companies which operate in London and the South East.

Tony Travers: To have two franchising agencies (London Underground controlled through the GLA and OPRAF controlling the TOCs) for one city seems to be pose difficulties. In order to achieve transport policy objectives, control over both of these rail service providers is required.

Q: Mervyn Jones (Brookes University): Is the mayor seen as a "Mover and a Shaker" or is he/she going to set targets such as vehicle kilometres reduction, for example ?

Tony Travers: The mayor's personality and approach will be dependent on the electorate, vehicle kilometres reduction targets, for example, will be determined by national policy.

Q: Julian Maw (London Transport Planning): Should this discussion take place without having first decided what the role of the LTA might be ?

Keith Gardner: It will be important to establish a strong link between land use and transport planning in the GLA, including their relationship with London's environment and future economic development.

Tony Travers: Having the core agencies within the mayor's office may result in the strategic view being taken. It may be better not to have dedicated teams because this may lead to senior officer rivalries. It is envisaged that the mayor would encourage meetings and cooperation between the transport and land-use teams, for example, as he would between the Metropolitan Police and what is now London Underground.

Report by Martin Lawrence, Senior Consultant, Oscar Faber

Postscript: The Government's White Paper "*A Mayor and Assembly for London*" was published on 25th March. It sets out the functions of the Greater London Authority as:

Planning	Inward Investment
Fire Service	Economic Development and Regeneration
Transport	Police
Sports and the Arts	Environment
Tourism Promotion	Public Health

A new body, *Transport for London (TfL)*, will have the executive role, implementing the Mayor's transport strategy and running or managing a wide range of transport functions and services.

The Mayor will:

- have a duty to produce an integrated transport strategy for London;
- use TfL as his or her agent to implement that strategy and discharge those duties; and
- be able to chair TfL

The TfL will:

- have an executive board of 8-15 members; and
- have day-to-day responsibility for managing buses, the underground, strategic roads and other transport services such as TCSU.

The Assembly will:

- approve the integrated transport strategy and transport budget, scrutinise the performance of TfL and the Mayor, and be able to conduct wider investigations of transport issues; and
- scrutinise the sustainability of the Mayor' and TfL's activities.

The London Boroughs will retain responsibility for delivering local transport measures within the context of the pan-London strategy set by the GLA.

The government will pay financial support earmarked for London's transport in a single block grant.

The White Paper can be accessed through: <http://www.london-decides.detr.gov.uk>

or purchased from The Stationery Office (Cm 3897) at £11.60.

DEVELOPMENTS IN CANADIAN PASSENGER TRANSPORT

Mark Bunting, Independent Transport Consultant, Kingston, Ontario

The speaker set out the four themes to be covered in his talk:

- Transport market in Canada.
- Developments in Canadian transport policy.
- Policy themes.
- Public transport strategy.

Travel propensities of Canadians are closer to the United States than European countries, with a high car ownership rate and similar passenger kilometres by car per person. On the other hand Europe has lower car use and considerably higher use of public transport. Table 1 confirms these characteristics:

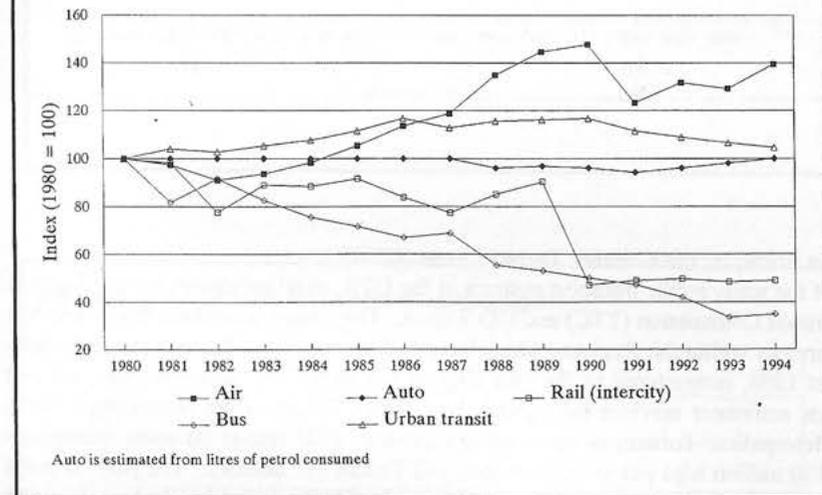
Characteristic	Canada	United States	Great Britain	France	Germany	Sweden	Switzerland
Population (m)	28.2	260.7	56.8	57.9	81.4	8.9	7.0
Pop/sq km	3	28	247	106	228	20	169
Cars/1000 pop	486	513	374	430	489	404	452
Cars pass-km (bn)	475	4,440.1	573.0	654.9	705.4	81.9	75.1
Car pass-km per person	18,130	17,032	10,088	11,311	8,666	9,202	10,729
Bus/coach pass-km (bn)	3.2	177.5	43.0	42.6	67.5	11.2	5.7
Bus pass-km per person	122	681	757	736	829	1,258	814
Rail pass-km (bn)	1.4	21.2	28.7	58.9	61.3	5.9	12.1
Rail pass-km per person	51	38	505	1,017	753	663	1,728

Sources: Canadian statistics are for 1995 or 1996 (except cars/capita is for 1992): Bunting
Other countries are 1994: Section 8 of *Transport Statistics for Great Britain*, HMSO 1996

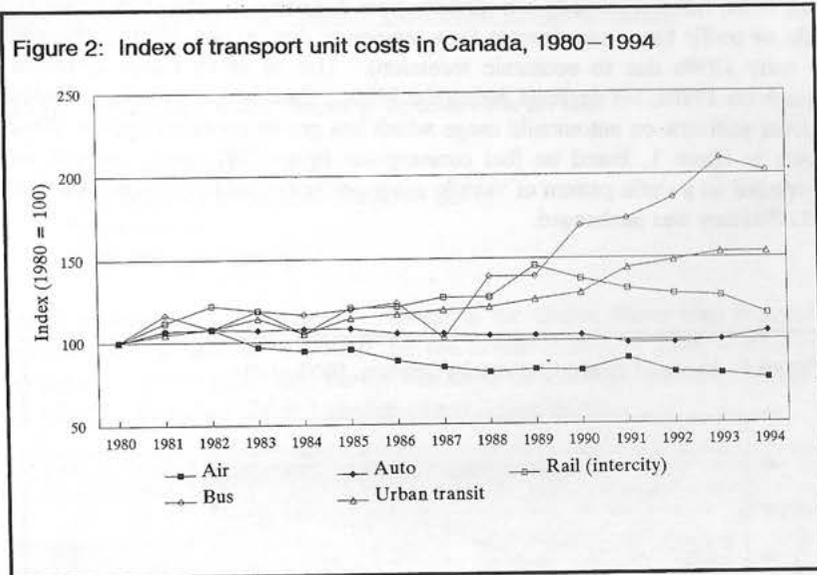
Developments in the Canadian Transport Market

Since 1980, rail and intercity bus markets have decreased (as shown in figure 1), while air traffic has grown (except for a temporary drop in passenger numbers in the early 1990s due to economic recession). Use of urban transit increased through the 1980s, but declined during the 1990s. Canada does not have reliable national statistics on automobile usage which has grown considerably; the index shown in figure 1, based on fuel consumption (from 1987 only) can only be interpreted as a static pattern of vehicle usage under the unlikely assumption that fuel efficiency was unchanged.

Figure 1: Index of passenger use in Canada, 1980–1994

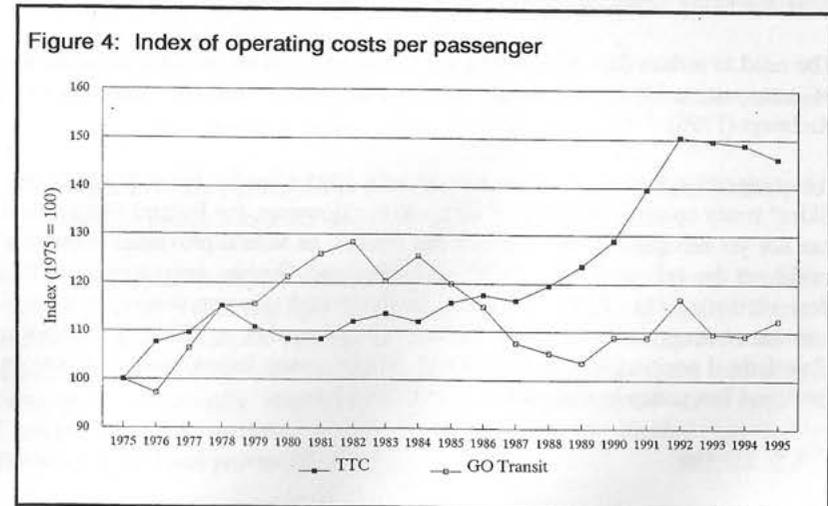
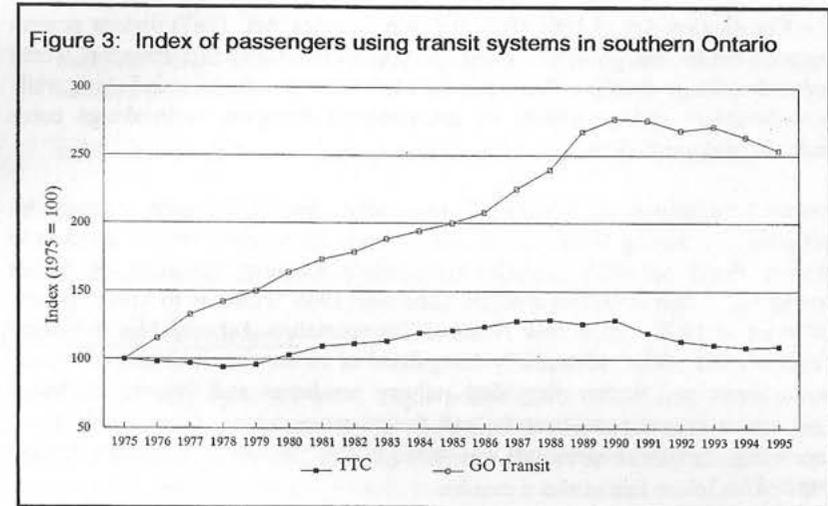


Indices of real transport unit costs (adjusted for inflation) are shown in figure 2. The graph shows that unit costs have risen for bus and transit while costs for auto have remained static and air costs have fallen. Real unit costs for rail were generally rising until 1989 but have been reduced through service cuts and other economies.



An example: the Greater Toronto Area (GTA)

Of the many public transport systems in the GTA, most prominent are the Toronto Transit Commission (TTC) and GO Transit. The former provides subway and bus services within the Regional Municipality of Metropolitan Toronto (as of January 1st 1998, restructured as the new City of Toronto). The latter provides rail and bus commuter services throughout the Greater Toronto Area (extending beyond Metropolitan Toronto to surrounding regions). TTC carries far more passengers (400 million trips per year) than does GO Transit (33 million). The past 20 years have seen rapid growth in GO's market while TTC's market has had much lower growth, and been declining since 1990 (figure 3) partly due to rising fares and the effect on travel propensity of an ageing population. Changes in market size perhaps explain trends in costs (indices of unit cost per passenger shown in figure 4), though different cost control opportunities and approaches may also be factors.



Canadian Policy Developments

The Constitution Act of 1867 (British North America Act, 1867) divides powers between the federal government and the provinces. Generally, transport works and undertakings strictly within a province fall under provincial jurisdiction, while cross-boundary (interprovincial or international) transport undertakings come under federal jurisdiction.

Among other things, the National Transportation Act, 1967 sought to modernise rail policy by moving from internal cross subsidy for required lines or services to explicit direct subsidies, and by (somewhat) relaxing regulation of freight operations. More ambitious changes came with 1985 "Freedom to Move" policy, followed in 1987 with a new National Transportation Act and Motor Vehicle Transport Act which substantially deregulated of air services and inter-provincial truck operations, further simplified railway regulation and introduced limited competitive access provisions for rail freight movements. (The possibility of separating track from operations was raised in a subsequent Commission, but not pursued.)

The Royal Commission on National Passenger Transport, seen by some as an attempt to justify cuts made by VIA Rail passenger services, favoured reliance on user charges rather than subsidies. An important inconsistency in the Commission's approach was support for cost-benefit criteria for road projects, while favouring largely financial criteria for public transport.

The need to reduce deficits (running as high as \$42 billion) favoured privatisation of transport carriers, including Air Canada (1995) and Canadian National Railways (1996).

Air competition has increased as a result of a 1995 Canada/United States "Open Skies" treaty opening trans-border air markets. However, the Federal Government has not yet deregulated the inter-city bus market, as federal/provincial consensus could not be achieved (e.g. British Columbia and Quebec are opposed to full deregulation). In 1995, Ontario's newly-elected Conservative government announced deregulation of Ontario's Intercity bus market in 1996 but, without a clear federal position, has since hesitated. (Note: a new federal position paper on truck and bus policy is expected by March 1998.)

Policy Themes

Recent policy directions include:

- the federal Government withdrawing from many traditional (interventionist) roles;
- transport policy influence by trade promotion (with other countries and between provinces);
- safety as a major focus of current federal and provincial governments;
- so far, no clear transport directions arising from environment issues;
- no clear strategic direction, especially in the passenger market.

A Public Transport Strategy

Environmental integrity is not yet a major policy driver. A serious attempt to provide an alternative to the automobile might find favour, as the auto user is not committed to this mode as he/she might seem. However, traditional means to promote public transport use are unlikely to achieve a substantial modal shift. For example:

- Imposing serious land use or transport restrictions is likely to draw a political backlash.
- Large public transport subsidies have not worked in the past, and are unlikely to do so in the future.
- Attempting to price the competition (the auto) away will not achieve a large enough public transport share.
- Regulation has not helped in the past, and re-regulation seems unlikely to improve public transport's attractiveness.

An effective public transport strategy would have a market focus (i.e. a focus on customers). This would highlight the need for a fully integrated, high quality and affordable public transport system, hence the need for much improved service quality, productivity and cost. Achieving such a system would require institutional development (especially redefining public and private sector roles) and, in Canadian intercity markets, would be complicated by divided jurisdiction (between federal and provincial authorities).

Development of public transport has been hindered by a focus within transport economics on station-to-station trips, for example for demand and cost modelling purposes. A broader economic framework might consider:

- the contribution of passenger transport to local, national and global economic development;
- the customer's decision-making framework which, for example, is oriented to door-to-door, not station-to-station, movements; and
- the value of the transport organisation, for example to combine functions to serve door-to-door trips and meet customer needs.

Discussion

Stephen Bennett (railway consultant) opened the discussion by seeking to know what factors in Toronto had led to the trends described.

Mark Bunting said that some of the explanation could be the reduced employment due to a recession which had been intensified by significant fare increases. Also there has been demographic change, for example an ageing population and a reduction in the 15-25 age group. It is difficult, though, to say which factors are most significant.

John Smith (Buses Worldwide) alluded to the failure of Greyhound Canada's entry into the airline business.

Mark noted Greyhound's attempt to link air and bus services; the airline had been well received by customers, but there had not been sufficient time to develop this market and the bus-air integration initiative did not go far enough. (Note: closure of the airline was a condition of Laidlaw's acquisition of Greyhound Canada.)

Martin Higginson (CPT) inquired whether the domestic air market is deregulated. MB: there was deregulation in southern Canada and now full domestic deregulation. MH then asked if there are subsidies to intercity bus services.

Mark replied that there were some in public sector but private operators received no subsidies except for modifications to improve accessibility. Trucks are taxed in relation to weight but buses are treated differently in some Provinces. Some Provinces also put money into bus terminals.

John Cartledge (LRPC) asked what, realistically, is the scope for growth in public transport where distances are colossal compared to Great Britain. It is difficult to see how conventional public transport could operate in the Canadian environment since there is not the mass of population to make mass transit operable.

Mark suggested that one might sell off large transit buses in less populated areas, and introduce demand-responsive transport using smaller vehicles. While Canada as a whole, is sparsely populated, there are densely populated areas such as southern Ontario (population nine million) which are more able to support public transport. In the 1950s and 1960s, Toronto had the foresight to develop transit lines ahead of land development but was not successful in gaining the economic value of air rights over stations which could have helped finance further developments. In Calgary, a light rail system, with some street running, has attracted a significant proportion of the morning peak market.

Reported by Laurie Baker

THE ROLE OF PUBLIC TRANSPORT IN EUROPE

John Fawkner, Head of International and European Affairs, London Transport

The European Union (EU) has a number of general concerns which have a bearing on transport:-

- Freedom of movement
- Employment
- Economic development, especially in cities
- Social exclusion of people from economic and social life (such as those without a car)
- Environmental impact of traffic
- Global warming

Until the arrival of Neil Kinnock as the Commissioner at DGVII, the directorate concerned with transport, the EU was primarily concerned with international, generally high speed transport. More recently the emphasis has been changing towards urban transport.

EU legislation and policies in the following areas all affect public transport:

- Transport policies
- Social affairs
- Environment
- Regional development
- Procurement
- Research
- Financial

Transport Policy

The Citizens' Network Green Paper, published in 1996, recommended a key rôle for public transport in cities, stressing the importance of an integrated and intermodal approach to transport. The main obstacle to increasing the use of public transport is seen as the need to interchange when passengers are interested in the door-to-door journey. The paper reviewed organisation and competition in the public transport sector, although there is a question of jurisdiction and whether the EU can intervene directly. One of the ways it might have an influence is through improving local feeder systems in association with TENs (see below). The first concern of the EU remains the development of the single market. Examples of this can be seen with French-owned Connex running rail services in

England and Stagecoach running bus services abroad. Single market concerns sometimes seem to take precedence over other transport issues.

EU legislation requires that main-line rail operations and infrastructure should be separated (which Britain has achieved through Railtrack) and that there should be open access for international operators. A recent report ("Isotope") prepared for the Commission considered who should take responsibility in providing local transport, concluding that it should be local authorities. It advised separating of strategic and tactical issues as was seen with the PTAs and PTEs, which could help create a market for transport planning. The appropriate area to be controlled by one body is labour catchment areas which should be locally controlled. The report also indicated that central Government should be kept at arm's length. An integrated approach was important with public transport and parking controlled by the same authority.

It considered the best approach to running services and proposed tendering of services but no on road competition, in line with the situation in London, having examined the U.K. model of bus deregulation but not found the results to be wholly satisfactory for the passenger

Trans European Networks (TENs) are a network of routes linking key cities throughout Europe. In Britain, this includes the Channel Tunnel Rail Link and the West Coast Main Line. Mr Fawkner went on to say that London Underground has argued about the importance of local links to the TEN. For example, £19m had to be spent on upgrading Waterloo Underground Station in order to cope with passengers at the Eurostar station.

Social Legislation

Mr Fawkner was less positive about the effects of EU social legislation. This legislation would affect working hours and the organisation of work. The Hidden Report into the Clapham rail crash already limited the number of hours that railway staff could work but there could be significant cost implications for bus operators. Part time staff would be given the same rights as full time staff and there would be a right to parental leave. In addition there is legislation on sex discrimination, and is being prepared on sexual harassment.

The EU has also legislated on disabled access and on health and safety matters. UK national legislation is, in these areas, generally more advanced.

Environment

This covered a number of areas. The first was emission and air quality standards. An example of the way such legislation might be used was the banning of certain cars from the centre of Paris on one day (on 1st October 1997) when pollution reached a critical level. There were also limits on noise emissions, while legislation was being considered on noise exposure. The speaker said that the EU had had a significant impact on at the Kyoto summit on climate change and it is unlikely that even the limited action agreed would have happened without lobbying by the Union. One of the outcomes of the summit could be higher energy taxes. There was also concern about spatial planning and its effects on the environment.

Procurement

This was an area of key concern as competition was central to the EU. It was felt that national standards could hinder trade between members hence the importance given to Community-wide standards. The EU was thus laying down standards on public transport service in order to open up the market. There could be a downside to some of this legislation as, for example, rail inter-operability rules for high-speed lines could make local innovative schemes like the Karlsruhe light rail network very difficult to implement. The speaker was critical of the bus construction directive which had largely been framed by a major manufacturer and which, not surprisingly, was more beneficial to manufacturers than to users.

Financial Questions

The EU was planning to require VAT to be charged on public transport which is currently zero-rated in Britain. Whilst the UK might limit this to a lower rate, Mr Fawkner estimated that 17.5% VAT would lead to a 25-28% increase in fares and corresponding loss of passengers:

	VAT rate	Increase in fares	Change in number of passengers
Underground	17.5	25.6	-6.1
	8.75	12.7	-3.0
Buses	17.5	28.5	-8.5
	8.75	13.3	-4.0

Operators could be affected by energy taxes although these would have a far smaller effect on costs. The introduction of the single European currency (the Euro) would pose problems for operators during the changeover period. Seven percent of London Underground's customers come from overseas so he believed that the operator would have an interest in accepting the Euro for commercial reasons, even if the UK did not enter it.

Research

The EU was putting a lot of emphasis into research with around £10 billion (13 bn ecu) allocated to it over the next four years. The 5th Framework Programme included as major headings the unlocking of resources of the living world and ecosystem, creating a user friendly information society and promoting competitive and sustainable growth. Certain topics were of specific interest to public transport operators such as advanced intelligent transport systems, inter-operable payment systems for electronic trading, mobile personal communication systems, applications of the Internet, sustainable mobility and intermodality, transport systems in the City of Tomorrow and the development of intelligent vehicles.

Conclusions

The speaker concluded by saying that European policy was becoming increasingly important and that new legislation could make life difficult. Therefore, it is important to be involved at the lobbying stage in order to influence the legislation. Mobility, social exclusion and the environment are high on the European agenda. Public transport has a vital rôle in achieving the objectives and European policy is increasingly recognising this rôle.

Discussion

There was a wide range of questions after the talk.

Peter Gordon noted that in federal countries like the US and Canada the Federal Government only got involved with issues affecting more than one State of Province but that the EU seemed to want more influence. The speaker said that the powers of Brussels were limited. However, the importance placed on the single market meant that directives like 91/440 stipulating the separation of infrastructure and operations and Directives on bus construction were applied and would affect individual countries.

He also asked if the problem was that Britain automatically accepted all laws whereas other countries selectively ignored them. In the following discussion, Aubrey Benn said that British judges had to accept the letter of the law and that European legislation took precedence. By comparison under Roman law judges were able to question legislation.

Stephen Bennett asked how big and effective the rail lobby was and what they had achieved. The speaker replied that they were tiny compared to the car lobby.

John Cartledge commented that in his opinion the Commission moved rather slowly. The speaker that there was a lot of compartmentalisation and indeed competition, not just between the 25 Directorate Generals, but even within them. Often relatively junior officials were responsible for drafting Directives and if the correct person was approached then lobbying effort could be very effective.

John Glover commented on setting of standards for public transport services and asked what measures would be used. The speaker said that the UK were leading the field in this area following franchising and that OPRAF had a number of measures for monitoring TOCs. It is important that their experience is drawn on in preparing standards.

Matthew Croucher asked whether London's transport could cope with additional traffic if road pricing were introduced. Mr Fawkner said that the underground probably could not but that buses certainly could, particularly as it might be possible greatly to increase their average speed if road congestion were reduced.

Afterwards the speaker was thanked for a most informative talk.

Report by Peter Gordon, Chiltern Railways

OBSERVATIONS ON THE COST OF PRIVATE FINANCE

Peter White

A major issue underlying the present shift toward private sector finance is the cost of capital raised by this means. If the private sector has to pay a higher rate of interest than the state, will savings through other means (such as lower construction costs) be sufficient to enable the overall scheme costs to be lower than under direct state financing?

Until recently, an 8% real discount rate was applied in the transport sector, although for some time that had been higher than the 6% rate generally recognised as the opportunity cost of capital to the state. While it could be argued that even at an 8% rate, a number of 'justified' schemes did not proceed, the selection of a discount rate is important for comparison of projects in which differing cash flows over time arise - such as road building through 'shadow toll' payments rather than direct capital investment.

The issue has also arisen in assessing cash flows involved in the rail privatisation process in Britain, in which initial gains through asset sales may be set against a period of higher outward cash flows to franchisees. Selection of the lower 6% rate would imply a less favourable outcome, due to the greater weighting given to future cash flows, as I indicated in 1996 (1).

In the case of DBFO (Design, Build, Finance, Operate) road schemes, the issue is of particular importance, due to the 30-year timescale involved. The complexity of the process was described in David Clements' comprehensive talk to the Group in March last year (2). At about the same time, the Highways Agency and the Private Finance Panel issued their 'DBFO - value in roads : a case study of the first eight DBFO road contracts and their development'. This claimed (on page 3) that a saving of 15% vis a vis the equivalent public sector comparator had been obtained, but the assumptions behind this calculation (especially the discount rates used) were not explicit.

A 6% rate has now been generally adopted, both within the transport sector and the public sector as a whole.

The publication of the National Audit Office report on the first four DBFOs in January (3) provides a very thorough examination of the process, and especially of the effects of the discount rate used. It notes that the 'use of shadow tolls has ... introduced a new risk which can be expected to have increased the cost of these

roads, offsetting to some extent the benefits of placing other substantial risks appropriately' (page 3).

Of the first four schemes, three showed a net present benefit to the Highways Agency, ranging from £112m (for the M1-M1 link) to £11m (for the A419/A417 scheme), although even at an 8% rate, the A69 upgrading showed a loss of £5m. At a 6% rate, this loss rose to £12m, and the A419/A417 showed a loss of £3m. The M1-A1 link benefit fell by 25% to £84m (figure 1).

The highest savings are shown to come from the most capital-intensive projects (where the cost to the state of direct funding would be greatest), whereas the A69 scheme has a large maintenance element (page 34). The NAO reports that the Treasury had advised use of an 8% discount rate in November 1994 for purpose of assessing the public and private sector bids. However, a 6% rate is clearly now seen as more appropriate, and even this is described as 'being at the top end of the plausible range of time preference' (page 76).

The NAO report thus forms a very helpful corrective to the simplistic view that seemed to be adopted in the earlier Highways Agency/PFP document, and a welcome indication of objectivity in assessing policy options. However, it does not indicate what rates might have been used internally by the private sector (since such disclosure is not required), and hence the extent to which, within the private sector bids, large trade-offs might have occurred between the cost savings through design and construction innovation, and the discount rate applied.

The issue of the internal discount rate used in the private sector bids is also relevant to the whole-life costing approach. At lower discount rates, a higher capital cost/lower maintenance cost combination would be favoured than at high rates.

One could also suggest that the DBOM approach might be worthy of further consideration. While major funding would revert to the public sector, the benefits in design and construction innovation through competitive bids could still be obtained, and perhaps better value for money obtained overall than through 'pure' public sector or DBFO financing.

Notes

1. Estimates of the Financial Effects of Rail Privatisation, *The Transport Economist*, Volume 23(2), Summer 1996, pp 15-23.

2. DBFO - Developing the Operator's Role, *The Transport Economist*, Volume 24(3), Autumn/Winter 1997, pp 1-9.

3. National Audit Office: *The Private Finance Initiative: The First Four Design, Build, Finance and Operate Roads Contracts*. HC 476, Session 1997-98. The Stationery Office, London, 28 January 1998, £10.75 (ISBN 0-10-284798-3)

PAMPHLET REVIEW

Three Steps to Integration: Information, Investment, Innovation
by the Railway Reform Group

The publication of this pamphlet has been timed to provide an input into the Government's White Paper on *Integrated Transport Policy* due in May this year. The authors, who wish to remain anonymous, have drawn upon many years of managing the railway to make public their proposals for change that might lead to growth in the demand for rail passenger and freight services.

Proposals

The proposals start with the establishment of an industry body such as the Strategic Rail Authority (SRA) which would be given a number of jobs. The first would be to take over responsibility for the railway timetable from Railtrack and to make information about train services more widely available to the public through National Transport Enquiry Points and other innovations such as a Network Card for access to the whole network and, if agreed, other transport modes.

The SRA would also take over responsibility for the administration of public subsidy from the Office of Passenger Rail Franchising (OPRAF) and purchase capacity directly from Railtrack and Rolling Stock Lease Companies (ROSCOs) under new Network Facilities contracts. The new contracts would reward the industry with greater subsidy if demand rose to justify expansion of the timetable. The current complex contractual matrix that binds the various parts of the industry together could then be simplified.

Commentary

The proposals to focus managerial attention upon customer satisfaction are welcome, but is the SRA the right body to take forward the executive functions of producing the timetable and marketing the rail product? Some might suggest that this would compromise the SRA's strategic rôle, which would need to be conducted at a distance from day-to-day operations.

The proposed changes to the grant regime would have merit if it established a clearer link between subsidy and measurable consumer benefit, but the proposals which would involve major change at company level, are likely to be in insufficient detail to convince an industry still recovering from a decade of internal turmoil. It might also be argued that the transfer of funds from train operating

companies to the SRA and Railtrack would move the focus for response to the market further from the customer rather than closer to it.

Published February 1998 by Novelangle Ltd, The Mansley Centre, Timothy's Bridge Road, Stratford-Upon-Avon, CV37 9NQ

Reviewed by Stephen Bennett, March 1998

TEG NEWS

MEETINGS 1998

Meetings will be held at 5.30 for 6pm in room 205 (usually) of the Transport Studies Group at the University of Westminster, located at 35 Marylebone Road, London NW1 5LS. The building is on the south side of Marylebone Road, close to Baker Street Underground Station and is passed by numerous buses. The next two meetings will be:

- April 22 **Demand Forecasting, Financial and Economic Appraisal of Rail Schemes in London**
David Warren, Rail Planning Manager, London Transport Planning
- May 27 **Company Car Policy**
Sinead Flavin, Researcher, Transport Studies Group, University of Westminster

RECENT PUBLICATIONS

London Transport Planning have published a number of reports that are likely to be of interest to Members. These are available, free of charge, from London Transport Planning, 55 Broadway, London SW1H 0BD. Three recent titles are:

Traffic Impact of Highway Capacity Reductions, Summary Report. February 1998, Prepared by MVA and Transport Studies Unit, University College London for London Transport and the DETR.

Buses in London: A comparison with the rest of Great Britain. January 1998.

Interchange in London: Patterns of Access and Interchange at Rail Stations Outside Central London. July 1997.

Railtrack published their *Network Management Statement* in March 1998. A copy may be obtained by calling 0345 114141 or visiting Railtrack's website: <http://www.railtrack.co.uk/whatsnew>

REPORT OF ANNUAL GENERAL MEETING 1998

The TEG Annual General Meeting was held on 25 February 1997, before the talk by Michael Colella.

The Chairman, Peter White, reported that meetings had been held between January and May and from October 1997. There had been no one-day seminar in 1997. On the whole, there had been good attendances at the monthly meetings although there had been a couple when attendance had been poor. There were good presentations and discussions on a wide range of topics. The meetings had been moved to the fourth Wednesday of each month to avoid clashes with other societies. He thanked members of the Committee for their hard work.

Don Box moved a vote of thanks for Peter's work throughout the year in chairing the Committee. He also commented that there had been a considerable increase in the number of members who are freelance, and that they tend not to be based in London. There are also a number of members who live abroad.

Report of Treasurer and Income and Expenditure Account for 1997

1. Don Box was pleased to report a successful financial outcome to the past years' activities, almost as good as the result for 1996. There was no seminar or other extraordinary activity in 1997 so the surplus is due entirely to the 'core' activities of the Group. The surplus of £425 represents 15% of income and is thus comparable with that achieved in 1996 (18%).

2. The breakdown of expenditure between the main items of administration, publications and meetings, compared with the two previous years, is:

	1997	1996	1995
	£	£	£
Administration	829	757	756
Publications	758	658	989
Meetings	843	735	686

3. There has been a significant increase in expenditure in each of the three principal headings, justifying the increase in members subscription rate in 1997. The increase in the cost of both publications and meetings was anticipated in my 1996 report. It was not always possible to co-ordinate "administrative" postings with those of journals or other publications in 1997 which accounts for part of the rise in administration costs, the remainder being accounted for by general increases in costs.

4. The formal accounts and balance sheet were made available at the Annual General Meeting and follow my report in this issue of the Journal.

5. In view of the favourable financial position for two successive years and taking into account in possible increases in expenditure, the Committee have accepted that the subscription rate should remain at £17 for 1998.

6. At 31 December there were 161 members listed for 1997, a decrease of five over the corresponding figure for 1996. There were twelve cases of lapsed membership in 1997 and seven new members were recruited for that year. Resistance to the rise in the annual subscription rate was less than expected.

Don Box
Treasurer and Membership Secretary
February 1998

Income and Expenditure account for 1997

Income		£	£
Subscriptions:	1996	32	
	1997	2677	
Interest		105	
Other		57	<u>2871</u>
Expenditure			
Administration:	Secretary	756	
	Other	73	829
Publications			758
Meetings:	Room Hire	615	
	Entertainment & expenses	103	
	Insurance	125	843
Corporation Tax			16
			<u>2446</u>
Excess of income over expenditure for the year			<u>425</u>

BALANCE SHEET

	£	£
Accumulated funds at 31.12.96	3115	
Plus surplus for 1997	425	3540
Creditors		580
		<u>4120</u>

Represented by:

Deposit account	2237	
Current Account	2413	4650
Less uncleared cheques		530
		<u>4120</u>

S D Box (Treasurer)

REPORT OF AUDITOR

To members of the Transport Economists' Group: I have examined the books and records of the Transport Economists' Group and have received explanations from your Treasurer as necessary. In my opinion the Balance Sheet gives a true and fair view of affairs as at 31 December 1997, and the Income and Expenditure Account properly reflects the excess of income over expenditure for the year ended.

J C Bentley F.C.C.A.

24 Phillimore Road
Emmer Green, Reading

The Editor, Laurie Baker, reported that three issues of the Journal were published last year with reports on all talks up to the May meeting. It is hoped that four issues can be published in 1998 but that this depends upon the willingness of people to write articles and reviews. The Editor also noted that 1998 will be the 25th year of publication of the Journal. It was suggested that a short history of the Group be researched and published in the Journal later in the year. Finally, Laurie thanked Joanna Hase for her stalwart work in preparing the material for publication.

The meeting voted the existing committee members en bloc with the addition of Stephen Bennett to serve for 1998. The Committee was charged with deciding the exact positions to be held by individuals.

At its first meeting on 25th March, the new committee decided the positions to be held in 1998:

CHAIRMAN

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VICE CHAIRMAN AND SECRETARY

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TRANSPORT ECONOMISTS' GROUP

The Transport Economists' Group, formed in 1973, provides a forum for people involved in transport economics to meet regularly and discuss matters of mutual interest. Membership is open to economists working in transport and others whose work is connected with transport economics.

The aim of the Group is to improve the quality of transport management, planning and decision making by promoting lectures, discussions and publications related to the economics of transport and of the environment within which the industry functions.

Meetings are held on the fourth Wednesday of every month from October to June (second Wednesday in December) at the University of Westminster, Marylebone Road. The meetings consist of short papers presented by speakers, drawn from both within the Group's membership and elsewhere, followed by discussion.

The Group's Journal, '*The Transport Economist*', is published three times a year reporting on meetings and other activities of the Group. It reviews recent publications of interest and contains papers or short articles from members. The editor welcomes contributions of, for example, articles and book reviews.

The current membership of over 160 covers a wide range of transport modes and types of organisation. Members are drawn from transport operators, consultancies, universities, local and central government and manufacturing industry. All members are provided with a full membership list, updated annually, which serves as a useful source of contacts within the profession. Applications from people in all sectors are welcome.

Applications for membership should be made on a form obtainable from the Membership Secretary, Don Box, 73 Silverdale Road, Earley, Reading RG6 7NF. The subscription for 1997 is £17 and should accompany the completed application form.