

PO-CH/NL/0168

PART A

Part A

CONFIDENTIAL

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Begins: 14/10/88.

Ends: 19/12/88.



PO -CH /NL/0168



PART A

Chancellor's (Lawson) Papers:

PRIVATE SECTOR
CONTRIBUTIONS TO ROAD
BUILDING

8910 /NL/0168

PO -CH

PART A

Disposal Directions: 25 Years

4/9/95

passed on. TWP



DEPARTMENT OF TRANSPORT
2 MARSHAM STREET LONDON SW1P 3EB

My ref:

Your ref:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	14 OCT 1988
ACTION	CST
COPIES TO	

The CP point looks v. contentious with some.

Dear Nigel.

14 OCT 1988

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

As you know, I am anxious to secure greater private sector involvement in the provision of transport infrastructure, including the highway network. There is one useful change which could be made now, to widen the scope for private developers to contribute to the cost of roads which my Department and other highway authorities build. It needs amending legislation. This could be included in a Bill which I am about to introduce. I am therefore writing to seek the agreement of you and other colleagues on E(A), and of John Wakeham and members of QL, to my proposals.

My powers under the Highways Act 1980 enable me to secure contributions from developers towards the cost of modifying road schemes to accommodate their developments. They do not enable me to make arrangements for the total execution or funding - or both - of such a scheme by the developer in circumstances where my Department would not otherwise have had a scheme. This is a particular handicap for me as highway authority for trunk roads. The same limitation of powers is also, though to a lesser extent, a handicap for county councils as highway authorities.

Partnership arrangements between my Department and developers are increasing. Forty agreements are at an advanced stage of negotiation involving contributions totalling some £20m; a hundred more are under discussion. They will make a valuable contribution to financing roads to which, within my limited budget, I could not give priority. But the powers are inadequate for some of the types of deals which developers and we would like to make. Essentially, powers are needed to provide for:

- (a) building by a highway authority of a road partly or wholly funded by a private developer, and (with contributions by him to maintenance) taking over a road which has been built by him;

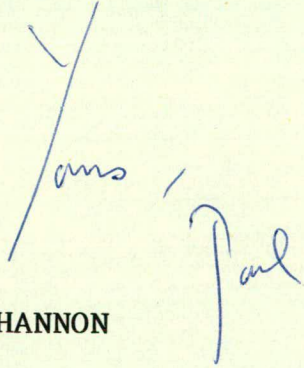
- (b) in cases where I am the highway authority, application of trunk road order procedures at the stage when the developer is seeking planning permission;
- (c) compulsory purchase to facilitate the road works needed by the developer;
- (d) powers to recover costs from the developer for items such as administrative expenditure and compensation for liabilities to third parties.

It would be possible to restrict the new powers to me, but that could provoke amendments during the passage of the Bill to secure their extension to local highway authorities. The most controversial element in the package is compulsory purchase. The problem in leaving it out, however, would be that a worthwhile project could be frustrated by objectors acquiring blocking strips, or by landowners demanding ransom prices. People affected would, of course, have the same rights of objection as those affected by any road scheme.

All told, I think some 3 to 5 clauses would be needed. These could easily be added to the Road Traffic Bill which is due to be introduced in the Lords in November. At present, this Bill contains provisions relating to driver licensing and advanced driver information services (known as "Autoguide").

I would very much welcome policy clearance to proceed with these proposals. I would be grateful if John Wakeham and members of QL could look quickly at the matter from the point of view of the legislative programme, so that policy clearance could be accompanied by approval for this addition to the Bill and for the employment of Parliamentary Counsel to draft it. Approval of this modest addition to the Bill need not significantly affect the timetable for introduction.

I am sending copies of this letter to the Prime Minister, John Wakeham and other colleagues on E(A), to members of QL and to Sir Robin Butler.


PAUL CHANNON



2 MARSHAM STREET

LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

The Rt Hon Paul Channon MP
 Department of Transport
 2 Marsham Street
 LONDON
 SW1

CH/EXCHEQUER	
REC.	19 OCT 1988
ACTION	CST ✓ 19/10
COPIES TO	

18 October 1988

Dear Secretary of State,

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

You copied to me your letter to Nigel Lawson of 14 October, making proposals for securing greater private sector involvement in road building. In principle I welcome these proposals.

As you say, provision for compulsory purchase may well be controversial but I accept that it is necessary. So long as powers of compulsory purchase rest only with yourself and the highway authority and in the latter case are subject to confirmation by you, I do not think any new principle would be involved.

I take it that the land acquired for road construction would remain in public ownership even if a particular scheme were to be privately financed or executed. If these schemes were to involve any disposal to private developers of compulsorily acquired land, I think we would need to give careful consideration to the terms on which such disposals should take place.

I see no direct implications in your proposals for my own policy on "planning gain." But we shall have to be aware of the procedural interactions between the sort of partnership arrangements you have in mind and allied development for which formal planning permission is required. I understand our officials have already been in touch about a case at Bracknell which raises these issues.

I am copying this letter to the Prime Minister, John Wakeham and other colleagues on E(A), to members of QL and to Sir Robin Butler.

Yours sincerely

pp

NICHOLAS RIDLEY

(Approved by the Secretary of State and signed in his absence)

BF 2B/10 874
4/4

FROM: A R WILLIAMS
DATE: 18 OCTOBER 1988

- 1. MR REVOLTA 1 page. OR 15/11
- 2. CHIEF SECRETARY

MP

cc: Chancellor
 Financial Secretary
 Mr Anson
 Mr Phillips
 Mr Beastall
 Mrs Case
 Mr Turnbull
 Mr Spackman
 Mr Call

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

1. The Secretary of State for Transport wrote to the Chancellor on 14 October seeking agreement to provide highway authorities with powers to undertake, or to authorise developers to undertake, public road schemes funded by the developers themselves. We recommend that you agree to the policy, though with the rider mentioned in paragraph 5 below.

Background

2. Mr Channon's proposal is more modest than the heading to his letter would suggest. At present highway authorities are empowered to modify their existing road schemes to meet the needs of developers and to recoup the cost of the modifications from the developers. Local highway authorities (but not DTp) can also undertake new schemes funded by a developer where these schemes are justified by the traffic effects of the development. The proposal would merely broaden the category of schemes which could be funded by developers to encompass any scheme which the highway authority accepted.

3. In practice, at least so far as trunk roads are concerned, the schemes in question will be mainly the addition of new junctions or the improvement of existing ones. As matters stand, a developer who wishes to link his development with a trunk road can only do so if there is a DTp scheme available to which he can contribute, even though the Department would be quite content for the link to be made. This is a rather arbitrary restriction on the use of private funds for road building.

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4. It is worth noting that what is involved here is not "private finance" in the sense in which we normally consider it, where an essentially public sector project is financed by private funds (eg the Dartford Bridge). On the contrary, the schemes covered by Mr Channon's proposal would be for the most part be genuinely private, in that they would not take place at all (or at any rate, not in the foreseeable future) if the developer did not pay for them. Hence the issue of whether private or public finance would be more cost effective does not arise, and there is no question that the developers' schemes should not be additional to the existing public sector road programme.

5. In some cases the scheme proposed by the developer could be one which the highway authority itself wanted to undertake, but at a later stage, and where the developer offered to fund part of it in exchange for having it brought forward. This is somewhat trickier, as it might mean that more worthwhile public schemes were displaced merely because they did not attract private finance. Our concern is not strong enough to undermine the general proposal, but we recommend that you ask Mr Channon to consult the Treasury if cases of this sort, involving significant expenditure, arise (an extra lane on a proposed motorway would be an example: there was such a proposal in Scotland^{recently}, but Scottish Ministers were not disposed to accept it).

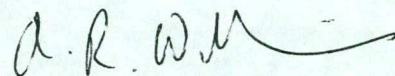
6. The legislative powers which Mr Channon considers would be needed to put his proposal into effect include compulsory purchase of land needed for the developer's road scheme. This could prove controversial, but it is not primarily a point for the Treasury, and Mr Channon would have to defend it himself. The other subsidiary powers are unexceptionable. The reference to the application of trunk road order procedures at the stage when the developer is seeking planning provision merely means that statutory public consultation on the road would take place is parallel to the planning procedures for the main development.

7. Mr Channon's chief interest is to obtain these additional powers in respect of trunk roads, but he thinks that if he does not extend them to local highway authorities, it will provoke amendments during the passage of the Bill. As was noted in paragraph 2 above, local authorities already have somewhat wider powers than DTp in this area. Giving them the additional powers proposed by Mr Channon is acceptable, and may indeed not make a great deal of difference.

8. Mr Channon is seeking QL's agreement to the addition of 3 to 5 clauses to his Road Traffic Bill (due to be introduced in the Lords in November) in order to provide for these additional powers. We have advised the Financial Secretary to take a neutral line.

9. A draft letter to Mr Channon is attached.

10. This submission has been agreed with GEP.



A R WILLIAMS

**DRAFT LETTER FROM THE CHIEF SECRETARY TO THE SECRETARY OF STATE
FOR TRANSPORT**

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

Thank you for your letter of 14 October to the Chancellor.

From a policy point of view I am generally content with what you propose, subject to one rider. As you suggest, the inclusion of compulsory purchase powers in the package could be controversial, but that is primarily a matter for you.

My rider concerns cases where a private developer only funds part of a public road scheme and does so on the understanding that as a result the scheme will be undertaken sooner than would otherwise be the case. There is a risk in such circumstances that the scheme supported by the developer will displace more worthwhile schemes merely because they do not attract private finance. Where displacement is likely to occur and the public expenditure element is significant, I would be grateful if your Department could consult the Treasury before accepting private funds for trunk road schemes.

Copies of this letter go to the Prime Minister, John Wakeham, other members of E(A) and of QL, and to Sir Robin Butler.

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cc:
 Chancellor
 FST
 Mr Anson
 Mr Phillips
 Mr Beastall
 Mrs Case
 Mr Turnbull
 Mr Revolta
 Mr A R Williams
 Mr Spackman
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3A

The Rt Hon Paul Channon MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 London
 SW1P 3EB

19 October 1988

Dear Secretary of State,

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

Thank you for your letter of 14 October to the Chancellor.

From a policy point of view I am generally content with what you propose, subject to one rider. As you suggest, the inclusion of compulsory purchase powers in the package could be controversial, but that is primarily a matter for you.

My rider concerns cases where a private developer only funds part of a public road scheme and does so on the understanding that as a result the scheme will be undertaken sooner than would otherwise be the case. There is a risk in such circumstances that the scheme supported by the developer will displace more worthwhile schemes merely because they do not attract private finance. Where displacement is likely to occur and the public expenditure element is significant, I would be grateful if your Department could consult the Treasury before accepting private funds for trunk road schemes.

I am copying this letter to the Prime Minister, John Wakeham, other members of E(A) and of QL and to Sir Robin Butler.

Yours sincerely,
 P. Walters

PP JOHN MAJOR
 (Approved by the Chief Secretary
 and signed in his absence)

CONFIDENTIAL

BF 24/10



CH/EXCHEQUER	
REC.	20 OCT 1988
	CST

✓ 20/10

PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

19 October 1988

Dear Paul

**PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING
EUROCONTROL CHARGES**

When QL met yesterday we took the opportunity to consider your bids for these additions to next session's legislative programme. This letter is to let you know the outcome.

QL's starting point on the Road Traffic Bill is that this is currently a straightforward and fairly uncontroversial Bill, confined to two purposes (ie, a unified driver licensing scheme to meet EC requirements; and the enablement of 'autoguide' experiments). With this in mind it has been agreed that the distribution of business between the two Houses should be planned on the basis that this Bill will be introduced in the Lords before Christmas: I understand that the Lord Privy Seal will, in fact, need it to be introduced by 1 December.

Although QL noted from your letter to Nigel Lawson of 14 October that you believe that only 3-5 clauses would be required to cover the partnership road building proposals that you have in mind, these would greatly widen the scope of the Road Traffic Bill, and render it vulnerable to amendment. QL also believed that the addition of these proposals would almost certainly make the Bill too controversial for introduction in the Lords. I am sorry to say that on this analysis we could not see our way to expanding the Bill in the way that you would like.

Your proposal for a short Bill to enable Eurocontrol to collect navigation service charges in European Currency Units raises no such problems, and QL were quite happy to add this to next session's programme. We should like this Bill, too, to be introduced in the House of Lords.

I am sending copies of this letter to the Prime Minister, Nigel Lawson, other members of E(A) and QL, to First Parliamentary Counsel and to Sir Robin Butler.

JOHN WAKEHAM

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
SW1P 3EB

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CH/EXCHEQUE		CONFIDENTIAL
REC.	26 OCT 1988	
ACTION	CST	
COPIES		
TO		



26/10

MP

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 01-270 (Llinell Union)
 Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
 GWYDYR HOUSE
 WHITEHALL LONDON SW1A 2ER
 Tel. 01-270 3000 (Switchboard)
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 From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

CT/1177/88

25 October 1988

Dear Secretary of State

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

Thank you for copying to me your letter of 14 October to Nigel Lawson.

The issue which you raise about the need for legislative changes to facilitate greater private sector involvement in road building is one which directly concerns me both as highway authority for trunk roads in Wales and in relation to county highway authorities in Wales.

As you indicate and as Nicholas Ridley and John Wakeham underline in their responses, the proposals will be controversial. For this reason while I share your wish to see legislation introduced I would like my officials to have the opportunity to consider the proposals more closely before we proceed further. I judge from John Wakeham's reply that there is likely to be time to do this.

Copies of this letter go to the Prime Minister, John Wakeham, members of E(A) and QL and Sir Robin Butler.

Yours sincerely
Keith Davies

Approved by the Secretary of State
 and signed in his absence

Rt Hon Paul Channon MP
 Secretary of State for Transport
 Department of Transport
 2 Marsham Street
 LONDON
 SW1P 3EB

dti

the department for Enterprise
CONFIDENTIAL

MP

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London SW1P 3EB

Department of
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Direct line 215 5422
Our ref PB5AEU
Your ref
Date 31 October 1988

Paul

In your letter of 14 October to Nigel Lawson you sought policy clearance for your proposal to widen the scope for private developers to contribute to the cost of roads made necessary by their developments. I have since seen John Wakeham's and Nicholas Ridley's letters on this subject.

I welcome your proposal. It seems to me entirely reasonable that developers should have to pay for roads which are built primarily to increase the profitability of a new development. I hope, however, that there will be adequate safeguards to ensure that local authorities cannot abuse the powers by requiring developers to pay for roads and improvements not genuinely associated with the development.

I am sending copies of this letter to the Prime Minister, John Wakeham and other colleagues on E(A), to members of QL and to Sir Robin Butler.

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COPIES TO	

✓ 31/10

John Wakeham



the department for Enterprise

MP

The Rt. Hon. Tony Newton OBE, MP
Chancellor of the Duchy of Lancaster and
Minister of Trade and Industry

Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
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Trade and Industry

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Our ref
Your ref
Date 4 November 1988

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TC	

✓ 4/11

L Paul,

In your letter of 14 October to Nigel Lawson you sought policy clearance for your proposal to widen the scope for private developers to contribute to the cost of roads made necessary by their developments. I have since seen letters from John Wakeham, Nicholas Ridley and David Young on this subject.

Difficulties of access are often a substantial handicap in the development of inner city sites. Your proposal offers the prospect of speedier development in cases where public money is not available for the necessary road improvements and I very much welcome it, subject to the safeguards set out in David Young's letter.

I am sending copies of this letter to the Prime Minister, John Wakeham and other colleagues on E(A), to members of QL and to Sir Robin Butler.

*we
Tony*

TONY NEWTON

TN9ABN

CONFIDENTIAL



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REG.	15 NOV 1988
ACTION	CST
COPIES TO	

MP

✓ 15/11

15 November 1988

Dear Nigel,

PRIVATE SECTOR CONTRIBUTIONS TO ROAD BUILDING

I refer to Paul Channon's letter of 14 October and subsequent correspondence.

I too am anxious to encourage private sector involvement and have asked my officials to examine more closely the scope that exists within present statutory powers in Scotland. Should further legislation appear desirable I would propose thereafter to liaise with Paul and with Peter Walker as to the details. Timing of new legislation would, as has been indicated, be a matter also for further consideration.

Copies of this letter go to the Prime Minister, John Wakeham, members of E(A) and QL and Sir Robin Butler.

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND

CONFIDENTIAL

FROM: A G TYRIE
 DATE: 15 December 1988

CHIEF SECRETARY

cc: Chancellor
 Financial Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mrs Lomax
 Mr Spackman
 Mr Luce
 Mr Revolta
 Mr Richardson
 Mr A White
 Mr Williams
 Mrs Case
 Mrs Chaplin
 Mr Call

ROADS: FORTHCOMING E(A) MEETING

I have seen Mrs Case's note of 9 December and Mr Channon's draft papers for this meeting.

2. This is a rare occasion where I think a spending Minister has got it right! Road building has been taking place in the 1980s on the assumptions for growth made at the beginning of the decade, of around 1½%. We have succeeded only in completing a motorway network fit for a declining Britain. All the other major European countries have made substantially greater efforts than we have, particularly the West Germans. Despite a very powerful Green Lobby they have built three times as much motorway. The Ruhr Geb^{ic}et has a vastly superior road network to our equivalent, the South East.

3. Although I cannot prove it I am pretty confident that, for example, the M25 has made a substantial contribution to the improved growth performance of the South East. I suspect that the economic yield of more road building may be substantially higher than the 2:1 estimate accepted in the joint Treasury/DTP paper. [Of course, a lot of the spending on Scottish roads is money down the drain. The Scots would gain, on the block, from

Why?

any increase we agreed with Channon. Is there any chance at all that we could detach them from a general increase? Unlike hospitals etc even the Scots can't mount a case to say they're short of roads!]

4. We are already collecting several times more revenue from roads than we are spending. I think we must reconcile ourselves to spending some more of it.

5. Congestion. The treatment of congestion "costs" is a little confusing in the paper. I think congestion is best seen as a reduction in the economic yield. In other words, if too many cars try to get on one road at the same time, the optimal throughput is not reached. With the exception of London, where congestion is a serious deterrent to road use, and road use is therefore effectively rationed, it seems to me that the correct response to congestion (on inter-urban motorways, for example) is to build just enough roads to prevent it.

Two points.
a) How do we judge that point?

b) All the evidence suggests

that new roads create their own congestion (eg the M25)

6. This may seem a fairly obvious point, but the joint paper, by redefining congestion, implicitly takes issue with it. The joint review suggests that 'congestion' only starts when average speeds on motorways are reduced to 50 mph "with temporary stop-start operation". I think this is absurd. If that level of congestion were permitted to spread through the motorway network we would have a massive political problem on our hands, even ignoring the economic costs.

7. London. On London, I feel that Mr Channon's decision not to press for any road building at all must, over the medium term, be a mistake. We are trying to encourage more people to live in London (Serplan has allocated about 150,000 homes between now and the end of the century). Unless we are prepared to tell Londoners that in practice they are not permitted to use their cars, unless they drive them around in the dead of night, we have to increase the supply of roads for the inhabitants. Furthermore, these people are not going to stop travelling. They will travel by rail and Underground. The problems there, already serious, would become appalling.

8. Environment. Even if we gave Mr Channon all the money he wanted, he would still be faced with a massive Green Lobby problem. Very little attention has been paid to this in his papers. Bypasses may improve the quality of small town life by removing juggernauts from the high street, but bypasses also have to cut through someone else's land. That often generates enormous opposition.

9. Private Sector Roads. Mr Channon's second paper, on creating a 'private sector for roads', looks a complete red herring to me. I can't think we want this because:

- developers aren't going to bid for routes where there is a lot of competition, they will only bid for monopoly routes, estuarial crossings and the like (incidentally I think the PM took a bad decision over Dartford);
- the politics look awful. Obtaining planning permission is already a problem. It would be even more difficult to get past the Green Welly brigade if Channon, in imposing compulsory purchase orders for road building, was responding to the demands of private developers;
- there is already a lot of competition for the contracts to construct roads, so there are no great savings to be had.

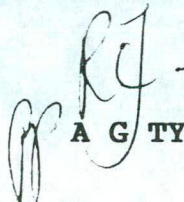
10. This paper implies that we might be able to get "something for nothing" by tapping the private sector, but we cannot. So the only question is a tactical one: should we tell Channon to shred his paper or allow it to be published as a consultative document, allowing the issue to run its course.

11. My feeling is that, far more important than an announcement about "private sector" roads, would be any announcement that we might make about increased road building in the 1990s. So I don't think we have to dig Mr Channon out of the small hole he put himself in at the Party conference, which stirred the issue up. My instinct would be to kill this paper now. But if we can be sure that it will die anyway we may as well allow it to be published.

12. Further Information. There are some further questions to which it might be useful to have answers:

- It is accepted in all these papers that the ratio of economic yield to construction and maintenance costs is 2:1. Has anyone tried to calculate the Exchequer yield from that increased economic activity?
- As I mentioned some months ago, I think it is worth spending a little money on some research to discover, as far as we can, the economic benefit from a stretch of road we have already built. Then we can compare our ex-ante calculations with an ex-post assessment. Of course, this would be a difficult calculation but I think the results would be worth something. Erroneous though they may be, we have to take decisions on the basis of numbers. This would be a pointer to the accuracy of the ex-ante numbers we are looking at now.
- Has anybody asked the French how much their toll system costs them? This, I suppose, would consist of three components: the running costs (pay and maintenance, etc), a discounted element of the capital cost of the site that these toll areas take up, and the delay in journey time for motorists. It shouldn't be too difficult to get this information. From it we might be well on the way to knowing whether the Germans and the British have taken better policy decisions on motorway pricing than the French and the Italians.

13. A Suggestion. Has any serious consideration been given to a Swiss-style flat-rate motorway tax sticker? Anybody who travels on Swiss motorways, whether it is for a day or a year, has to buy and display a sticker, at a cost of about £15. This would deter some use (although it might displace it on to already congested A roads), and therefore improve motorway flow. It would also catch tourists. We could target it on a few key roads, the M25 and the motorway from Dover, for example.


A G TYRIE

FROM: A R WILLIAMS
DATE: 16 DECEMBER 1988

1. MRS CASE
2. CHIEF SECRETARY

cc: Chancellor
Sir P Middleton
Mr Anson
Mr Monck
Mrs Lomax
Mr Spackman
Mr Revolta
Mr Richardson
Mr Guy
Mr Call
Mr Tyrie

E(A) MEETING ON 20 DECEMBER: ROADS AND TRANSPORT

(a) E(A)(88)55: REVIEW OF THE ROAD PROGRAMME

1. This paper by the Secretary of State for Transport seeks E(A)'s agreement in principle to expand the national road construction programme, and to announce this expansion in the New Year.

Line to take

2. - Accept that there is an economic case for larger road programme than we have at present.
- But level and timing of any additional expenditure on roads is for consideration in Survey, taking account of other demands on public expenditure.
- Agreement in principle to expanded road programme should be conditional on:
- (i) Detailed study of feasibility of road pricing in central London.
 - (ii) Tolling of publicly financed new roads being considered whenever this would be practical and cost effective.
 - (iii) Acceptance by Mr Channon that tolling of certain limited, highly congested stretches of existing inter-urban roads (eg parts of M25) should not be ruled out.

- Prepared to agree to announcement in New Year provided it is in terms which do not pre-empt Survey decisions on level and timing of expenditure. Treasury should be consulted on drafting.

3. See Annex for defensive points.

Discussion: Case for an expanded programme

4. There are some 340 schemes in the existing motorway and trunk road construction programme, some of which will not be completed for 10-15 years. But traffic growth is outpacing new construction. The work done for the review of the road programme demonstrated that even using the low traffic growth forecasts, there would be serious congestion at a number of parts of the network by the end of the century or shortly thereafter. Moreover these estimates relate to inter-urban roads where alternatives to road building - traffic management, road pricing, greater use of public transport - are unlikely to have more than a marginal effect, except possibly in a few localities with special problems. The value of the benefits (mainly time savings) of an expanded road programme are expected to be twice those of the costs of construction, both discounted to the present (but see 6(iv) below).

5. One can pick holes in some of the details of Mr Channon's paper:

(i) The argument in paragraph 6, that spending on roads has fallen since the mid-1970s whereas traffic has grown, is spurious. The earlier high levels of spending reflected the build-up of the basic motorway network, which took account of expected future traffic growth. This was a one-off expense which tells us nothing about what we should be spending now.

(ii) The section on the costs of congestion (paragraphs 12-14) is weak. The figure of £6 billion is (as the paper acknowledges) mainly incurred in urban areas, for which the proposed expanded programme will do little. Indeed Mr Channon implies (paragraph 11) that urban congestion is something we must live with. The CBI and Freight Transport Association are not impartial advisers: they have an interest in emphasising the benefits of new roads, which are gained by their members, and playing down the costs, which are met by the general taxpayer. More generally, in the absence of road pricing congestion may be more a result of the fact that road users do not face the full cost of their journeys than an indication of the need for more investment. The paper on private sector roads even implies that congestion has its positive side, by making private initiatives feasible!

(iii) International comparisons (paragraph 15) should be treated with caution. Different countries have different geographical areas, topography, spread of population, levels of car ownership etc. Besides we do not know to what extent roads in other countries produce good economic returns. (This criticism also applies to paragraph 6 of Lord Young's paper.).

(iv) The 2:1 ratio of benefits to costs (paragraph 16) needs the gloss that the costs are mainly paid by taxpayers whereas the benefits are in kind. As taxes are distorting, a comparison should give more weight £ for £ to costs than to benefits.

(v) The paper makes unduly light of the environmental costs of road building (paragraph 18), at least as perceived by those affected. Many of the individual schemes in an expanded programme are likely to run into stiff opposition on environmental grounds, particularly in heavily populated areas like the South East.

6. None of these points seriously dent the basic case for an expanded programme.

PES Consequences

7. Mr Channon bid for fm 25/100/150 for an expanded programme in the 1988 Survey, but got nothing as he decided that all the agreed additional provision had to be used for his existing programme. We can expect him to put forward a similar bid in the 1989 Survey (he might even try to persuade you to let him have the £25m in the first year from the 1989-90 Reserve). If E(A) does agree in principle to an expanded programme, it will be difficult to resist conceding a fair slice of this extra provision in the next Survey.

8. In the longer term Mr Channon will be looking for even more. His paper (drawing on the roads review) suggests that (at 1985-86 prices) an annual spend on road construction of between £820m, with low traffic growth, and £980m, with high growth, will be required by 1994-95. At current prices that is between £250m and £450m above 1989-90 provision. The implication is that DTp will be looking for substantial increases in each of the next 3 Surveys. 1994-95 is, however, the peak year; after that the level of expenditure should decline in real terms.

9. There are also running costs implications. Mr Channon bid for fm 2/3.7/5.8 for highway staff in the Survey but the bid fell with the corresponding programme bid. You told Mr Channon that, if E(A) agreed in principle to an expanded programme, you would be prepared to let him have a small addition to his running costs in 1989-90.

Road Pricing/Tolling

10. The objective of road pricing (in the sense of charging for the use of roads in a particular area, as opposed to tolling a single road) is to promote economic efficiency by directly relating the charge paid by the road user to the costs, congestion costs in particular, he imposes by his journey. It should reduce congestion by encouraging people to travel outside the more expensive peak hours and by deterring some marginal journeys altogether. It would also make it easier for the railways to charge their full costs without losing passengers to the roads (and thereby increasing congestion).

11. It would, however, have some serious practical and political difficulties and there is little justification for it outside congested urban areas, central London in particular. But in central London, where congestion costs appear to be of the order of an average 60p a mile, road pricing could make sense. We consider that it would be valuable to study the exact magnitude of congestion costs in London and how they vary by area and time of day; the technical practicalities of various charging schemes (eg electronic road pricing and zone discs); the start up and running costs of such schemes; and their likely impact on traffic.

12. Mr Channon is personally unattracted by road pricing. He does however concede in his paper (paragraph 21) that there is a case for considering it in London "in the longer term". This provides a suitable peg for getting agreement to a study as a condition of accepting in principle an expanded inter-urban road programme.

13. There are two other forms of charging for roads that ought to be kept open as options: tolling certain new roads; and tolling particular stretches of congested existing roads. Mr Channon seems to consider tolling new roads acceptable if combined with private finance but not otherwise. But if it makes sense to toll a particular road, it should be done irrespective of whether the road is to be publicly or privately financed.

14. Tolling suitable stretches of existing roads has the same kind of economic efficiency justification as area road pricing. It is desirable to keep the option open but it is the least important of the 3 road pricing/tolling points.

Announcement

15. Ideally it would be better to avoid an announcement until after the next Survey, but that would not be acceptable to Mr Channon. It should be possible to draft it so as to avoid precise commitments on the timing of new road schemes, and thus to preserve some flexibility about the level of additional expenditure.

Views of the No.10 Policy Unit

16. The Policy Unit consider that Mr Channon ought to draw up a strategic plan for the road network, identifying potential growth areas, new links to ports/Channel Tunnel, etc. This top down approach contrasts with the existing bottom up arrangement, whereby Regional Offices identify particular needs on the basis of traffic growth forecasts and these are put together into an overall programme selected on the basis of economic and environmental benefits.

17. We are very sceptical about the Policy Unit's idea. If the strategic plan came up with a different network than that produced by the existing procedure then either there would be pressure for more spending on roads so that the schemes in the plan and those thrown up by the Regions could be accommodated. Or else, for a given level of expenditure, schemes in the plan whose justification was speculative would displace those coming from the Regions for which there was a solid economic or environmental case.

18. More helpfully, the Policy Unit are likely to advise the Prime Minister not to rule out the tolling of publicly funded roads.

(b) E(A)(88)57: TRANSPORT: THE MARKET VIEW

19. This paper by the Secretary of State for Trade and Industry supports the case for an expanded road programme, asks for it to be focussed on those projects with the greatest economic and environmental benefits, and calls for an "action programme covering rail, air and sea ports as well as roads".

Line to take

20. - Quite agree that expanded programme should concentrate on projects with greatest economic and environmental benefits.
- But very doubtful about value of an action programme covering rail, air and sea ports: would conflict with our policy of relying on market mechanisms and privatisation.

Discussion

21. Lord Young's paper does not add much of substance, beyond his call for an action programme on transport generally. Although Mr Channon will welcome his support on roads, he is unlikely to be at all enthusiastic about the idea of a master plan for road, rail, ports and airports. It is indeed difficult to see how an action programme of this sort envisaged by Lord Young would fit in with existing Government policies. Associated British Ports and BAA have been privatised, and there are plans to privatise the remaining public (mainly local authority) owned ports and airports. British Rail (for which privatisation is also a possibility) is supposed to use its commercial judgement when developing rail services. None of this leaves much room for a Government directed programme.

22. On rail links to the Channel Tunnel (which Lord Young mentions specifically), BR already has a statutory remit to produce plans by the end of 1989 for rail links to the tunnel from places beyond London. It is also investigating the possibility for a new fast link between London and the Tunnel, and a new terminal.

23. In a tactical sense, Lord Young's intervention might help to muddy the waters for the road programme. But on a longer term view its implications as unwelcome. It is difficult to see how the Government could implement a transport action programme which differed from what is already happening unless it were prepared to provide grants and subsidies, and possibly to direct BR to act in a manner it considered uncommercial. This would be very unwelcome on both public expenditure and supply side grounds.

(c) E(A)(88)56: CREATING A PRIVATE SECTOR IN ROADS

24. This paper by Mr Channon seeks agreement to the issuing of a consultation document on ways to facilitate the creation of a private sector in roads, with a view to taking early legislation. [You have written to Mr Channon with your views].

Line to take

25. - Quite agree that it is desirable to encourage development of genuine private sector schemes (like Channel Tunnel) which would operate in competitive market conditions. In such cases Government involvement in planning process would be minimal and would be no obligation on Government to support scheme if it foundered.

- Where these criteria met, agree that additionality should be no more than for, say private health care. Although, clearly, significant increase in private provision would have bearing on need for public provision.

- But proposals in paper might bring forward proposals of different type, where road being proposed was a monopoly, or one which Government itself would want to see provided whether or not there were any private sector promoters (not all such schemes would necessarily be in existing road programme).

- In latter case, private sector proposals should be evaluated alongside publicly funded alternatives, to ensure value for money, and additionality would need to be looked at on merits.

- Important that consultation document should minimise scope for misunderstanding here, so that this important initiative is not jeopardised by false expectations. Officials should clarify these issues before document published.

Discussion: private finance rules

26. There are three categories of road which could be privately financed:

- (i) Those already in the existing public road programme.
- (ii) Those which would not be built at all if the private sector did not build them, and which would operate under competitive market conditions (the Constain's proposal for a tunnel under central London is an example).
- (iii) An intermediate category in which the road is either a monopoly or one which, although not in the existing road programme, the Government would want to provide in the foreseeable future whether or not there were private sector promoters (the second Severn Bridge is in this category).

27. The implication of paragraph 27 of Mr Channon's paper is that he accepts that privately financed roads in category (i) are subject to the normal rules on examining value for money in comparison with a publicly funded alternative, and on additionality. However this point is not absolutely clear in other parts of the paper (eg paragraph 19(i)) and must be made so in the consultation document.

28. Category (ii) is straightforward. If a road is not a monopoly and must be built by the private sector if it is to be built at all, there can be no question of assessing its value for money by examining a publicly financed alternative. And we accept that additionality is not at issue in this case. The critical test of whether a road is in this category is whether the Government would be prepared to allow the decision on whether it should go ahead to be determined entirely by market forces.

29. The difficult category is (ii). There may in fact be very few (if any) roads which are simultaneously monopolies, commercially viable, and yet not part of the existing network. But there certainly will be roads which the Government wants to see provided even though they are not in the current programme (ie the Government would not be willing to leave their provision entirely to market forces). In such cases the normal rules on value for money and additionality should apply, and the consultation document should make this clear. On the evidence of his paper, this is not the position taken by Mr Channon. He seems to take the view that if the new procedures he is proposing can be applied, the schemes concerned should automatically escape the normal rules.

30. The paper is helpful on two points:

(i) When a private sector firm initiates a proposal for a road scheme which is then taken up by the Government, the firm would not have exclusive rights to construct the road, though it would be automatically included on the short list (paragraph 24).

(ii) Shadow tolling, ie payments by the Government to the private contractor related to the level of traffic using the road, is rejected. In reality this is merely a form of leasing.

Other issues

31. Much of this paper (paragraphs 14-22) is concerned with streamlining the procedures which private sector promoters have to go through in order to acquire land, establish the line of the road and take it through the public enquiry process, and to charge tolls. These are cumbersome and time-consuming at present. Mr Channon is probably right to suppose that they must be improved if there is to be any chance of genuinely private sector road schemes on anything more than an occasional basis.

32. So far as the Treasury is concerned, the proposed new procedures are not objectionable. But some of them will certainly be controversial. In particular the right of a promoter to ask the Secretary of State to exercise compulsory purchase powers on his behalf would not be popular. We have not been able to discover a precedent for this power (though in the time available an exhaustive search has not been possible). The usual pattern is either for public agencies to exercise compulsory purchase powers on their own account and, if appropriate, re-sell the land to private developers, or for private developers to seek powers to purchase specific areas of land in Private or Hybrid Bills.

A. R. Williams

A R WILLIAMS

ROADS REVIEW: DEFENSIVE POINTS

- Must commit ourselves to extra spending on roads now

No. Survey is right time to decide level on timing of spending, so that overall view can be taken of Government's commitments and priorities. Will of course take account of E(A)'s decision on road programme in transport bilateral. Willing to have further discussion with Paul Channon about handling of this in Survey.

- But congestion intolerable: cannot wait

Public concern about congestion focussed mainly in London, which is not affected by expanded programme. In general position not so bad as to require hasty measures. Besides, paper on private finance suggests that congestion could be helpful in encouraging private sector initiatives.

- At least agree claim on Reserve for start of programme in 1989-90

Reserve is for unforeseen contingencies not long term programmes. Road programme gained £220m in 1989-90 in last Survey; if essential to start expanded programme immediately, some of this can be used.

- Road pricing impractical and politically unacceptable

Can see difficulties, but also considerable benefits. Should have study of possible road pricing in central London before we take decision.

- Tolling not feasible/unacceptable to road users

But tolling essential to increased private sector initiatives. If feasible for privately financed road will be feasible for publicly financed one. Road users unlikely to distinguish between the two.

cc:
PS/Chancellor 2
Mr Anson
Mr Monck
Mrs Lomax
Mrs Case
Mr Spackman
Mr Revolta
Mr Richardson
Mr A Williams
Mr Tyrie
Mr Call



Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
London
SW1P 3EB

16 December 1988

Dear Secretary of State,

CREATING A PRIVATE SECTOR IN ROADS

I have been thinking further about the proposals in your paper for creating a real private sector in roads.

I very much agree with you on the desirability of encouraging the development of genuine private sector schemes which like the Channel Tunnel would operate in competitive market conditions. In my view it would help further this objective if, before you publish your proposed consultative document, a number of issues are clarified. I set these out below. If, as I suspect, there is not time to explore them fully at Tuesday's E(A) meeting, we might ask our officials to study them further.

My main concern is that the success of your initiative is not jeopardised by raising false expectations which we shall be unable to meet. The aim of the new procedures, as I understand it, will be to increase the scope for the private sector to put forward genuine private schemes whose viability will be determined in competitive markets, where government involvement in the planning process would be minimised, and where there would be no obligation on the government to support the scheme should it founder. In such cases I quite agree that additionality should no more be an issue than it is for, say, private health care, although clearly a significant increase in private provision would have some bearing on the need for public provision. It seems only realistic to recognise, however, that your proposals may not only bring forward schemes of that type. There may be other proposals, for example,

for estuarial crossings which would effectively be monopolies, or for routes already identified by your department as key parts of the national road network, which you would want to provide whether or not there were any private sector promoters, even if they fell outside the existing road programme. In that sort of case, any private sector proposal would need to be evaluated alongside the public expenditure alternative, to ensure that the option chosen obtained value for money and additionality would need to be looked at on its merits. We should try to minimise scope for misunderstanding here, so that your initiative is not tarnished by the complaints of companies denied the prospect of some easy risk-free profit.

More generally we need to be clear about the role of the government in the new procedures you propose. The proposals imply potentially large scale compulsory purchase in favour of private developers. They also pose questions about how schemes of the kind envisaged in the second half of paragraph 19(i) of your paper relate to the conventional roads programme. We should not rule out tolling of some public schemes. But I assume one test of whether the scheme is genuinely private will be whether the government is prepared to allow the decision on whether it should go ahead or not be determined entirely by market forces?

I am sending copies of this letter to the Prime Minister, to other members of E(A) and to Sir Robin Butler.

Yours sincerely
P. Walker

PP JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)

CONFIDENTIAL

FROM: MRS JUDITH CHAPLIN
19th December 1988

CHIEF SECRETARY

cc Chancellor
Paymaster General
Mr Call
Mr Tyrie

ROADS: FORTHCOMING E(A) MEETING

I have seen the papers for tomorrow's Economic Affairs Committee. Leaving aside the question of where the extra funds are to come from, I do think it is vital to give higher priority to solving the increasing transport problems in the UK. There is a genuine cost to industry from congestion and delay, which is not satisfactory in view of the need to be competitive both because of the completion of the internal market and the need to increase exports.

2. There is also a political cost. The rumblings in newspapers and other media, particularly business press and programmes, about the increasing congestion remind me of earlier rumblings about the inadequacy of our education system. The complaints will grow and become more vociferous. To some extent it can be argued that the increased congestion is the product of a successful economy, but such an argument will not continue to be satisfactory if there is no clear plan of how to deal with the problem in the future. So not only must a plan be announced, but it must be perceived to provide an adequate solution even if over a long time scale.

3. Some points in Paul Channon's paper therefore worry me. He stresses the desirability of increasing the capacity of certain existing roads, because that is quicker to implement. Surely it is as important to look at ways of reducing pressure on some of the more heavily used road through alternative proposals, and not just road proposals. For example, there is a substantial network of roads in the North. Is it sensible to encourage the movement of goods which are on those roads south down expanded existing roads, most of which centre on London? Is it not more sensible to make sure that those roads link up with the ports, so that the goods can be shifted by sea, or link up with adequate rail links to the Continent, preferably

covered in mtg
1 agree with Mr C on much of this, this is Mr Channon's paper
in paragraph 3 (No proposals) A-MI link is clear
What is clear is that the paper is not a plan
MP

not through London? This may well lead to East-West roads rather than North-South roads, but even for the North-South roads surely consideration needs to be given about whether it is more sensible to build a new road avoiding the direction of London, rather than increasing the size of existing roads.

4. I am also concerned about Mr Channon's dismissal of the need for new roads in London. The potential for new jobs and new housing because of the Canary Wharf development, and in the whole area North and South of the Thames there, is immense. At the moment people going there are mainly funnelled through London, needlessly increasing the congestion. Although major schemes are under way or recently completed there, they do not seem to me to be anything like sufficient to give enough alternative ways of getting to that area.

5. I totally disagree with Mr Channon's dismissal of tolls on motorways. There is total illogicality in believing that the private sector will get a return from introducing tolls, but that the public sector won't. I believe people would happily pay a toll to avoid a congested road or a longer route. The Private Sector paper rightly says attitudes are changing.

6. Ruling out tolls on some motorways, does not mean ruling them out on all. There would be no point in a toll on the less-heavily congested motorways but certain roads, such as the M25, seem to me suitable for charging tolls. Furthermore, it is illogical to argue that it will cause interrupted traffic flow and that it is too expensive to introduce. Either there is not enough traffic to cause jams, or there is sufficient to bring in substantial sums of money.

Jc

JUDITH CHAPLIN