

National Infrastructure Commission
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Balfour Beatty's submission to the National Infrastructure Commission inquiry on future investment in the North's transport infrastructure

1. Introduction

Balfour Beatty is a leading international infrastructure group. With 20,000 employees across the UK, we provide innovative and efficient infrastructure that underpins our daily lives, supports communities and enables economic growth. We are committed to the North and have staff and offices across the region, including in Leeds, Newcastle and Manchester. We have a proud history of financing and building the North's infrastructure, including recently: the University of Sheffield's £80m Engineering Building, "The Diamond"; the £184 million smart motorway scheme on the M60 near Sale and junction 20 of the M62 near Rochdale; and enhancement works to the famous Tees Transporter Bridge on behalf of Stockton and Middlesbrough Councils.

We also have significant experience and understanding of the links between infrastructure investment and regeneration and economic growth.

We welcome the publication of *The Northern Powerhouse: One Agenda, One Economy, One North*¹ and the bold ideas it explores about how to achieve to equalise the North-South economic imbalance and to increase levels of investment into northern cities and towns. We agree that, working together should enable the areas that fall within the 'Northern Powerhouse' to make improvements to their economic productivity over and above what can be achieved by the North's City Regions and Regions working in isolation. Businesses and investors are not interested in administrative boundaries of individual counties and regions, but evidence shows that transport connectivity is something they consider when choosing where to invest² and KPMG has found that a location with 10% higher rail connectivity tends to have an employment density that is 14% higher³.

Furthermore, repeated predictions that broadband internet and the rise in remote and flexible working would result in the demise of cities have failed to come to fruition⁴. If anything, flexible working, mobile and cloud computing and self-employment has demonstrated the importance of cities in terms of attracting business clusters and acting as central meeting points. The Core Cities remain the main drivers of economic growth in the UK outside of London and the South East. Improving transport links between them, particularly rail links, is one of the best ways of making the North a more coherent area and attracting jobs and growth.

The North of the England is made up of the three northern regions North West, North East, and Yorkshire and the Humber and includes the great northern cities: Liverpool, Manchester, Newcastle, Leeds and Sheffield. Together the combined economies of the North West, North East and Yorkshire

¹ HM Government, *The Northern Powerhouse: One Agenda, One Economy, One North*, A report on the Northern Transport Strategy, March 2015

² Volterra, *Why London?* A report for London & Partners, 2012

³ KPMG, *High Speed Rail in Britain: Consequences for employment and economic growth*, 2010

⁴ British Council for Offices, *The Challenges for the Office Sector over the next decade and beyond*, 2011

and Humber are worth £289bn⁵, but in our view, this figure could and would be higher with the right blend of direct investment, devolution, policy interventions and skills.

The government's priorities for the Northern Powerhouse include stimulating economic growth, raising productivity, and improving connectivity. We welcome and support these objectives and are keen to use our skills and experience to help deliver a Northern Powerhouse. In this note, Balfour Beatty aims to set out its thoughts on some of the key areas.

- Devolution and investment

Devolution in particular is key to making the Northern Powerhouse a reality. Gaining new powers over strategic planning, transport, skills, housing and economic development will give city regions the ability to invest in and shape their own futures. In particular, Balfour Beatty believes that the establishment of Transport for the North (TfN) on a statutory footing offers a real opportunity to improve the congested road and rail networks in the North of England and thereby to drive transformational growth, strengthening the Northern economy in its own right, rebalancing the economy as a whole and taking the pressure off the overheated South East. Beyond that, TfN has the potential to move beyond being an advisory body and to evolve into an operational and project delivery organisation like Transport for London, with whom Balfour Beatty has a close relationship. We hope that TfN being given statutory status signals that that is the direction of travel.

Strategic transport investment is generally allocated on a scheme-by-scheme basis and is subject to rigid scheme development and value for money calculations. In our experience, these assessments tend to underestimate the demand and economic and regeneration benefits new transport investment could bring. There are many examples where this has been the case, from the InterCity 125 rail services, to HS1 and Thameslink. On the basis of these calculations, investment most often flows to densely populated areas where the maximum numbers of people and businesses benefit from it. Less densely populated regions therefore miss out and the North as a whole consequently attracts disproportionately low levels of government investment in its transport infrastructure. Low both in relation to London and, more importantly, in comparison with city-regions in continental Europe.

It is our hope that devolving money and powers will result in roads, rail and other schemes being built because they capture wider economic benefits as defined by the region in question. For example, in Scotland, many of the road networks which have recently been upgraded, several of which Balfour Beatty has worked on, were not economic in the narrowest sense, but were deemed necessary to the growth of the Scottish economy by Holyrood. In the absence of this devolution in the short-term, we will be advocating that alternative economic modelling should be considered, which makes a more robust economic case for northern infrastructure investment. We believe that research into new methods for gaining a full picture of the wider economic development and regeneration benefits associated with large infrastructure projects, such as a High Speed Rail, should continue.

Furthermore, Balfour Beatty believes that devolution of other taxes such as stamp duty for example, along the lines proposed by the City Growth Commission and the London Finance Commission, could enable combined authorities to secure further infrastructure funding.

To make the North a powerhouse once again we need a new era of infrastructure investment.

⁵ IPPR North, Rhetoric to reality: A business agenda for the northern powerhouse, September 2015

- Skills

In addition to investment in transport infrastructure, skills will be a crucial element of building the Northern Powerhouse. The North has a lower level of skills on average, as educated people tend to migrate towards London and the South East. This is something that needs to be addressed if we are to make the North a self-sustaining, coherent, competitive economic force, but building, improving and maintaining the infrastructure the region needs also requires skills.

The 'North-South drift' is something that needs to be reversed in order to enable the region to flourish. To a point, improved transport infrastructure, better connectivity and reduced commuting times are likely to achieve this naturally, by boosting the northern economy and enabling businesses to retain skilled workers and attract them from elsewhere in the country. Combined with lower house prices than the South East and a lower density of population this could take the pressure off the South East.

However it will need more than a reliance on improved transport links to improve the skills base for the northern economy. The North will need to develop its own skills base organically as well. Other ideas should also be considered, such as giving communities power over skills budgets so they can shape the training for their young people; and developing better links between educators, employers and Local Enterprise Partnerships, so that young people can access apprenticeships.

2. Responses to specific questions outlined in the Inquiry

- To what extent are weaknesses in transport connectivity holding back northern city regions (specifically in terms of jobs, enterprise creation and growth, and housing)?

The links between productivity, economic growth and transport connectivity have been well documented⁶ over many years. Effective transport connectivity means that businesses can access markets, both for trade and to attract workers from. It draws developers and investors, which is why development and investment are often focussed in areas with good transport links. Many studies have found that businesses and individuals make investment and location decisions based upon a combination of factors, key amongst which is the area in question's connectivity⁷.

The UK has underinvested in infrastructure for many years compared to other countries. 2009 estimates showed that the cost of replacing aging infrastructure and building the necessary new infrastructure will cost around £500bn by 2020⁸. However, transport infrastructure spending on the area that makes up 'the North' has historically been even lower than in the South East, and continues to be so. For example, in terms of expenditure per head, it was £166 for the North in 2013/14, half that of London and below the national average of £189⁹. Crossrail alone, for example, has been allocated nine times more funding than all the rail projects from the North's three regions combined.

The consequences of this underinvestment include:

- The North is less productive than it could and probably should be and transport constraints have significant potential to hold back future economic growth: Network Rail data shows

⁶ HM Treasury, The Eddington Transport Study, December 2006

⁷ GLA Economics: London's Housing Submarkets, 2008; London & Partners: Why London? 2013

⁸ Policy Exchange, Delivering a 21st Century Infrastructure for Britain, 2009

⁹ For example, HM Government, 2013 Government Infrastructure Plan and Volterra, Transport's role in Regeneration & Economic Development, January 2014

that over the last decade, passenger trips have grown by 60-90% in Birmingham, Leeds, Manchester and Sheffield. To achieve 70% growth will require around 80,000 more rail trips daily into the Core Cities, something which cannot be provided by existing capacity and connectivity. Seven out of eight “core cities” outside London have currently GDP per capita below the national average¹⁰.

- The northern economy has grown more slowly than the rest of the UK and than most EU national economies, almost all of which have other major cities outside of their capitals with healthy, competitive economies.
- A key measure of regional economic output, gross value added (GVA), shows that per person, London's total output is 2.3 times that of the North East, two times the North West, and 2.1 times that of Yorkshire and the Humber¹¹.
- It is made harder for the region to act as a single competitive area and to enable new economic relationships to be built, as the transport links between the cities in the region are not strong enough. For example, the long commute time between Leeds and Manchester – a journey of equivalent distance to the span of the Central Line on the London Underground - results in 40% fewer commuter journeys than there should be¹².
- Once thriving areas such as Hull are struggling and are perceived as isolated. Hull has higher unemployment and lower house prices than almost anywhere else in the country. In spite of being on a vital freight corridor and of being a port itself, Hull is dependent on the Southern Ports and the South East's infrastructure to transport its goods. Poor in-region transport links mean that it does not realistically have access to the jobs markets of cities such as Leeds, and that people living in Leeds do not have access to the cheaper housing stock in Hull. Rail electrification and roads investment would make a significant difference to areas such as Hull, enabling it to fulfil its potential as the economic centre of the Humber and a hub for industry associated with energy, logistics and manufacturing.
- As outlined above, younger, skilled people are often drawn to the employment opportunities in London and the South East. This not only results in a leaching of skills away from the North, but also hinders population growth, a key element of economic growth and development of cities.
- The consequences are not just felt in the North: as people migrate to London and the South East, it puts increasing pressure on housing, jobs and transport infrastructure in that area.

In our view, this does not just hold back the northern economy, but the economy of the country as a whole.

- What cost-effective infrastructure investments in city-to-city connectivity could address these weaknesses? We are interested in all modes of transport.

We support plans for transport investment to help deliver the Northern Powerhouse through HS2 and the Northern Transport Strategy. We also welcome some of the priority projects TfN has outlined: the TransPennine Tunnel, four tracking the trans-Pennine railway line, and the Liverpool-Manchester airport railway link.

¹⁰ ONS

¹¹ GVA figures, ONS

¹² IPPR North, Rhetoric to Reality, a Business Agenda for the Northern Powerhouse, September 2015

Other points:

- It is not just about building new connections, but for example, applying existing ideas, such as the managed motorway concept, which could be applied to congested sections of the strategic northern network.
- As well as ensuring effective connectivity between the North's city regions, it is also important that the region is well connected to other city regions and key destinations elsewhere in the country, as well as building on its international connectivity, to give it robust access to as many markets as possible. Its ports and airports therefore need as much attention as its rail and road links.
- Investment in local transport such as light rail, tram and metro systems to compliment major rail hubs and enable workers to access main city employment locations from across a wide area will be vital if the North is to compete properly with the South. Manchester, for example, has a local transport system with an integrated light rail system, Manchester Metrolink, which has six lines and has led to significant regeneration benefits in areas including Oldham, Rochdale and Tameside. But in cities such as Leeds, Bradford, Hull and Sheffield, there is more to be done to achieve an easy to access city-wide, direct and efficient system of public transport.
- It is essential that investment in the North should not be at the expense of London, but in addition to it. Infrastructure investment in London and the North should not be a 'zero sum game'. However, we do believe that, while investment in London's infrastructure results in benefits for the rest of England, it needs to be evened out with investment also in the North in order to rebalance the economy.
- Finally, although investment in transport infrastructure is vital for facilitating growth and productivity, it does not create growth on its own. Other policies, such as proper integration of land use and transport planning, also need to be in place to ensure that the benefits of improved connectivity can be maximised¹³.

Balfour Beatty believes that direct investment in schemes such as HS3 and other high speed connections across the North, improvements to the region's sea ports and airports and enhanced local connections, by both the private sector and Government, is needed to make up for historic under investment if the Northern Powerhouse is to realise its potential.

- Which city-to-city corridor(s) should be the priority for early phases of investment?

In March 2015, Network Rail set out a range of options for upgrades and new lines in the North¹⁴ as part of the government's Northern Transport Strategy. These included schemes from £15bn to £60bn in value. Although no money was committed at the time to bring the proposals into reality, the Blueprint for the Northern Powerhouse¹⁵, published in August 2015 set out how £13 billion of government investment would be spent to help transform northern transport. This included investment in the period up to 2020/21 in over 40 major road schemes across Yorkshire, the North East and North West ultimately worth £4.8 billion. While this is welcome, will fall short of the forthcoming Transport for the North plans due to be published in March 2016.

¹³ Greengauge 21: High Speed Rail and the Development and Regeneration of Cities, 2006

¹⁴ <https://www.gov.uk/government/news/revolutionary-plans-for-northern-transport-set-out>

¹⁵ <https://www.gov.uk/government/news/government-boost-for-northern-powerhouse>

Balfour Beatty supports the investment proposals set out in the July 2014 One North report, which suggests £15bn investment in transport infrastructure including a new £5bn trans-Pennine rail network with high speed rail links between major cities in the region, for example, Manchester to Leeds, Leeds and Newcastle, Liverpool and Manchester, Leeds and Hull and Sheffield to Manchester.

Current rail routes across the Pennines are overcrowded and slow: average speeds between Manchester and Sheffield reach just 44mph. Bad weather regularly disrupts services, which run on non-electrified lines. A new trans-Pennine rail route would add significant capacity and reduce journey times.

It is worth noting that high speed rail has been proven to free up much needed capacity on roads, even without road improvements or new roads being built. For example, the Madrid-Seville line cut car use from 60-34%.

We are also supportive of other proposals in the document, including:

- completion of electrification between Liverpool-Manchester-Leeds-Hull and Middlesbrough, and the Midland main line;
- improved road networks (including extension of managed motorways to other congested sections of the northern road network) to shorten journey times between the towns and cities of the North; and
- direct rail connections to Manchester airport from all the major northern cities.

We look forward to seeing Transport for the North's full list of priority projects when published.

- What form of governance would most effectively deliver transformative infrastructure in the north, how should this be funded and by whom, including appropriate local contributions?

Balfour Beatty believes that the transfer of significant powers to the Northern Powerhouse would require governance with the capacity and skills to manage the new powers and money effectively. For organisations such as ours, it is important that we are able to deal with organisations that have the appropriate authority and the buy-in of the local community. We would be happy to work with and support any appropriate governance structure and have no specific view of what the most effective governance would be. However, as outlined above, we are supportive of and would be happy to work closely with TfN.

In our view, there should be a transparent formula – possibly along the lines of the Barnett Formula - where infrastructure spending is apportioned to TfN (or any other appropriate body). TfN should then decide how to spend the money and enter into negotiations with organisations such as Network Rail and Highways England. Certainty around this allocation from central government would give TfN the power to leverage debt and private finance mechanisms in the future. Greater certainty on funding could bring down the costs of infrastructure by allowing contractors to invest in their supply chains for example.

In terms of how the organisation should be funded, this is not an area of our expertise. However, we would argue that, in general, a step-change will be needed in terms of large-scale capital investment in infrastructure in the North in order to maintain and increase momentum behind the Northern Powerhouse. The greater the investment of public money, the easier it will be to leverage increased private investment. It may be therefore that the best solution would be to begin by funding the

organisation from the public purse, moving to a model where it is funded via a combination of sources.

As previously mentioned, Balfour Beatty believes that TfN has the potential to emulate the TfL model in the North. TfL is funded from a combination of sources including fares, advertising and property rental, grant funding, the Crossrail Business Rate Supplement and Community Infrastructure Levy and borrowing. Developing a similar formula to fund TfN, or whatever eventually becomes the governance for transforming the North's infrastructure, should be relatively easy to achieve. We note that TfL's governance includes the Mayor of London. We have no preference for a system involving a mayor or any other level of democratic accountability.

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