Institute for Transport Studies
FACULTY OF ENVIRONMENT

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Planning Appraisal and Funding for Strategic Transport Projects

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The Strategic Context

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- The growth path of the world economy will by 2011 track 7% below expected. What will be forward trajectory?
- Recovery from the debt crisis implies a period of acute scarcity of public capital in the next decade.
- The condition of labour markets is a serious policy concern – balance between human capital and infrastructure critical.
- Climate change is being taken seriously at policy level – implications for demand growth via carbon taxes and supply side via infrastructure resilience.
- Pressure to make the right investment choices will be intense.

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Investment in the Freight Sector

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- The container revolution was an enabler of change; the driver of change was fundamental comparative advantage.
- Carbon pricing at Stern levels for international maritime transport increases delivered prices by 2%. This is affordable.
- Planning systems for ports are remarkably variable across EU member states – is efficient resource allocation promoted?
- Appraisal of freight transport projects needs better data, better models, better forecasting tools
- Wider economics impacts on society of freight projects (e.g. agglomeration effects) are controversial but we believe limited in developed countries.

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Funding

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- economic appraisal of projects and funding plan – user fees and charges vs public funding – need close integration
- Understanding the drivers of optimism bias on capital costs is important
- The political arguments for private finance are dead but the economic arguments are alive and well
- Scarcity of public capital may mean there are new opportunities for private finance provided the risk premium can be covered by efficiency gains.
- A range from deep long term public/private partnerships to top quality private sector management of turnkey public projects remains relevant.

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Life after 2010—the Ryrie Rules revisited

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- High quality economic appraisal linked to a clear and consistent funding plan
- Public/Private Partnerships must add real value
- Private finance should not be viewed as additional, but as an alternative to public finance.
- Principles of efficient risk assignment should apply and the acid test should be whether the value of risk transfer justifies the premium on private finance
- If the social opportunity cost of public capital rises to say 6% real, private finance will have more chance of beating the public sector comparator

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