Congestion on the road network has been estimated to cost more than £20bn per year

Transport is one of the main weaknesses of the British economy. On a whole host of international comparisons the UK performs badly. We have probably the worst road network of any major developed country, with the fewest motorways and least road space per inhabitant.

And our railways are not much better. Despite large subsidies – amounting to around £6.5bn in 2006 – only 30% of UK lines are electrified, punctuality is poor and a high-speed network has yet to be constructed. On roads and railways, travellers must put up with a level of infrastructure provision that is inferior to that in France, Germany, Italy and Spain. The economic consequences have been devastating.

Congestion on the road network has been estimated to cost more than £20bn per year and the problem is getting worse all the time. Efficient transport facilitates competition, labour mobility, specialisation and economies of scale, thereby driving productivity increases and economic growth. Britain's sub-standard transport sector severely harms the economy and represents a significant handicap for British businesses struggling to compete in an increasingly integrated and competitive world.

Clearly a huge change in the level of investment is needed. The Policy Exchange report, *Towards better transport*, explores how this might be achieved. It suggests that the targeted introduction of road pricing could solve many of Britain's long-term infrastructure problems. It also provides a potential solution to the big political problem – how to win over the public and make road pricing more popular.

Of course, the economic case for it is very strong. In the absence of pricing, the normal market relationship between supply and demand is broken. Road space is rationed by queuing and the provision of new infrastructure is largely unresponsive to consumer demand.

The allocation of road space by price, therefore, has many benefits. Charging more at busy times can eliminate congestion, and variations in capital costs can be more accurately reflected. Pricing would also make it easier for travellers to compare the full costs of journeys made by different modes.

Finally, pricing would provide valuable information about consumer demand for travel and point to those locations where new infrastructure would most profitably be provided.

Nevertheless, the public remain unconvinced. There was the petition signed by 1.8 million people protesting via a Downing Street website last year, and various surveys that also suggest a low level of public support. The main problem is that drivers feel ripped off and believe the government would use road pricing to extract more revenue from them.

Transport users already pay about £32bn in additional taxes such as fuel duty, but only about £8bn is spent on the road network, most of it on repairs rather than new roads. Given this high level of fuel taxation, together with budget constraints, it would be difficult to finance sufficient new infrastructure through either the general budget or by levying even higher petrol and diesel duties.

Another issue is that for many motorists it is probably difficult to imagine how they could benefit from road pricing – and this is a big political problem. That's why we argue that improvements to the infrastructure should come before the introduction of charging. In this way, travellers would start to see the benefits of reduced congestion and improved travel times before they paid the tolls. They would know that their payments were being used for their direct benefit rather than being absorbed by the Treasury leviathan.

The M6 Toll provides a relatively straightforward example of this future revenue model, with finance for the new road raised against future toll revenues. The Private Finance Initiative would be a suitable method of bridging the funding gap in many instances, building on the success of numerous design, build, finance and operate road schemes.

While providing extra road capacity could be efficient in some locations, particularly bottlenecks on the motorway network and rural towns needing bypasses, in others funding could go into active traffic management, as pioneered by Serco on the M42 outside Birmingham, which makes better use of existing infrastructure.

In the larger cities, where new road capacity can be prohibitively expensive, public transport schemes could benefit, with a share of future road pricing revenues financing improvements to buses and trains.

In our report we have also shown that relatively

The economic case for road pricing might be strong but the public is resolutely hostile to the idea. The answer is to show them what they would get for their money, argue Richard Wellings and Oliver Marc Hartwich

Driving ambitio

Lifting barriers: the M6 Toll raised funds for the motorway against future toll revenues

small additional road charges can enable a very significant increase in the level of investment. A charge of just 2p per kilometre for cars and 10p for lorries on trunk roads and motorways would raise £4.6bn every year – enough to more than treble investment on the strategic road network.

Moreover, the model is feasible for individual projects targeting particular congestion hotspots. There is no need to wait for a national road-pricing scheme to start tackling the problem.

While the future revenue model is compatible with a wide range of funding options, wherever possible PFI contracts should be chosen, rather than less tightly defined and more complex public-private partnerships. PFI schemes involve transferring a higher proportion of construction and revenue risks to the private sector, thereby reducing risks for taxpayers. Compared with complex PPPs, they also reduce the potential for costly conflict and political interference, to the benefit of consortiums and taxpayers.

It is also essential that private sector involvement takes place in a supportive political environment. Policy makers should have a direct interest in the success of schemes. Contracts and regulatory structures should make sure that incentives for the private companies and public sector are aligned to avoid the kind of conflict that has plagued projects such as Croydon Tramlink and the Tube PPP.

Unfortunately, last year's collapse of Metronet has made it more difficult to promote private investment in transport projects – both to public sector policy makers and potential private sector partners. However, the investment model we advocate is very different from the Tube PPP. In particular, since investor returns will come from future tolls, the accusation cannot be made that taxpayers' money is being used to fuel private profits or that public spending is somehow being mortgaged.

We also advocate minimum revenue guarantees within contracts. This would reassure investors on political risk and provide a very strong disincentive to public officials wishing to undermine a scheme's financial viability – by introducing subsidised competition, for example.

It is also clear that the careful design of contracts can avoid the difficulties that have beset a small number of recent schemes. The main obstacles to better transport infrastructure are therefore political rather than practical.

The feasibility of introducing road pricing in congested areas means there is now a window of opportunity to solve many of the shortcomings of the UK's transport infrastructure. If the UK is to remain competitive, policy makers must find the courage to act quickly and facilitate the first wave of future revenue-based schemes targeting the worst bottlenecks, or before long we will face gridlock and economic paralysis.

● **Richard Wellings** is co-author and **Oliver Marc Hartwich** the editor of *Towards better transport – funding new infrastructure with future road pricing revenue*, published by Policy Exchange
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