Government and private sector investment

I’m all for better schools and health facilities. These services paid for out of taxation need a suitable level of capital spend each year to update older buildings, expand inadequate capacity and replace buildings and equipment whose life has ended. There is no market test of this investment as no-one pays to use the services, so judgements need to be made about the scale of maintenance and replacement appropriate to have a decent service. The same judgements are needed for other services like defence and law and order where again there is no consumer market.
In other cases there either is some market test or there should be some market test as customers pay for all or part of the costs of the service, allowing civil servants to forecast returns on capital, and to compare with private sector equivalents. The case of the railways is a good one to examine, as the industry has until recently had a mixture of public and private capital and involvement, and passengers are meant to pay most of the costs of their collective travel. Many Councils run municipal versions of private sector businesses in areas like leisure and sport, so there is a test or standard of comparison to see what return is available and what level of investment makes sense. In these mixed areas it is also important the public sector does not swamp the activity with subsidised capital, driving out private sector provision.

Roads are heavily nationalised and display many of the problems of this form of organisation. Whilst many people like the fact that they do not need to pay tolls on most of the public highway saving some crucial bridges and tunnels, it comes at a high price in Vehicle Excise duty, car tax, VAT and fuel taxes which mean the motorists together pay far more than the cost of the roads. It also means important roads are often partially or wholly closed for long periods for roadworks which would doubtless be done more quickly and at off peak times were the roads earning revenue directly for an owner. It also means the design of such roads may often be vexatious to the users, whose priorities do not always figure high up the list when it comes to specification time.

The UK has spent less on road provision and provided far less high quality major road than competitors like Germany, the Netherlands, Belgium and Italy. The notional exercises to create a rate of return usually underestimate the likely use of a major new road and so understate the notional benefits. In contrast a project like HS2 greatly exaggerates the likely use and revenue potential of this planned new rail line and dismisses the point that fares will be under downwards pressure on competing lines once the new line is running, hitting the viability of other provision. The HS2 investment is disproportionate to the rest of the road and rail programme and will buy precious little useful capacity relative to its cost, and relative to the much better value for money capacity improvements we could achieve with less grand projects on parts of the rail and road networks.

It is time the evaluations of state investment was looked at again, with a view to greater accuracy and greater assistance to decision takers on priority projects. It is bizarre that much needed improvements to the A 303 holiday road to Devon, the A 34 haulroad from the Midlands to Southampton, the south coast missing highway, the poor capacity on the A12 and A14 to the east coast ports, the missing links on the A 1 to Scotland and the lack of capacity on parts of the M5 hold back economic development and increase industrial costs.Everyone will have their own local example of a bad road in need of improvement.