IPPR NORTH

ON THE WRONG TRACK

AN ANALYSIS OF THE AUTUMN STATEMENT ANNOUNCEMENTS ON TRANSPORT INFRASTRUCTURE

BRIEFING

Ed Cox and Katie Schmuecker

December 2011

Institute for Public Policy Research

ABOUT THE AUTHORS

Ed Cox is director at IPPR North.

Katie Schmuecker is a senior research fellow at IPPR North.

ABOUT IPPR NORTH

IPPR North is IPPR's dedicated thinktank for the North of England. With bases in Newcastle and Manchester, IPPR North's research, together with our stimulating and varied events programme, seeks to produce innovative policy ideas for fair, democratic and sustainable communities across the North of England.

IPPR North specialises in regional economics, localism and community policy. Our approach is collaborative and we benefit from extensive sub-national networks, regional associates, and a strong track record of engaging with policymakers at regional, sub-regional and local levels.

IPPR North
3rd Floor, 20 Collingwood Street
Newcastle Upon Tyne NE1 1JF
T: +44 (0)191 233 9050
E: north@ippr.org
www.ippr.org/north
Registered charity no. 800065

IDEAS to
CHANGE POLICY

Contents

The National Infrastructure Plan and rebalancing the economy

The chancellor's autumn statement emphasised the importance of capital spending on infrastructure both to support the long-term growth prospects of the UK and to create jobs in the short term. HM Treasury published, alongside the statement, an update to the *National Infrastructure Plan* (NIP), and data on many of the projects being brought forward.

The announcements outlined around £30 billion in spending, including an immediate increase in government spending of £5 billion over the next five years taken from underspend elsewhere and with plans for a further £5 billion in the following five years. Spending on infrastructure has a clear logic, providing a strong multiplier effect throughout the wider economy. However, the immediate boost to aggregate growth is likely to be very small, with the spread in proposed spending lasting more than a decade. For a more immediate effect, more projects would need to be frontloaded. In part, however, the approach is dictated by the finances, for while there is some short-term government funding available, in the longer term it is hoped that private pension funds, China and other overseas investors will be the source of the further £20 billion investment. With scant details, it is difficult to assess whether such financing arrangements are likely to succeed but the fact that this is the government's stated intention is at least a step in the right direction.

As well as driving economic growth, the chancellor's infrastructure announcements were intended to shape the nature of economic growth and 'promote growth across regions and nations'.[1] As one of its central economic priorities, the government has defined a number of ways in which it wishes to rebalance the economy:

- away from an over-reliance on public sector jobs and towards private sector employment
- away from an over-reliance on financial services and towards manufacturing and export industries
- away from an over-reliance on the Greater South East and towards more balanced economic growth across the UK.

It is unsurprising then that much was made in the chancellor's statement of how every region of England will benefit from this infrastructure spending, with the chancellor listing a host of road and rail projects in the North of England as part of his speech. This emphasis is to be welcomed.

But in order to assess these claims, IPPR North has analysed the data detailing the projects to be brought forward as part of the national infrastructure pipeline.[2] Where there are details for the project costs, and where the public sector is involved as a funder, we looked at the geographic spread of these projects in order to ascertain how the NIP will support the ambition to rebalance the UK economy.

1 HM Treasury (2011) *National Infrastructure Plan 2011*: 3. http://www.hm-treasury.gov.uk/national_infrastructure_plan2011.htm

2 Alongside the updated NIP, the government also published a spreadsheet setting out the 'infrastructure investment pipeline', detailing around £300 billion in current and future spending. http://www.hm-treasury.gov.uk/infrastructure_pipeline_data.htm

Behind the rhetoric of rebalancing, our analysis reveals a very different picture. Of the projects that are identified as benefitting a particular region, and where public funding is involved:

- Eleven of the 20 largest infrastructure projects benefit London and the South East. Five of the top 20 benefit the North of England. Over half of regional transport projects that involve public funding benefit London.
- If London and the South East are considered together, they account for 84 per cent of planned spending as compared to 6 per cent in the North of England (including just 0.04 per cent in the North East).
- This equates to £2,731 per head for Londoners, more than for all of the other regions combined, compared to £201 per head in Yorkshire and the Humber, £134 per head in the North West and just £5 per head in the North East.
- For each £1,000 of gross value added (GVA) generated in 2009, £81 is being spent on transport projects in London, £38 in the South East, £12 in Yorkshire, £8 in the North West and less than 50p in the North East.

Such regional disparities are, at a simple level, unfair. But they also defy the economic logic upon which they are supposedly based.

Eighteen major transport projects have already started in London and the South East, compared to one in the North West, three in Yorkshire and the Humber and none in the North East, meaning any short-term boost to the economy is likely to be concentrated in the South. This will only serve to reinforce the geographic imbalance in our economy.

OECD analysis on regional economic development shows that so-called 'lagging regions' – the category used for all three northern regions – play a critical role in relation to national economic growth. In the UK, lagging regions contributed 57 per cent of net aggregate growth between 1995 and 2007.[3] Just imagine what they could do if their unmet potential was fulfilled. The OECD identifies two key areas for driving growth in lagging regions: increasing the skill level of the population and investing in infrastructure. So, while the government is right to focus on infrastructure investment, a greater proportion of its investment needs to be channelled to lagging regions in order to get the UK economy firing on all cylinders.

The disparities highlighted in this report mark the continuation of an historical problem. Consecutive governments have heaped public resources into London and the South East, in part for political reasons, but for technical reasons too. HM Treasury's *Green Book* – the manual by which investment decisions are appraised – and the accompanying New Approach to Appraisal (NATA) for transport projects are skewed heavily in favour of those areas with the highest population density. As a result, projects in London and the South East always compare favourably in cost-benefit comparisons with other places.

As London's transport infrastructure and economy improves, so does its population density. As a result, the process becomes self-fulfilling to the point where it is difficult to see when London's congestion effects will finally be identified as a disbenefit rather than a good reason to invest yet more. Put crudely, the London and the South East are locked into a dependency on public sector spending on infrastructure which masks the true costs of doing business in the capital and holds back growth opportunities for other cities and their hinterlands.

3 For more see Garcilazo E (2010) 'Improving productivity in lagging regions', presentation to OECD workshop, Paris, 28 June 2010. http://www.oecd.org/dataoecd/29/58/45558626.pdf

But all is not lost. Many of the projects set out in the NIP rely on funding which will come within the next spending review period. While there is benefit in having a medium- to long-term plan for infrastructure spending, there is clearly a further opportunity for the existing plan to be reconfigured and for a more genuine rebalancing to take place.

For this reason IPPR North is calling for the following actions:

- Ahead of the 2014 spending review, the government should review all post-2014 major transport infrastructure projects.
- NATA guidelines should be revised to reduce the emphasis on 'transport user benefits' in favour of the wider economic productivity effects of transport investments and the social and distributional effects of major schemes.
- Government should devolve a significant proportion of post-2014 infrastructure funding to consortia of local enterprise partnerships or integrated transport authorities who can bring forward integrated proposals for infrastructure improvements that will drive subnational economic growth.

Recovery from this unprecedented economic crisis will depend upon economic growth in so-called lagging regions; without it, the apparent welfare burden on the South will grow and grow, as will its own dependency on publicly-funded infrastructure investment. If the chancellor wishes to carry these infrastructure announcements into the next spending review, a much better case must be made as to how they are in the national economic interest and not simply in local interests. Only when this is the case can the Coalition government's infrastructure plans be deemed worthy of being described as 'national'.

About the infrastructure pipeline

Details of the 'infrastructure pipeline' have been published by HM Treasury alongside the update to the NIP. This body of data details major capital spending projects that are underway or are being brought forward over the next few years. It provides information on:

- what sector the project is in (such as transport, waste or communications infrastructure)
- the estimated total capital expenditure for the project is expected to be
- the project's source of funding (public, private or a combination of the two)
- how advanced the project is, detailing whether it is:
  - proposed (in the early stages of development, before proper planning begins – these projects generally do not have total capital expenditure estimates)
  - planned (a plan has been developed to take the project forward and work is underway to secure funding and finance and planning consent)
  - confirmed (final preparations are complete, with funding, finance, planning consent and designs in place)
  - started (delivery is underway).
- Whether a project is considered to be of benefit to the whole of the UK / Great Britain / England or whether it benefits a particular region.

However, it is important to note that the completeness of the data that appears in the pipeline document is both partial and variable. Two important caveats need to be noted.

Firstly, the pipeline primarily contains projects that have a value of £50 million or more, so not all the government's capital expenditure plans appear in the pipeline. For example, the much-cited upgrade acceleration to the Tyne and Wear metro does not appear in the pipeline as it will cost only £4 million.

Secondly, the quality of the data is varied, with more detail provided for some projects compared to others. Some projects also appear to have been aggregated with others and don't appear by themselves. For example, the £385 million upgrade to the Tyne and Wear metro and the £290 million electrification of the Transpennine railway between Leeds and Manchester are not mentioned as individual projects.

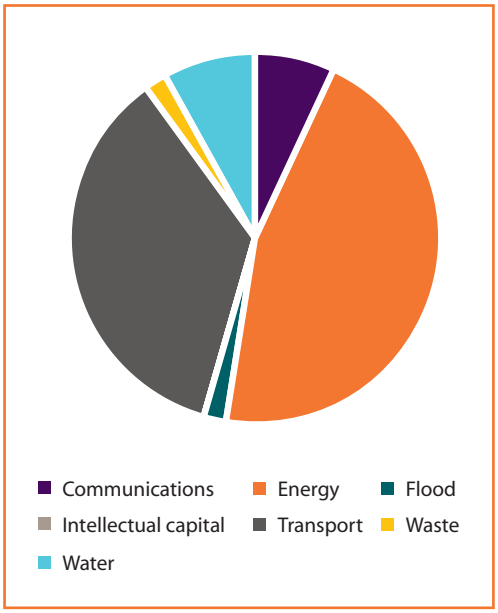
This briefing should therefore be treated as an analysis of what the government published alongside the autumn statement, rather than as the final word on the government's capital spend plans.

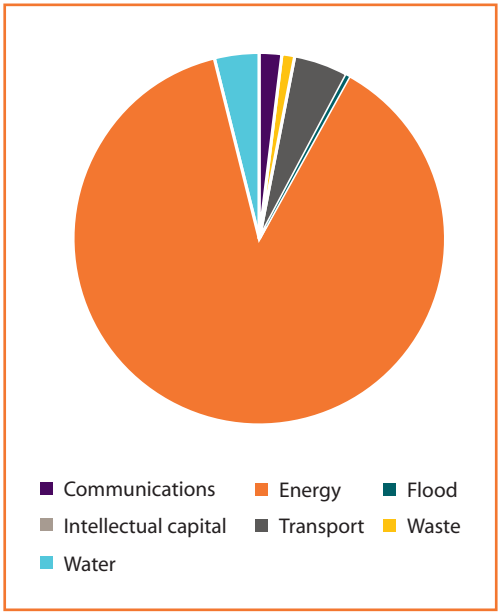
Analysing the infrastructure pipeline

The pipeline provides details of 505 capital projects, at various stages of development. Figure 1 below shows details of the amount of capital expenditure anticipated (where known) by sector of project. Generally it is only for proposed projects – those that are in the early stages of development – that the anticipated capital expenditure is now known. The majority of the total spend will be in the energy and transport sectors.

Figure 1 (left)
Expected total capital spend on projects (where known) by sector, all projects

Figure 2 (right)
Expected total capital spend on projects (where known) by sector, where the public sector is involved as a funder





However, these data include projects that are wholly private sector funded. If we look only at the projects that the public sector is involved in funding (either on its own or in partnership with the private sector) then transport spending emerges as dominant with 88 per cent being spent in this sector, as figure 2 shows.

Major projects

Delving into the detail to look at individual projects, we focused on those projects that are identified as being of benefit to a particular region (rather than of benefit to the country as a whole). Table 1 below details the top 20 projects by anticipated cost. Thirteen of these projects will benefit the Greater South East (London, the South East and the East of England), while three will benefit the North West and two Yorkshire and the Humber and the West Midlands. None of the top 20 regional projects will benefit the North East, East Midlands or South West.

Table 1
Top 20 projects, all projects that benefit the regions

	Sector	Project	Region	Scheme status	Funding source(s)	Total capital expenditure (m)
1	Transport	Crossrail	London	Confirmed	Public / private	£14,500
2	Transport	London Underground capital investment programme	London	Some started, some confirmed, some planned	Public	£5,672
3	Transport	Heathrow Capital Investment Programme	London	Started	Private	£5,521
4	Transport	Thameslink	South East	Started	Public / private	£4,396
5	Water	Thames Tideway Tunnel Main (Thames Water)	London	Proposed	Private	£4,100
6	Water	Thames Water: Sewerage service	London		Private	£3,400
7	Water	United Utilities Water: Sewerage service	North West		Private	£2,188
8	Water	Thames Water: Water service	London		Private	£1,513
9	Water	United Utilities Water: Water service	North West		Private	£1,384
10	Water	Severn Trent Water: Sewerage service	West Midlands		Private	£1,351
11	Water	Southern Water: Sewerage service	South East		Private	£1,283
12	Water	Anglian Water: Sewerage service	East of England		Private	£1,184
13	Water	Yorkshire Water: Sewerage service	Yorkshire & the Humber		Private	£1,149
14	Water	Severn Trent Water: Water service	West Midlands		Private	£1,100
15	Water	Anglian Water: Water service	East of England		Private	£938
16	Transport	Gatwick capital investment programme	South East	Started	Private	£920
17	Flood	Southern	South East	Planned	Public / private	£855
18	Flood	North West	North West	Planned	Public / private	£749
19	Water	Yorkshire Water: Water service	Yorkshire & the Humber		Private	£727
20	Energy	National Grid Gas – East of England	East of England	Confirmed	Private	£715

However, these projects include a considerable number that are being funded by the private sector. To consider how public money is being distributed we compiled the top 20 regional projects where the public sector is involved as a funder (either as the sole funder or in partnership with the private sector), as shown in table 2.

Table 2
Top 20 projects, all projects that benefit the regions, where public funding involved

	Sector	Project	Region	Scheme status	Funding source(s)	Total capital expenditure (m)
1	Transport	Crossrail	London	Confirmed	Public / private	£14,500
2	Transport	London Underground capital investment programme	London	Some started, some confirmed, some planned	Public	£5,672
3	Transport	Thameslink	South East	Started	Public / private	£4,396
4	Flood	Southern	South East	Planned	Public / private	£855
5	Flood	North West	North West	Planned	Public / private	£749
6	Transport	Reading	South East	Started	Public / private	£680
7	Flood	Yorkshire	North East	Planned	Public / private	£667
8	Transport	Birmingham New Street	West Midlands	Started	Public / private	£642
9	Waste	Greater Manchester Waste Disposal Authority	North West	Started	Public	£637
10	Transport	Nottingham Express Transit Phase 2 PFI	East Midlands	Planned	Public / private	£581
11	Transport	Sheffield Highway Maintenance PFI	Yorkshire & the Humber	Planned	Public / private	£464
12	Waste	Merseyside Waste DA	North West	Confirmed	Public	£436
13	Transport	Southern train lengthening	South East	Started	Public / private	£406
14	Transport	Transport for London 'London streets' capital investment programme	London	Some started, some confirmed, some planned	Public	£396
15	Flood	Thames	South East	Planned	Public / private	£390
16	Transport	Kings Cross Station improvements	London	Started	Public / private	£374
17	Flood	Lower Thames FAS engineering component	South East	Proposed	Public	£333
18	Flood	Anglian Northern	East of England	Planned	Public / private	£324
19	Transport	Birmingham Highway Maintenance PFI	West Midlands	Started	Public / private	£322
20	Flood	TBAG works – Next five years approval period and beyond	South East	Proposed	Public	£315

When analysed in this way, transport projects emerge as the major focus of public spending on infrastructure in the regions, with 11 of the 20 projects being transport-related. The next most prevalent is flood spending, with seven projects in the top 20. The Greater South East again emerges as a major focus for investment, with 11 of the 20 projects benefitting London and the South East, while five benefit the North of England. Once again, none of the projects appearing in the top 20 will benefit the South West or East Midlands, although on this analysis there is one project that will benefit the North East and one that will benefit the East of England.

Analysis of major transport projects

The transport sector dominates public spending on infrastructure projects in the pipeline. With this in mind, we carried out a more detailed analysis of these projects.

Number of projects

A total of 81 transport projects are planned for the regions. The figure below sets out the number of projects planned in each region, and how advanced they are. London and the South East have the largest number of projects overall, as well as the largest number that have already started.

Table 3
Total number of transport projects in the pipeline for the regions, by project status and region, all projects

	Proposed	Planned	Confirmed	Started	Total
South East	4	2	6	11	**23**
London	0	2	1	7	**10**
East Midlands	1	4	1	3	**9**
North West	1	2	5	1	**9**
West Midlands	2	2	2	2	**8**
Yorkshire and Humber	2	1	2	3	**8**
East of England	2	1	1	2	**6**
South West	0	0	4	1	**5**
North East	2	0	1	0	**3**
Total	**14**	**14**	**23**	**30**	**81**
In summary					
London & South East	4	4	7	18	**33**
North	5	3	8	4	**20**

Looking only at those projects where the public sector is involved as a funder changes the picture somewhat. Seventy-two of the regional projects will have the public sector involved as a funder. Under this analysis, the South East emerges again as the region with the most planned projects, and the most that are already underway. London, however, falls some way down the rankings.

This is because the private sector is solely responsible for funding three of the projects currently underway in London. The same is true of two of the projects currently underway in the South East. This underlines the stronger position that London and the South East are in to attract private sector funding for transport investment – or at least this that this has been the case in recent years.

Table 4
Number of transport projects in the pipeline for the regions, by project status and region, where public funding is involved

	Proposed	Planned	Confirmed	Started	Total
South East	3	2	6	10	**21**
East Midlands	1	4	1	3	**9**
North West	1	2	5	1	**9**
Yorkshire and Humber	2	1	2	3	**8**
London	0	2	1	4	**7**
West Midlands	2	2	1	2	**7**
East of England	2	1	1	1	**5**
North East	2	0	1	0	**3**
South West	0	0	3	0	**3**
Total	**13**	**14**	**21**	**24**	**72**
In summary:					
London & South East	3	4	7	14	**28**
North	5	3	8	4	**20**

Size of projects by costs

Looking first at all transport projects in the regions by the anticipated total capital expenditure again underlines the dominance of London and the South East. Looking at all projects, including those that are funded only by the private sector, over two-thirds of planned capital spending on transport will benefit London alone. This is in stark contrast to the North East, where less than 0.1 per cent of capital spending on transport is planned.

Table 5
Spend on planned transport projects by region, all projects

Region	Total anticipated capital expenditure on transport (£m)	Percentage of spend on regional projects
London	27,324	67.2
South East	7,696	18.9
West Midlands	1,534	3.8
East Midlands	1,394	3.4
Yorkshire and the Humber	1,065	2.6
North West	942	2.3
East of England	378	0.9
South West	294	0.7
North East	13	0.03
Total	**40,640**	**100.0**
In summary		
North	2,020	5.0
London & South East	35,020	86.0

We then stripped out the projects that are funded solely by the private sector, and looked only at those where the public sector is involved, either as the sole funder or in partnership with the private sector. The picture of dominance by London and the South East remains, as table 6 shows, with 84 per cent of planned regional spending on transport infrastructure benefitting London and the South East region.

Table 6
Spend on planned transport projects by region, where public funding is involved

Region	Total anticipated capital expenditure on transport (£m)	Percentage of spend on regional projects
London	21,370	64.1
South East	6,751	20.2
West Midlands	1,469	4.4
East Midlands	1,394	4.2
Yorkshire and the Humber	1,065	3.2
North West	931	2.8
East of England	251	0.8
South West	99	0.3
North East	13	0.04
Total	**33,343**	**100.0**
In summary		
North	2009	6.0
London & South East	28,121	84.0

We looked at these figures in a number of ways to see whether there might be justification for how transport spend is skewed towards London and the South East. First we looked at how this spend is distributed by head of population, and then by amount of GVA generated in different regions. The results are shown in figures 3 and 4 over.

Looking at spend per head of population also produced a stark picture, with Londoners in receipt of £2,731 per head, which is more than for all the other regions combined. The South East also fares well, receiving £792 per head, which is more than double the next nearest region, the East Midlands. Once again the North East trails far behind, with just £5 spent per head of population. Spend per head is £134 in the North West and £201 in Yorkshire and the Humber.

We also looked at spend compared to the size of the economy, using gross value added (GVA) as a measure. For each £1,000 of GVA generated in 2009, London received £81 and the South East £38. Once again this is in stark contrast to the North of England: for each £1,000 of GVA generated in Yorkshire and the Humber, £12 is being spent on transport infrastructure; the equivalent figure for the North West is £8. In the North East, for each £1,000 of GVA generated less than 50p is being spent.

Figure 3
Spend on NIP projects, where public funding is involved (£ per head)

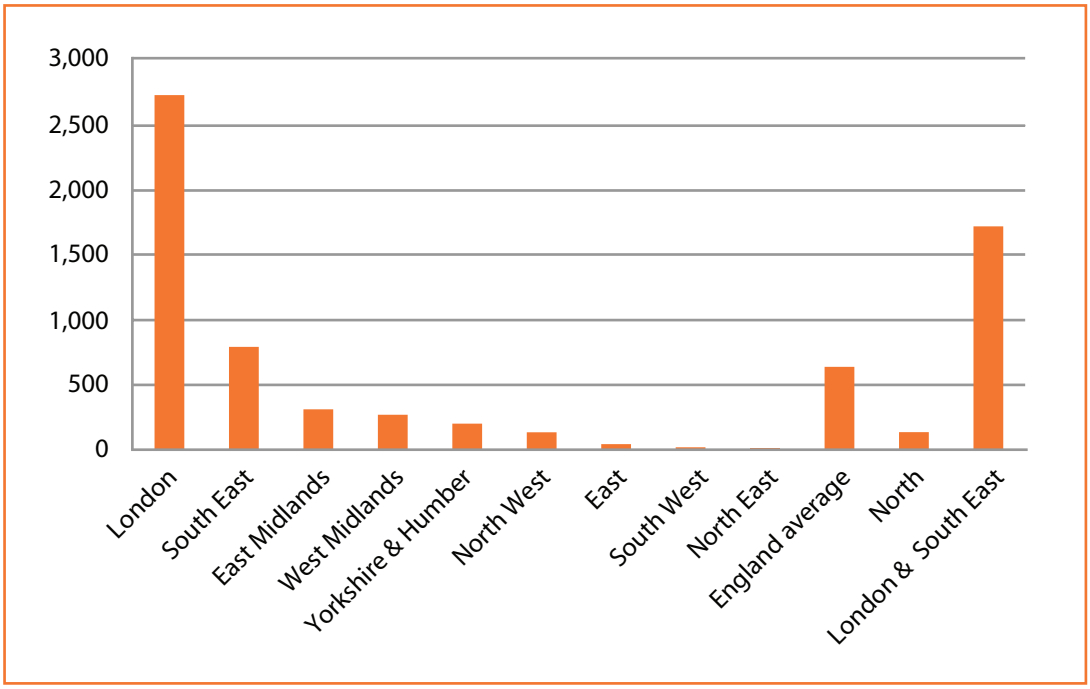
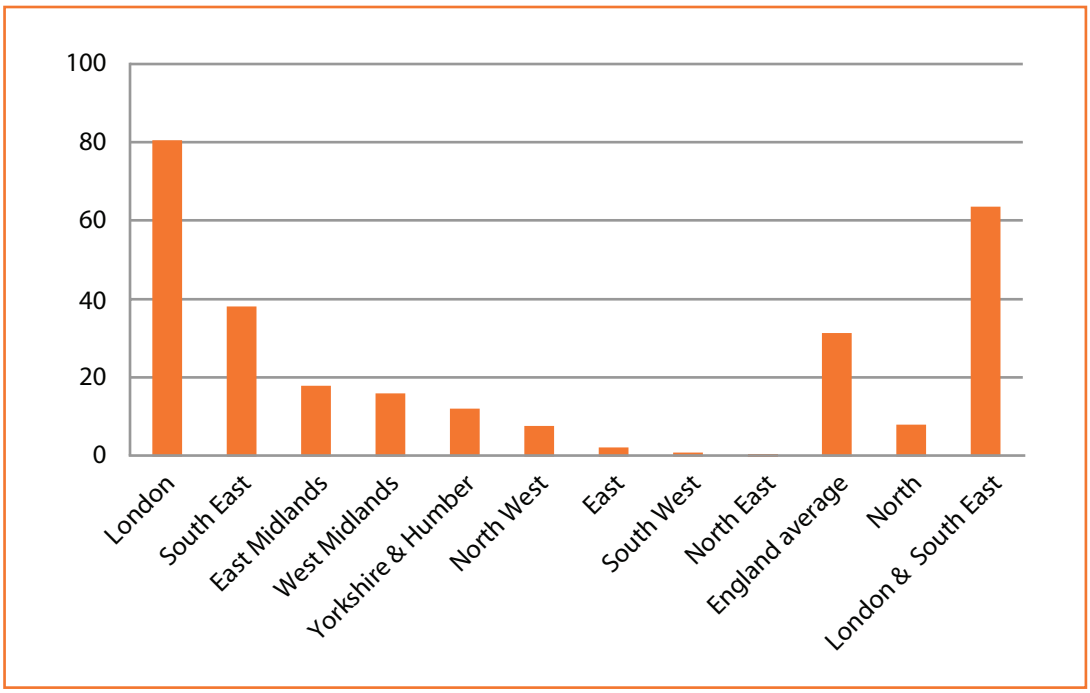


Figure 4
NIP spend per £1,000 GVA, where public funding is involved



The causes of the imbalance

Crossrail, London Underground and Thameslink

London and the South East dominate anticipated spend on transport projects that will benefit specific regions, both when we consider all projects and when we consider just those projects where public funding is involved. One reason for this is the existence of a small number of very large transport schemes that are set to benefit London and the South East, such as Crossrail, the London Underground upgrade and Thameslink. All of these projects have received longstanding commitment from successive UK governments.

Table 7 shows the distribution of spending once these projects are taken out of the equation. While this lessens the concentration of spending in London in particular, the effect still remains. Forty per cent of spending – or £215 per head – still goes to London and the South East, even once the big-ticket expenditure items are taken out of the equation, compared to 23 per cent – or £135 per head – in the North.

Table 7
Transport projects where public spending is involved that will benefit a region, all projects excluding Crossrail, London Underground, Thameslink

	Anticipated capital expenditure on transport (£m)	Percentage of anticipated spend by region	Spend per head (£)
South East	2,355	27	276
West Midlands	1,469	17	269
East Midlands	1,394	16	311
London	1,198	14	153
Yorkshire and Humber	1,065	12	201
North West	931	11	134
East of England	251	3	43
South West	99	1	19
North East	13	0.1	5
Total	**8,775**	**100**	**168**
In summary			
North	2,009	23	135
London & South East	3,553	40	217

Crossrail, London Underground and Thameslink may be explanatory factors, but they do not account for the general disparity, nor do they provide an adequate justification for it.

Perpetuating a longstanding pattern

Analysis of Treasury public spending data reveals London has been the recipient of significantly above-average spending on transport for years (both capital and revenue). Table 8 shows that for each Londoner, over £800 was spent on transport in 2009/10, nearly four times as much as in the South West (£202 per head).

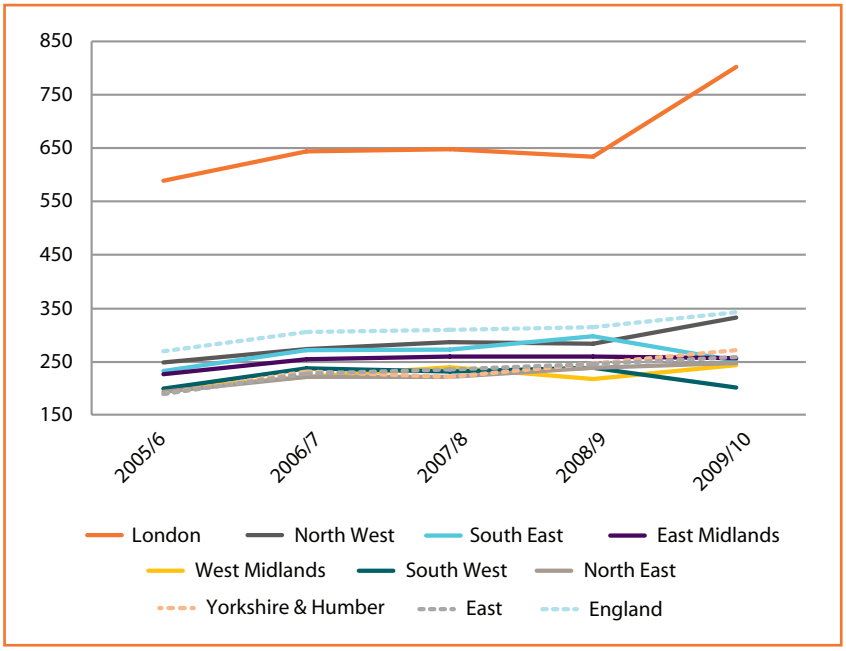
Table 8
Transport spending per head (capital and revenue) by region, 2009/10

London	802
North West	333
Yorkshire and the Humber	272
East	259
West Midlands	257
South East	252
North East	248
East Midlands	244
South West	202
England	343

Source: Public Expenditure Statistical Analysis, HMT Treasury 2011

Between 2005/06 and 2009/10 the northern regions saw rising spending per head on transport, with Yorkshire and the Humber moving from being second-bottom to third. But the overwhelming disparity remains.

Figure 5
Transport spend per head (capital and revenue), 2005/06–2009/10



This slight improvement is also evident in the most recently announced capital projects. While it is difficult to identify precisely which projects have been initiated by this government and which by the previous government, our initial analysis (and some best guesses) suggest that the Coalition government has announced just over £1 billion of new major transport projects involving public funding in the North of England, compared to about £750 million in London and the South East. The South West also appears to do well from the most recent announcements. While this does little to redress the overall imbalance it is another small step in the right direction.

Cost-benefit analysis

The more fundamental reason for the historical and systemic disparity in spending on major transport infrastructure lies in the process by which spending decisions are appraised.

HM Treasury's *Green Book*[4] – the manual by which investment decisions are appraised – and the accompanying New Approach to Appraisal (NATA) for transport projects are based on an underlying appraisal process that considers a number of objectives through cost-benefit analysis (CBA). Much of the CBA is set out in quantitative terms, placing monetised values on key factors such as a 'transport economic efficiency sub-objective' and a 'public accounts sub-objective'. The former is central to the overall assessment and hinges upon a measure of 'transport user benefit', which is calculated as a function of the number of individuals making savings to travel time and cost. This in itself is a function of average wages, which are significantly higher in London and the South East. Put simply, the more people who will benefit from a reduction in journey time or cost, the higher value that will be attributed to the scheme. For this reason, areas of high population density with higher average wages are accorded particularly high CBA values.

The CBA explicitly excludes consideration of the scheme's wider economic impacts.[5] Despite increasing sophistication in the understanding of transport's wider effects on firm productivity and how it can be measured,[6] such factors are considered more qualitatively in the overall appraisal summary and so it would appear they count for less in relation to the final outcome.

Furthermore, CBA doesn't take into account the 'dynamic' impact of extra transport spending. Many studies suggest that infrastructure investment in an area relatively devoid of extensive transport links has a far greater effect per pound spent. At its simplest, the impact of building a road where there are none (or very few) is far greater than building one in an area that is already 'infrastructure-intensive'. The long-term gains from changed investment patterns, labour distribution and wage improvement are more substantial in areas with less pre-existing infrastructure, and this is not always accounted for in traditional CBA – again, this puts the North at a major disadvantage.

Finally, the appraisal process does also include assessment of 'social and distributional issues' but these are focused primarily on particular population groups (people on low incomes, women, ethnic minorities, disabled people) and not on spatial or regional disparities.

In sum, the current process for transport appraisal is skewed heavily in favour of those areas with the highest population density. As a result, projects in London and the South East compare favourably in cost-benefit comparisons with other places. As London's transport infrastructure and economy improves, so does its population density, and so the process becomes a self-fulfilling spiral.

Conclusions and recommendations

The disparities highlighted by this simple analysis of infrastructure spending plans as set out in the infrastructure investment pipeline betray the government's ongoing failure to take seriously the importance of spatial rebalancing. This analysis needs to be set alongside other spending patterns, such as the disproportionate investment in London and the South East when it comes to innovation or science and technology, as well as

4 See http://www.hm-treasury.gov.uk/data_greenbook_index.htm

5 Department for Transport TAG Unit 3.5.4: http://www.dft.gov.uk/webtag/documents/expert/unit3.5.4.php

6 Gibbons S and Overman H(2009) *Productivity in Transport Evaluation Studies*, London: Department of Transport. http://www.dft.gov.uk/pgr/evaluation/evaluationguidance/evalprodimpacts/productivityintransport.pdf

the Olympic and Paralympic Games and other specific investments, such as the Crick Institute at Kings Cross.[7] Taken together, this pattern of spending serves to perpetuate the UK's unbalanced economy. The government's measures to rebalance the economy – local enterprise partnerships, the Regional Growth Fund and enterprise zones – are little more than scraps from the table by comparison with such investments.

There is a strong economic rationale for a better balance of investment. Infrastructure improvement is identified as the second-most important factor in driving growth in lagging regions, after investment in skills. In order for the UK economy to be firing on all cylinders, much greater attention needs to be paid to the economic potential of the regions. While there may well be short-term gains to be made in the capital, any plan that aims to build a more sustainable and balanced economy needs to spread the focus of growth and better exploit the potential of cities like Manchester, Leeds and Newcastle.

The government has been right to set out infrastructure plans in an overall National Infrastructure Plan as this brings a level of confidence to regional and local interests and to potential investors. However, it must retain the scope to address disparities of the kind outlined in this paper. To this end, there remain opportunities in future updates to the National Infrastructure Plan and the 2014 spending review to revise current plans. While it would not be in the national interest to row back on projects that are already on-site or at an advanced stage, IPPR North is calling on government to **review all post-2014 major infrastructure projects ahead of the 2014 spending review in order to place greater emphasis on achieving its own stated objective of rebalancing the economy between the North and the South**.

As we have seen, the most fundamental problem with transport infrastructure projects is the NATA appraisal process. For this reason, ahead of the 2014 spending review, government must **revise the NATA guidelines to reduce the emphasis on 'transport user benefits' in favour of the wider economic productivity effects of transport investments and the social and distributional effects of major schemes**.

Alongside this it is important to remember that two-thirds of the proposed funding for infrastructure spending is predicated on leveraging overseas investment of different kinds. There is very little that would prevent key players in the North of England from negotiating such arrangements for themselves; however, the North needs the leverage, scale of scope and the powers to do this. To this end, government must **devolve a significant proportion of post-2014 infrastructure funding to consortia of local enterprise partnerships or integrated transport authorities who can bring forward integrated proposals for infrastructure improvements that will drive subnational economic growth. It must also devolve key powers and functions from UK Trade and Investment to northern-based agencies tasked with driving inward investment in key infrastructure projects**.

Recovery from this unprecedented economic crisis will depend upon economic growth in so-called lagging regions – without that, the apparent welfare burden on the South will grow and grow, as will its own dependency on publicly funded infrastructure investment. If the chancellor wishes to carry these infrastructure announcements into the next spending review, a much better case must be made as to how they are in the national economic interest and not simply in local interests. Only when this is the case can the Coalition government's infrastructure plans be deemed worthy of being described as 'national'.

7 See for example Cox E and Schmuecker K (2010) *Well North of Fair: The implications of the Spending Review for the North of England*, Newcastle: IPPR North. http://www.ippr.org/publications/55/1804/well-north-of-fair-the-implications-of-the-spending-review-for-the-north-of-england