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PRIORITY AREAS FOR TRANSPORT POLICIES

A special report from the ICAEW



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FOREWORD

The unprecedented nature of the global recession means that both businesses and the Government are quite rightly focusing efforts on measures to minimise the impacts of the recession. Firms are minimising costs and doing their best to retain customers, while the Government and the Bank of England try to stimulate demand, minimise unemployment and ease the flow of credit to businesses and consumers.

In these times it is all too easy to take your eye off the importance of public infrastructure such as schools, hospitals and the transportation system. This infrastructure provides the basis for the UK's competitiveness both now and in the future. The impact of transport on the economy is often underestimated by businesses and the Government. So, while education and health are often seen as 'sacred cows' by ministers and the public alike, it is transport which probably impacts more on individual workers' and businesses' day-to-day lives than any other area of public infrastructure.

Investing in transport gives us a fundamental and valuable business resource, improving connectivity and underpinning economic activity. Of course, there are many ways of investing in the future, but transport has some unique qualities that can increase its economic impact compared to other types of investment. The direct impact of transport investment is felt by those who use it; they gain from improved journey times and quality. There are also other, indirect benefits such as increased safety or reduced emissions from car use.

Given the current state of public finances, whoever is in government over the next five to ten years will need to make some fairly severe cuts in public expenditure. Education and health are likely to be protected from such cuts, so investment in roads and public transport must be under threat. While it is clear that spending cuts are necessary, it is important for business that the transport system does not get worse over this time period, and that the most important transport projects for businesses still go ahead, otherwise, if not, the UK could become a less attractive place to do business.

Engaging positively with policy-makers, using this evidence from ICAEW members working throughout the economy, can only help to promote the case for transport development.

Ben Read
Managing Economist, cebr

INTRODUCTION

Transport has long been an issue in the public eye. There have been heated debates between enterprise and government over the best way to increase funding for improved transport infrastructure without penalising the businesses which are key to generating income for their surrounding areas. The Institute of Chartered Accountants in England and Wales (ICAEW) has conducted this research to find out the views of its members on different transport policies and to better understand the potential impact these may have on businesses.

Between 28 January 2009 and 7 May 2009, we interviewed a total of 1,002 ICAEW members. We sought their views on the impact of the current state of the transport system on business and a range of measures that may be taken to tackle transport issues in the UK, including the much-contested workplace parking levy.

The individuals interviewed came from a broad range of companies across all regions of the UK and all industry sectors. When reading the results, bear in mind that the ICAEW membership is biased towards larger businesses, so the sample is not strictly representative of businesses in the UK, but of organisations employing Institute members. You can find details about the profile of the organisations covered in this research in the technical details section on page 11.

What is striking about the research findings is the importance placed by some of our members on continued improvements of the transport infrastructure; many are employed in firms which depend on it for getting their staff to work, delivering their goods or reaching their clients. We have found differences of opinion on the scale of the problem and how to best address it - different regions and business sectors have different priorities. While the current economic situation and focus on commercial survival have recently demanded more attention, there is a definite need to address the shortcomings of our transport infrastructure across the UK to help businesses succeed.

The ICAEW works in the public interest to promote enterprise, innovation and sustainable growth in a socially responsible business environment. Our strength and knowledge is drawn from the expertise of over 132,000 members worldwide who hold world-class finance qualifications. Their experience gives us a detailed understanding of the dynamics which drive our economy.

We hope that this report will help to advise the UK Government to develop a sustainable transport strategy which will address both national and regional concerns and also tackle the current shortfalls of the transport system with minimal negative impact on businesses.

EXECUTIVE SUMMARY

- The effect of the credit crunch on the economy is by far the most important focus for the Government and businesses at this time, but maintaining a functioning service and transport infrastructure clearly remains important. Even though the economic downturn may slow demand in the short term, the transport network needs continued investment to meet the demands of the future.
- The majority of our members report that the current transport system has no direct impact on the success of their business. However, a significant minority of firms (equivalent to approximately 230,000 businesses across all company sizes*) do suggest that the current situation is inhibiting business performance, particularly those businesses that are dependent on road transport or public transport for goods distribution and reaching their customers.
- Unsurprisingly, those who feel hindered by the current transport system give the highest priority to its improvement. Region, size and nature of business all influence the tendency to consider the current system a challenge to business performance.
- Of those businesses which do report issues with transport infrastructure, the main problems they encounter are congested roads and public transport that is unreliable, insufficient and expensive. Goods and people do not reach their destination on time which causes decreases in productivity, dissatisfied customers and potential loss of business. Transport deficiencies are directly affecting some firms' bottom lines.
- Increasing capacity on rail commuter services is given the highest overall priority for transport improvement. Head-to-head in second place are fairness of commuter service pricing and improvement of the road infrastructure. Commuter services are particularly important in the South East and London, but by no means only there. An improved road infrastructure is a universal concern, with the vast majority of members across the country getting to work by car and a widespread dependence on road transport for business. Increasing airport capacity was seen as a much lower priority in comparison, even in London and the South East.
- Raising capital for transport is clearly a necessity, and the most popular option suggested in our survey was road pricing for lorries which has strong appeal across the board. It is supported by at least half of firms in all regions. While road pricing for cars, as a congestion measure, is supported by a significant minority (34%) overall, this approach is endorsed more strongly in some regions than others. However, findings suggest that providing a viable road infrastructure is a prerequisite for this to be a more generally acceptable option.

* According to the Department for Business, Enterprise and Regulatory Reform (BERR), the UK economy has approximately 1,200,000 firms (excluding those with no employees) across all company sizes. One fifth (20%) of micro and 14% of small, medium and large firms reported that the current transport system actually hinders their business.

- A workplace parking levy is only supported by one in five as an appropriate way of raising capital for transport investment. Of those who support it, 42% would expect a positive impact on their business as a result of reduced congestion. However, the majority of those in favour of the levy would pass on at least part of the charges to their staff, and some foresee a negative impact on their ability to keep prices competitive.
- One thing that becomes abundantly clear from our research is the extent to which transport impacts business every day and how important it is for some that the Government commits to and implements a set of policies which reflect business needs and effectively deliver a better, more reliable and less congested transport network for Britain.

FINDINGS

I. TRANSPORT – PRIORITY AREA FOR GOVERNMENT POLICY?

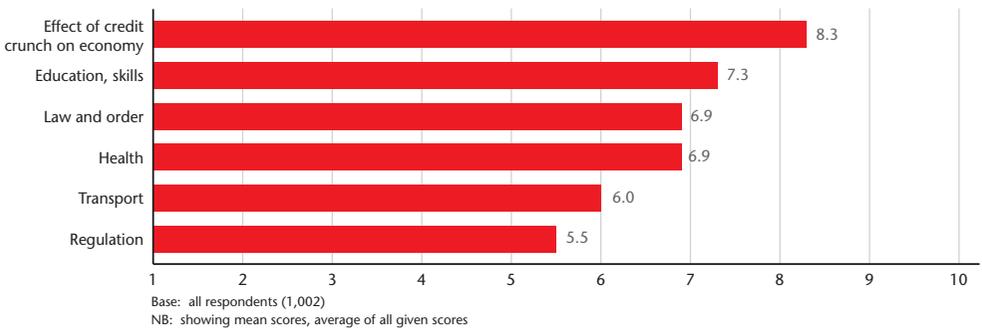
We asked our members about their views on the level of priority the government should assign to a range of policy areas; the effect of the credit crunch on the economy is easily the most important issue for the government to tackle, for companies of all sizes and across the country. This is not surprising, as we are in the midst of a global economic crisis and the effects are being felt everywhere.

However, although somewhat less critical to business survival, transport is still considered an important policy area for government focus (rated 6 on a scale from 1 – Low Priority to 10 – High Priority). It affects many businesses' ability to trade and/or access their clients. Four in ten of businesses surveyed (42%) are heavily dependent on road transport for distributing goods or contacting their customers, with Retail & Wholesale, Manufacturing, and Construction sectors being markedly more reliant on road transport than others.

Road congestion is a particular issue as the vast majority across the country (76%) regularly travel to work by car. This is considerably different in London where public transport is vital for helping commuters to get to work and it remains high on the agenda (76% in London report using public transport regularly compared to the national average of 25%).

Fig. 1 Priority area for government policy

How much priority should be given by the Government to each of the following areas of government policy (1-10 point scale)



Not surprisingly, transport is a higher priority for those who work in the transport and storage sector (6.7) and those heavily dependent on public transport to conduct their business (6.7) – these organisations feel most keenly the impact of a suboptimal transport infrastructure. The smallest (micro) businesses also give a stronger priority to transport (at 6.4) than the national average. Finding alternative means of transport is potentially less feasible for companies of this size and a disproportionately high number is active in retail and wholesale, and business services, both of which see transport as a higher priority.

II. DIRECT IMPACT OF CURRENT TRANSPORT SYSTEM ON BUSINESSES

Overall, the majority (83%) report that the current transport system has no direct impact on their business. However, they do see it as a priority area for improvement by rating 6/10, so we should understand this as an indication of their ability to 'make do', rather than as an indication of satisfaction with the status quo. Only 2% say that the current transport system helps them in their business, but a significant minority (15%) feels that the current system actually hinders them.

Many of those who feel hindered by the current transport system commented on why this is the case:

'The cost of public transport is too much, it's not regular enough.'

'We are a logistics company so congestion on the roads presents a major problem to us.'

'It takes an unpredictable amount of time to get goods to market, and our employees' working hours are affected by traffic congestion.'

Those businesses in Scotland (24%) and Yorkshire & Humber (21%) are most likely to say they feel that the current transport system hinders them.

Scotland has had a road infrastructure problem for a long time, caused by insufficient investment over long periods, and its rail network has been subject to constant change, which has not always been positive. Yorkshire & Humber has received below average funding for transport from the Government for several years and the formerly well-functioning rail and road networks urgently need rejuvenation. Both regions have very vocal specialist support groups working to secure more funding for transport improvements, often specifically to help the businesses in their area to succeed.

Businesses dependent on **public** transport for distributing goods and for contacting customers have the most negative view of the current transport system. Four in ten (44%) say it hinders their business. This group of companies tends to be situated in London and the South East. They are also more likely to be larger businesses with over 250 employees well as companies in business services, a sector with a strong focus on serving clients at their premises.

'Travelling to see customers, the length of time it takes to get to see people and the cost of transport, also the difficulty we have in attracting staff into central London because of transport difficulties and high costs involved.'

'Our agents can't get as many appointments in a day as they would like to because of the state of the transport systems and that is not only in London, it is everywhere really.'

III. POLICIES FOR IMPROVING TRANSPORT

There are a number of key policies that have been publicly discussed for improving the current transport infrastructure and services to commuters, as well as taking account of environmental demands. Members were asked how much of a priority the Government should give to resolving each of these, again on a scale from 1 - Low Priority to 10 - High Priority.

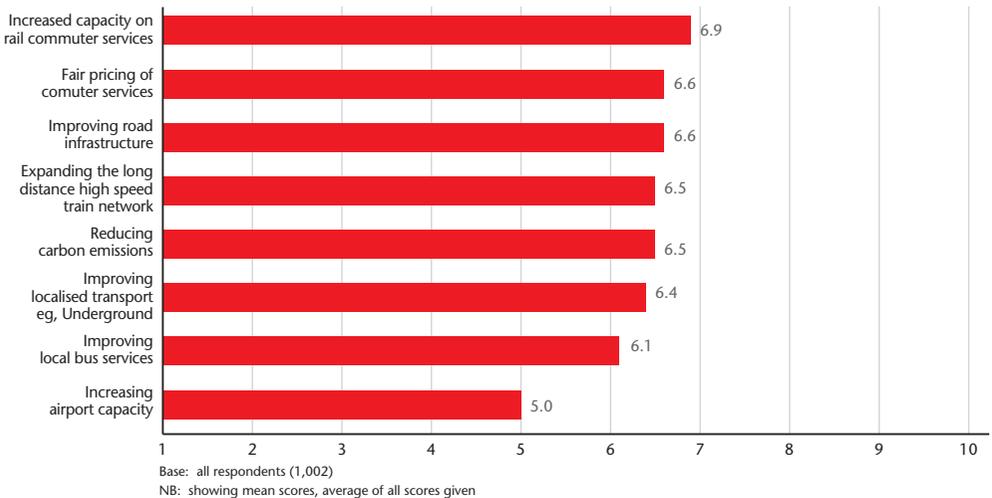
Of the issues in question, increasing capacity on rail commuter services is seen as the highest priority. Fair pricing of commuter services, improving the road infrastructure, expanding the long distance high speed rail network and reducing carbon emissions are also seen as important issues to resolve. Least important at this time is an increase in airport capacity.

The variation in opinion is quite marked among different groups of members. These trends are discussed below.

Increasing capacity on rail commuter services is most important to London-based businesses, as well as those in the South East. These regions probably have the largest numbers of commuters in the country.

Fig. 2 Priority areas for transport policy

How much of a priority should be given to resolving issues in each of the following areas of transport policy (1-10 scale)



A recent report by the London Assembly's Transport Committee (The Big Squeeze, February 2009) highlighted the urgent need to continue investing to relieve future overcrowding. According to this report, 43% of all journeys into central London are made at least in part by train and the most overcrowded of these carry up to 40% more passengers than they should. Over the next two decades, Transport for London (TfL) expects an increase in passenger demand of up to 40%.

At the same time, the economic slowdown is affecting the industries related to rolling stock and the manufacture of rail equipment. Growth in passenger numbers is also slowing down and rail companies are cutting jobs and services. As our survey shows, addressing the quality of commuter services for London is an immediate priority for members in the region and the Government needs to take steps now to avoid greater difficulties in the future.

Fair pricing of commuter services is more important to businesses based in the South East / London, the West Midlands and Wales - all areas which attract a regular stream of commuters. The sectors placing the greatest priority on fair pricing are those where staff must travel as part of their work, especially IT, (7.2), business services, (7.0) and retail and wholesale (6.9).

Improving the road infrastructure is vital for those travelling to work, or to their customers by car, or those transporting their goods by road. Public transport plays a much bigger role in London and the South East, but almost everywhere else in the country, the majority of members get to work by road. The types of businesses most affected are those which use road haulage on a large scale, such as manufacturing and engineering (7.0), and retail and wholesale (7.1), but the effect on staff travel alone makes road congestion an issue for almost everyone.

Expanding the **long distance high speed rail network** is seen as more of a priority in the South West and the West Midlands. Those working in IT (7.3), manufacturing and engineering (6.8), retail and wholesale (6.6), and in other service activities (6.6) also see this as more important than the national average.

Reducing carbon emissions is the greatest priority for larger companies (6.8, 250+ employees) – which are more likely than smaller firms to be trying to manage their own carbon footprint – and for those in the West Midlands and the South West. Also in favour of this as a government priority are the businesses heavily dependent on public transport for distribution and client access (7.2) – so better public transport could possibly help them meet their reduced carbon emission targets.

Improving localised transport such as the underground and trams is seen as more important by London companies than those in other regions.

London Underground is facing major problems of under-funding against an increasing need to modernise the existing network. On 1 April 2009, The Guardian reported 'The London Underground funding gap, which already stood

at an estimated £5bn, has widened further after a new shortfall of £400m was revealed and forced a last-minute revision to the capital's transport budget'. Overcrowding and mounting maintenance bills are increasing the pressure to close an investment shortfall informally estimated to run into billions. There is also pressure to improve the quality of the underground network before 2012.

Local bus services are more of an issue for businesses in the South West (Bristol has come under particular criticism this year for its poor inner city transport), the East and West Midlands, and Wales which still rely on local buses to bring together smaller suburban areas and bigger villages around cities such as Birmingham and Cardiff. Health and education, and retail and wholesale are the sectors placing more emphasis on this type of transport.

Increasing **airport capacity** is given a much lower level of priority overall. Even in London and the South East, where it has more importance – international travel is most common around existing big aviation centres – passenger numbers are in significant decline. The International Air Transport Association (IATA) doesn't expect numbers to begin to grow again before 2012. So although the 'open skies' agreement with the US and the ongoing problem of effectively scheduling increased European airport traffic both suggest a need for more capacity, there is currently only a weak economic case to be made.

Discussions are now focussing on making the existing infrastructure more flexible and effective, and it seems that the Institute's members would happily see the Government focus most strongly on the UK road and rail / local transport system. These relate to the necessary journeys undertaken every day in the course of business and therefore have the greatest direct impact on business success.

Fig. 3 Priority areas for transport policy – By region (PART 1)

How much of a priority should be given to resolving issues in each of the following areas of transport policy (1-10 scale)

SHOWING MEAN SCORES	London (n=179)	South East (excl. London) (n=160)	South West (n=80)	East England (n=100)	East Midlands (n=70)
Increased rail capacity for commuters	7.4	7.2	6.6	6.7	6.6
Fair pricing of commuter services	6.8	6.7	6.3	6.6	6.7
Improved road infrastructure	6.5	6.4	6.4	6.8	6.5
Expanded long distance high speed train network	6.5	6.2	6.8	6.5	6.5
Reducing carbon emissions	6.5	6.2	7.0	6.6	6.7
Improved localised transport, eg Underground	6.9	6.4	6.2	6.0	6.3
Improved local bus service	6.1	5.8	6.5	5.8	6.4
Increased airport capacity	5.3	5.3	4.8	4.9	4.9

Base: all respondents in each category (see table)

Fig. 3 Priority areas for transport policy – By region (PART 2)

How much of a priority should be given to resolving issues in each of the following areas of transport policy (1-10 scale)

SHOWING MEAN SCORES	West Midlands (n=80)	North West (n=100)	Northern England (n=30)*	Yorks & Humber (n=80)	Scotland (n=80)	Wales (n=40)
Increased rail capacity for commuters	6.9	6.8	6.7	6.9	6.5	6.6
Fair pricing of commuter services	6.8	6.4	6.0	6.5	6.6	6.8
Improved road infrastructure	6.8	6.9	6.6	6.5	6.6	6.8
Expanded long distance high speed train network	6.8	6.6	6.6	6.3	6.7	6.5
Reducing carbon emissions	6.8	6.3	6.6	6.6	6.5	6.5
Improved localised transport, eg Underground	6.5	6.2	6.0	6.4	5.9	6.4
Improved local bus service	6.3	6.0	6.0	5.8	6.1	6.3
Increased airport capacity	5.0	4.8	4.5	5.0	5.1	5.1

Base: all respondents in each category (see table)

NB: * small sample; showing % in favour of each measure

IV. RAISING CAPITAL FOR TRANSPORT

One of the Government's strategies for tackling transport issues has been a reallocation of financial responsibility to those actually using roads and parking spaces (rather than the tax payer in general). The Government has advocated road pricing for cars as one way of raising additional funding for public transport improvements, and members were asked whether they support this as a policy for reducing traffic congestion in their area.

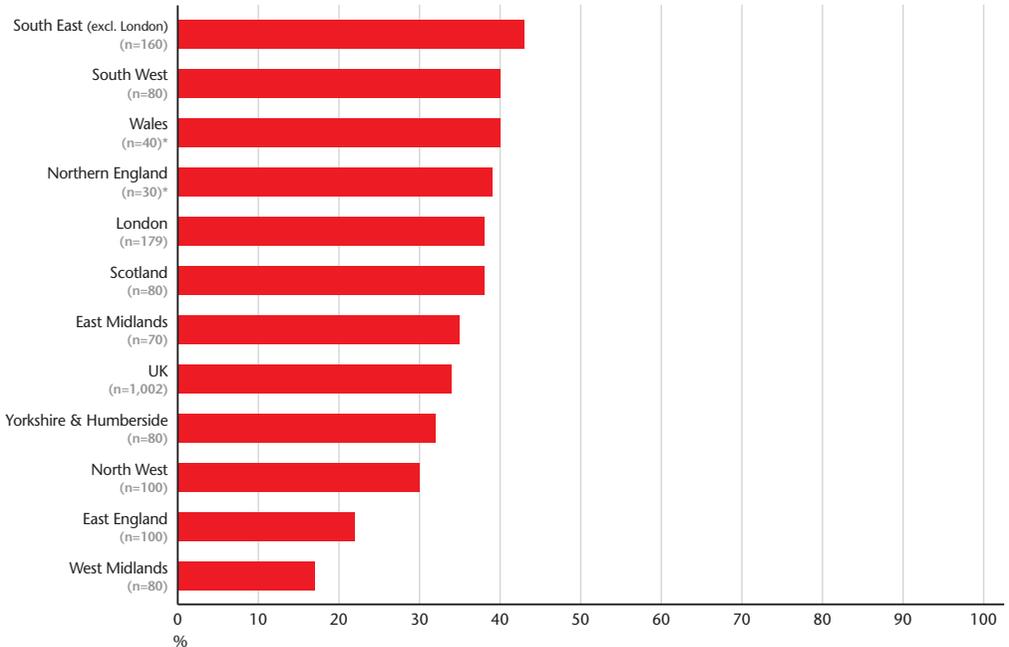
Roughly two thirds (60%) are against this policy, but a third (34%) are in favour. Businesses in the South East (excluding London) are particularly positive; as many as 43% would support it. Wales and the South West are other areas where members are more likely to be supportive of the idea, with 40% in favour.

Support is weakest in the East of England (22%) and the West Midlands (17%); not surprising as around half of the companies in these regions are heavily dependent on road transport for conducting their business (49% and 52%, respectively). Birmingham is at the centre of a constantly congested motorway system and the East of England is still waiting for improved links to the South East and the Midlands. Willingness to pay for using the roads will certainly be driven, at least in part, by the perceived quality of the roads available – it seems the Government must deliver road improvements in these two regions before it can count on any substantive support of a road pricing policy for cars.

The group most likely to support road pricing comprises those heavily reliant on public transport for goods distribution and reaching their customers – 54% would support road pricing for cars, which could then free up capital for investment in public transport and reduce congestion. In a similar vein, those using public transport to travel to work are also more in favour of this policy (43% compared to 34% average).

Fig. 4 Support for road pricing for cars – By region

The Government has advocated road pricing for cars as a viable policy for reducing traffic congestion and raising the necessary capital to fund public transport improvements. Do you support this as a policy for reducing traffic congestion in your area? % saying 'Yes'.



Base: all respondents in each region (see chart)

NB: * small base (< 45); showing those who said 'Yes'

Given a series of other measures designed to raise capital for investment in transport, members were asked which they would support. Of these, road pricing for lorries is clearly the favourite option followed by general taxation. There are few significant variations in the support for this measure, although large companies and those in Wales, London and the South East believe most strongly that this is a positive step to take.

Fig. 5 Support for other measures to raise capital for improving transport – By region

Which of the following measures would you support to raise capital for improving public transport?

SHOWING MEAN SCORES	UK Total (n=80) %	London (n=179) %	South East (excl. London) (n=160) %	South West (n=80) %	East England (n=100) %	East Midlands (n=70) %
Road pricing for lorries	56	61	62	50	48	55
General Taxation	54	51	55	51	54	53
Privatising assets	38	37	33	41	47	37
Workplace parking levy	20	36	9	17	19	16
None of these	9	10	10	10	10	5

SHOWING MEAN SCORES	West Midlands (n=80) %	North West (n=100) %	Northern England (n=30)* %	Yorks & Humber (n=80) %	Scotland (n=80) %	Wales (n=40) %
Road pricing for lorries	50	51	55	57	59	63
General Taxation	64	48	56	54	58	60
Privatising assets	31	29	44	39	46	47
Workplace parking levy	11	15	20	18	21	28
None of these	4	18	9	8	10	1

Base: all respondents in each category (see table)

NB: * small sample; showing % in favour of each measure

General taxation is favoured by over half of the businesses interviewed, perhaps as it would shift the onus to pay away from business and into the public realm. Asset privatisation also receives some support as a solution to raise capital by just under two fifths of businesses.

The **workplace parking levy** is overall the least favoured of the options suggested, but one in five overall still feel this is an option that they would support. Members in London, where travel to work by public transport is more common, show much stronger support (36%) – perhaps because it is so much less likely to impact their business.

Across the sectors, support varies greatly. Manufacturing and engineering (only 9% support), other service activities (8%) and construction (7%) are mainly against a parking levy, as it would impact their core business. This stands in stark contrast to banking, finance and insurance (37%), and energy, water and mining with 36% in favour.

Those who do support a workplace parking levy were asked what difference the introduction of this measure would have on their business. Six in ten (61%) would pass on at least part of the charges to their staff, with the larger companies by far the most likely to do so (75% of very large companies compared to 47% of the small companies). Other impacts on these businesses include an increase in prices for customers (19%), and one in ten (10%) would consider relocating. However, four in ten (42%) expect to see a positive impact on congestion which will help their business.

TECHNICAL DETAILS

The Institute of Chartered Accountants in England and Wales (ICAEW) conducted this research.

During the period of 28 January 2009 to 7 May 2009, we interviewed 1,002 members of the ICAEW who work in industry and commerce (ie, outside accountancy practice), to find out about their views on a range of transport issues.

The interviews were carried out as part of the Institute's UK Business Confidence Monitor, and conducted by telephone.

We asked interviewees about their views on the impact of the current state of the transport system on business and a range of measures that may be taken to tackle transport issues in the UK.

The individuals who were interviewed are from a broad range of companies across all regions of the UK and all industry sectors. Just under half (471) are from small and medium-sized enterprises (up to 249 employees); the other 531 represent companies of 250 or more employees.

This sample of SMEs compared to large businesses is not in line with the incidence of sizes of business in the UK as a whole. You should bear in mind that, due to the types of firms in which ICAEW members tend to be employed, the companies covered have a natural emphasis towards the larger end of SME (those with 50 – 249 employees) and to the very large companies (1,000+ employees).

Please note that 'Very large' is a subset of 'Large' companies.

The table below describes the profile of the businesses contacted in this survey. Please note: data has been weighted to ensure the profile of the survey sample accurately represents the UK economy (by value) for company size (no. of employees), regional location and industry sector. All findings are based on these weighted figures. To illustrate the actual participation in the study, the figures quoted below show the actual number of participants in each category.

REGION	Sample Number	Profile %
London	151	15
South East (excl London)	140	14
South West	80	8
East England	90	9
East Midlands	70	7
West Midlands	80	8
North West	100	10
Northern England	70	7
Yorks & Humber	80	8
Scotland	70	7
Wales	70	7
Northern Ireland	Not Included	
TOTAL	1,002	
SECTOR		
Agriculture and fisheries, energy, water and mining	67	7
Manufacturing and Engineering	122	12%
Construction	71	7%
Retail and Wholesale	103	10%
Hotels and Catering	65	6%
Transport and Storage	68	7%
Communications	55	5%
IT	71	7%
Banking, finance and insurance	104	10%
Property	63	6%
Business services	69	7%
Other service activities	71	7%
Health and Education	73	7%
TOTAL	1,002	
SIZE (EMPLOYEES)		
Micro & Small (up to 49)	284	28
Medium (50-249)	214	21
Large (250+)	504	50
(of which: Very large (1,000+))	(347)*	(35)
TOTAL	1,002	

FURTHER INFORMATION

For further information please contact:

Clive Lewis

Head of SME Issues

ICAEW

E clive.lewis@icaew.com

Svetlana Dimitrijevic

Senior Research Manager

ICAEW

E svetlana.dimitrijevic@icaew.com

Prudence Shapcott

Head of Strategic Research

ICAEW

E prudence.shapcott@icaew.com

To find out more about the ICAEW Strategic Research programme please visit www.icaew.com

The Institute of Chartered Accountants in England and Wales

Chartered Accountants' Hall PO Box 433

Moorgate Place London EC2P 2BJ UK

www.icaew.com