

## **The Case For “The Case For Rail In The Highlands & Islands”**

### **Introduction**

Geoff Riddington presents an interesting review of HIE's study: “The Case for Rail in the Highlands and Islands”. However, some of his comments require a response. There appears to be a misunderstanding of the purposes of the research, as well as an analysis which leans too much on the conventional approach to transport appraisal. The rest of this article sets out our thinking on these matters.

### **Objectives Of the Study**

It is made very clear at the start of the consultants (SDG) report that the objective is to describe what is, rather than what should be. Its very first sentence states that they were tasked to “to establish the economic, social and environmental benefits derived from the rail network in the Highlands and Islands”. This was to be done as an objective evaluation. It was not the case, as Riddington claims, that the consultants were “asked to develop the best case for the maintenance of the railways”. Nor was it intended to be an appraisal of future options. The choice of the title the “Case for Rail” was intended to mirror to, an extent, that of the Strategic Rail Authority's 2003 report “Everyone's Railway-The Wider Case for Rail”.

Why did HIE undertake this study? It was compiled during a time of great uncertainty about the future structure and funding of the railways in the light of UK Ministers' apparent concerns about the spiralling” costs in the rail sector. Also at this time there were some commentators in the national press arguing that one of the best means of cost reduction would be to close what they perceive as lightly used rural railways. Indeed, there are echoes of this in Riddington's article, with his reference to “services that few would miss and fewer use”.

Discussions on the merits of rail services often focus on a narrow measure such as cost per passenger/passenger kilometre. There is usually no consideration of the wider economic and social benefits that rural railways can bring. Hence HIE's interests were in these wider benefits rather than only considering the narrow, transport user-based appraisal. In turn this reflects HIE's own objectives of Growing Businesses and Strengthening Communities. The contribution of transport to achieving these objectives can only be assessed through an examination of what Riddington refers to as “external effects”. These include not only employment effects, but also distributional issues, social inclusion and retention of population. These are the key issues of interest to HIE and also, it seems reasonable to assume, the wider community.

The report was intended to offer an up-to-date analysis of the benefits of the network in our region. This was to allow HIE and others to offer an informed response to any possible proposals to downgrade track maintenance or train services. It was in itself a major piece of work. It was never intended to look at the opportunity cost of the resources used in providing the region's rail network. Even if this has been an aim, there is difficulty, as the SDG report acknowledges, in obtaining definitive data on expenditures.

Riddington has produced his own estimates of the annual subsidy required for the Highland rail network. Without further information it is not possible to comment on the accuracy, or otherwise, of his figures and their consistency with the approach adopted by the consultants. It does appear, however, that he has applied a discount rate (3%) that is different to the one used (3.5%) in the SDG report.

## **Weaknesses in the Conventional Approach**

Riddington's main point is to draw attention to a deficit between the SDG estimates of benefits and the net cost (ie subsidy) required to provide the rail network in our region. He estimates the NPV of subsidy over 30 years as being £693 million which he equates to an annual subsidy of £32.7 million. The consultants report estimates the NPV of benefits at £298 million. Riddington therefore concludes that "it (is) difficult to justify social expenditure this scale when the realised benefits to society are less than half the cost".

However, a careful reading of the SDG work shows that they realise one of the main weaknesses of the standard Transport and Economic Efficiency (TEE) approach is that it is assumed that "those who do not travel in the absence of a rail network will experience no social welfare loss" (pp49). Yet they report that this is "a minimum value" (pp49) and adjust their central estimates on the basis that the loss of welfare equates to a maximum value of fare paid plus time costs. The result is to increase the NPV of benefits to £493 million: that is, to more than 70% of Riddington's assumed annual subsidy.

This would still represent a net loss to the economy if the TEE approach captures all of the economic impacts that accrue from the rail network. However, it is increasingly recognised that this is not the case. Hence Scottish Executive's STAG approach also includes an Economic Activity and Location Impact (EALI) element. This covers not only employment impacts but also other factors such as effects on particular geographic areas and social groups. The aim of including these wider factors, according to STAG, is "inter alia to identify potential social inclusion effects" (STAG Executive Summary: pp10)

None of these can be reflected in an appraisal approach which focuses only on user benefits, and does not reflect the specifics of a particular case.

## **EALI Analysis**

To his credit, Riddington does acknowledge the existence of external effects, although his paper refers to only **one**, despite a much greater number being presented in the SDG research. He points to the tourism employment impacts that would not otherwise exist in the absence of the Highland rail network. The actual figure is 1,080 Full-Time Equivalents (FTEs). Given the seasonal, and often part-time nature, of tourism employment this number of FTEs will generate **jobs** for a much higher number of people than Riddington's "around 1,000".

In addition, the annual tourism expenditure of £30.4 million is approaching Riddington's assumed annual subsidy level of £32.7 million. If recent passenger growth trends are maintained then it is quite possible that the annual level of net tourism spend in the region could exceed the subsidy spent in providing the services. This is before other income effects (such as the £15 million wages of those employed in the rail industry) are included.

Indeed, the actual tourism spend figure is already £32.7 million. The lower figure (£30.4 million) reflects the netting off of spend outside the region made by local residents using rail services. While this is a proper means of assessment, providing ready access to the rest of the UK via the rail network is a factor which will help to attract people to, and retain people, in the Highlands and Islands.

Despite encouraging trends in some parts of the Highlands and Islands, population retention is still an issue for many areas. Maintaining a balanced and growing population has obvious economic benefits. Riddington accepts that the tourism employment effect is a positive feature of the Highland rail network and “this should clearly be protected”. However, the SDG work points to the importance of rail services in retaining people outwith the main population centres. These are the very people who will run the tourist businesses and serve the meals which are needed to generate the tourism impact in the first place. The evidence from the report shows that, for example:

- 15% of local residents travelling on the Oban, and on the Far North line would be strongly/very strongly influenced to move to a larger town in the absence of the rail network; and
- 5% of all residents surveyed would be strongly influenced to leave the Highlands and Islands.

Residents will generally make use of the rail network throughout the year. Thus operating only seasonal services, as implied by Riddington, would significantly reduce the access these people enjoy via rail and likely to contribute to population loss. In particular, rail services are attractive to young people of working age (such as students at local colleges) who do not have access to a car. It is this group, in particular, that needs encouragement to stay in the Highlands and Islands.

The need to maintain the rail infrastructure leaves it questionable as to how much financial saving would be achieved by discontinuing some winter services, especially in the context of total national expenditure on the railways? If rail is to get its costs under control, is axing, say, winter services on the Kyle line the most effective starting point? Indeed, it could be argued that, given the fixed cost of maintaining rail infrastructure, it would make more sense to utilise this investment by increasing service frequency where possible.

Further, there would be network effects as the loss of winter services on some routes would feed through into reduced patronage on those lines which remain open. For example, someone presently travelling from Glasgow to Wick in the winter may choose not to travel at all.

STAG refers specifically to “people in remote rural areas” (8-12) while population attraction/retention, particularly in regeneration areas, should also be considered (8-24). The SDG report shows that 22% of residents on the Oban line, and 18% on the Kyle line, were travelling to/from an island.

SDG state “several remote communities are dependent on rail links, where...specific geographical constraints mean that the area is relatively inaccessible by road”. Despite poor public transport provision in many parts, according to the 2001 Census, one in four adults in the region don't have access to a car. Access to a vehicle is only 8 percentage points higher than for Scotland as a whole. Even where bus services are available, they do not necessarily meet requirements. HIE's 2003 evaluation of the Tain rail commuter service indicated that a similar level of passengers switched from car (27%) and from bus (32%). Simply, bus services are not a direct substitute for train travel.

This range and scale of impacts places the supposed deficit between benefits and costs, as per the TEE analysis, in a different perspective. The evidence contained in the SDG work would appear to form the “sensible case” for rail that Riddington is seeking. Yet by focusing only on the TEE and the tourism employment data, his analysis cannot account for these wider benefits. Effects should not be ignored simply because they are relatively difficult to quantify.

## **Moving Forward**

The Case for Rail study was an evaluation of the existing network but this should not be seen as implying that HIE is not interested in developing the rail network. Recent projects include support for the first ever winter Sunday services on the Kyle and Far North lines; and the development of further commuter services into Inverness. Other opportunities will emerge as the new franchise commences and Scottish Executive assumes greater control over infrastructure investment.

HIE is keen to move assessment techniques from an over-emphasis on TEE analyses to the impacts of what people and goods do when they get off the train (or bus, ferry or aeroplane). It is important that future developments are based on sound economic analysis. However, this must include the full range of impacts of rail services in our region, rather than relying on a narrow, user-benefit approach.