

## Chapter 6

# FUNDING THROUGH TIF PRIZE OR MORTGAGE?

**Dr Alan Brett\***

### INTRODUCTION

This Chapter examines the role of the Transport Innovation Fund (TIF) in funding major transport packages and schemes. TIF was announced by Government in 2004 and comprises two parts:

- ❑ Productivity TIF – focused on large scale schemes that will contribute to growth in GDP – typically rail and trunk road schemes; and
- ❑ Congestion TIF – focused on packages of measures to tackle congestion in urban areas – with an emphasis on demand management techniques.

The Government sought recommendations from the regional development bodies for schemes to be funded under productivity TIF. The shortlisted schemes generally comprise improvements to key sections of the trunk road and rail networks. In both cases there has been an emphasis upon freight movements and access to international ‘gateways’, principally ports.

Submissions for funding under congestion TIF are currently being prepared by a number of authorities, with funding through congestion TIF commencing during 2008/9. Congestion TIF will result in a major change to the funding and delivery of local transport schemes. This chapter examines congestion TIF, the current submission preparation activity for funds through congestion TIF and the implications this process will have for the funding of local transport.

Congestion TIF is aimed at encouraging packages of measures that tackle congestion in urban areas. The TIF guidance places emphasis on the need for these packages to include demand

\* **Dr Alan Brett** is Director, Atkins Planning, Manchester.

## 2 Transport Challenges facing the UK : Major Scheme Funding and the Environment

management, with a particular emphasis upon packages that include Road Pricing (RP) schemes. Government has been clear that it sees such TIF related local RP schemes as providing pilots for the potential introduction of a national scheme. This will enable examination of a number of aspects of RP including:

- Alternative types of RP (e.g. cordon, area licence, distance based);
- The performance of a range of technology options; and
- Issues relating to public acceptability such as data handling and personal privacy.

The first submissions to DfT for funding from congestion TIF are expected during the latter part of 2007. Funding is due to commence in 2008/9 so funding decisions are likely to be taken in the near future.

It should be noted that there will be strong links between the delivery timescales for a congestion TIF package and the funding framework. In particular funding submissions will need to address how improvements required in advance of RP are to be funded and how the downstream RP revenues will be used.

The subsequent sections of this chapter discuss:

- The nature of congestion TIF;
- Why congestion TIF is important;
- The current 'pump priming' bidders for congestion TIF;
- The components of a typical congestion TIF funding submission;
- The timescales for delivery of a TIF package; and
- The implications for local authority transport scheme funding.

The submission preparation process for congestion TIF funding is complex and detailed. This chapter attempts to highlight key aspects of the congestion TIF process and does not intend to provide a comprehensive or technically detailed analysis of the preparation of a congestion TIF funding submission.

### **WHAT IS TIF?**

The Transport Innovation Fund (TIF) is a new Government initiative first announced in the July 2004 White paper '*The Future of Transport*'. The purpose of the fund is to encourage the development of '*smarter, innovative, local and regional transport strategies*'. The White paper continued to state that TIF would:

- Support the costs of smarter, innovative local transport packages that combine demand management measures such as road pricing with modal shift and better bus services;*
- Support innovative mechanisms which raise new funds; and*
- Support the funding of regional, inter-regional and local schemes that are beneficial to national productivity.*

Two separate parts of TIF have been identified:

- ❑ Productivity TIF – focused on the third bullet point above, aimed at delivering schemes that will contribute to growth in GDP through improvement in national productivity. Schemes eligible for funding via productivity TIF have already been shortlisted on the basis of advice sought by Government from the Regional Development Agencies. The shortlisted schemes typically comprise improvements to key sections of the trunk road and rail networks. In both cases there has been an emphasis upon freight movements and access to international ‘gateways’, principally ports; and
- ❑ Congestion TIF – focused on the first and second bullet points through delivery of packages of measures to tackle congestion in urban areas with an emphasis on inclusion of road pricing (RP), both as a demand management measure and a new method of raising funds for transport improvements. The Department for Transport (DfT) TIF guidance states that *‘we are most likely to fund packages that involve road pricing, but we may, by exception, be prepared to consider bids involved a Workplace Parking Levy’*. Thus a fiscal demand management measure is a prerequisite, with a clear preference for road pricing schemes.

Further details of TIF were issued in 2005, in particular the overall funding levels and the announcement of a ‘pump priming’ fund to assist with the preparation of submissions for funding through congestion TIF. The main TIF funding commences with £290 million in 2008/9 rising to £2.5 billion by 2014/15. Thus it is clear that TIF will represent a substantial proportion of transport funding and is likely to be the dominant source of funding for major schemes. However, the split between productivity TIF and congestion TIF is not defined, although Government has stated that *‘up to £200 million a year is ultimately available to support such local pilots’* (thus providing £1.4bn over the period from 2008/9 to 2014/15 inclusive) and that *‘if more good schemes emerge, more money may be made available’*.

It should be noted that the pump priming exercise is not simply about funding. It also includes a commitment to close involvement by DfT during the preparation stage (up to formal funding bid submission) including access to DfT advice and research regarding the RP element in particular. Typically the pump priming funding provided by DfT will represent 50% of the cost of preparation of the final TIF funding submission.

As with other sources of transport funding, congestion TIF is a competitive process, with there being two key stages in the competition:

- ❑ Recognising the costs associated with preparation of such bids, a ‘pump priming’ fund was announced, providing £18m between 2005/6 and 2007/8 to assist with the preparation of congestion TIF funding submissions. A large number of bids were submitted for pump priming, but only seven bidders were successful in the first round of bidding and three in the second (these are discussed in more detail later in this chapter); and
- ❑ The total funding available for congestion TIF is constrained, thus there will be competition between submissions as to who receives funding. Given the pilot nature

#### 4 Transport Challenges facing the UK : Major Scheme Funding and the Environment

of these packages and the tight timescales there is likely to be a degree of 'first come - first served' within the process. This will not apply simply to the timing of the funding submission itself but is likely to be strongly influenced by the timescales for delivery of the overall TIF package, particularly the road pricing element.

Some important points to note about congestion TIF are:

- ❑ The emphasis upon the inclusion of a demand management element and RP in particular. Government refers to these as 'pilot projects' and these are clearly intended to inform the potential introduction of a national scheme. This places emphasis on timescales, with smaller local RP schemes expected to be implemented in 2010/11, larger RP schemes by 2013 and a possible national scheme emerging in 2015. The linkage of funding through congestion TIF to delivery of road pricing has been the subject of criticism from a number of sources, including the Transport Select committee. However, at present the emphasis upon inclusion of RP remains a key feature of congestion TIF and it remains to be seen whether this will change in the future;
- ❑ The emphasis upon packages of measures. Congestion TIF is focused on delivery of a comprehensive set of integrated measures and the submission for funding is required to follow similar guidance to that for local authority major scheme bids. Whilst the TIF guidance permits some simplification, in effect the TIF package funding submission will comprise the equivalent of a significant number of major scheme bids. The scale of this task, combined with the compressed timescales in order to enable decisions regarding allocation of funds for 2008/9, places a substantial resource and cost burden upon those authorities preparing submissions;
- ❑ The availability of the revenue stream from the RP element of a congestion TIF package. Current legislation requires that funds raised through local authority RP schemes are used for transport projects. This will provide the authority with a long term revenue stream that would enable support for revenue based projects as well as capital based projects – thus removing a key barrier to the delivery of local transport schemes that may require ongoing revenue support. The DfT guidance notes that '*TIF can provide revenue resources as well as capital, but only very small amounts are likely to be available*', however '*authorities can, of course, opt to use their own resources*' – which would include the revenue from RP. The implication is that packages may include schemes requiring revenue support but the assumption would be that these would be funded in the long term by RP revenues; and
- ❑ The importance of the pump priming exercise. Preparation of a TIF funding submission is a major task, likely to be beyond the capability of many local authorities to fund from their own resources. Whilst any authority can make a submission for congestion TIF funding and DfT stresses that award of pump priming funding does not guarantee a successful TIF funding bid submission, the availability of the pump priming funding coupled to the access to DfT expertise will give significant advantage to those authorities who successfully bid for pump priming funds.

## **WHY MAKE A SUBMISSION FOR CONGESTION TIF FUNDING?**

As discussed above, TIF represents a major, and growing, source of funding for transport schemes through the period from 2008/9 to 2014/5. TIF is likely to become the principal source funding for local authority major transport schemes during this period. TIF will also be the only area of local transport funding where funding levels are expected to experience significant growth.

Thus for a local authority with a programme for major transport scheme delivery, TIF represents the most likely funding source. A number of those authorities currently preparing TIF bids (see below) are describing TIF as '*the only show in town*' with regard to major transport scheme funding. Thus failure to deliver a successful TIF funding submission would be likely to lead to failure to deliver major local transport improvements in that local authority area.

In the longer term there is potential for a further funding advantage for those authorities that have delivered a local RP scheme. Should national road pricing be introduced, operators of existing local schemes are likely to be compensated for any loss of revenue as a result of absorption of their local scheme into the national scheme. Thus the revenue enjoyed by a local authority as the result of implementation of a local RP scheme will be protected in the event of application of a national scheme. In contrast, there is no commitment as to how revenues from a national scheme would be allocated to local authorities where no RP scheme previously existed.

## **WHO IS PURSUING CONGESTION TIF?**

More than thirty bids were received by DfT for the first round of pump priming awards, demonstrating recognition of the importance of congestion TIF for future scheme funding. Pump priming submissions were made from a wide range of areas, ranging from major conurbations to relatively small and self-contained towns or cities. Bids were submitted by single authorities and consortia of local authorities. From the large number of bids, seven areas (representing just under a quarter) were successful in receiving pump priming awards, these being announced in November 2005 as:

- The greater Bristol area (a consortium of local authorities in the area formerly represented by Avon);
- Cambridgeshire;
- Durham County Council (for Durham);
- Greater Manchester (submitted by the PTE/A on behalf of all the local authorities);
- Shropshire (for Shrewsbury);
- Tyne & Wear (submitted by the local authorities); and
- West Midlands (submitted by the PTA and the seven local authorities).

It should be noted that the above list represents a wide spread of area types, ranging from relatively small cities and towns such as Durham and Shrewsbury to some of the largest

## 6 Transport Challenges facing the UK : Major Scheme Funding and the Environment

conurbations. This will, in part, reflect the desire of the DfT to encourage implementation of RP pilot projects that will examine the performance of RP in different types and sizes of area.

At this stage the guidance relating to the preparation of full congestion TIF funding submissions had not been produced and the scale of the pump priming bids was based upon judgement by the local authorities as to what was likely to be required for a TIF funding submission, influenced in part by the constrained timescales that were indicated.

Subsequent liaison with DfT regarding the requirements for a congestion TIF funding submission, together with further development of the full submission proposals, led to the realisation that the scale of the task was under estimated in the initial pump priming submissions. A further round of pump priming bids was made in 2006 with the successful bidders announced in November 2006. With just over twenty bids submitted (including bids for further funds from six of the seven successful round 1 bidders), the successful bids were dominated by the award of substantial additional funds for six of the original successful bidders, with just three new areas being awarded funds. Thus a current total of ten areas are currently in receipt of TIF pump priming funding from the two rounds of bidding. The three new areas were:

- East Midlands (Nottingham, Derby, Leicester and the surrounding counties);
- Norfolk (for Norwich); and
- Reading.

**Table 6.1 TIF pump priming funding**

Authority	Value of award (£ thousands)		
	Round 1	Round 2	Total
Bristol	1495	-	1495
Cambridgeshire	385	1055	1440
Durham	300	50	350
East Midlands	-	1800	1800
Greater Manchester	1250	1950	3200
Norfolk	-	250	250
Reading	-	680	680
Shropshire	480	378	858
Tyne & Wear	950	750	1700
West Midlands	2600	600	3200

The values of the awards to each authority are shown in Table 6.1 which shows both the scale of the preparation costs required for a congestion TIF funding submission (noting that these are typically 50% awards) and the degree of increase sought in round 2 once the emerging bid requirements were clarified.

Thus congestion TIF submissions are currently being prepared by the ten areas detailed above. The speed of preparation of these submissions will vary, but it is anticipated that submissions are likely to be made by a number of areas before the end of 2007, including Bristol, Cambridgeshire, Greater Manchester and the West Midlands.

### **WHAT WILL A CONGESTION TIF BID SUBMISSION COMPRISE?**

A typical TIF submission will comprise two main components:

- A demand management mechanism – in most cases this will be some form of RP; and
- A comprehensive package of ‘complementary measures’ to support the demand management measure and deliver an integrated transport strategy across the area.

#### **Road Pricing**

The RP proposal will be a key component of the congestion TIF submission. Whilst it is likely to account for only a small proportion of the overall package costs, it will be a key factor in delivering acceptability (or otherwise) from the point of view of both DfT and local stakeholders. DfT have particular interest in the form and technology adopted for the RP element (given the pilot role of the congestion TIF packages) whereas stakeholders will have particular interest in the impacts of the proposed RP system when set against the benefits of the associated complementary measures package.

- The type of charge – e.g. cordon, area licence, time/distance/place;
- The location of the charged area;
- The time period for which charges would be levied;
- The level of the charge; and
- Any discounts or concessions.

#### **Complementary measures**

Complementary measures will typically fall in to three broad categories:

- Measures required to provide for immediate effects of the RP system – these will need to be delivered in advance of the implementation of the RP system;
- Measures designed to capitalise upon outcomes of the RP system – for example reallocation of road capacity to support walk, cycle or public transport improvements – these will need to be delivered as soon as possible after the implementation of RP; and
- Measures required to deal with longer term effects such as major new land use developments, changes in user attitudes and/or behaviour over time or overall levels of growth – these are likely to require the delivery of measures in the medium to longer term.

There are likely to be a number of responses to the implementation of a RP system, with the balance between these responses varying according to the characteristics of the individual area.

## 8 Transport Challenges facing the UK : Major Scheme Funding and the Environment

Typical responses will include:

- ❑ Trip redistribution – changes to the start and/or end locations of trips as people make different choices about where to live and where to travel. Shorter term changes in destination are more likely for discretionary trips (such as shopping trips) and in areas where real choices exist. Changes such as residential location or employment location will tend to take place in the medium to longer term, again influenced by the level of choice available. Trip redistribution is likely to occur to a higher degree in poly-centric locations (such as the conurbations) and a lower degree in mono-centric locations (such as the smaller towns or cities);
- ❑ Trip retiming – where a charge is levied for a specific time period only, such as the morning and /or evening peak, then the opportunity exists to change travel time to avoid the charge. This is a similar response to the ‘peak spreading’ effect where drivers choose to travel earlier or later to avoid congestion in the main peak period;
- ❑ Change of mode – where appropriate alternatives exist, car users may change to walking, cycling or use of public transport. A key focus of the complementary measures will be to ensure that high quality alternatives exist for as many journeys as possible in order to enable and encourage users to change mode away from the car; and
- ❑ Increased use of car sharing – RP is likely to encourage users to car share to reduce the effective cost of the charge, this will in turn lead to a reduction in car traffic.

The focus of the complementary measures part of the package is likely to be on provision of alternatives to the use of the private car, particularly walking, cycling, public transport and ‘smarter choice’ measures. These will be designed both to cater for the transfer from car as a direct result of the road pricing element and to further encourage that transfer. As noted above, a key feature of the TIF package is likely to be the opportunity for inclusion of schemes that require revenue support, as this will be forthcoming through the RP revenue stream.

Some packages may include highway schemes to address remaining congestion hotspots and/or improve access to strategic locations – particularly where these are required to support economic and land use development objectives.

### **WHEN WILL CONGESTION TIF HAPPEN?**

The timescales for the TIF projects are challenging. As discussed earlier in this chapter, the projects are intended to act as pilots for the introduction of national road pricing. Thus early implementation of the RP element of these packages is sought by DfT, with 2010/11 indicated for smaller schemes and larger schemes following by around 2013.

Given such tight timescales the initial RP schemes will need to be based upon existing technologies, resulting in relatively simple schemes that are likely to be based upon cordon or area licence charging. In the longer term developing technologies will enable schemes to be enhanced and optimised. Enhanced features may include:

- Charging for additional time periods;
- Varying charges by location and/or degree of congestion
- Varying tolls by vehicle type – for example to reflect emission levels as proposed in London.

It should be noted that for the purposes of the TIF funding submission, a conventional 60 year appraisal period is generally being adopted, with the RP system assumed to be unchanged throughout this period (other than inflation related price changes). However, unlike conventional transport schemes, a RP system has the potential to change significantly in a fairly short timescale. The London example demonstrates this, with increases in charge from £5 to £8 and the extension to include parts of west London taking place with a few years of implementation of the original scheme. In the longer term, particularly in the event of national road pricing, it is likely that increasing provision of in-vehicle equipment will enable the application of pricing based upon distance travelled by location and time of day.

A key issue regarding the timescales for the congestion TIF projects will be the lead time for the complementary measures that are required to be in place in advance of the RP element. Where statutory processes are required (such as for major public transport schemes requiring land take) delivery by 2010/11 will be extremely challenging, given that funding for scheme preparation will not be available until 2008/9.

It should also be noted that congestion TIF is concerned with the delivery of packages, not just discrete schemes. This will place onerous resource requirements on the delivery authorities that will affect timescales. There will be an interaction between delivery timescales and procurement models that will be influenced by the existing delivery arrangements available to the authority. This is discussed further below.

## **IMPLICATIONS OF CONGESTION TIF FOR TRANSPORT FUNDING**

Congestion TIF is likely to represent the principal source of funding for local authority major schemes during the period between 2008/9 and 2014/15. There will be strong competition for these funds. DfT has indicated an allocation of £1.4bn for congestion TIF during this period. This can be compared with typical costs for TIF packages ranging from around £500 million for Cambridgeshire to £3 billion for Greater Manchester. Whilst the entirety of these packages would not be delivered in the 2008 to 2015 period, a substantial proportion would be delivered and this demonstrates the pressure that will be exerted on the congestion TIF fund.

In addition to the competition for a limited fund, there are major hurdles to securing TIF funding, these will include technical, resource, fiscal and political issues. Key issues include:

- The funding and resources required to deliver a successful TIF funding submission. Those authorities who have obtained pump priming will have gained significant advantage. The scale of the pump priming awards demonstrates the costs of funding submission preparation – implying total costs ranging from £500k for the smallest studies to in excess of £6 million for the conurbation studies;

- ❑ Establishment of an overall package that will address acceptability requirements for local stakeholders, including politicians, the business community and the public. It will be important to effectively 'sell' the message that any perceived disbenefits of the RP element will be outweighed by the benefits of the decongestion effects of RP combined with the delivery of the complementary measures element of the package. In funding terms it will be necessary to demonstrate the value gained from the funding levered from Government together with the application of the road pricing revenue;
- ❑ Satisfying the DfT technical requirements for the TIF funding submission, in particular demonstration that the overall transport package, together with the key elements of that package (including the RP scheme) provide value for money;
- ❑ The development of an overall funding package that meets both DfT and local authority requirements. The key issue is likely to be the balance between DfT funding (from the congestion TIF fund) and local authority funding (particularly that from the RP revenue). Local authorities are likely to seek substantial TIF funding from DfT for those package elements to be delivered in advance of RP. DfT will expect to see RP revenues used for elements of the package, potentially including prudential borrowing against RP revenues by the local authority in advance of the introduction of the RP scheme; and
- ❑ Identification of a realistic procurement model that will enable a credible delivery timescale to be established. This is likely to be a particular concern of DfT given the emphasis on tight timescales for the delivery of these projects as RP pilots. Procurement models may range from letting a single major contract to the private sector for delivery of the package as a whole to a 'business as usual' arrangement where the local authority procures the package on a scheme by scheme basis. The choice of procurement model will depend on the scale of the package, the nature of the individual major schemes included within the package, existing local authority resource levels and contract arrangements and package delivery timescales. In practice a combination of procurement models is likely to be adopted in order to make most appropriate use of the available public and private sector skills and resources. Given the very tight timescales, maximum use is likely to be made of existing procurement arrangements and methods. However, this will need to be balanced against the ability of the local authority to resource a delivery programme that may represent an order of magnitude increase in expenditure compared with previous transport scheme delivery programmes.

## **CONCLUSIONS**

Congestion TIF will provide a major source of funding for transport schemes during the period between 2008 and 2015. TIF packages will comprise an integrated package of measures including (in most cases) a road pricing element.

The emerging scale of the submissions being prepared for TIF funding indicates that there will be significant competition for the congestion TIF fund. Thus delivery of a successful TIF funding

submission is likely to require careful balance between funding from DfT and funding from local resources, including use of revenue from the RP element of the package.

The road pricing element of a congestion TIF package will:

- Directly reduce road traffic and thus congestion, improving conditions for road based public transport, cycling and walking;
- Increase funding available for local transport – through leverage of DfT funding and generation of a revenue stream; and
- Improve the viability of alternatives to the private car through increased patronage levels.

Congestion TIF offers the opportunity for long term revenue funding of transport measures using revenue from the RP system. Thus TIF will help address a key barrier to the delivery of local public transport improvements.

Congestion TIF will encourage the delivery of integrated packages of measures to address local transport problems and objectives. However, the successful delivery of a congestion TIF package will depend upon the identification of a funding structure and procurement model that will ensure that all elements are delivered. The poor record of implementation from the multi-modal studies demonstrates the issues associated with delivery of integrated packages where multiple authorities and funding mechanisms are involved.

The timescales for the delivery of TIF packages are extremely challenging and coupled with the scale of the packages will place a major resource requirement upon the implementing authorities. Successful TIF submissions will need to demonstrate that adequate resources can be put in place sufficiently early to enable tight delivery timescales to be achieved.

Whilst the overall scale of the congestion TIF submissions will undoubtedly be subject to detailed scrutiny, it is likely that the key negotiation between DfT and the submitting authorities will be the balance between the DfT contribution (principally from the TIF fund) and the local authority contribution (principally from the RP revenue). DfT will wish to ensure that overall value for money is achieved and local authorities will wish to demonstrate effective leverage of Government funding.

Thus congestion TIF is likely to represent both a 'prize' and a 'mortgage' – not just one or the other. The 'prize' will be the leverage of funds from the congestion TIF fund and the ability to deliver major local transport investment. The 'mortgage' will be the commitment to implement a local road pricing scheme in the near future and to use the funds generated by that RP scheme as part of the local transport investment funding package. This may take place directly (for spend post implementation of RP) or through prudential borrowing against future RP revenues (for spend in advance of implementation of RP).

## | 2 Transport Challenges facing the UK : Major Scheme Funding and the Environment