Shaping our FUTURE

6.0 Funding and Affordability of the Strategy







Department for Regional Development

6.1. Introduction

6.1.1. The Regional Transportation Strategy (RTS) assumes a total investment of £3500 million, of which £1370 million is additional to current levels of transportation spend continued.

6.1.2. However, the outcome for transportation will ultimately be determined in the Budgetary process which will also take account of the financial needs of other Departments.

6.1.3. The Proposed RTS (February 2002) required an additional £950 million and suggested a potential private finance contribution of £325 million. There was some concern expressed in the consultation feedback about the practicality of this contribution. In response to that concern and in view of the need for greater funding in the RTS, this Chapter aims to provide more detailed information on potential funding sources and on the issue of affordability.

6.1.4. In February 2002, at a seminar on 'Private Finance, Public Services and Partnership Arrangements,' the Minister of Finance and Personnel highlighted the affordability challenge:

> ***"The Executive has to address a legacy of under-funding in the infrastructure of our public services which means that currently many areas - especially health, education and transport - require levels of capital investment far in excess of the resources available to us, if they are to be funded in the traditional manner."***

6.1.5. In response to this challenge, a variety of methods have been considered to increase the total level of funding available for transportation and attract private sector finance and expertise where appropriate.

6.1.6. The following sections in turn explain how the affordability of the Strategy has been demonstrated:

- Section 6.2 outlines the potential funding sources and the contribution required from the Reinvestment and Reform Initiative and from private finance;
- Section 6.3 provides further detail on each of the funding sources;
- Section 6.4 summarises the findings of investigations into the scope for private finance in highways and public transport schemes;
- Section 6.5 explains the role for the Reinvestment and Reform Initiative; and
- Section 6.6 offers conclusions.

6.2. Funding Requirement

6.2.1. Throughout the RTS development process there has been consistent consultation feedback calling for increased investment in transportation. In the 'Report of Consultation Conference' produced by Community Technical Aid, the independent facilitators of the September 2001 Conference, it states:

"Most people agreed that the balance of outcomes that would result at the significantly enhanced funding level seems appropriate but asked that the strategy go further and look for a more ambitious funding package."

This view was also a recurring theme of the feedback on the February 2002 consultation paper, with many contributors pressing for greater expenditure on both roads and public transport.

6.2.2. Initiatives in the Proposed RTS (February 2002), assumed additional funding of £950 million above the 'existing funding level continued', giving a total strategy value of £3049 million. In response to the consultation feedback, and in recognition of the potential new source of funding made possible by the Reinvestment and Reform Initiative (RRI), the value of the Strategy has been raised to £3500 million, of which £1370 million is Additional Funding to current patterns of transportation expenditure.

6.2.3. In raising the Additional Funding requirement to £1370 million, revised consideration has been given to the potential for private sector finance and due consideration to the Reinvestment and Reform Initiative. Table 6.1 summarises the additional sources of funding.

Assumed Additional Funding Sources and Private Finance Contributions	Assumed Funds (£m) over period 2002/03 to 2011/2012[a]
Public Expenditure Baselines (including Executive Programme Funds and European Funding)	510
Reinvestment and Reform Initiative [b] (excluding Executive Programme Funds)	425
Increased Developers' Contributions	100
Sale of Assets	20
In-year additional Public Expenditure allocations	15
Private Finance (Highways) [c]	150
Private Finance (Public Transport) [c]	150
	£1370 million

Table 6.1: Assumed Additional Sources of Funding and Private Finance Contributions

Note:

[a] All assumed funds (including private finance) are expressed in 2002/03 prices.

[b] Value of transportation initiatives funded by RRI.

[c] The sums are net contributions calculated as the value of the schemes delivered within the RTS period, minus the costs of payments made out of the public purse during the period (rounded to the nearest £10million).

6.2.4. The assumed funds in Table 6.1 reflect an approach aimed at optimising the involvement of the private sector, in terms of its expertise and financial investment, to maximise value for money and potential funding source efficiency. This approach is necessary to make the strategy more affordable over the ten-year period and to help minimise the contribution required from the public purse in general and the RRI package, in particular.

6.3. Funding Sources

Executive Programme Funds/ Enhanced Public Expenditure/ European Funding (£510 million)

6.3.1. The RTS assumes that transportation will be allocated an average of £51 million additional public expenditure (including European funding) per year over the 10 years to give a total of £510 million. This is expected to come from a combination of Executive Programme Funds and/or enhanced public expenditure baselines and European funding.

6.3.2. It has also been assumed that the Executive Programme Funds will continue in existence over the life of the RTS and remain at least at the level indicated for 2003/04. However if the Executive Programme Funds are reduced, public expenditure baselines are expected to be increased accordingly.

Increased Developers' Contributions (£100 million)

6.3.3. There has been a consistently high level of support expressed throughout the consultation process for developers to contribute more to the upgrading of transportation infrastructure and services. It is considered that initiatives requiring developers to contribute more fully towards the impact of their development on transportation infrastructure and services could contribute funding or projects to the value of around £100 million. These include possible major new highway schemes in addition to incremental improvements to road capacity and public transport provision.

6.3.4. The investigation of the potential role of developers' contributions in addressing Northern Ireland's infrastructure investment requirements will also consider, in conjunction with the Department of the Environment, the need to amend planning legislation or planning guidance. This would enable Development Plans to examine the scope of infrastructure, public transport services and other related transport measures, particularly in or close to identified transport corridors, which developers should be aware of when considering development proposals.

Sale of Assets (£20 million)

6.3.5. Over the next decade, it may be possible to raise £20 million from the sale of land that has been purchased by the Department for road schemes that ultimately proves to be surplus to requirements.

In-Year Additional Public Expenditure Allocations (£15 million)

6.3.6. Historically some funding re-allocations are made to government departments late in the financial year. It has been assumed that this will continue for the short term (3 years) and produce total "additional" transportation funds of £15 million. It is unclear whether this practice will continue throughout the 10-year period as business planning processes, project management and expenditure control continue to improve across and within government departments.

6.4. Private Finance (£300 million)

6.4.1. In March 2001 the Executive announced that it would set up a high level Working Group to review the use of Public Private Partnerships (PPPs) in the delivery of public services to enable a longer term view to be taken by the Executive in accordance with the commitments set out in the Programme for Government to:

"have reviewed the opportunities for the use of private finance in all major service provisions/infrastructure to increase investment and provide innovative and value for money solutions through Public Private Partnerships/ Private Finance Initiative."

6.4.2. The PPP Working Group Report[51] (published in May 2002) highlighted that a key source of confusion in the debate on Public Private Partnerships was the failure to distinguish between how public service investment is funded and how public service investment is financed. Public Private Partnerships do not in themselves give rise to new or additional sources of funding (unless they are associated with the introduction of user charging), but they have the potential to deliver value for money and affordability benefits.

6.4.3. A well established PPP/PFI approach to highway infrastructure investment is Design, Build, Finance and Operate (DBFO). Here, the private sector contractor is responsible for designing, building, financing, operating and maintaining the infrastructure and recovers its costs from annual payments from the public sector. In the public transport market, PFI style funding is common. A capital project is undertaken and financed by the private sector against an 'at risk' revenue stream either directly from the project such as

[51] Review of Opportunities for Public Private Partnerships in Northern Ireland, Northern Ireland Executive, May 2002

passenger fares or through an 'availability' payment from the public sector. Ultimately, however, projects can only proceed if the private sector's innovation, efficiencies and acceptance of risk can ensure value for money.

Highways (PPP/PFI Contribution £150 million)

6.4.4. An initial review of the viability of the application of the DBFO approach to packages of strategic highway improvements in the RTS was undertaken during the development of the RTS. This indicated that there is scope to appeal to the private sector on the basis of:

- the reasonable sizes of projects; and
- a familiar contract structure.

Indications suggest that roads projects with a value of £188 million could be commenced or delivered during the 10 years of the RTS, with payments to the private sector, over the same period, of £41 million. In this way the DBFO approach improves the affordability of the Strategy by £147 million (£150 million rounded) over the traditional public finance approach. PPP/PFI payments peak in 2011/12 at £16.6 million and fall to zero by 2038/39, with an average repayment over the period 2012/13 – 2037/38 of £15.6 million for 26 years.

Public Transport (PPP/PFI Contribution £150 million)

6.4.5. A similar examination of the scope for private finance in public transport suggested that projects with a total value of £257 million could be delivered during the 10 years of the RTS for payments to the private sector, over the same period, of £107 million. This approach therefore improves the affordability of the Strategy by £150 million. PPP/PFI payments peak in 2012/13 at £28 million and fall to zero by 2029/30, with an average repayment over the period 2012/13 – 2028/29 of £22.4 million for 17 years.

6.4.6. Three areas are believed to have greatest potential for private sector funding:

- bus replacement;
- rapid transit; and
- rail rolling stock.

Outline descriptions and financial estimates for each are given below:

Bus replacement programme (PPP/PFI Contribution £90million)

6.4.7. Bus replacement will only be attractive to the private sector if the capital sum is sufficiently large. Replacement of all of the Ulsterbus and Citybus fleets under one contract should be of sufficient scale, but any partial approach could be unattractive. The approach assumes the same number of buses is replaced each year. Buses with a value of £157 million could be delivered during the 10 years of the RTS for payments to the private sector, over the same period, of £67 million. Therefore the affordability of the Strategy within the 10 years is improved by £90 million.

Commencement of rapid transit scheme (PPP/PFI Contribution £60 million)

6.4.8. The RTS includes a total cost of £100 million for commencement of a rapid transit network. This is likely to be feasible, with the private sector typically receiving an annual availability payment in return for its investment. Whilst this would be considered relatively small in comparison to schemes in Great Britain, it could have advantages as the private sector companies would not need to form large consortia. The approach assumes that the scheme would be operational towards the end of the RTS period. A system with a value of £100 million would require payments, over the RTS period, of £40 million, thus contributing £60 million to the affordability of the Strategy within 10 years.

Rail rolling stock (Nil PFI Contribution assumed)

6.4.9. The RTS has a requirement for 40 new trains. The 17 sets over and above the 23 trains already on order are unlikely to be sufficient to generate private sector interest, thus these 23 trains would have to form part of any finance arrangement. Whilst it might be possible to find a financial institution interested in adding such a sale and leaseback arrangement to its portfolio, for the current purposes it is prudent to assume that this would be unlikely. In consequence, it has been assumed that rail rolling stock provides no PFI contribution.

6.5 Reinvestment and Reform Initiative (£425 million)

6.5.1. The Reinvestment and Reform Initiative (RRI) announced on 2 May 2002 provides a new opportunity for a substantial infrastructure investment programme. In the context of funding the RTS, the RRI will give the Northern Ireland Assembly a power to fund additional capital expenditure by borrowing against a prudent assessment of what we can afford to repay.

6.5.2. The estimate of £425 million represents a balancing figure to complete the funding of the Strategy, assuming contributions from all other sources as described.

6.6. Conclusion

6.6.1. The case for significantly increased transportation investment has been made and is widely accepted. The greatest part of the funding will come from conventional public sector sources. The remainder will be found from relatively new sources.

6.6.2. Examinations of the scope for private finance suggest that potentially there is a significant and valid role for the private sector in providing both highway infrastructure and public transport initiatives, and improving the affordability of the Strategy. It is recognised that further work will be required to confirm the precise scale of this involvement. In terms of percentage contribution, estimates of private finance represent 9% of the value of the total strategy (or 22% of the additional £1370 million).

6.6.3. The application of PPP/PFI requires the Department to commit to payments beyond the 10-year period of the RTS. Whilst it has been estimated that PPP/PFI would improve the affordability of the RTS by a total of £300 million, in 2002/03 prices, around £31 million per year for 25 years (in 2002/03 prices) would be required beyond 2011/12. Ultimately, however, projects can only proceed if the private sector's innovation, efficiencies and acceptance of risk can ensure value for money.

6.6.4. The Reinvestment and Reform Initiative has a vital role to play in providing transportation infrastructure within the RTS period. It is estimated that the Reinvestment and Reform Initiative will contribute 12% of the value of the total strategy (or 31% of the additional £1370 million).

6.6.5. It should be noted that demand management measures have the potential to raise additional finance depending upon the method adopted and the level of the charges levied. The effect of any additional finance raised could be to reduce the requirement for Reinvestment and Reform Initiative funds.

6.6.6. The Chapter suggests that obtaining the additional money required for the Strategy is challenging and will only be achieved with political support and an innovative and determined approach to attracting private sector acumen and resources.