



# Introduction

We know that the credibility of our SIP, which is both ambitious and capital-intensive, needs to be underpinned by a pragmatic consideration of how it will be paid for.

In common with other comparable infrastructure programmes, the SIP's principal financial challenge will relate to funding – how the projects are ultimately paid for over time – both capital (for construction, maintenance and renewals) and resource (for operations). Addressing this challenge will involve both making the best use of funds directed from government, and identifying new and innovative approaches (especially those that tap into the local and regional value that the interventions will generate).

For many of the proposed interventions, financing (i.e. how and from whom the cash is raised to meet the costs of construction as they arise) will also play an important role in ensuring value-for-money delivery.

The SIP is made up of a number of diverse interventions and there is not going to be a 'one size fits all' funding and financing solution that applies across the programme. TfSE itself may not be the body that delivers or pays for these interventions. But, as an organisation, we have an important role to play in making them a reality.

This section therefore sets out the potential revenue sources that could contribute to the types of interventions identified in the SIP and the role of different stakeholders in channelling these funds to support the investment need.



## Context

Traditionally, strategic connectivity interventions have been funded from a combination of user or farebox revenues and central government grant provided to delivery bodies and transport authorities (often competitively bid for and/or in scheme or one year, mode based silos).

But today, these traditional funders face a number of competing priorities, with financial positions that are in many cases highly constrained. Further national-level challenges (but also opportunities) can be expected to accompany technological change in the transport sector, particularly the electrification of the road vehicle fleet and the implications for road taxation and the way users pay to access the highways network.

The SIP reflects the changed world in which we live and work. It seeks not only to address transport connectivity and capacity issues, but to promote and maintain economic development, increase the supply of homes, support the transition to net zero and improve quality of life and social inclusion.

The Exchequer will benefit from the broader fiscal impacts this will deliver – which is one of the reasons why it will remain appropriate for taxpayer funding to support the SIP.

However, the programme will also bring significant tangible benefits for a wider range of beneficiaries across the South East, London and beyond - in terms of productivity, employment, income levels, environmental impacts, quality of place, and land and property values.

The SIP's wide reach suggests that there is a strong case for seeking a fair and proportionate contribution from this full spectrum of beneficiary groups. This requires new and innovative tools that seek to monetise a share of the specific value that projects deliver for beneficiaries and can supplement or (eventually) replace traditional central government grant and local farebox for certain types of interventions.

However, we recognise that, if they are to have maximum impact, novel approaches may require either broader (e.g. nation-wide) reform or a degree of devolution of funding powers beyond that which the South East currently enjoys – both of which are subject to political will and community acceptance.

So while it is wholly appropriate to consider new approaches and they are likely to play a role at some stage in the multi-decade programme, we will need to work hard with local and national stakeholders if such mechanisms are going to be able to make a meaningful contribution to delivering the SIP.



# The SIP's funding requirement in context

Funding allocations for strategic connectivity interventions are generally provided to delivery authorities (such as Network Rail and National Highways) from consolidated government budgets that are themselves funded in the main part by general taxation and user revenues. There are additional grant programmes for other forms of transport such as mass transit, cycling and active travel, either in their own right or as part of broader funding competitions open to local authorities.

Broadly speaking, transport spending in the South East in the recent past has been roughly equivalent to its share of both national population and its GVA contribution.

The continued existence of a centralised funding regime for most types of strategic connectivity interventions suggests that many of the programmes within the SIP will continue to be funded, at least in part, from central sources – especially given the very strong case for investment in our region.

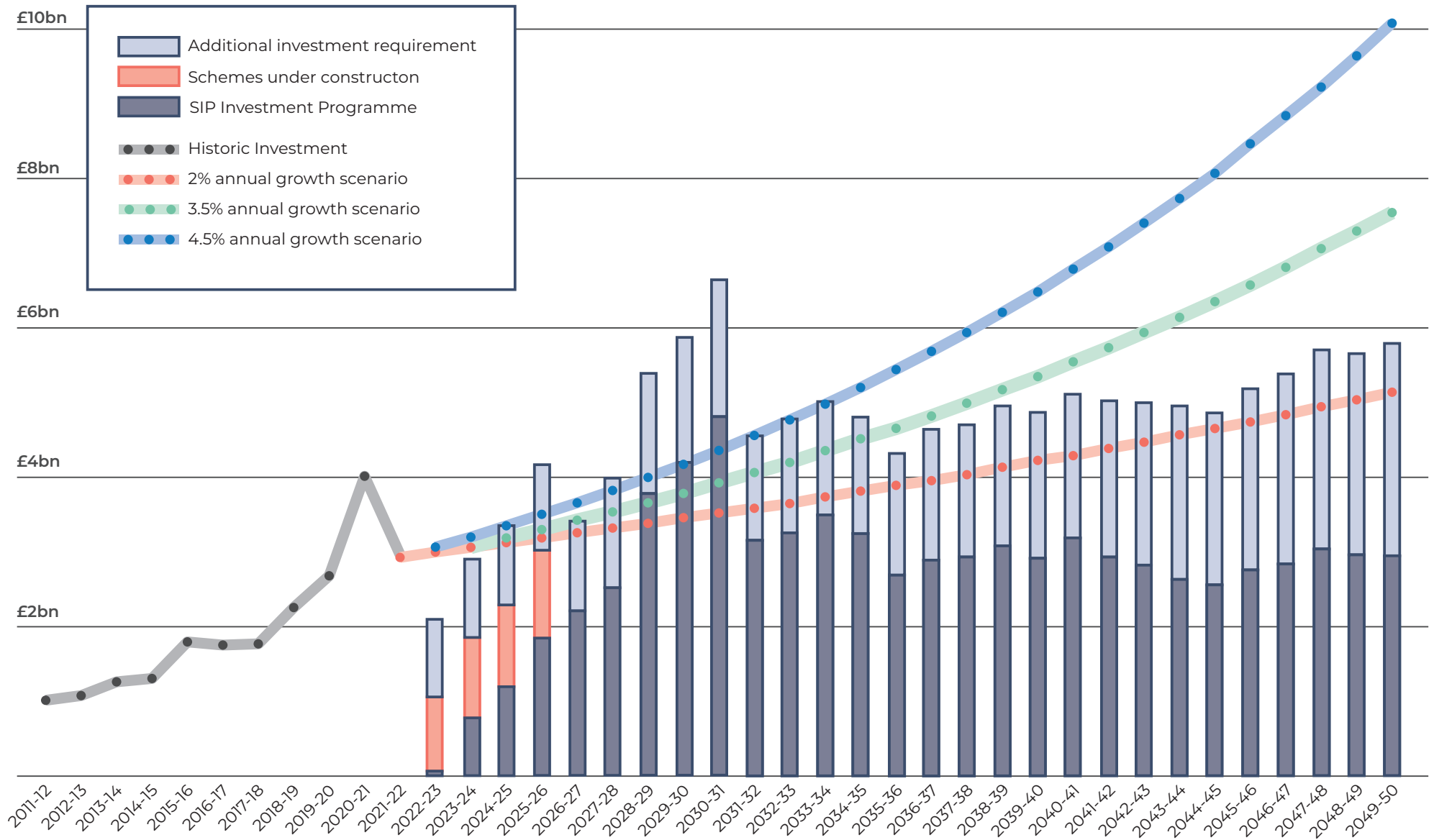
The future quantum of government funding that will be allocated to transport infrastructure (beyond current spending plans) is, of course, unknown – although historical trends can provide some indication.

Figure 9 compares the proposed future investment in transport in the South East (the SIP and assumed additional local expenditure) with illustrative future growth scenarios based on actual levels of Government spend since 2011-12. This suggests that, even if spend were to grow at a slower rate than the historic average, the majority of the overall core programme (as well as much of the indicative ancillary investment) could theoretically be supported within an illustrative envelope of potential future central funding.

More detail about how we have developed Figure 9 is provided in Appendix C.



Figure 9: Indicative investment requirement and historic and projected spend profiles



# Funding the investment programme

## 1. Enhancements to existing strategic networks

Around 80% of the identified investment required in the SIP will be spent on much-needed enhancements to the existing highways and rail networks, designed to improve connectivity to, from and within our region.

### Rail enhancements

Today, roughly half of the underlying government funding for rail expenditure is raised directly from passengers (fares and premia paid by rail operators) and another third from consolidated government budgets (i.e. general taxpayers). This funding is used to provide direct grant payments to Network Rail, subsidies for some operators and capital grants for other major projects.

Core funding for Network Rail is provided in five-year Control Period settlements, whereby a Statement of Funding Available (SoFA) sets a funding envelope to deliver the outputs specified in the High-Level Output Specification (HLOS). The Rail Network Enhancements Pipeline (RNEP) is a periodically-updated list of enhancements that Network Rail is expected to deliver within each Control Period. Interventions within the South East fall within Network Rail's Southern region.

Going forward, there may be changes to how funding is allocated and spent as a result of the Government's emerging plans to replace Network Rail with Great British Railways; however the Williams-Shapps Review states that five-year settlements will continue to be agreed with the new organisation. Accordingly, we expect the funding for most rail enhancements and renewals within the SIP to follow this pattern.

There is, however, likely to be a growing emphasis on considering ways in which non-grant funding sources can contribute to the delivery of rail enhancements – or elements of such interventions. Major interventions such as HS2 and Crossrail have shown that certain components – such as station works or rolling stock – can potentially lend themselves to alternative funding and financing arrangements.

Network Rail has also been encouraged to consider leveraging its property portfolio to support intervention delivery and to consider options for introducing private capital into its projects. As part of the 'Market-Led

Proposals' initiative, private companies, local authorities and Local Enterprise Partnerships can apply for funding for rail infrastructure projects that are not identified or prioritised for Control Period funding. Market-Led Proposals which include alternative sources of funding may be more attractive to Network Rail and DfT as they help reduce the burden on the general taxpayer.

See Worked Example 1 – Crossrail – Extension from Abbey Wood to Dartford/Ebbsfleet.



## WORKED EXAMPLE

### Crossrail – Extension from Abbey Wood to Dartford/Ebbsfleet

Kent, Medway, and East Sussex - Classic Rail Package

#### Description

The opening of the Elizabeth Line (Crossrail) will provide fast, frequent services into central London and Heathrow from a number of locations to the east and west of London. Despite earlier variations of the scheme proposing a longer alignment, services in the south east will terminate at Abbey Wood in the London Borough of Bexley.

In 2016, the Crossrail to Ebbsfleet (C2E) Partnership was formed as an informal group of local authorities and transport agencies to promote options for the corridor east of Abbey Wood into Kent, to make the most of new Elizabeth Line services, as well as supporting the delivery of new homes and jobs.

Following a detailed study of a range of options using £4.85m of funding from the Department for Levelling-up, Housing and Communities (DLUHC) in 2021 a Strategic Outline Business Case was submitted to Government setting out three preferred schemes to support ambitious and sustainable housing growth and regeneration in the Bexley Riverside – North Kent corridor.

Of the three options being considered as part of the study, two involve enhancing the Elizabeth Line to provide more direct rail services from London to Ebbsfleet, Northfleet and Gravesend. In each case, some sections of additional track would need to be built, in addition to junction works, enhancement of existing stations and building new stabling facilities.

The DLUHC and the DfT are currently considering the Business Case.

For the purposes of the SIP, a cost of £2.6bn - £3.2bn is assumed for this scheme, to be delivered between 2023 and 2028, although we note there are a range of different options under consideration in the Business Case, some of which may involve a higher cost.

## Funding and financing options

The proposal, at SOBC stage, has identified three potential delivery leads ranging from TfL, Network Rail (or Great British Railways in future) to a Special Purpose Vehicle (which would be a blend of the former two options with private sector input). The different approaches have different strengths and weaknesses and would be developed if the scheme case is developed to Outline and Full Business Case stages.

Were Great British Railways to be the delivery body (recognising that much of the works are on the existing north Kent Line), then DfT will need to accept the project into the **Rail Network Enhancements Pipeline (RNEP)** and the project will then progress through RNEP's five stages before government funding will be committed.

As a major, complex (and capital-intensive) cross-border scheme with wide-ranging potential benefits, a wide range of funding sources could play a role beyond central Government grant funding for the railways, as part of a bespoke package.

This might include Government funding from **broader programmes** that recognise the potential of the scheme to contribute to national housing, economic and environmental objectives (e.g. the Housing Infrastructure Fund or successor programme). It is notable that the Department for Levelling Up, Communities & Housing was the key sponsoring department for the recent Abbey Wood to Ebbsfleet Connectivity Study.

A **contribution from London** (the Mayor, GLA and TfL) could also be considered, as the scheme features in the Mayor's Transport Plan - recognising its cross-border geography and the potential to catalyse economic growth in London. While the Mayor and the GLA have certain revenue-raising powers available to them (as seen with the implementation of a Mayoral CIL and business rate supplement to support Crossrail), agreement to extend these and divert them to the scheme will be required, and this would be challenging in the context of TfL's difficult financial situation and the additional time and funds required to deliver the Elizabeth Line itself.

Potential mechanisms for a **local contribution** from the C2E Partnership authorities (linked to the growth unlocked by the scheme) have been identified as part of the recent study. These include existing budgets and tools, as well as new/innovative approaches to capturing the value of development and the expected uplift in nearby land values. Such mechanisms may have a role to play but would present significant challenges of political and community acceptability and equity – and some are likely to require broader (e.g. national) reform to be successful.

## Highways enhancements

Funding for SRN highways interventions is generally provided by DfT to National Highways and allocated as part of the Road Investment Strategy (RIS) process.

The underlying funding comes from consolidated government budgets (although, since 2020, the Government has committed to hypothecating revenues raised through Vehicle Excise Duty (VED) to investments in the roads network). The taxes and duties levied directly on road users significantly exceed the equivalent expenditures. In 2021, Fuel Duty raised around £25 billion, while VED accounted for around £5 billion. In the same year, overall roads expenditure in England was about £10 billion.

While we expect highways enhancements to continue to be funded via established approaches in the short term, it seems increasingly likely that these approaches will not endure for the duration of the SIP period.

As more vehicles are electrified, Fuel Duty revenues are expected to fall, and alternative methods of raising revenue will need to be found. To achieve this, expanding existing local congestion and air quality charges, tolls and/or distance-based ('pay-per-mile') road user charging interventions presents the opportunity to move towards an approach whereby the usage of a vehicle (rather than its ownership) provides the basis of a contribution. This would not only provide the Government with revenues for infrastructure spending, but also address other objectives such as optimising the capacity of a finite asset, managing congestion and improving air quality.

While broad national reform is being considered, it may be likelier that more cities and regions use the powers available to them to implement road user charging systems. Cities such as Cardiff, Reading and Bristol are considering congestion charging, following the lead of London and Durham.

There are indications that cities like Birmingham and Manchester will follow London's lead in establishing Clean Air Zone (CAZ) and Low Emission Zone (LEZ) interventions, though these are subject to consultation in respect of the long-term impact of COVID-19 and the advancement of the ban on Internal Combustion Engines (ICE) vehicles.

TfSE intends to play an important role in working with the government and other stakeholders on developing potential future options for road user charging. This includes influencing the direction of any national reform, supporting local partners in developing solutions for specific geographies, and more broadly ensuring that revenues from any future interventions can be efficiently and equitably applied to support priority capital interventions in the South East.

See A34 junction and safety enhancements worked example.



## WORKED EXAMPLE

### A34 Junction and Safety Enhancements

Wessex Thames - Highways Package

#### Description

The A34 is a major highway running for over 150 miles from the A33 and M3 at Winchester in Hampshire, to the A6 and A6042 in Salford, Greater Manchester. It forms a large part of the major trunk route from Southampton, via Oxford, to Birmingham, the Potteries and Manchester.

Alongside the M3 and M4, the A34 is a significant corridor upon which the Wessex Thames area is dependent for passenger and freight movements.

This scheme is made up of a series of improvements (lanes, slip roads, junctions etc) on the A34 within the TfSE geography.

The scheme includes climbing lanes for larger vehicles on hills, remodelling of the A34/A303 junctions and capacity enhancements of A34/M3 junction.

For the purposes of the SIP, a cost of around £800m is assumed for this scheme, to be delivered between 2029 and 2033.



## Funding and financing options

Although a relatively large package of interventions in terms of cost and geographic coverage, the individual upgrades themselves are considered to be relatively small-scale, 'standard' and may in practice be delivered incrementally rather than in one go. Some may require bespoke delivery models, e.g. where new climbing lanes required third party land.

As an SRN scheme, there is no reason to suggest that the programme of works would be delivered other than as part of existing arrangements through the National Highways' Roads Investment Strategy. This would of course require National Highways and the Government to prioritise the scheme, and TfSE can support this outcome.

The sources of the underlying funding for the Roads Investment Strategy are expected to change over time, as revenue from conventional roads taxes reduces and is replaced, potentially, with income from new user charging regimes. Our working assumption is that whatever the mechanism for raising this underlying revenue from road users, the proceeds will continue to be reinvested – at least in part – in the highways networks.

Alternative delivery models have in the past had a role to play in highways schemes. Design, Build, Finance and Operate (DBFO) is a prominent example of this and involves entering a contractual arrangement (concession) with a private entity to operate and maintain a specified route for (usually) 30 years, as well as deliver a programme of enhancements. The enhancement works are financed by the concessionaire, who is then repaid via a fee over the length of the contract period (linked to performance and/or road usage).

DBFOs and other variations (e.g. Design, Build, Finance and Maintain, Public Finance Initiative) are no longer within government policy for centrally-funded infrastructure projects, and therefore unlikely to be deployed on schemes such as the A34 programme.

Local authorities are able to use private finance models; however, they are typically only appropriate where there is an objective to outsource long-term operations and maintenance, as capital elements are often more cost effectively financed from conventional PWLB borrowing.

## 2. New strategic infrastructure

Major new infrastructure projects that deliver transformational connectivity enhancements are often funded via bespoke arrangements outside of the established approaches. HS2, for example, will be almost fully funded by Government outside of the normal Network Rail Control Period settlement.

For some new infrastructure (such as a bridge or tunnel) on an existing network, part of the funding package can involve seeking to recoup some of the costs from users. When it opens, the Silvertown Tunnel will have a free-flow charging system (which will also apply on the Blackwall Tunnel), for example. The Dartford Crossing, M6, Mersey Gateway and Humber Bridge are further examples of this approach. Tolls are appropriate in these situations as there is a tangible gain to users for which they are prepared to pay.

A further feature of user charges is that the prospect of a relatively-predictable (and therefore 'bankable') revenue stream can – in certain circumstances – introduce the potential to consider a range of procurement and financing structures (public and private), to both bridge the timing gap between construction expenditure and the realisation of their benefits, and to share some of the risks of delivery and operation.

There is generally no shortage of finance available for investment in such interventions, with government-backed sources such as the Public Works Loans Board (PWLB) and the new Infrastructure Bank, as well as strong market appetite for private capital and concession or availability procurement models.

We anticipate that user charging will be a consideration for a variety of interventions included in the SIP where the conditions are appropriate to do so. We will work with intervention developers to consider the wide range of options.

See A27 Worthing (long term solution) worked example.



## WORKED EXAMPLE

### A27 Long Term Worthing Solution

Solent and Sussex Coast –  
South Coast Highways Package

#### Description

The A27 through Worthing and Lancing is used for local journeys but is also an important route for long-distance traffic.

Despite some improvements along the route in recent years, there are many long-standing challenges around capacity, delays, journey time and reliability, safety and environment.

As a result of these difficulties, traffic diverts away from the A27 to alternative routes that are less suited to high volumes. Additionally, bus and active travel journeys are held up by congestion in Worthing.

A number of options for the corridor have been put forward, and National Highways plans to hold a public consultation later in 2022.

A potential “long-term” solution is the construction of a new stretch of road, much of which would be within a 4-5km tunnel, potentially making it the longest road tunnel in the UK.

For the purposes of the SIP, a cost of around £2 billion is assumed for this scheme, to be delivered between 2045 and 2050, although this figure may vary as it is highly dependent on detailed design, especially if the solution were to involve a tunnel which would have options for different lengths and configuration (e.g. single or multiple bore).

## Funding and financing options

As an SRN scheme, the government-funded National Highways' Roads Investment Strategy would be the 'default' funding source for the scheme. However, new pieces of infrastructure such as tunnels or bridges that have a transformational impact on connectivity can be suitable for consideration of discrete user charges in the form of tolls.

To prevent unintended traffic movements, in some cases existing crossings as well as new ones are tolled. In relation to the Mersey Gateway, for example, both the new bridge and the existing Silver Jubilee Bridge are tolled and in relation to the Silvertown Tunnel both the new tunnel and the existing Blackwall Tunnel will be tolled.

The future value of the tolls can be used by the authority to finance borrowing (e.g. from the PWLB) to fund construction activity. Alternatively, a privately-financed construction or construction plus operations/ maintenance (e.g. a PPP or DBFM) can be let, with the toll revenues used to pay the contractor. This model is used for both the Mersey Gateway and Silvertown Tunnel, where the toll revenues are or will be used to help meet the contractual payments to the special purpose vehicle responsible for the design, build, finance, operations/ maintenance of the new crossing.

The public sector (government department or statutory transport authority) will normally remain the party with the legal power to levy a toll and the responsibility for setting the price. Revenue and demand risk in relation to tolling remains with the public sector.

On the Mersey Gateway, the responsibility for physically collecting the toll revenue has been transferred to the SPV operating the crossing, which acts as the agent of the local authority in collecting the tolls. On Silvertown Tunnel the responsibility for collecting the tolls is through a separate contract, and the SPV is only required to provide 'passive' infrastructure (i.e. the gantries for the cameras).

It is potentially possible to pass demand risk to the private sector under a concession model, but generally for a new crossing the market is not willing to take this risk without impacting value for money. Revenue and demand risk in relation to tolling remains with the public sector.

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### (3) Local and mass transit

Funding for local transport and urban mass transit solutions is generally very context-specific and accordingly does not fit within established modal regulatory funding settlements. The guided busway system in Cambridge, for example, was paid for by a combination of Government grant, local developer charges and operator contributions.

Mass transit interventions are good examples of where TfSE can support its stakeholders in identifying and developing funding and financing solutions that reduce the call on traditional sources.

There are some tools already available in local settings to monetise and capture project-specific benefits – but they are relatively limited, because they account for a small proportion of the total value that is created, and only rarely deliver this back to delivery bodies, especially at the local level.

In recent years there has been a growing recognition of the need for new approaches that seek to more efficiently and ‘smartly’ monetise a share of the benefits that projects deliver for a wider range of beneficiary groups other than just national taxpayers and passengers. These mechanisms seek to align the funding of projects with the value that they create, in a way that the standard tax system does not, while simultaneously reducing the call on conventional budget funding.

Examples include:

- The Greater Manchester Transport Fund – including the expansion of Metrolink – is part-funded by a Council Tax levy that monetises a share of benefits to residents.
- Crossrail is part-funded by the London Business Rate Supplement that monetises a share of benefits to businesses, and by the Mayoral Community Infrastructure Levy (CIL) that monetises a share of benefits to property developers.

- The Northern Line Extension is part-funded by developer contributions intervention and an Enterprise Zone, as well as by incremental business rate receipts received by two London boroughs.
- In Nottingham, a Workplace Parking Levy raises funds for the local authority to contribute towards financing a new tram system and redevelopment of the conventional rail station.
- Each of the mechanisms above is very context specific. Many are currently only available to established political geographies (such as Mayoral Combined Authorities) which have access to devolved funding powers. They therefore are not currently available in the South East.



However, over the course of the SIP's multi-decade investment horizon, and as the devolution agenda continues to evolve (for example with the establishment of new Mayoral Combined Authorities and 'county deals'), it is conceivable – and indeed may be necessary – that innovative new funding mechanisms will form part of future funding deals for major transport interventions.

Mechanisms that may play such a role in the future delivery of the SIP include:

- The diversion of incremental revenues from existing taxes or charges in specified locations, e.g. the CIL, business rates, Council Tax or Stamp Duty.
- Increased rates, or other enhancements, to existing taxes and charges such as a Council Tax precept, business rates supplement or a supplementary CIL.
- New local charging mechanisms, such as a betterment levy or 'transport premium charge' (TPC), or land pooling or sharing the proceeds of development rights.

There is also an opportunity to look at funding reform beyond the prism of specific interventions or modes. For example, there is a growing trend for broader 'growth deals' with government whereby a package of investments is agreed that might stretch beyond transport to, for example, housing delivery, and in return unlock either matched funding and/or access to wider revenue-raising powers at a local level.

See South East Hampshire Rapid Transit Worked Example.

Appendix C provides further detail about some of these alternative funding mechanisms.

## WORKED EXAMPLE

### South East Hampshire Rapid Transit

Solent and Sussex Coast -  
South Hampshire Mass Transit Package

#### Description

The South East Hampshire Rapid Transit network is a series of interventions aimed at making public transport more accessible, efficient and popular in Portsmouth and the surrounding area.

It includes the Eclipse Bus Rapid Transit (BRT) system which currently runs on 4.5km of dedicated track between areas in Gosport and Fareham, as well as lanes that are dedicated to buses, and technology which gives priority to buses at junctions.

There is an ambition to expand Eclipse / a BRT system from Gosport to Fareham, Welborne and Portsmouth. Based on analysis undertaken by the authority in 2018-19, it was hoped that the South East Hampshire Rapid Transit network would eventually serve 14 large development sites which will together deliver 17,750 new homes and 306,000 sqm of employment floor space – comprising 42% of new dwellings and over 72% of new employment floor space in the Portsmouth city region to 2036.

Following consultation with local stakeholders, the SIP includes works associated with the following corridors: City Centre – Havant, City Centre – Waterlooville, City Centre – Fareham, Fareham – Gosport, Havant – Waterlooville, Fareham – Welborne and Fareham – Whiteley.

For the purposes of the SIP, a cost of around £500m is assumed for this scheme, to be delivered between 2030 and 2032.

## Funding and financing options

The scheme provides a good example of the way in which bespoke funding packages are often developed to support local and mass transit projects.

The first phase of the Eclipse BRT route received funding in 2012 from central government (£20m through the Community Infrastructure Fund), Hampshire County Council (around £4m) supported by Local Transport Plan grants, and developer contributions (around £0.5m). Additionally, the operator, First Group, invested £2.8m in new vehicles and marketing.

An extension to the Eclipse network in 2021 followed a similar pattern. It was funded by £6.93m from DfT's National Productivity Investment Fund, £1.4m from the Transforming Cities Fund and £3.27m from Hampshire County Council. In addition, First Bus has committed to investing £3.8m in a new bus fleet.

Future extensions will likely follow a similar pattern of joint funding by various partners. Local authorities will have a key role to play, recognising the localised nature of much of the benefit generated; however their capacity to contribute will continue to be constrained by the revenue-raising powers that are available to them. From a private sector perspective, the performance of the existing network suggests that there may be further future operating surpluses – although the relative contribution of this will be subject to both commercial arrangements and future patronage levels.

Certain ancillary revenues may, in certain circumstances, play a role in a bespoke package for the scheme. These include Over-Site Development (OSD) and other real estate opportunities at stops and termini, depending on the ownership of the land in question. Commercial and retail income (e.g. kiosks at stops and termini) may also contribute but are likely to be relatively modest in terms of overall costs. Other options could include offering EV charging points if synergies with the BRT infrastructure allow these to be delivered cost effectively.

## 5. Active travel infrastructure

Active travel (walking, wheeling and cycling) infrastructure is different to other types of transport infrastructure in that it is effectively free to use and does not involve user contributions.

Active travel infrastructure is generally delivered and paid for by local authorities (although there are some exceptions such as National Highways' dedicated Cycling, Safety and Integration Fund). Local authorities are encouraged to develop Local Cycling and Walking Infrastructure Plans (LCWIPs) to coordinate the delivery of active travel programmes.

To deliver this infrastructure, local authorities can use their core discretionary sources of revenue, with a particular role for developer contributions from CIL and Section 106 agreements where the infrastructure in question supports wider development programmes.

More commonly, local authorities bid into government grant programmes to help fund active travel. There have been dedicated programmes such as the Active Travel Fund, Places to Ride Programme, Bikeability programme and Cycle Ambition Cities Programme. Additionally, bids are made into programmes with broader transport or regeneration objectives. The Local Growth Fund, Stronger Towns Fund, the Levelling up Fund, the Future High Streets Fund, the Transforming Cities Fund and Housing Infrastructure Fund have all been used to support active travel and cycling.

Going forward, the Government has committed to streamlining the process for accessing funding for active travel infrastructure as part of the 'Gear Change' strategy. In January 2022, a new executive agency of the DfT, Active Travel England (ATE), was established to – amongst other things – coordinate £2bn of new government funding in this area.

While the quantum of available funding may change, as will the way it is distributed, the Government's new strategy is clear that responsibility for delivery will remain with local authorities. TfSE's role in promoting active travel and cycling interventions will be to support local authorities engaging in this process. Additionally, to the extent that interventions cross local political boundaries, there is a role coordinating between local authorities.

See the Avenue Verte worked example.



## WORKED EXAMPLE

### Avenue Verte

London - Sussex Coast – Active Travel Package

#### Description

The Avenue Verte is a 247-mile cycle and walking route starting at the London Eye in London and ending at Notre Dame in Paris, passing through Surrey, West Sussex and East Sussex and crossing the Channel via the Newhaven – Dieppe ferry.

The route is a mixture of on-road, mainly quiet lanes, and traffic-free stretches on old railway paths and riverside routes.

The scheme envisaged in the SIP would involve a series of enhancements and extensions to the network by way of wayfinding across minor roads, safety interventions at junctions, some new cycleways where the route runs on busier highways, and potentially the conversion of part a disused railway.

For the purposes of the SIP, a cost of around £70m is assumed for this scheme, to be delivered in the 2030s.

## Funding and financing options

Historically, cycling and walking infrastructure has been delivered and paid for by local authorities. In some cases, local authorities have been able to part fund investments in active travel by successfully bidding into government grant programmes, some of which (such as National Highways' dedicated Cycling, Safety and Integration Fund) have been specifically designed for this purpose.

With large-scale and cross-border schemes such as the Avenue Verte, while we expect responsibility to remain with local authorities, there may be opportunities to consider alternative approaches.

Firstly, the Government has committed to streamlining the process for accessing funding for active travel infrastructure as part of the "Gear Change" strategy. In January 2022, a new executive agency of the DfT, Active Travel England (ATE), was established to – amongst other things – coordinate £2bn of new government funding in this area. This reflects a growing emphasis on active travel as a means of improving health outcomes and supporting the decarbonisation of transport and may lead to a different approach to the provision of funds for local areas.

Secondly, in common with other forms of locally-delivered transport, the funding options available to local areas may expand as a result of future devolution of revenue-raising powers and decision-making responsibility.

Finally, although active travel is unlikely to be appropriate for user charges, there are innovative options that could be considered such as the potential opportunity to lay ducting along cycleways which could be used for fibre or other utilities. Liverpool has a "Dig Once" programme which does exactly that, supported by a joint venture for fibre.

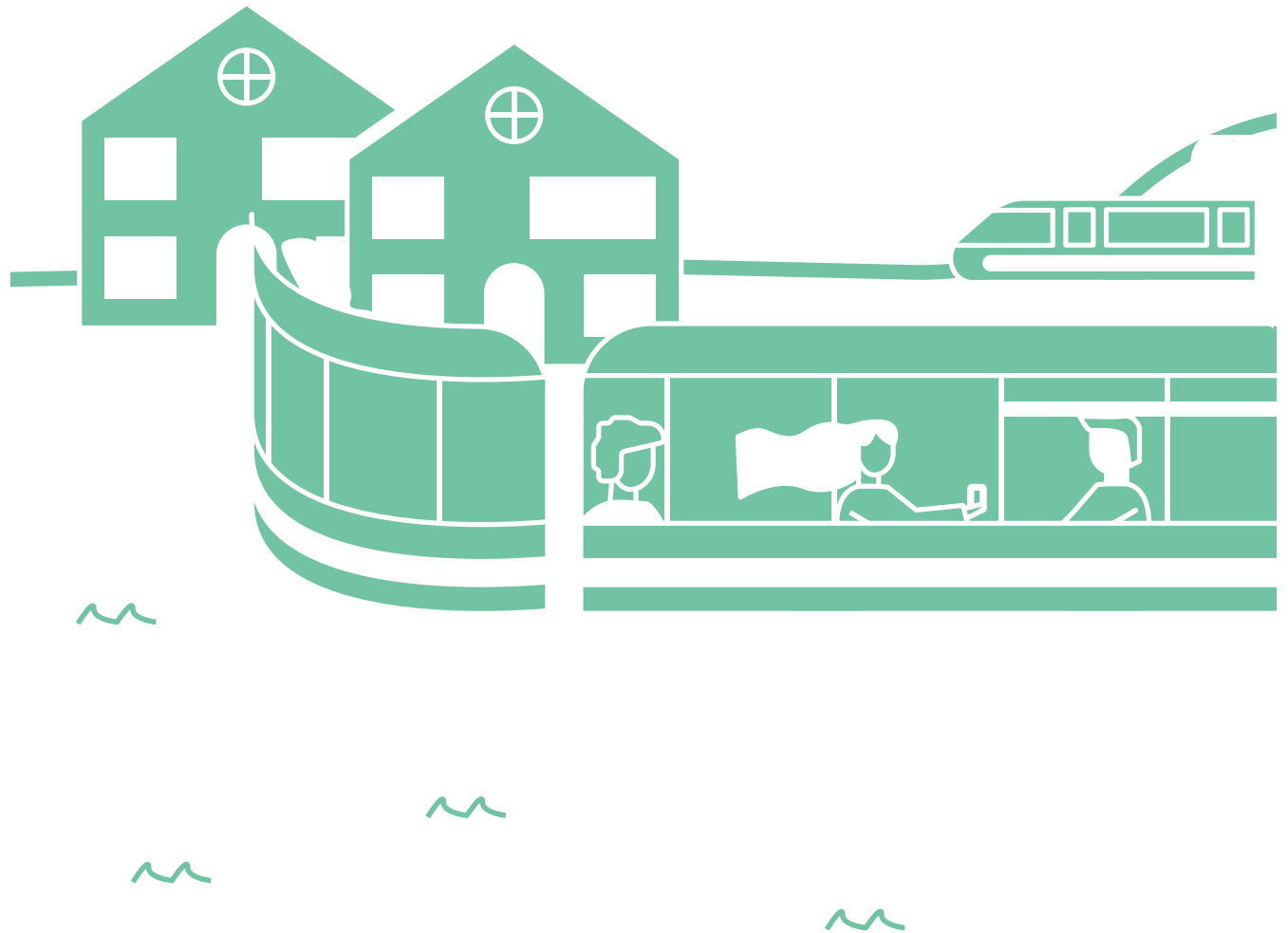
## 6. Ports and maritime

In the UK, the majority of ports and shipping operations are provided by private enterprises, with little public sector financial support.

The only exceptions to this are where services provide a 'lifeline' (i.e. transporting fresh food), such as the Hebridean ferry service in Scotland which has public ownership of vessels as a protection against operator failure.

Commercially viable ferry services, such as from mainland England to the Isle of Wight, are privately run. Fares, as well as service frequency and quality, are generally determined by the ferry operator, and based on commercial viability rather than regulatory requirements. Improvements to such services, including the delivery of new assets such as quays or shops, is therefore a private matter.

See Isle of Wight ferry service enhancements worked example.



## WORKED EXAMPLE

### Isle of Wight ferries

#### Solent and Sussex Coast – Isle of Wight Package

#### Description

The Isle of Wight is served by three main ferry operations: Red Funnel, Wightlink and Hovertravel. Although there is some competition between operators, in practice this is limited.

During the pandemic, parts of the UK's competition laws were suspended to allow the ferry companies to work together to maintain minimum service levels. This was revoked in 2021.

The scheme envisaged in the SIP includes increased frequency and longer operating hours on existing routes, a new route between Ryde and Southampton (requiring three or four vessels) and improved integration with public transport networks on both the island and the mainland.

It is assumed there will be no requirement for new port infrastructure.

For the purposes of the SIP, no costs have been accounted for as it is assumed any investment will be privately sourced. This is based on the assumption that the current non-regulated and non-subsidised commercial market will continue to operate.

## Funding and financing options

The ferry companies serving the Isle of Wight are private for-profit entities operating in a **non-regulated, commercial market**, with no oversight of government (e.g. Public Service Obligation), central or local.

No subsidy is provided, and only in particular circumstances does Government provide support, such as during the Covid pandemic and as part of the 2021 Maritime Accessibility Fund (from which both Wightlink and Red Funnel were awarded around £300k to make upgrades to the accessibility of their services).

In 2009, the Office of Fair Trading concluded that under this non-regulated framework, operators deliver “a fairly comprehensive, year-round service” and more recent Government pronouncements have indicated that this arrangement is unlikely to change.

Although revenue support (and some form of service obligation) may be implemented in the future, it is assumed at this stage that no public funding will be provided to support the addition of new services. On the basis that services are commercially viable with higher demand, it is assumed that the costs of increasing frequencies would therefore be **recovered by the operators through fares**.

If new ferries were to be required to meet the increase in service patterns, the costs of doing so (either purchased outright or using lease arrangements) would also be **borne by the operator**. For example, when Red Funnel commissioned a new ro-ro freight ferry from the UK shipbuilder Cammell Laird in Birkenhead (designed to provide additional year-round freight capacity for the Southampton-East Cowes route which handles 53% of all freight movements across the Solent), the ship, at a cost of £10m, was financed by the company.

## TfSE's role in supporting the 'funding journey'

In the absence of a major restructuring of TfSE into a delivery body with revenue raising and borrowing powers, it is highly likely that financing and risk management will continue to be for other parties, including DfT, Great British Railways and National Highways, to manage (either directly or via private finance and related mechanisms). The way we will interact with these key stakeholders is set out in the next chapter.

In particular, we are open to exploring ways in which TfSE can support funding and financing solutions – especially in terms of:

- developing business cases;
- assessing the broad spectrum of procurement routes (including those that lend themselves to private finance);
- helping identify and secure a broad range of funding sources for interventions (including thinking creatively about commercial revenues, user charges and new value-capture charging mechanisms); and
- supporting the efficient and accountable flow of funds to the interventions for which they are required.

While TfSE's working hypothesis is that established and conventional funding and financing solutions will be the most common avenue for paying for the interventions we have identified (at least in the earlier phases of the programme), this does not always have to be the case.

The reliance on conventional sources is driven not by lack of ambition, but by the fact that neither TfSE, nor the local authorities and transport authorities we speak for, have many alternative options available to us.

While we accept that devolution is a highly-complex matter, the fact of the matter is that places such as London and Greater Manchester, which have greater freedom to raise revenue locally, are in a position to deliver more ambitious programmes of transport investments, and to drive their own strategic direction in terms of how and where the funds are spent.

The history of devolution in the UK has demonstrated that the more funding levers that are provided to local places, the more capacity there can be to move away from user funding and grant and towards a genuine beneficiary-led approach.

This includes tapping into windfall gains for developers, landowners and businesses – for example through mechanisms such as strategic infrastructure tariffs, business rates supplements and council tax precepts (all of which are available to authorities in the UK with the greatest levels of funding and decision making devolution).

We recognise that with funding responsibility come challenges and risk. Places which have been given funding powers still need to take their communities along with them on the journey – as seen with the congestion charging proposal in Greater Manchester rejected in a referendum, or the difficulties in progressing future business rates supplements presented by the requirement for a ballot of affected businesses.



Furthermore, moving towards a genuine beneficiary-led approach needs to recognise that (regardless of the level of devolution) different interventions and different places have different degrees of potential for local value generation (and capture), and there will also be important differences between them at any one time and over time. The type or location of an intervention can determine the potential level of local contribution and potential requirement for funding from central government.

For example, urban mass transit interventions in London and other major cities can potentially deliver the best against this objective owing to strong and resilient property values that respond to connectivity enhancements, local control of public transport fareboxes, devolved funding powers and the strength and size of the local economy. In places where the potential to generate value uplift is more limited (e.g. where land values are low or because the powers available to generate revenue are limited), funding reform may not be suitable and the solution will instead require continued grant funding or, potentially, leveraging alternative user pricing mechanisms.

TfSE's SIP, which has at its heart broad socio-economic and environmental objectives in addition to improving access and connectivity, can be considered relatively 'low down' the continuum shown in Figure 10 due to the devolution situation, with progress potentially slow and therefore possibly dependent on broader transport pricing reforms. While we believe our programme will generate significant local value uplift, the means of leveraging it are scarce.

The challenges of moving up that continuum are complex, but TfSE would welcome a dialogue with Government around options for the future, because the potential prize is reduced reliance on centrally-derived funding, which we suspect is desirable for all.

While we want to optimise the role of a beneficiary-led approach within the South East, the approach needs to be consistent with funding strategies that are being developed for programmes elsewhere in the UK in the interest of having demonstrable fairness between places and regions. We look forward to working with our partners, including other Sub-national Transport Bodies, to make this a reality.

