



Grant Thornton

# Funding Scottish Transport

Funding Road and Rail

2 October 2008

# Agenda

- Introduction
- Scotland's Transport Funding
- Current Funding Market Conditions
- Current Funding Options
- Ideas for Additional Funding Options
- Summary

*" The funding position has tightened considerably since the HLOS was published in 2007, mainly due to inflationary pressures and the outcome of the Spending Review 2007 which necessarily came after the HLOS"*

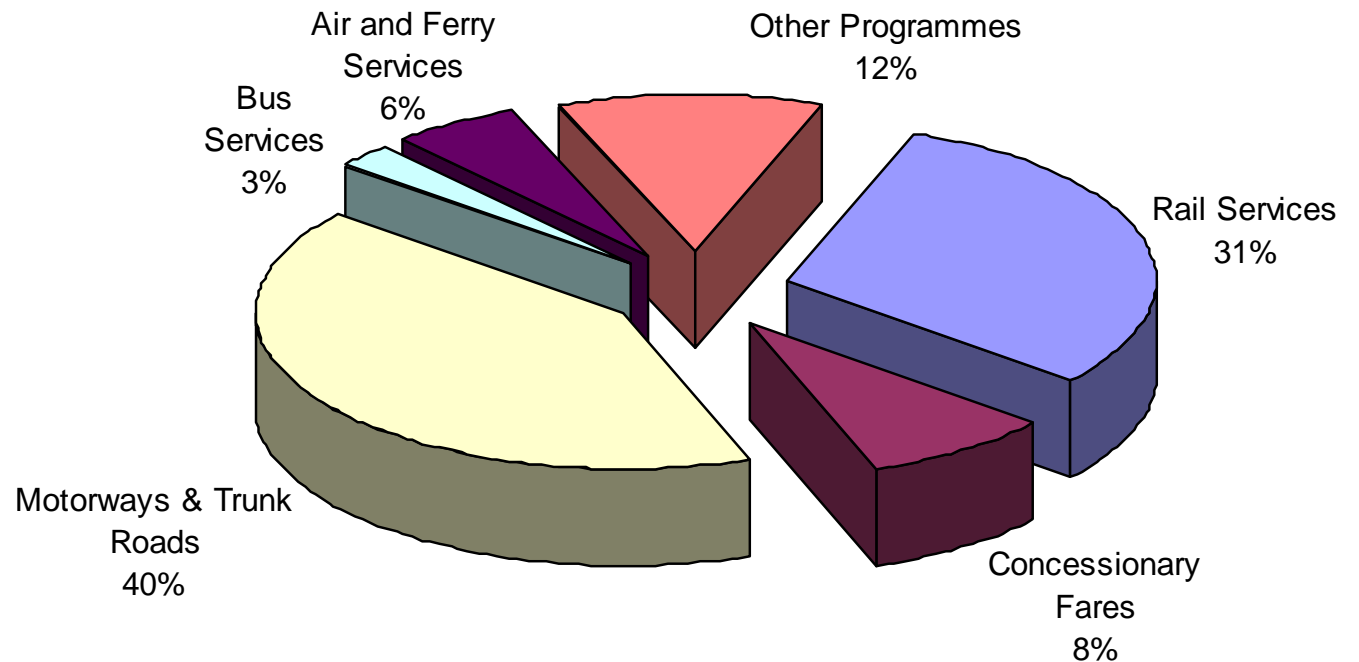
Malcolm Reed in a letter to the ORR

# Scottish Transport Funding

Total transport budget for 2008-09 of £2,258m - 1% increase from prior year

Budget to increase by 10% for 2009-10 due to funding for major rail projects

Further 3% increase in budget for 2010-11



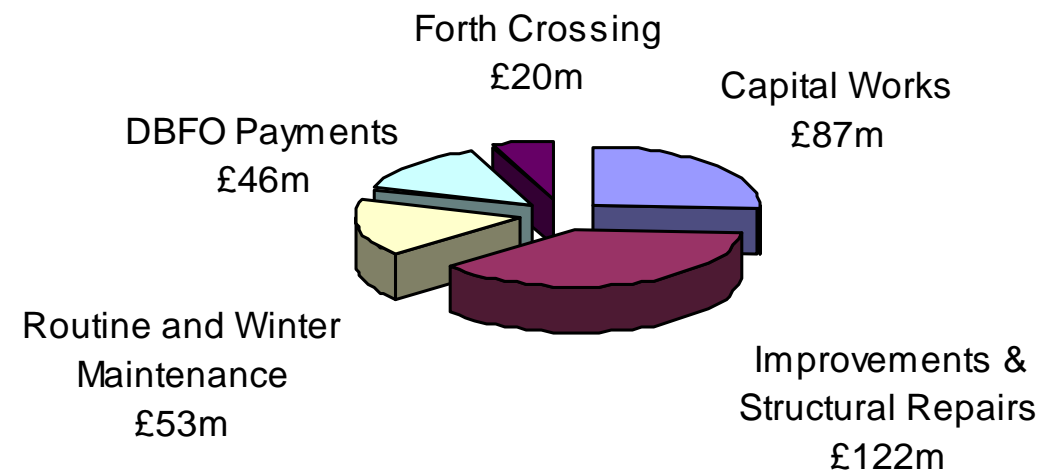
# Scottish Transport Funding - Bus Services

- Budget of £57m for Bus Service Operators Grant
- Contestable market estimated for 2008-09 as being £452m<sup>1</sup>
- Comprises £415m worth of revenue and concessionary fares reimbursement, plus £37m of expenditure by local authorities on supported services<sup>1</sup>

<sup>1</sup> Figures have been updated using an assumption of inflation at 3% from figures included in the Scottish Bus and Coach Statistics 2004.

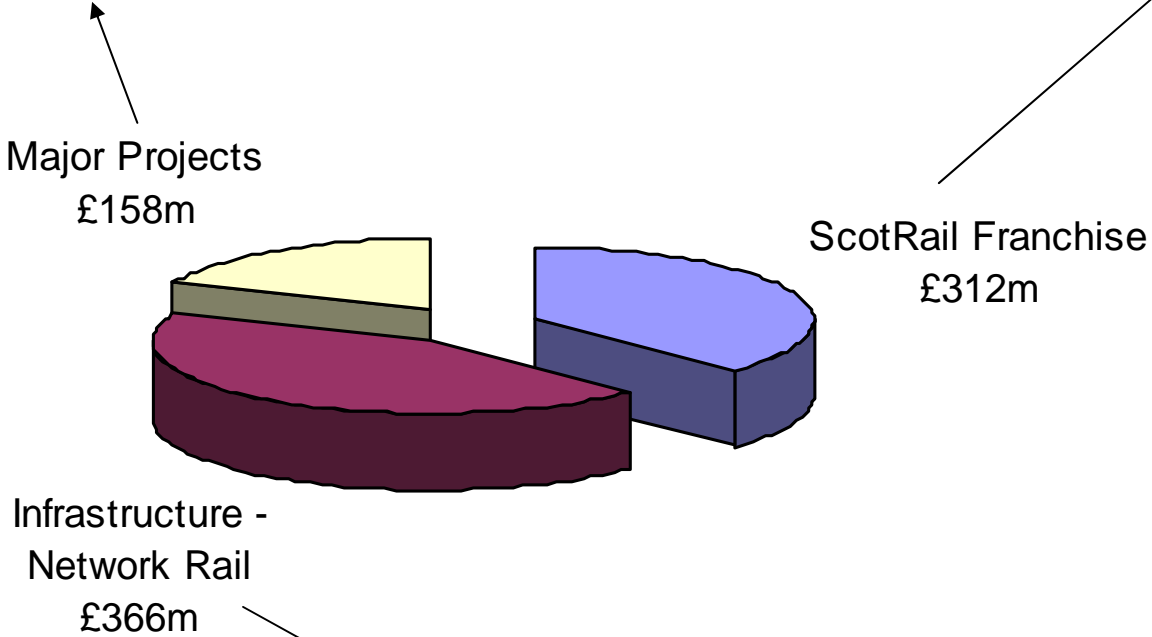
# Scottish Transport Funding - Motorways & Trunk Roads 2008-09

- Figures exclude £546.5m for cost of capital and £51m for depreciation
- DBFO payments relate to two PPP contracts:
  - A74(M)/M74, Autolink Concessionaires, until 2027
  - M77, Connect, until 2037



# Scottish Transport Funding - Rail Services 2008-09

Includes spend for delivery of major rail projects - A2B, Borders Railway, GARL



Passenger income for FSR increased:  
£183m 2006  
£199m 2007  
(9% growth)

Revenue Subsidy to FSR increased:  
£202m 2006  
£271m 2007  
(34% growth)

Efficiencies expected from 2009 of  $\approx 10\%$

# Future Planned Expenditure

<b>Expenditure</b>	<b>2009-10 Plans £m</b>	<b>2010-11 Plans £m</b>
Motorways & Trunk Roads (excl. cost of capital)	468	532
Rail Infrastructure - Network Rail	331	331
ScotRail Franchise	321	315
Major Public Transport Projects	263	231
Concessionary Fares	190	192
Ferry & Air Services	143	149
Bus Services	57	57
Other Programmes	116	106
	<b>1,889</b>	<b>1,913</b>

- Most significant increase in the budget is for motorway capital works (M74), which is to increase by 80% from 2008-09 to 2009-10 and by a further 34% to 2010-11
- HLOS Budget 2009-2014 is £3.6bn
- Forth Crossing £3.2bn?



# Current Market Conditions

- Loss of investor appetite for wrapped bond insurance
- Liquidity pressures in banking sector:
  - Exit of lenders from the market
  - Withdrawing non-credit committee approved offers
  - Re-pricing terms on which they are prepared to lend
  - Retaining flexibility: "market flex" clauses
  - Seeking club deals
- Deterioration in funding terms - see table

# Current Funding Options

- Grant
- PPP
- Leasing
- Prudential Borrowing
- 3rd Party Contributions (Developers)

# Some Ideas on Funding Options

- Rail NPDO
- Business Rates Supplement
- Fuel Duty Supplement
- Payroll Tax
- PFI Buy Back
- Sales Tax
- Community Infrastructure Levy
- Divestment

# Some Ideas on Funding Options

## Rail NPDO

	<b>First Scotrail</b>		<b>Network Rail Scotland</b>	
		<b>2007</b>		<b>2007</b>
		<b>£m</b>		<b>£m</b>
Passenger income		199	Fixed Charges	125
Revenue grant		271	Variable Charges	19
other		25	Other Single till	54
		<b>495</b>	TS Support	321
				<b>519</b>
Track Access Charges		144	Maintenance	101
Lease Costs		72	Controlable Opex	84
Staff costs		130	Non controlable Opex	23
Other external charges		38	Return on RAB	155
Raw materials & consumables		95	Amortisation	156
Depreciation & amortisation		5		<b>519</b>
		<b>483</b>		
<b>Profit/(loss)</b>		<b>11</b>		<b>0</b>

Source - First Scotrail Accounts 2007 ORR Consultation2005

# Some Ideas on Funding Options

## Congestion Charge, Pay Roll, Fuel Duty and Sales Tax

- Average conurbation
  - 2m population, 700k FTE jobs, median average salary £23k

<b>Mechanism</b>	<b>Rate</b>	<b>Est Rev pa</b>
•Business Rates Up Lift	4p	£45m
•Congestion Charge	£5	£60m
•Fuel Duty Top Up	1p	£16m
•Payroll Tax	1%	£161m
•Sales Tax	1%	£100m

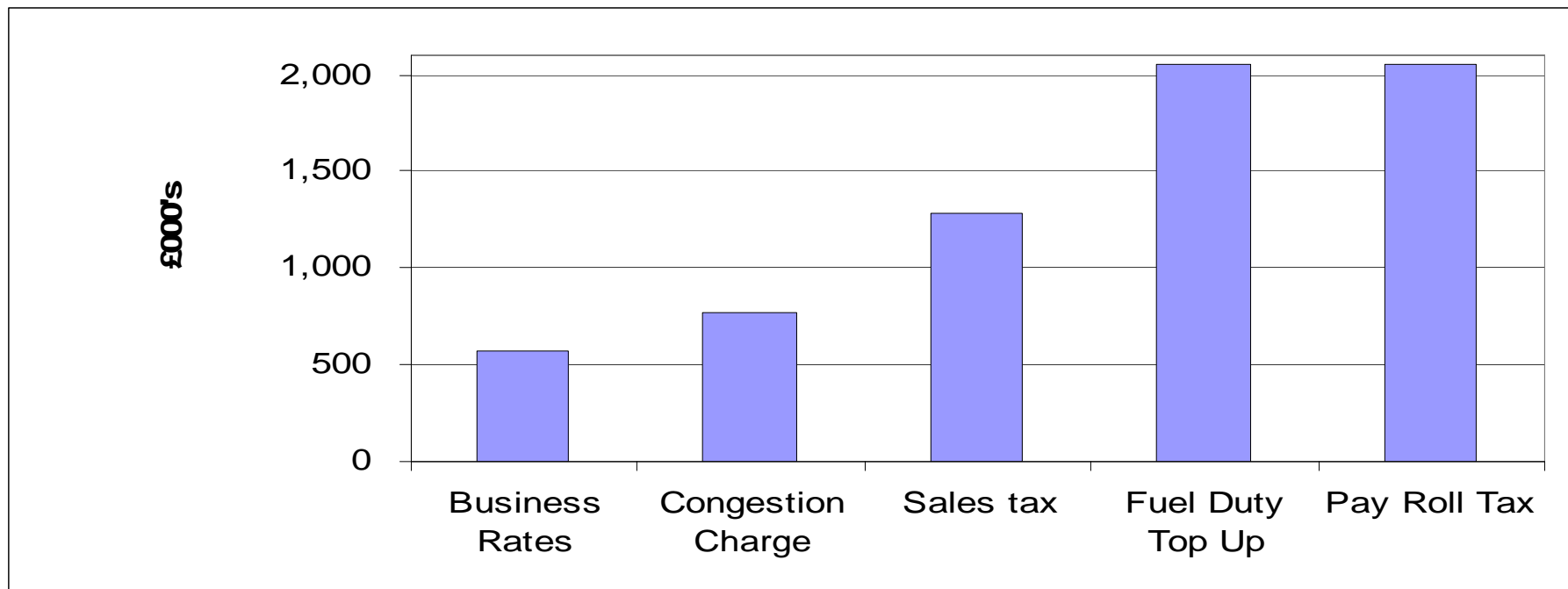
# Some Ideas on Funding Options

## PFI Buy Back

- Distressed sales? AIG sale of City Airport Sale
- Analysis of operational Roads PFI in England has shown WACC of 9-18% from 1999 to 2007.
- Operational road more like utility return ie WACC 6%-8%
- May be value in buy back and refinancing in distressed situations.
- Current annual payments £46m say funding elements 70% of total ie £32m if the buy can reduce funding costs by 5% save ~ £1.6m pa

# Some Ideas on Funding Options

## Leveraging Savings



*Assumes 20 year loan @ 4.7%*

# Summary

- Transport faces significant funding challenges in the coming years
- Current funding market conditions are placing greater pressure on Government Support for projects
- Conflicts with project risk and balance sheet objectives
- Some of the major funding sources are politically difficult