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## The Transport Innovation Fund

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### What is it?

1. The Future of Transport" (July 2004) set out our intention to establish a Transport Innovation Fund to give our delivery partners incentives to develop and deploy smarter, innovative, local and regional transport strategies. The Fund will
2.
  - 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;
  - support the funding of regional, inter-regional and local schemes that are beneficial to national productivity.
2. This paper fulfils our commitment to publish further information on the objectives and operation of the fund. More detailed guidance on the operation of the Fund will be published by the end of 2005.

## How much money is available?

3. Money from the Transport Innovation Fund will become available from 2008/09. The resources available through the Fund will, of course, be subject to such pressures as may emerge in other areas of transport spending over time. However, over the period covered by the Department for Transport's long-term funding guideline, the Fund is forecast to grow from £290 million in 2008/09 to over £2 billion by 2014/15.

08/09	09/10	10/11	11/12	12/13	13/14	14/15
£290m	£600m	£930m	£1300m	£1680m	£2100m	£2550m

## What sort of schemes are eligible?

### Smarter and Innovative Packages

4. The Future Of Transport (Cm 6234) explained how policies to promote better choices and network management, together with well targeted additional capacity, will be employed to tackle congestion. But it also explained that, on their own, such policies will not be sufficient to stop congestion spreading to longer periods in the day, and to more road users. The "Future of Transport" also explained, that the strategic choice for road users is between service levels which continually deteriorate (since we cannot build our way out of congestion) and new ways of paying for road use.
5. In that context, we wish to work alongside forward thinking authorities and areas to help them put in place packages which tackle local congestion problems. We will be prepared to use resources from the Transport Innovation Fund to support packages which combine radical schemes to tackle congestion. These packages will be expected to combine demand management with measures to promote modal shift and better bus services.
6. We are looking for packages of schemes which combine effective demand management with better public transport. The Fund will incentivise packages which go beyond soft demand management (eg travel planning, car sharing) to include such measures as road user charging. All other things being equal, we will give preference to such schemes over those which incorporate workplace parking, and in turn prioritise these over those which incorporate other forms of parking control. As the Fund grows, ultimately, up to £200m per annum will be made available to support the costs of implementing packages which include measures of this nature.
7. In the "Full Guidance on Local Transport Plans" (December 2004), the Department for Transport asked authorities interested in exploring innovative approaches to solving local congestion to submit a preliminary expression of interest by the end of January 2005; and to follow this by setting out in their bids, alongside Local Transport Plans, what the form of such a package might be for their authority. Further guidance will be issued in November/December 2005
8. As a precursor to the Transport Innovation Fund, the Department has earmarked £18 million during the period 2005/06 to 2007/08 (£3m/£5m/£10m) to support initial scheme development by local transport authorities. We will use the information provided in the provisional LTPs and additional information to be provided by October 2005 to allocate this funding between local authorities. We aim to allocate this pump-priming funding in November 2005. Guidance on this funding will be sent to local authorities in July 2005.

9. In allocating this funding we will give greater weight to schemes where the proposed demand management measures cover a larger, rather than smaller, proportion of the local transport network and where the impact of the scheme covers a wide geographical area. We will expect all proposals to have the potential to be effective in tackling congestion, so that transport can promote wider economic growth, social inclusion and environmental objectives.

## **Innovative mechanisms which raise new funds**

10. We will work with delivery partners who are willing to identify and utilise new sources of funding to deliver priority transport schemes. Money from the Transport Innovation Fund will be available to complement any new funding streams secured, where such support represents good long term value for the Funds resources.
11. In parallel with this, Michael Lyons is undertaking an independent inquiry into the local government finance system which will report by the end of the year. Part of his inquiry will assess the case both for providing local authorities with increased flexibility to raise additional revenue and for making a significant shift in the current balance of funding between local and central government.

## **Recognising the contribution some regional and local schemes can make to national productivity**

12. Some transport schemes, by their nature and/or scale, make a major contribution to the productivity of the country. Our appraisal and decision making processes take account of such factors whenever and wherever possible. This ensures that productivity benefits are incorporated into our assessment of VFM when prioritising funding, ensuring that such schemes have priority for the funding made available.
13. But such schemes will not always succeed in securing the funding required to proceed. This may be because:
14.
  - The scale of the funding involved is simply too large, overall or within an individual year, region or locality, to be accommodated;
  - In appraising a scheme, the potential to promote productivity may not be captured in full by our current appraisal methodology. Much of the impact on productivity, in particular business journey time savings, are already captured. But further national productivity effects, beyond time savings, may not. For example, a firm may gain from the transport scheme because it allows it greater access to nearby firms. The additional benefits not captured in the standard appraisal might be, for example, that increased accessibility to other firms allows them to share knowledge and operations. Firms being accessible to a larger pool of workers likewise increases productivity.
14. The resources available under the Fund will allow us to address the first of these concerns, supplementing the resources available regionally and locally to deliver large, high VFM schemes with the potential to contribute to national productivity.
15. We also propose to use the TIF to test a new approach to measuring the contribution of schemes to GDP and to capture in full those benefits missing from current appraisal methodology. Further details on how we propose that bidders should do this are set out in "Transport, Wider Economic Benefits and GDP", which will be published on the Department's website. If successful, this new approach will be applied more widely to transport appraisal.

## **What other characteristics will a Transport Innovation Fund scheme demonstrate?**

16. Bids which are allocated Transport Innovation Fund resources will:
17.
  - Make full use of other funding mechanisms (further details in paragraph 19);
  - Represent good value for money;
  - Demonstrate proper project deliverability, including a demonstrably independent and competent gateway review process that has validated project governance cost control and funding/financing mechanisms.
17. In order to produce good outcomes and improve national productivity we will expect to:
18.
  - consider only packages/schemes that are high value for money except in exceptional circumstances (using the approach described in paragraphs 20 to 22 to assess VFM);
  - give preference to packages/schemes which generate larger increases in GDP (in net present value terms) relative to costs. Other benefits, such as faster and more reliable leisure journeys and safety improvements, would be additional to the productivity impact;
  - we would, in principle, expect the beneficiaries of the project to contribute a proportion of the costs, in line with the gains that they receive. In this context, beneficiaries could be a locality or region or an industry.

## **How does the Fund relate to other resources?**

18. Where funds are sought from the Transport Innovation Fund the sum sought should represent the minimum additional funding required to deliver an eligible scheme. The Fund should not be used to offset pressures on existing budgets but to deliver radical schemes which require some additional funding to be deliverable. Further, schemes should be able to show that, without Transport Innovation Fund resources, they could not and would not be deliverable using either conventional or other funding sources.
19. To that end, packages/schemes receiving Transport Innovation Fund resources will be expected to make full use of other available sources of funding for example:
20.
  - 'National' transport budgets - It is Government's responsibility to ensure that improvements to our national strategic networks are prioritised to deliver national strategic objectives and the best possible value for money. Our presumption is that schemes seeking funding from the Fund will be able to demonstrate that they complement and add value to such national spending on our networks.
  - Other central Government spending - Bids to the Fund will, similarly, need to demonstrate that they add value to other central Government spending in an area or region, wherever possible drawing in such spending to support the implementation of the proposal or scheme.
  - Local Government revenues - Authorities will be expected to be using their existing powers to generate revenues consistent with their supporting a coherent local transport package eg. workplace parking to support better bus services.
  - Local spending - Bids to fund schemes through the Transport Innovation Fund should already be taking account of funds available through Local Authorities (including LTP funding), thereby

reflecting the wider benefits that such schemes can generate for the economy as a whole.

- Sources of Private Finance - where such an approach represents value for money throughout the schemes life Transport Innovation Fund candidates should already be seeking to involve the private sector either through a conventional PFI through local PFI credits or other innovative partnerships with the private sector.

## **Making sure we get value for money**

20. The Department is strengthening the value for money from its activities and published guidance on value for money in December 2004 in "Guidance on Value for Money" (available at [www.dft.gov.uk](http://www.dft.gov.uk)). In this context, value for money includes all the benefits and costs - including those that relate to productivity, safety, the environment and regeneration. It is based on the information from the appraisal of each individual transport projects.
21. All schemes seeking funds from the Transport Innovation Fund will be subject to an assessment of VFM which will play a key role in decisions on funding allocations, alongside other considerations such as deliverability. Factors assessed include:
22.
  - Practicality / deliverability
  - Public acceptability
  - Distributional and equity impacts
  - Affordability and financial sustainability
  - Contribution to central government, local and regional objectives
  - The amelioration of identified problems
22. VFM measures the benefits per £1 spent. Schemes that are "high" value for money have benefits that are at least twice the costs. In all but exceptional circumstances we expect Transport Innovation Fund schemes to meet that standard as well as meeting one or more of the three criteria outlined in paragraph 1.

## **How will it operate?**

23. The operation of the Fund will complement and support decision making at the national, regional and local levels. Bids to the Fund from local and regional partners will therefore be managed to a timetable that supports the annual LTP process, and the developing regional and national dialogue on spending priorities.
24. We propose to invite initial bids to the Transport Innovation Fund to be submitted before Spring 2006, with allocations made alongside Local Transport Plan decisions in Autumn 2006.
25. Payments from the fund, to national delivery agencies, local partners, or other delivery partners should be possible under existing financial support mechanisms.

## **Outline Timetable**

<b>July 2005</b>	Pump-Priming Guidance issued.
<b>July 2005</b>	Draft Local Transport Plans received with authorities interested in taking forward potential Transport Innovation Fund schemes providing initial information on their schemes in parallel to draft LTPs;
<b>Oct 2005</b>	Bids for Pump-Priming funding due.
<b>Nov 2005</b>	Allocation of Pump-Priming funding (paragraph 9);
<b>Nov/Dec 05</b>	Further Guidance on the Transport Innovation Fund issued;
<b>March 06</b>	First Transport Innovation Fund bids providing initial information submitted to DfT alongside LTPs
<b>June 06</b>	More detailed information on Transport Innovation Fund bids due
<b>Autumn 06</b>	Allocation of initial Transport Innovation Fund resources made in parallel to LTP and Spending Review announcements?
<b>08/09</b>	First Transport Innovation Fund money made available.