

Completing the Affordability and Financial Sustainability (AFS) Tables

TAG Unit 3.8.1

April 2004

Department for Transport

Transport Analysis Guidance (TAG)

Contents

1	Completing the Affordability and Financial Sustainability (AFS) Tables	1
1.1	Introduction	1
1.2	Default funding arrangements and current sources of grant and subsidy	2
1.3	Calculation of values to be used in the Transport Economic Efficiency worksheet	2
2	Further Information	3
3	References	4
4	Document Provenance	4

1 Completing the Affordability and Financial Sustainability (AFS) Tables

1.1 Introduction

- 1.1.1 In *The Appraisal Process* (TAG Unit 2.5), the role of the Affordability and Financial Sustainability (AFS) Supporting Analysis is explained. The AFS analysis is also discussed in *Major Schemes in Local Transport Plans* (TAG Unit 1.4). This TAG Unit explains how the AFS analysis should be conducted.
- 1.1.2 The AFS Tables are intended to assist analysts and assessors in their consideration of affordability and financial sustainability. Because these issues may be subject to a significant level of uncertainty for the proposals examined during studies, analysts should not be constrained by the layout of the tables illustrated in *The Appraisal Process* (TAG Unit 2.5). Analysts should not hesitate to make changes to the layout that would make the tables more useful for the study in hand.
- 1.1.3 It will usually be helpful for the information in the AFS tables to be disaggregated from the perspective of individual stakeholders as far as is feasible. Thus, for the Public Sector, separate tables are suggested to record the analysis for Local and Central Government separately. In addition, it may at times be desirable to subdivide local government to show highways separately. For the Private Sector, disaggregation of the modal information by corridor or operator should be considered.
- 1.1.4 *The Treatment of Costs* (TAG Unit 3.5.9) provides a broad overview of costs, identifying those which should be regarded as 'investment costs' and those which should be regarded as 'operating costs'. These two groups are represented separately in the AFS Tables.
- 1.1.5 In many cases, investment will take place over a number of years. Where this is the case, and the distribution can be anticipated, it should be shown on the AFS tables. Guidance on this for highway schemes is given in DMRB Volume 13, Section 1, Part 2, Chapter 7. Advice is also provided in *MSA: Cost Benefit Analysis* (TAG Unit 3.9.2).
- 1.1.6 For operating costs and operator revenues (where applicable), the values required are the differences between the Do minimum and the Do something (strategy) scenarios. In addition, the Private Sector table should include details of any subsidies assumed for the option being considered. It is recommended that all these figures should be prepared for three separate forecast years, to allow the cumulative effects of the strategy to be assessed. Analysts will need to use their judgement to choose the number and timing of years to be considered, in order to meet the needs of the Steering Group. It will usually be appropriate to use the same years as are used to carry out the Public Accounts and Transport Economic Efficiency analyses (see *The Public Accounts Sub-Objective* (TAG Unit 3.5.1) and *The Transport Economic Efficiency Sub-Objective* (TAG Unit 3.5.2)).
- 1.1.7 The Local and Central Government tables should record any contributions from developers and other sources, where there is evidence to suggest that these will be forthcoming.
- 1.1.8 All values in the AFS tables should be net of any indirect taxes that can be reclaimed by operators (public and private sector).
- 1.1.9 All values in the AFS tables should be in cash terms, taking account of assumed rates of inflation over the appraisal period.
- 1.1.10 All investment costs, developer and other contributions, grants, indirect tax revenues and subsidies should be recorded in the AFS tables as positive

numbers. The net costs should then be calculated using the formulae shown in the tables.

1.2 Default funding arrangements and current sources of grant and subsidy

- 1.2.1 In order to complete the Affordability and Financial Sustainability (AFS) tables, it is necessary to make assumptions regarding the sector providing the different modes and the funding routes available for their funding. In order to provide consistency between studies, the following paragraphs and Table 1 set out default funding arrangements that should be assumed. The text and table briefly discuss current sources of grant and subsidy, the key decision criteria adopted and provide references to further advice.
- 1.2.2 **Roads** (both trunk and other). Schemes identified in multi-modal studies should generally assume public sector funding. Alternative procurement options (such as procurement under Public-Private Partnership arrangements) may be relevant for the more detailed stages of the appraisal of highway projects.
- 1.2.3 **Bus services**. New services with potential commercial viability should be considered as private operator funded schemes. For services which appear to be unlikely to be commercially viable, the extent to which operating subsidy is likely to be required to induce private sector take-up should be considered.
- 1.2.4 **Bus Infrastructure**. Proposals for major bus infrastructure should be considered for funding through Local Transport Plans. Any potential for private sector contributions should also be identified where possible.
- 1.2.5 **Light Rail**. Grant funding for the capital costs of light rail schemes is available under the rules set out in *Major Schemes in Local Transport Plans* (TAG Unit 1.4).
- 1.2.6 **Heavy Rail**. New passenger services identified with potential commercial viability should be considered as private operator schemes. For services which do not appear to be commercially viable, the potential grant required from the SRA should be considered. Details on the appraisal of support for passenger rail services are contained in SRA's *Appraisal Criteria* (2003).
- 1.2.7 **Rail freight**. Two forms of grant are available for moving freight by rail: Freight Facilities Grant and Track Access Grant. Details on the appraisal of support for rail freight services are contained in SRA's *Appraisal Criteria* (2003).

1.3 Calculation of values to be used in the Transport Economic Efficiency worksheet

- 1.3.1 In order to calculate the values to be used in the Public Accounts (PA) table Transport Economic Efficiency (TEE) table (discussed in depth in *The Public Accounts Sub-Objective* (TAG Unit 3.5.1) and *The Transport Economic Efficiency Unit* (TAG Unit 3.5.2)), the following adjustments must be made:
- interpolation and extrapolation of operating costs, revenues and, where appropriate, subsidies to cover the whole appraisal period;
 - adjustment for differences between financial analyses and social cost/benefit analyses, as discussed in DMRB Volume 13 Section 1 Part 2 Chapter 6 and *Major Schemes in Local Transport Plans* (TAG Unit 1.4);
 - adjustment to the market price unit of account (see below);
 - adjustment to the Department's standard price base year - as defined in *The Economy Objective* (TAG Unit 3.5) using the Retail Price Index (and,

for road construction costs, the Relative Price Factor - see DMRB Volume 13 Section 1 Part 2 Chapter 7); and

- adjustment to the Department's standard discount base year using HM Treasury's test discount rate (3.5% per annum reducing to 3% 30 years after the current year).
- 1.3.2 Care will be required to ensure that the adjustment to the market price unit of account is carried out correctly. Where costs are not subject to VAT (or the operator can reclaim VAT), these costs should be multiplied by (1+t), where t is the average rate of indirect tax on final consumption.
- 1.3.3 Under some circumstances, the Highways Agency does pay VAT on construction costs, in others it does not pay VAT. In the former case, the VAT element of construction costs should be removed before multiplying the resulting value by (1+t). The Highways Agency should be treated in the same way as a private sector construction company and any VAT paid by the Highways Agency can be regarded simply as an internal Government Transfer.

Table 1 Funding Routes and Default Assumptions for Multi-Modal Studies

Mode	Default assumption for funding in multi-modal studies	Funding Routes for non-commercially viable services
Road	Public sector provision by HA or LHA	For LHA, through Local Transport Plan
Bus	Private sector bus operator	Tendered subsidy to bus operator
Bus- infrastructure	Public sector provision by Local authority	Through Local Transport Plan
Light Rail	Public sector provision by Local Authority	Contribution towards capital costs <i>Major Schemes in Local Transport Plans</i> (TAG Unit 1.4)
Heavy Rail passenger service	Private sector train operating company, Network Rail	SRA grant to private rail operator, Network Rail
Heavy Rail freight service	Private sector rail freight operator, Network Rail	SRA Rail Freight Grants

2 Further Information

The following documents provide information that follows on directly from the key topics covered in this TAG Unit.

For information on:	See:	TAG Unit number:
AFS tables	<i>The Appraisal Process</i>	TAG Unit 2.5
PA table	<i>The Public Accounts Sub-Objective</i>	TAG Unit 3.5.1
TEE table	<i>The Transport Economic Efficiency Sub-Objective</i>	TAG Unit 3.5.2

3 References

Highways Agency *Design Manual for Roads and Bridges DMRB Volume 13*

SRA (April 2003) *Appraisal Criteria*

http://www.sra.gov.uk/sra/publications/other/1999_06_16/planning_criteria.htm

4 Document Provenance

This Transport Analysis Guidance (TAG) Unit is based on Appendix B of *Guidance on the Methodology for Multi-Modal Studies Volume 1* (DETR, 2001), amended to be in line with GOMMMS Errata.

Technical queries and comments on this TAG Unit should be referred to:

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