

REPORT TO: Mersey Gateway Exec Board

DATE: 17th June 2010

REPORTING OFFICER: Strategic Director, Environment & Economy

SUBJECT: Progress towards securing Conditional Funding Approval from Ministers and the Council's Preparation for Procurement

WARDS: All Wards

1.0 PURPOSE OF THE REPORT

- 1.1 To advise Members of the progress made since the last meeting of the Board, towards securing the authority required to commence the procurement process.

2.0 RECOMMENDATION: That the Mersey Gateway Executive Board:

- (1) note the progress made and the results emerging from the preparation of the Outline Business Case that will form the basis of the Council's Conditional Funding Approval submission to the Department for Transport.

3.0 SUPPORTING INFORMATION

- 3.1 Members were advised at the last meeting of the MGEB in January that the first draft of the Outline Business Case has been submitted to the Department and discussed with the DfT Major Projects Team at the scheme progress meeting on 19th November. A further progress meeting with the DfT was held in February which resolved several key issues. Consequently the basis of the draft Outline Business Case can now be reported.
- 3.2 The work required to complete the Outline Business Case was explained to Members at the MGEB meeting last September. In essence the process involves the project appraisal being brought up-to-date compared with the Major Scheme Programme Entry submissions, and the procurement strategy being developed to ensure that the Council receives the best offers from the private sector in the current market. The Outline Business Case will be the main submission in the Council bid to secure Conditional Funding Approval from Ministers. Progress made towards clarifying and completing the Outline Business Case in each of the main sections is as follows:

The Strategic Case

- 3.3 The Strategic Case demonstrates that the scheme is consistent with, and will contribute to local, regional and national objectives in transport and other key policy areas. The high priority given to Mersey Gateway across the sub-region reflects that the project has a close fit with regional and local policy objectives. During April, the DfT received a letter from 4NW confirming that Mersey Gateway remains a priority for funding.
- 3.4 The second report to MGEB at this meeting deals with the policy evidence emerging from the new coalition Government. We are monitoring such developments and are being assisted by information provided by senior civil servants at the DfT to ensure we appreciate any policy developments that may impact on Mersey Gateway as they arise. The Strategic Case for Mersey Gateway has involved an exhaustive appraisal over several years that has established robust evidence to demonstrate the policy justification for proceeding with the project. The Strategic Case is made on generic grounds dealing with transport, economic and social factors that are likely to remain a policy priority for the coalition Government.
- 3.5 The DfT has in April, under the instruction of the former Minister, revised a number of its economic forecasts that acknowledge the impact of the downturn in growth. The Conditional Funding bid is expected to be required to be consistent with these revised economic growth assumptions, and consequently the project team is prepared to undertake further traffic and economic modelling work. We are seeking clarification from the DfT before concluding this revised forecasting work.

The Value for Money Case

- 3.6 The Value for Money Case is expected to be resilient against the impact of the lower growth assumptions, with the results likely to confirm that even with pessimistic economic growth assumptions the Benefit to Cost Ratio remains at least 'Medium' on the DfT relative value for money scale. This worst case assessment would satisfy the conditions for funding Mersey Gateway agreed with Ministers when Programme Entry approval was granted back in 2006.

The Delivery Case

- 3.7 The Delivery Case explains how the Council intends to deliver the scheme to time and budget and includes the project programme, the governance arrangements, the plans for stakeholder involvement and robust risk management plans. The new work takes into account the changes now proposed in the procurement strategy (see Commercial Case) and how this will impact on the Council organisation required to oversee the construction and operating phase of the project. Again the progress made in agreeing the revised procurement approach with DfT officials allows the Delivery Case to be updated and submitted in the

funding bid. The delay in the planning decision has however put back the opening of Mersey Gateway by a year, to late 2015, and the programme in the Conditional Funding bid has been revised accordingly.

The Commercial Case

- 3.8 The Commercial Case now includes a sound procurement strategy and a rigorous approach to the private sector involvement. As reported to Members towards the end of last year, the procurement strategy has been reviewed to assess the validity of assumptions relating to market conditions that have been affected by the banking crisis and the economic downturn. The aim of the current work is to ensure that the project finance arrangement benefits from the full value of the tolling revenue expected to be received and the competitive market for large construction projects. The project team has reached a consensus view with procurement and finance experts at the DfT that the current market is expected to deliver good prices for construction works, but transferring the risk of uncertain toll revenue to the private sector would not deliver best value in the current project finance market.
- 3.9 To further develop a revised procurement arrangement, it is likely that a further round of market consultation will be undertaken where we will seek the views of organisations expressing a potential interest in bidding for a Mersey Gateway contract. The consultation would take place in late June or early July. We have been contracted by several national and international groups expressing an informal interest in submitting bids for Mersey Gateway.

The Financial Case

- 3.10 The Financial Case has demonstrated that the scheme is based on sound costings and revenue forecasts, and has determined the funding requirements that together will form the Council Conditional Funding Approval bid. Since the completion of the Inquiry, all the project costs have been reviewed and new estimates produced. The revised cost estimates take on board all the commitments given to third party interests leading up to the Inquiry which have either changed the project scope or increased cost for other reasons. The project funding arrangements cover whole life costs over a 30 year period, and require a view to be taken on the likely maintenance and operating costs over this period alongside the average inflation rates expected. These inflation assumptions are still being assessed in consultation with DfT officials, and the final cost estimates to support the Conditional Funding bid will embrace the conclusions drawn from this review.
- 3.11 The revised cost and revenue forecasts are informing discussions with DfT that will lead to a revised agreement on the amount of PFI Credits required to deliver the project. There is no reason to change the capital grant of £86m agreed at Programme Entry.

3.12 Draft proposals were reported to the DfT Internal Investment Committee in February who requested further information on the level of financial risk that would be taken by Government. Members will be advised on the outcome of these discussions as we receive notice from DfT officials that the new Ministers have reached a final view on the funding case.

4.0 POLICY IMPLICATIONS

4.1 The project is a key priority for the Council which will deliver benefits locally and across the wider region.

5.0 OTHER IMPLICATIONS

5.1 Members will be kept advised of any change in the risk or funding position as draft proposals are agreed with Department officials and Ministers.

5.2 As explained above, the delay in commencing procurement is factored into the current financial model that will be used to establish the PFI Credits required to deliver the project with toll charges similar to those applying at Mersey Tunnels.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

There will be an indirect contribution to contribute to Key Objective E: To ensure that all children and young people in Halton have positive futures after school by embracing life-long learning, employment opportunities and enjoying a positive standard of living.

6.2 Employment, Learning and Skills in Halton

There will be an indirect contribution to Key Objective B: To develop a culture where learning is valued and to raise skill levels throughout the adult population and in the local workforce.

6.3 A Healthy Halton

There will be opportunities for biodiversity activities to contribute to Key Objective C: To promote a healthy living environment and lifestyles to protect the health of the public, sustain individual good health and well-being, and help prevent and efficiently manage illness.

6.4 A Safer Halton

There will be opportunities to contribute to Key Objective C: To create and sustain better neighbourhoods that are well designed, well built, well maintained, safe and valued by the people who live in them, reflecting the priorities of residents.

6.5 Halton's Urban Renewal

There will be opportunities to contribute to Key Objective E: To enhance, promote and celebrate the quality of the built and natural environment in Halton. Tackling the legacy of contamination and dereliction to further improve the Borough's image. In particular, in Area of Focus 12, examples of future planned activity include "Creating local nature reserves and wild spaces that support the Council's efforts to deliver urban renewal and a better quality of life in Halton". The Mersey Gateway nature reserve will be a main delivery mechanism for this Area of Focus.

7.0 RISK ANALYSIS

- 7.1 The project plan now assumes a decision on the planning process will take place before October 2010. The process we have agreed with DfT officials is aimed at mitigating the risk of delay and puts in place a realistic programme that could see procurement commencing towards the end of the year (2010).

8.0 EQUALITY AND DIVERSITY ISSUES

- 8.1 Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 9.1 Files maintained by the Mersey Gateway Project Team and by the Highways and Transportation Department.