

REPORT TO: Mersey Gateway Executive Board

DATE: 20 November 2008

REPORTING OFFICER: Mersey Gateway Project Director

SUBJECT: Department for Transport reconfirms Programme Entry approval.

1.0 PURPOSE OF THE REPORT

1.1 For Members to note the satisfactory conclusion to the discussions and assessments made with officials at the Department for Transport (DfT) leading to the Programme Entry approval being reconfirmed and the funding conditions revised.

2.0 RECOMMENDATION: That

The Mersey Gateway Executive Board:-

- i) note the progress made and the actions taken; and
- ii) agree that, subject to receiving confirmation of the accounting treatment methodology explained below, the revised funding conditions are acceptable to the Council.

3.0 SUPPORTING INFORMATION

- 3.1 Since Mersey Gateway received Programme Entry approval from Ministers in March 2006, Members have received regular progress reports dealing initially with the development of the new traffic model leading to applying the finished model in a revised appraisal of the proposed scheme. The funding agreement with Ministers required both value for money and deliverability to be reviewed prior to any Public Inquiry based on the results of the new traffic model.
- 3.2 The conclusions drawn by officials at DfT were reported to their Investment Decisions Committee in September, and last month we received confirmation of the outcome. The Chief Executive received a letter on 23 October 2008 from John Dowie, Head of Regional and Local Major Projects at DfT (Appendix 1) advising that the new roads Minister Paul Clark has agreed to reconfirm Programme Entry for the proposed Mersey Gateway scheme following a review of the value for money.
- 3.3 As Members will appreciate this marks a satisfactory conclusion to an extensive scrutiny of the project costs and benefits, applying up-to-date appraisal standards and assessment methodologies. The project has

stood up to this scrutiny and the results will support the project through the planning and procurement process to be undertaken over the following two years. The reconfirmation of Programme Entry approval sets simplified funding conditions compared to the more qualified approval we received in 2006. No new conditions are proposed and those that remain are in line with what would be expected for any major transport project being funded by the Department at this stage in scheme preparation.

3.4 The new funding conditions can be summarised as follows alongside the comments from the project team:-

- i) The DfT funding contribution for the Mersey Gateway remains at £86m in conventional finance (grant) and £123m in PFI credits and this represents the maximum contribution we can expect to receive in cash outturn terms after allowing for future inflation in construction costs. This level of funding support is consistent with the assessments undertaken by the Project Team, which has concluded that the scheme remains affordable. The funding position will continue to be monitored routinely by the Project Team but the next formal review by DfT will be a second key stage approval (Conditional Approval) that will take place when the outcome of the Public Inquiry is known, expected in Spring 2010.
- ii) The DfT will need to continue to be satisfied that the scheme remains suitable for procurement as a tolled Privately Financed scheme. This condition relates to the way the project is to be procured and delivered. On this matter it is worth noting the recent reply from Minister Paul Clark to a question raised in Parliament by Norman Baker (Liberal Democrat) about the tolling impacts. The Minister replied by advising that “given the cost of the Mersey Gateway bridge in relation to the North West’s regional funding allocation, it is not realistic to expect that it could be funded without income from tolls”.
- iii) The DfT will continue to monitor, in the light of appropriate accountancy advice, the potential balance sheet treatment of the project and this condition notes that if it appeared at any stage during the scheme’s development, that there was a material risk of the scheme being accounted for ‘on balance sheet’, this would lead to an additional charge which would need to be found from within the North West region’s regional funding allocation. The Project Team has sought clarification from the DfT regarding the methodology used to assess accounting treatment related to satisfying this condition and we have been advised informally that the current UK GAP accounting rules would apply. Subject to receiving formal confirmation on this point the project remains robustly off balance sheet.

- iv) The DfT is seeking to ensure we continue with the collaborative process we have put in place with the relevant statutory bodies, such as Natural England and the Environment Agency in assessing, and agreeing appropriate mitigation for the potential environmental impacts of the scheme. Significant progress has been made towards this goal and we expect to confirm the agreed mitigation proposals around the turn of the year.
- v) The final funding condition requires the Council to prepare for and undertake an evaluation of the success of the project and to make the results of this evaluation available to the DfT. This is a standard condition for all major schemes and arrangements for such an evaluation strategy form part of the Mersey Gateway project plan.

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 FINANCIAL IMPLICATIONS

- 5.1 The letter from the DfT (Appendix 1) also advised that the Minister had approved to provide our £6.4m bid towards development costs, which was reported to Members in September. The DfT propose that this grant is paid in three instalments. The first instalment of £3m will be received by the Council in December this year, the second at Conditional Approval and the third and final payment at Full Approval stage.

6.0 RISK ANALYSIS

- 6.1 The revised funding conditions proposed by the DfT reduce the delivery risk faced by the project. The key risk that is retained going forward relates to delivering the project within the maximum funding support offered in the revised terms. The fact that the DfT plans to review this level of support at Conditional Funding stage is welcomed as it provides a formal opportunity to assess the funding requirements in the market conditions that prevail at a time when we expect to invite tenders from the market.

7.0 EQUALITY AND DIVERSITY ISSUES

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

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

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

Appendix 1

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Regional and Local Major Projects
Department for Transport
Room 3/18
Great Minster House
76 Marsham Street
London SW1P 4DR
Direct Line: 0207 944 XXXX
Fax: 0207 944 2207

23 OCTOBER 2008

David Parr
Chief Executive
Halton Borough Council
Kingsway
Widnes
Cheshire WA8 7QF

Dear David

MERSEY GATEWAY

You will be pleased to know that Paul Clark has agreed to reconfirm Programme Entry for the proposed Mersey Gateway Bridge scheme following our review of the value for money. The Minister has also agreed to provide additional funding to enable Halton BC to continue to prepare the scheme. The Minister has written separately to Councillor McDermott.

This letter sets out the terms on which the Department reconfirms Programme Entry and to offer funding for this scheme.

The agreed Departmental funding contribution for the Mersey Gateway remains at £86m in conventional finance and £123m in PFI credits. This offer of funding is subject to the following conditions.

Following the development of the new traffic model, we have re-assessed the value for money of the scheme against the Department's value for money criteria and can confirm that the scheme remains at least "medium" value for money. This meets the relevant condition set at Programme Entry. The Department reserves the right to re-consider its offer of funding for the Mersey Gateway if the scheme is re-assessed as offering worse than 'medium' value for money.

The offer of funding represents the Department's maximum contribution and is in cash outturn terms after allowing for future inflation in construction costs. We note Halton's continued view that, on this basis, the scheme remains affordable. We are aware however that this could change due, for example, to cost overruns or tolling revenue shortfalls. We propose to review this at Conditional Approval.

We will need to continue to be satisfied that the scheme remains suitable for procurement as a tolled Privately Financed scheme.

We will continue to monitor, in the light of appropriate accountancy advice, the potential balance sheet treatment of the proposed crossing. In particular, it is important to note that if it appeared at any stage during the scheme's development, that there was a material risk of the scheme being accounted for 'on balance sheet', this would lead to an additional charge which would need to be found from within the North West region's regional funding allocation.

We expect Halton to continue to work with the relevant statutory bodies in assessing, and agreeing appropriate mitigation for the potential environmental impacts of the scheme.

You will be required to carry out an evaluation of the success of the project and to make the results of this evaluation available to the Department. It will be Halton's responsibility to collect the necessary pre and post implementation information to carry out a robust evaluation. The scope of the evaluation will be subject to the Department's agreement prior to full scheme approval.

The offer of funding is subject to the proposed crossing subsequently complying with all necessary statutory procedures relating to the implementation of the scheme and the introduction of tolls.

The decision to reconfirm Programme Entry and the offer of funding is entirely without prejudice to any view that the Secretary of State or other Ministers make take on any future application for statutory powers or in accordance with any other functions.

If any of the conditions outlined above are breached, the Department reserves the right to withdraw approval of the scheme.

The Department would wish to be kept regularly updated on progress with the delivery of this scheme.

The Minister has also considered your request for additional funds to cover the costs of preparing the scheme. On an exceptional basis she has agreed to provide the £6.4m requested. We propose that this be paid in three instalments, the first as a result of this decision, the second at Conditional Approval and the third and final payment at Full Approval stage. The first instalment would be for up to £3m of eligible costs.

I should be grateful for written confirmation that your Authority accepts these conditions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'J J Dowie', with a horizontal line underneath.

J J DOWIE