

REPORT TO: Cabinet Member Technical Services
Cabinet

DATE: 15th December 2010
16th December 2010

SUBJECT: Thornton Switch Island Link – Best And Final Funding Bid

**WARDS
AFFECTED:** Park, St Oswald, Netherton & Orrell, Molyneux, Manor,
Sudell

REPORT OF: Andy Wallis, Planning and Economic Development Director

**CONTACT
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**EXEMPT/
CONFIDENTIAL:** No

PURPOSE/SUMMARY:

In October 2010 the Department for Transport (DfT) advised the Council that the Thornton Switch Island Link that had previously been granted Programme Entry within the Department's Major Scheme Funding Programme, had further to the Comprehensive Spending Review, been prioritised in the Supported Pool of schemes. Supported Pool status means the DfT are prepared to find funding support for the scheme subject to agreeing a 'best and final funding bid'. The purpose of the report is to seek Cabinet approval to the Council's 'best and final funding bid' prior to submission to the DfT by the deadline of 4th January 2011.

REASON WHY DECISION REQUIRED:

If the Council wish to proceed with the scheme the Government expect a financial commitment from the Authority and have requested the Authority to make a 'best and final funding bid'. As a budget issue the Cabinet need to approve the revised funding package.

RECOMMENDATION(S):

It is recommended that:

Cabinet Member - Technical Services

- i) notes the report
- ii) recommends that Cabinet approves the funding proposals included in the report, including the Council's contribution for submission to the Department for Transport as the 'best and final funding bid'.

Cabinet

- i) notes the report.
- ii) approves the funding proposals outlined in the report, including the Council's contribution, to be submitted to the Department for Transport as the Council's 'best and final funding bid' for apportioning funding commitment for the scheme.

KEY DECISION:

Yes

FORWARD PLAN:

No. – Rule 15 authorised by the Chair of the Overview & Scrutiny Committee (Performance and Corporate Services).

IMPLEMENTATION DATE:

Following expiry of the 'call in' period for the minutes of the meeting

ALTERNATIVE OPTIONS: N/A

IMPLICATIONS:

Budget/Policy Framework:

Financial: Proposed commitment contained within Council's previously approved allocation in the medium term financial plan. Subject to confirmation by the DfT, a revised funding profile for the Council's allocation will be submitted to Cabinet for approval.

<u>CAPITAL EXPENDITURE</u>	2010 2011 £	2011/ 2012 £	2012/ 2013 £	2013/ 2014 £
Gross Increase in Capital Expenditure				
Funded by:				
Sefton Capital Resources				
Specific Capital Resources				
<u>REVENUE IMPLICATIONS</u>				
Gross Increase in Revenue Expenditure				
Funded by:				
Sefton funded Resources				
Funded from External Resources				
Does the External Funding have an expiry date? Y/N	When?			
How will the service be funded post expiry?				

Legal:

Risk Assessment: The proposed funding bid will be subject to approval by the Department for Transport. Should the scheme not proceed, any costs incurred by the Council may be classed as abortive. Capital accounting rules require that abortive costs are charged to revenue which would require them to be funded from the general Fund Balances.

If the proposed funding bid is accepted by the Department for Transport, the DfT contribution will be fixed at the proposed amount. This means that the Council will be responsible for any additional costs arising from the project, such as costs associated with changes in the project or any overspend. Should any overspend exceed the contingency that has been retained within the proposed scheme budget, additional capital resources would be required.

Asset Management: N/A

CONSULTATION UNDERTAKEN/VIEWS
FD575 The Interim Head of Corporate Finance & Information Services has been consulted and has no comments on this report.
LEGAL SERVICES DEPARTMENT

CORPORATE OBJECTIVE MONITORING:

<u>Corporate Objective</u>		<u>Positive Impact</u>	<u>Neutral Impact</u>	<u>Negative Impact</u>
1	Creating a Learning Community		√	
2	Creating Safe Communities		√	
3	Jobs and Prosperity	√		
4	Improving Health and Well-Being	√		
5	Environmental Sustainability	√		
6	Creating Inclusive Communities		√	
7	Improving the Quality of Council Services and Strengthening local Democracy	√		
8	Children and Young People		√	

LIST OF BACKGROUND PAPERS RELIED UPON IN THE PREPARATION OF THIS REPORT

- Cabinet - 17th May 2007 – Thornton Switch Island Link Scheme – Funding
- Cabinet - 29th November 2010 – Thornton Switch Island Link – Funding
- Cabinet - 2nd October 2008 – Thornton switch Island Link – Programme Entry
- Cabinet - 1st October 2009 – Thornton Switch Island Link Commissioning Report/
Revised Project Management/Programme and Scheme cost profile
- Cabinet - 10th June 2010 – Thornton Switch Island Link – Current Situation

1. Background

- 1.1 A report to Cabinet on the 10th June 2010 indicated that the new Government was to review all spending plans for major schemes approved by the previous administration. This included the Thornton Switch Island Link Road scheme, that was effectively put on hold until after the Comprehensive Spending Review was announced in October 2010. Any future expenditure would be at the Council's expense.
- 1.2 Cabinet agreed to permit the submission of the Planning Application to proceed, but all other work was halted.
- 1.3 On 29th October 2010 the DfT advised the Council that further to the Government's announcement of the outcome of the Spending Review on 20th October 2010, plans for major schemes had been announced.
- 1.4 The DfT advised that schemes that had previously been granted Programme Entry, ie an acceptable Business Case had been submitted and approved, had been prioritised into three pools: the Supported Pool; the Development Pool; and the Pre-Qualification Pool.
- 1.5 Thornton to Switch Island Link was in the Supported Pool. This meant the DfT was prepared to fund the scheme subject to the Council submitting a 'best and final funding bid' by the end of December. The Department expected the Council to demonstrate in this bid that all opportunities for cost savings and value maximisation had been explored and incorporated into the funding package.
- 1.6 On 11th November 2010 the Council received further guidance and a form for submission of the Council's 'Best and Final Funding Bid'. The main requirements can be summarised as follows:
 - Ministers want to ensure all reasonable efforts have been made both to reduce costs and secure additional funding.
 - provide an opportunity for the Council to make significant improvements to the scheme proposals in this competitive process. (DfT will provide guidance but the final judgement on the bid is the Council's responsibility).
 - bid to be submitted by Tuesday 4th January 2011.
- 1.7 Further consultation with the nominated DfT officials would indicate:
 - there is insufficient funding to enable all 10 schemes from across the country to be funded at the levels identified in the approved Business Cases when Programme Entry was granted.
 - the Minister is expecting a reduced DfT contribution to that agreed at Programme Entry stage, ie the Council contribution will have to increase either from its own resources or a third party.

- no indication of the scale of increased contribution has been given, or whether an opportunity to negotiate will be given.

1.8 The purpose of this report is to advise Members of the funding issues relating to the scheme and make a recommendation of the proposed 'best and final bid'.

2. Current Position with Scheme Progress

2.1 The Planning Application was submitted in July 2010 and will be considered by Planning Committee on 15th December 2010. Cabinet will be advised verbally of the Committee's decision.

2.2 If approved, as a development in the Green Belt, it will have to be referred to Government Office. GONW may decide to 'call-in' the application, which almost certainly leads to Public Inquiry being held.

2.3 Subject to Planning approval it will also be necessary to commence the statutory procedures to progress a Side Roads Order, for the closure of roads that cross the proposed route, and a Compulsory Purchase Order should purchase of land by negotiation fail, that may also require consideration at a Public Inquiry.

2.4 The Council is well positioned to review scheme costs now a firmer programme is emerging should funding be approved. The appointment of a Contractor / Consultant consortium to design and deliver the scheme at an early stage means that a range of skills, experience and up-to-date knowledge of the construction industry can be drawn on that will permit accurate costings to be determined.

2.5 Furthermore the scheme in highway engineering terms is relatively straightforward. There are no major high value structures to be built that have high risk funding implications and work on previous schemes over many years, supplemented by recent surveys, has given a very good understanding of conditions that can be expected to be encountered during construction. Progress with design and discussions with parties affected by the scheme has also enabled details to be agreed that again gives more certainty in scheme costs, thus reducing the contingency elements to be included.

2.6 As indicated above the scheme has been prioritised in the Supported Pool of major national transport schemes. The DfT have undertaken a review of the Benefit Cost Ratio's (BCR) of these ten schemes to ensure a consistent assessment. The BCR is an indication of the benefits that can be attributed a monetary value (ie journey time savings, reliability, wider economic impacts etc). The assessment for Thornton Switch Island Link has increased from 12.14 to 34.64. When the scheme was granted Programme Entry under the previous administrations guidance a BCR in excess of 2 was required to show value for money.

3. Funding Commitment to Date

3.1 In May 2007 Cabinet approved the following funding package for inclusion in the Capital Programme. This was based on DfT guidance that required a minimum 10% contribution from the scheme promoter to the base costs, and inclusion of an Additional Risk Layer (Optimism Bias) to cover the potential for additional cost during scheme development and during delivery on site, this allowance to be shared equally. Consequently, the following was approved:

	Estimated Cost £m	Funding Responsibility	
		DfT £m	Sefton £m
<u>Quantified Cost Estimate (QCE)</u>			
Eligible Preparation Cost	0.992		
Construction Cost	9.552		
Supervision	0.413		
Statutory Undertaking Cost	0.250		
Qualified Risk Assessment	<u>1.680</u>		
Total	12.887	11.598	1.289
Inflation Allowance	<u>7.123</u>	<u>5.593</u>	<u>1.530</u>
TOTAL QCE	20.010	17.191	2.819
Additional Risk Layer (level set by DfT)	5.187	2.594	2.593
Non-Eligible Costs (Land, Order process etc)	<u>0.500</u>		<u>0.500</u>
TOTAL	<u>£25.697m</u>	<u>£19.785m</u>	<u>£ 5.912m</u>

(Costs based on 2005 prices)

3.2 The Council was advised that the scheme had been granted Programme Entry on the 15th September 2008, at which time the following funding package was accepted in the programme as a basis to permit the scheme to move through the development stages:

	Total £m	DfT £m	Sefton £m
Quantified Cost Estimate (QCE) (inc Inflation Allowance)	17.351	15.616	1.735
Additional Risk Layer	3.817	1.909	1.908
Total	<u>£21.168m</u>	<u>£17.525m</u>	<u>£3.643m</u>

- 3.3 The main changes, resulting in a lower cost estimate being accepted at this stage by the DfT were a result of changes in the calculation of the Inflation Allowance and Additional Risk Layer based on revised information and guidance.
- 3.4 The overall allowance for the scheme of £5.912m in the Council's Capital Programme was not amended because non-eligible costs still had to be covered. In addition, as the funding was spread over a number of financial years to 2012/13, it was considered appropriate to retain the balance in the programme for potential additional costs as scheme development progressed and potential increases in the risk allocation.
- 3.5 The profile of the Council's commitment has been reported to Cabinet at the following meetings to keep the Medium Term Financial Plan up-to-date: 17th May 2007, 29th November 2007, 2nd October 2008, 1st October 2009 and 10th June 2010.

4. Current Funding Status

- 4.1 With the approval of the scheme by the new Government, further to the Comprehensive Spending Review and inclusion in the 'Supported Pool' of major schemes, the Department for Transport have announced revised funding arrangements.
- 4.2 The current scheme funding has been accepted as:

	£m
Estimated Total Scheme Cost (inclusive of eligible preparation costs)	17.351
DfT Contribution	15.616
Local Authority Contribution	1.735
Third Party Contribution	Nil

5. 'Best and Final' Funding Bid

- 5.1 As indicated in 1.5–1.6 above the DfT has now established a competitive process for the Local Authorities with schemes in the 'Supported Pool'. In addition all allowances for funding Additional Risk Layers (Optimism Bias) have been removed.
- 5.2 Hence the DfT is asking promoting Local Authorities to identify a fixed contribution from the DfT that cannot be altered in the future and furthermore shows a reduction on the previously approved £15.616m. For clarity this would

mean that any additional costs after the funding package is approved will fall on the Council as promoting authority.

Up-to-date Scheme Costs

- 5.3 Further to the cost estimate submitted in the Business Case, scheme development has moved on in that the details such as alignments, drainage proposals, carriageway construction, have all now been agreed as have revisions to the VOSA Vehicle Testing site at the Switch Island junction. The Planning Application has been submitted and further work on land requirement progressed. Hence a more accurate scheme cost can be determined. In addition, with a contractor already involved, costs based on commercial experience can be used. Therefore, a workshop has been held with all the delivery partners where the scheme programme and delivery processes were broken down into detail and costed accordingly. At this stage it has been assumed the delivery programme will include a Public Inquiry as a result of a 'call-in' to the Planning Application and possibly the Side Road / Compulsory Purchase Orders.
- 5.4 In addition a robust assessment of the opportunities for value engineering opportunities (ie alternative measures / materials / processes that result in a cost saving) has been undertaken and a full review of the risk register and allocated contingency costs has been completed.
- 5.5 Consequently the following table indicates the current cost of the scheme as now proposed, the cost savings that can be generated through value engineering etc and a revised scheme cost.

	Costs at Nov 2010 £'m	Cost Savings £'m	Revised Cost £'m
Preparatory Costs (Eligible Only) - Phase 1a / Prelim Design, Environmental Assessment & Planning Application (<i>Actual completed cost</i>)	1.492	0	1.492
- Phase 1b (Statutory Process, Detail Design)	1.083	0.130	0.953
Construction Costs (Inc Supervision)	14.044	0.813	13.231
Statutory Undertaking Costs	0.720	0	0.720
Risk	1.685	0.503	1.182
Inflation	1.254	0.244	1.010
Eligible Scheme Costs	<u>£20.278</u>	<u>£1.690</u>	<u>£18.588</u>

	Costs at Nov 2010 £'m	Cost Savings £'m	Revised Cost £'m
Ineligible Preparation Costs	0.200	0	0.200
Land Cost	0.500	0.050	0.450
Total Scheme Cost Estimate November 2010	<u>£20.978m</u>	<u>£ 1.740m</u>	<u>£19.238m</u>

Note

- 1) The increase over the Business Case estimate is as expected, taking account of the development of the scheme up to submission of the Planning Application, and increased costs between 2005 and 2010. Based on the 2005 original estimates these additional costs are in line with those anticipated and covered within the Additional Risk Layer (Optimism Bias).
- 2) Should a Public Inquiry not be required it is estimated this will save £0.2m of Ineligible Preparation Costs.

Best and Final Funding Bid

- 5.6 In determining the Best and Final Funding Bid to the DfT for determining their fixed contribution the following needs to be taken into consideration:
- there needs to be a significant reduction in that previously indicated.
 - the Council have allocated £5.912m in the Capital Programme based on previous estimates and guidance.
 - the strong commitment to delivering the scheme balanced against the other financial pressures on the authority.

Proposal

- 5.7 Original guidance required a minimum 10% contribution. 10% of the current Eligible Costs = £1.859m. Hence a 90% contribution from DfT = £16.729m, against the currently indicated allocation of £15.616m.
- 5.8 The Council has £5.912m allocated to the scheme which it is recommended be retained at this level. Hence with known ineligible costs of £0.650 and allowing for a contingency layer to cover potential additional costs and possibly the cost of the associated traffic calming and safety works on the existing roads to ensure strategic through traffic makes best use of the road, then it is considered a Council contribution of approximately £4.0m could be sustained.

5.9 This would give an overall cost profile of:

Estimated Total Outturn Cost	£18.588m
Local Authority Contribution	£ 4.088m (22%)
DfT <u>Fixed</u> Contribution	£14.500m (78%)

5.10 This would offer the DfT a saving of £1.116m on the previously indicated contribution, over and above the removal of the Additional Risk Layer allocation.

5.11 The Council's funding can therefore be summarised as:

Local Authority Contribution	£4.088m
Ineligible Costs	£0.650m
Contingency	£1.174m
TOTAL	£5.912m

5.12 The DfT have circulated a form for the Council to submit its funding bid and a draft version, incorporating the above funding proposal is attached as Annex A.

6. Conclusions

6.1 The Council has been promoting this scheme for many years and there is overwhelming public support for the scheme, as demonstrated by the public consultations undertaken over recent years.

6.2 The Government has fully recognised the benefits and value for money the scheme offers by initially granting Programme Entry in September 2008, and now the scheme is one of only 10 schemes nationally to be placed in the 'Supported Pool' by the new administration.

6.3 The Council recognises the current funding constraints and wishes to work with the Department for Transport to agree a funding package that is acceptable to both partners.

6.4 The funding package set out in the report and the required DfT form is considered deliverable within the current allocation in the Council's Capital Programme, with an allowance for additional costs that become the scheme promoter's responsibility.

7. Recommendation(s)

That Cabinet Member Technical Services:

- i) notes the report; and
- ii) recommends that Cabinet approves the funding proposals included in the report, including the Council's contribution for submission to the Department for Transport as the 'best and final funding bid'.

Cabinet

- i) notes the report; and
- ii) approves the funding proposals outlined in the report, including the Council's contribution, to be submitted to the Department for Transport as the Council's 'best and final funding bid' for apportioning funding commitment for the scheme.

