

Investment in Local Major Transport Schemes: Update

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1. Introduction

- 1.1** The document “Investment in Local Major Transport Schemes”, published in October 2010 set out the case for investment in major infrastructure on local transport networks. We remain convinced of the importance of well designed transport infrastructure in boosting the economy and we remain committed to the level of investment that was set out in that document. We intend to spend over £1.5 billion on major local authority transport schemes in the period from 2011/12 to 2014/15.
- 1.2** The October document also set out a process for prioritising the existing pipeline of Local Authority schemes, i.e. those that had previously received or had bid for Programme Entry approval, making it clear that they would not all be fundable in the Spending Review period. The intention was to get the best value from the available public funding.
- 1.3** We grouped the schemes into three pools:-
- **The Supported Pool** – schemes that we would be prepared to fund, subject to renegotiation of funding bids from Local Authorities.
 - **The Development Pool** – schemes that we will take forward for further analysis and for which we will invite improved funding bids from Local Authorities by September 2011 before deciding by the end of 2011 which to support.
 - **The Pre-Qualification Pool** – schemes on which we will conduct a preliminary assessment before deciding which can join the Development Pool.

2. Decisions on Supported Pool Schemes

- 2.1** Following receipt of the Best and Final Funding Bids from Supported Pool schemes we have now confirmed DfT funding at reduced levels for nine of the ten schemes, as listed in Table 2 of Annex A. Overall these revised bids represent a saving of 14% from the previously approved DfT contributions - £45.5m in total. This saving will create a bigger pot for other schemes to bid from and allow the available budget to go further than would otherwise have been the case. This has been achieved through a combination of design changes that reduce the overall cost of the schemes and increases in the local authority or third party financial contribution.
- 2.2** As a minimum, all of these schemes can now have Programme Entry status reconfirmed, although on different terms than before. The key difference, as stated in the October document, is the discontinuation of the risk layer mechanism for the sharing of cost increases between the Department and the promoter. The approved figures represent the maximum sum that the Department will pay for these schemes. The local authority promoters are responsible for meeting all costs over and above the stated figures.
- 2.3** The promoters of the schemes can now progress to seek any remaining necessary statutory powers and secure formal tender prices, to the point at which a Full Approval decision can be made prior to release of funding. Full funding approval will be subject to confirmation of value for money where there have been material changes to the cost or scope of the scheme, and, where necessary, assurance on procurement and delivery arrangements.
- 2.4** In the case of the East of Exeter scheme and the Mansfield Public Transport Interchange, all the statutory powers and contractor prices are in place, and as a result the Department is granting Full Approval to these schemes now.
- 2.5** For the remaining scheme in the Supported Pool, the Mersey Gateway Bridge, we are carefully considering the funding proposal from the promoters, Halton Borough Council. As this is the largest scheme with the most complex funding proposal of any scheme in the Supported

Pool, we are not able to announce final funding arrangements at this point, but will do so as soon as possible.

3. Decisions on Pre-Qualification Pool Schemes

- 3.1** The promoters of schemes in the Pre-Qualification Pool have submitted Expressions of Interest to the Department, which we have assessed in order to determine which of these schemes should go forward to the Development Pool.
- 3.2** While ultimate decisions on which schemes receive funding will be based on a more comprehensive business case assessment before the end of the year, this exercise was a preliminary sift in which we were interested mainly in:
- the schemes' potential to offer value for money;
 - the ability and willingness of the promoters to offer savings to the DfT; and
 - the likelihood of delivery in the spending review period.
- 3.3** There were six schemes in the Pre-Qualification Pool for the replacement or maintenance of bridges or associated structures. These were not judged primarily against the above criteria at this stage but were considered in terms of the condition of the structures and the case made for the urgency of the work to maintain the integrity of the existing road network. In all but one case we considered that a sufficiently strong case was made for the scheme to be considered further within the Development Pool.
- 3.4** Overall, we have promoted 23 schemes from the Pre-Qualification Pool to an expanded Development Pool, as listed at Table 4 of Annex A. The local authority promoters of these schemes have indicated a potential to reduce the overall call on DfT funds that would amount to a saving of 42% on the total of the previously requested sums.
- 3.5** Within this overall reduction, there are of course considerable variations between individual schemes. We recognise that some have greater potential than others to offer reductions and that there is still a lot of work to be done before authorities can submit their Best and Final Offers. However, the expectation of significantly reduced costs to DfT has meant that we are able to select for the Development Pool a greater number of

schemes than would otherwise have been the case. Schemes that can reduce their funding request to DfT even further will stand a better chance of funding.

- 3.6** The 11 schemes from the Pre-Qualification Pool that have not been selected for the Development Pool and will not be funded by DfT in the Spending Review period are listed at Table 5 of Annex A. This includes two schemes where the promoters withdrew their funding request and elected not to submit Expressions of Interest for this process.
- 3.7** The reasons for schemes not being selected include the following:-
- potentially low value for money with limited opportunity to improve to the highest categories
 - unlikely to reduce their funding bid to DfT
 - likely to request DfT funding for over 90% of the cost of the scheme
- 3.8** A more detailed explanation of the assessment is set out at Annex B.
- 3.9** It may be that for some of these schemes there remains a reasonable prospect of funding in the future. But there also needs to be realism. Promoters of the non-selected schemes need to consider, in consultation with the business community and local residents, whether further investment in the development of these schemes would be in the best interests of local council tax payers. Further development costs would be at promoters' own risk.

4. The Development Pool going forward

- 4.1** There are no decisions on existing Development Pool schemes at this stage. Promoters of the expanded Development Pool (the original 22 schemes plus the additional 23) will be invited to submit Best and Final Funding Bids by 9 September. The process remains competitive and we do not expect that all these schemes will be funded when final decisions are made in December. Based on the Expressions of Interest received so far, the likely requests for DfT funds (including the schemes selected from the Pre-Qualification Pool) exceed the available funding by a ratio of around 1.5 to 1.
- 4.2** We will judge schemes in a way that is consistent with the Department's Review of Decision Making. As set out previously the key criteria for this programme are likely to include:
- Value for money;
 - The proportion of overall funding coming from non-DfT sources;
 - Deliverability;
 - Strategic Importance; and
 - A consideration of modal and regional balance across the programme.
- 4.3** We will also seek the views of interested parties including, where appropriate, Local Enterprise Partnerships.
- 4.4** We will be shortly writing to promoters with details of next steps, including guidance on the information we will require in order to assess schemes against the relevant criteria.
- 4.5** Some local authority promoters have asked whether or not DfT would be prepared to approve any individual Development Pool schemes in advance of the end of 2011 decision point if acceptable Best and Final Funding Bids are submitted early. We are considering this issue carefully and will inform promoters in due course. However, the assumption should be that the scope to make any such approvals would be very limited and on a truly exceptional basis.

5. Conditional Approval Schemes

- 5.1** As reported in the October document there were three schemes with Conditional Approval on which we undertook to make decisions as soon as possible on a case by case basis.
- 5.2** The Reading Station Highway Works scheme was re-confirmed with Conditional Approval on 16 December 2010 with a DfT contribution of £9.6m, reduced from £15m.
- 5.3** Walton Bridge was granted Full Approval on 29 December 2010 with a DfT contribution of £23.875m, reduced from £29.844m.
- 5.4** The other scheme in this category is the Isles of Scilly Ferry Link that is still under consideration but we hope to make a decision very soon.

6. Funding Implications

- 6.1** Because of the savings on Conditional Approval schemes and some changes in the spending profiles of Fully Approved schemes the existing commitments of £600m in the Spending Review period, as reported in October, has reduced to around £560m.
- 6.2** Some schemes in the Supported Pool have, in seeking to reduce costs, offered accelerated delivery timescales. Therefore although the overall DfT funding has decreased, a much greater proportion will be in the Spending Review period.
- 6.3** The combined effect of these means that the money available after these existing commitments and Supported Pool schemes have been taken into account is around £630m in the Spending Review period.
- 6.4** In order to ensure that we have a sufficient field of good quality schemes from which to choose, and to incentivise further cost reductions, our intention for the expanded Development Pool is that the likely funding request for schemes should be approximately 1.5 times the available budget, which means the expanded Development Pool should contain schemes with a total likely request of just over £945m.
- 6.5** The profiles and cost reductions indicated on the Expressions of Interest of existing Development Pool schemes suggests spend of just under £500m in the Spending Review period.
- 6.6** We have therefore selected schemes from the Pre-Qualification Pool with a total likely funding request of around £450m in the Spending Review period.

ANNEX A: What it means for individual schemes

Schemes with Conditional Approval

Table 1		
Scheme Name	Promoter	Revised DfT approved contribution (£m)
Reading Station highway improvements	Reading	9.6
Isles of Scilly Link	Cornwall	Under review

The Walton Bridge scheme (promoted by Surrey County Council) received Full Approval on 29 December 2010 with a maximum DfT approved contribution of £23.875m, reduced from £29.844m.

Supported Pool schemes with funding now approved

These schemes now have Programme Entry reactivated at the revised funding level shown and can progress towards Full Approval.

Table 2				
Scheme Name	Promoter	Revised DfT approved contribution (£m)	BCR at Spending Review ¹	Net Present Value at Spending Review (£m) ²
Thornton to Switch Island Link	Sefton	14.5	34.6	1,138
Taunton Northern Inner Distributor Road	Somerset	15.2	11.9	351
Heysham to M6 Link Road	Lancashire	110.9	9.4	1,567
Leeds Station Southern Access	Metro	12.4	7.5	159
East of Exeter Access Improvements	Devon	10.4	5.4	147
A57 M1 Jn 31 to Todwick Crossroads Improvement	Rotherham	11.8	5.3	153
Mansfield Public Transport Interchange	Nottinghamshire	7.2	4.5	65
Ipswich Fit for the 21st Century	Suffolk	18.3	4.2	129
Midland Metro Extension	Centro	75.4	3.1	237

In the cases of East of Exeter scheme and Mansfield Public Transport Interchange, as all the statutory powers and tender prices are in place, the Department is now granting Full Approval to these schemes.

The Mersey Gateway Bridge scheme is still under consideration as explained at paragraph 2.5 in the main document.

¹ Includes adjustments for wider impacts, reliability, indirect tax, revised carbon values and landscape impacts. Scheme BCRs have not been updated since the Spending Review, with the exception of Leeds Station Southern Access for which we found a small error in our calculations reducing the BCR from 7.9 to 7.5. The changes proposed in the Best and Final Funding Bids were assessed as unlikely to materially impact on the value for money conclusion for these schemes.

² As per HMT guidance scheme NPVs were reported in 2010 prices and values for the Spending Review.

Development Pool

Table 3: Original Development Pool schemes			
Scheme Name	Promoter	BCR at Spending Review ³	Net Present Value at Spending Review (£m) ⁴
Waverley Link Road	Rotherham	4.5	72
Beverley Integrated Transport Plan	East Riding	4.4	146
A684 Bedale-Aiskew-Leeming Bar Bypass	North Yorkshire	4.2	177
Norwich Northern Distributor Road	Norfolk	4.0	476
Bus Rapid Transit Ashton Vale to Temple Meads	Bristol	3.8	322
Loughborough Town Centre Transport Scheme	Leicestershire	3.6	84
Leeds Rail Growth Package	Metro	3.6	80
Nottingham Ring Road	Nottingham	3.5	155
Access York Park & Ride	York	3.4	219
Weston Super Mare package	North Somerset	3.2	49
Bath Transportation Package	Bath and N E Somerset	3.1	217
A6182 White Rose Way Improvement Scheme	Doncaster	2.9	86
Rochdale Interchange	GMPTE	2.8	32
Crewe Green Link Southern Section	Cheshire East	2.8	70
Sunderland Strategic Corridor	Sunderland	2.7	274
A18-A180 Link	North East Lincs	2.6	19
Manchester Cross City Bus	GMPTE	2.6	234
Pennine Reach (East Lancs Rapid Transit)	Blackburn with Darwen	2.5	183
Supertram Additional Vehicles	SYPTe	2.4	71
Hucknall Town Centre Improvement Scheme	Nottinghamshire	2.4	22

³ Includes adjustments for wider impacts, reliability, indirect tax, revised carbon values and landscape impacts. Figures as available on 26 October 2010. Some revisions have subsequently been made to correct minor errors.

⁴ As per HMT guidance scheme NPVs were reported in 2010 prices and values for the Spending Review.

Leeds New Generation Transport (trolleybus)	Metro	2.2	385
Bexhill to Hastings Link Road	East Sussex	2.1	146

Table 4: Schemes from the Pre-Qualification Pool now joining the Development Pool	
Scheme Name	Promoter
A43 Corby Link Road	Northamptonshire
Luton Town Centre Transport Scheme	Luton
Darlaston Strategic Development Area Access Scheme	Walsall
Camborne-Pool-Redruth Transport Package	Cornwall
A164 Humber Bridge to Beverley Improvements	East Riding
* Northern Road Bridge	Portsmouth
Kingskerswell Bypass	Devon
South Bristol Link Phases 1&2	Bristol
Worcester Integrated Transport Strategy	Worcestershire
A452 Chester Road	Birmingham
Lincoln Eastern Bypass	Lincolnshire
South Yorkshire Bus Rapid Transit (Northern Route)	SYPT
Morpeth Northern Bypass	Northumberland
Tipner Interchange	Portsmouth
Coventry-Nuneaton Rail Upgrade	Coventry/Warwickshire
South Essex Rapid Transit	Essex/Thurrock/Southend
Bus Rapid Transit North Fringe to Hengrove	Bristol
Croxley Rail Link	Hertfordshire
Elmbridge Transport	Gloucestershire
* A4184 Evesham (Abbey) Bridge Maintenance	Worcestershire
* A45 Westbound Bridge Maintenance	Solihull
* London Road Bridge	Derby
* Leeds Inner Ring Road Maintenance	Leeds

Schemes from the Pre-Qualification Pool that will not be funded in the Spending Review period

Table 5	
Scheme Name	Promoter
A509 Isham Bypass	Northamptonshire
Watford Junction Interchange	Hertfordshire
** A1056 Northern Gateway	North Tyneside
** Sunderland Central Route	Sunderland
Castleford Town Centre Integrated Transport Scheme	Metro
A24 Ashington to Southwater	West Sussex
A61 Penistone Road Smart Route	Sheffield
Stafford Western Access	Staffordshire
Tyne & Wear Bus Corridor Improvement Scheme – Phase 1	Nexus
A338 Bournemouth Spur Road Maintenance	Dorset
* A38(M) Tame Viaduct	Birmingham

* Structural maintenance scheme

** No Expression of Interest received

ANNEX B: Selection process for Pre-Qualification Pool schemes

As stated at paragraph 3.2, the assessment of Pre-Qualification Pool schemes was based on:-

- the schemes' potential to offer value for money;
- the ability and willingness of the promoters to offer savings to the DfT; and
- the likelihood of delivery in the spending review period.

Structural Maintenance schemes were assessed as described in paragraph 3.3 in the main document and not primarily on the above criteria.

Value for money

In October 2010, schemes were placed in the Pre-Qualification Pool because we did not have the necessary information or evidence to make a definitive value for money assessment. In this exercise schemes have been subject to a provisional assessment of Value for Money (VfM). The objective of this provisional assessment is to enable DfT to make a judgement on the potential for the scheme to be able to demonstrate a compelling Value for Money (VfM) case by the Best and Final Funding Bid deadline later in 2011, this being one of the criteria used to decide which schemes will join the "Development Pool".

Given the timescales and objective of this provisional VfM assessment we have developed a bespoke approach. In putting this together we have been particularly conscious of the need to compare schemes as far as possible on a consistent basis. This is particularly problematic in relation to VfM as promoters often use different assumptions and consider a different range of impacts when preparing business cases. A further problem when comparing schemes is that the robustness of the models used to support them may vary significantly. Our approach has addressed both of these concerns.

In addressing the first point we have adjusted scheme BCRs reported by promoters by:

- a. Reviewing key assumptions and set these to default/typical levels if not supported by evidence e.g. levels of optimism bias;
- b. Making an allowance for the benefits/disbenefits associated with wider impacts, reliability and landscape where these had not been previously monetised;
- c. Updating the treatment of indirect tax and the value of CO₂ to new values published by DECC in 2009; and
- d. Including any changes in costs or developer contributions not already factored in

As part of our work we have quickly reviewed each scheme's transport models to see whether the promoter has provided sufficient evidence that it is robust across a number of critical areas. This has helped us form a view of the potential level of uncertainty associated with the appraisal outputs and in some cases we made adjustments to claimed benefits to account for known modelling bias. The level of uncertainty in appraisal outputs was subsequently reflected in the VfM categorisation.

We have considered the likelihood (on a five point scale) of each scheme achieving the following VfM categories: Very High VfM: (adjusted BCR>4); High VfM: (adjusted BCR<4, >2); Medium VfM: (adjusted BCR<2, >1.5); Low VfM: (adjusted BCR<1.5). This view was informed by both the adjusted BCR and our views about modelling/appraisal uncertainty. It also considered the potential of non-monetised impacts to shift schemes between categories.

Cost Reduction

We asked promoters to indicate on their Expression of Interest forms the extent to which they would be able to offer reductions in the level of funding they would request from DfT as compared to what they had requested prior to the suspension of major schemes guidance in June 2010.

We asked specifically what they thought they could achieve through a combination of:

- reducing the overall cost and scope of the scheme;
- seeking additional third party funding contributions;
- increasing the level of local authority funding.

We carefully considered how much promoters could offer in each of these areas and at the likely DfT contribution that would result, while bearing in mind that the potential for movement in these areas would vary between schemes. For example schemes not directly related to development would not be expected to have the same potential to access third party funding but may look at other ways to reduce costs. Similarly we recognised that the potential for de-scoping would be more limited in some cases, particularly for smaller schemes.

Deliverability

Our aim on deliverability was to consider the likelihood of the scheme being able to be delivered largely within the spending review period. We therefore looked at the original timescale and funding profiles of the schemes, the risk associated with those timescales and the likely impact of any scope changes that might be proposed.

Conclusions

On Deliverability, almost all scheme promoters presented plausible cases that the schemes could be delivered with the majority of funding to be requested in the spending review period. It was therefore decided that we would not exclude any scheme from the process on deliverability grounds at this stage. However we would expect deliverability to be an important criterion in making decisions on Development Pool schemes later in 2011 when we will have more opportunity to scrutinise this aspect in more detail.

The schemes that we assessed as being most likely to offer the highest value for money had also presented a good case on cost reduction therefore were selected for the Development Pool.

We then considered the schemes that potentially offered lower (but still likely to be high) value for money along with those schemes that were more uncertain but were unlikely to be low and had the potential to be very high. Amongst these schemes there was no clear basis for prioritising on value for money. We therefore looked at efforts to reduce cost to DfT among these schemes. Schemes within this group were not selected for the Development Pool if they had either not indicated that they were likely to reduce their call on DfT funds or because, even with a reduced contribution, the DfT funding they intended to request would be unacceptably high as a proportion of the scheme cost.

There were a further number of schemes that we assessed as potentially offering low value for money. None of these was selected for the Development Pool with one exception; the Morpeth Northern By-Pass. Although potentially offering low value for money it also has the potential, unlike any other deselected scheme, to be very high value for money, because of the sensitivity of the value for money to assumptions about housing and commercial development.

More detailed scheme by scheme comments on schemes not selected for the Development Pool are as follows:-

A38(M) Tame Viaduct (Birmingham)

This is a structural maintenance scheme that was assessed primarily on existing condition and urgency of need for work. The overall condition of the structure and therefore precise scope of the work required is unclear in this case. The promoters propose to undertake a condition survey of one span of the viaduct to assess the complete scope of the work required. We therefore do not consider that the evidence for inclusion in the Development Pool is as strong as for the other structural maintenance schemes. The promoters are therefore advised to undertake the preliminary investigation in order to assess the full requirement after which they will be in a stronger position to construct a business case for funding in the longer term.

Stafford Western Access (Staffordshire)

This scheme has not been selected for the Development Pool as it has potentially low value for money.

Watford Junction Interchange (Hertfordshire)

The promoters have indicated that they wish to promote a scheme which is much larger than the originally proposed scheme as a combined transport/development package. Although the requested DfT contribution is likely to reduce slightly this is effectively a new scheme and, given that the promoters have provided only a limited amount of appraisal information to update the most recent assessment from 2004, we have to regard this as a brand new proposal, not an existing pipeline scheme. As such we have not included in the Development Pool.

Tyne & Wear Bus Corridors (Nexus)

This scheme has potentially low value for money and, unlike any other scheme under consideration, it is unlikely to be higher than medium value for money. In addition, although the DfT contribution may have reduced the promoters proposed almost no changes to their scheme (£0.7m of descoping).

A24 Ashington to Southwater (West Sussex)

Although the promoters have proposed a reduced scheme with a significant overall cost saving, their funding request to DfT would not decrease by the same proportion and would be 91% of the scheme cost, higher than any selected scheme.

A338 Bournemouth Spur Road maintenance (Dorset)

The promoters have said that they intend to request funding from DfT that not only covers 100% of the capital cost but includes a share of the 'optimism bias'. This is not an acceptable proposition to DfT. Furthermore, as a matter of policy the DfT is not willing to consider providing major scheme funding for an acceleration of road maintenance that would normally be funded from local authority resources.

A509 Isham Bypass (Northamptonshire)

The promoters have not proposed any reduction in the amount they intend to request from DfT.

A61 Penistone Road Smart Route (SYPTE)

The promoters have proposed only a negligible reduction in the amount they intend to request from DfT (£33k or 0.2% of scheme cost). On increasing the local contribution the EOI says only that there is a possibility that this may be considered.

Castleford Town Centre Integrated Transport Scheme (WYPTE)

The promoters have said that the amount to be requested from DfT remains the same as that previously applied for. Although they say they are 'looking at ways' to increase the local contributions this is not supported by evidence as to how it would be achieved.

NOTE: The only selected scheme that has proposed no reduction in the DfT contribution is A43 Corby scheme but in this case there is already a very large non-DfT contribution proposed (39%) and there had already been a significant reduction in the scheme cost prior to this exercise.