

REPORT TO: Mersey Gateway Exec Board

DATE: 28 January 2010

REPORTING OFFICER: Strategic Director, Environment

SUBJECT: Progress towards a Secretary of State Decision on the Planning Applications 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 revised outlook for commencing procurement later this year; and
- (2) note the development budget estimated to be required to deliver the Conditional Funding submission to the Department for Transport and to undertake all necessary preparation to enable procurement to commence as soon as Conditional Approval is granted by Ministers

3.0 SUPPORTING INFORMATION

3.1 At the meeting of the last Mersey Gateway Executive Board on 19 November, Members were advised that the formal procurement process for a Mersey Gateway concession contract can only commence once the Council has secured the planning decision by the Secretaries of State and for Ministers to grant Conditional Funding Approval.

3.2 At that time Ministers had advised that the Public Inquiry Inspector's Report was expected to be with the Department in mid-December. The Minister gave this information in his response to an oral question in Parliament raised by Derek Twigg MP.

3.3 Towards the end of December the project team contacted the Planning Inspectorate (PINS) to determine if the report had been forwarded to the Department. We were advised that it was envisaged that the Department would not receive the report until the end of January 2010. The situation is being monitored and any new information will be reported orally at the meeting.

- 3.4 We remain optimistic that the Secretary of State will announce a decision before a General Election in May but this may not be the case. Consequently, we have raised concerns over the impact of such a delay with senior officials at the Department and we have agreed a modified programme based on the decision being announced by the end of May with contingency arrangements should this not take place until later in 2010.
- 3.6 In our discussions with the Department we have also agreed the procedure for considering the Conditional Funding Approval. This agreed procedure is reflected in the programme appended at Annex 1. When we concluded the Inquiry last July it was reasonable to expect being able to commence procurement in April this year (2010). This may not now be the case.
- 3.7 The first draft of the Outline Business Case has been submitted to the Department and discussed with the DfT Major Projects Team at the progress meeting on 19 November. Key issues emerging from the progress meeting were then considered further in a meeting between the Council Chief Executive and John Dowie, the Department for Transport Director responsible for Major Projects and Local and Regional policy. The main issue to be agreed with the Department over the next few weeks is the revised procurement approach that can be expected to secure best value from the proposed tolling regime. Options under consideration will require the PFI Credits to be increased in return for a greater public sector financial interest in the toll revenue which overall could result in a better deal for the public sector. Draft proposals are due to be put to the Department for Transport Internal Investment Committee in February and the outcome is expected to be available to be reported to members at the next meeting of the MGEB in March.

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 Members will be kept advised of any change in the risk or funding position as draft proposals are agreed with Department officials.
- 5.2 The delay in commencing procurement combined with an issue relating to the way we account for the development budget has increased the short term financial risks.
- 5.3 The outturn expenditure for the development costs in the current financial year is expected to be £4.8m and the budget for the first half of next year, to enable the Council to prepare for procurement, is estimated

at £2.5m. This further work is based on the programme agreed with DfT and attached at annex 1. These amounts are now being treated as revenue expenditure for reasons explained below.

- 5.3 The Council has capitalised the development costs for the Mersey Gateway project since 2001/2 and this accounting treatment had been accepted by the District Auditor. However, as part of the audit of the 2007/8 accounts the District Auditor queried our accounting approach. It was his view that the costs should be treated as revenue expenditure. It was agreed with the District Auditor that the costs should continue to be capitalised in 2007/8 accounts without qualification and that we would seek external advice on the proper accounting treatment. The advice from KPMG was that the development costs, in all probability, should be charged to revenue.
- 5.4 In addition, KPMG also advised that the Council should make an application to Government for capitalisation direction for the full costs of the project. If successful this would override accounting convention. After extensive discussion involving Ministers and cross government departments the result of the application was that the Council received approval to capitalise £3.7m of the total development cost of £6.7m incurred in 2008/9 with the balance being met from a Department contribution to development cost of £3m being paid as a resource cost grant instead of the normal capital grant.
- 5.5 The solution did not however extend to future years, including the current year, and we were advised strongly by government officials that any more requests for capitalisation would be unlikely to be successful.
- 5.6 It had been recognised that the accounting treatment of the Mersey Gateway development costs may become an issue. Accordingly the Capital Reserve had been protected as far as possible by funding capital expenditure from capital receipts where required. Despite its name the Capital Reserve is treated as revenue since its source of funding was contributions from revenue.
- 5.7 The Capital Reserve currently totals £9.1m and when combined with the outstanding £3.4m grant from DfT towards development costs, will provide the funding required for the current year (£4.8M) and the budget for the first half of next year (£2.5m), up to securing Conditional Funding Approval, whereupon it would be appropriate to reinstate capitalisation accounting for further expenditure required to complete procurement.
- 5.8 Members should however note that although the £3.4m grant from DfT has been agreed in principle, we have requested that it is paid as a resource grant, in full, on securing Conditional Funding Approval and there is a risk that this request will be turned down. In the event that we are turned down alternative measures to reduce the impact on revenue budgets are under investigation and would be brought forward for consideration of the MGEB.

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 be delayed until after a General Election next Spring. 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.