

REPORT TO: Mersey Gateway Executive Board
DATE: 22nd September 2011
REPORTING OFFICER: Chief Executive
SUBJECT: Mersey Gateway: Project Budget
WARDS: All

1.0 PURPOSE OF THE REPORT

- 1.1 This report advises the Board of the current budget position relating to the Mersey Gateway Project. The Project budget is split into two distinct areas:
- 1.2 The development cost budget for delivering the Mersey Gateway through the Procurement phase of the project up to Financial Close when a contract will be in place with the private sector (the Project Company) to design, build, finance and operate the project. The information updates the forecasts made in the development budget approved by the Executive Board on 25th September 2008 and the information on budget monitoring reported to the MG Executive Board since then. A revised forecast for this period is outlined in table 2.
- 1.3 The report also provides a summary of the expenditure incurred in relation to land acquisition to the end of quarter one 2011-12 together with the current estimate for the expenditure to be incurred under various activities.

2.0 RECOMMENDATION: That the Board

- i) **approve the revised budget for Development Costs up to Financial Close when a public private partnership is in place.**
- ii) **approve the requested land acquisition capital expenditure budget**
- iii) **recommend that the Council amend the Capital Programme accordingly; and**
- iv) **note the potential impact on the Council revenue budget to cover costs that are not capitalised.**

3.0 SUPPORTING INFORMATION

3.1 Mersey Gateway Development Budget

3.1.1 The funding agreement with the Department for Transport (DfT) established when Mersey Gateway received Programme Entry approval in March 2006, specifies that the Council is responsible for meeting all development costs up to receiving Final Funding approval for the project. The funding agreement with Ministers is being administered by the rules for delivering local major transport schemes.

3.1.2 Originally, the Council contributions were expected to be Capital in nature. However, there is an ongoing debate in terms of what the Audit Commission is content to accept as Capital expenditure. As a result, a proportion of the development budget cannot be treated as Capital and must be accounted for as Revenue expenditure instead. This could partially effect the way the Council is able to utilise prudential borrowing as a funding mechanism. Discussions are ongoing in this matter and the assessments undertaken so far indicate that revenue is unlikely to exceed 20 per cent of the total development budget with the remainder being treated as capital expenditure.

3.1.3 The Project Team have experienced a significant cost pressures since 2010:

- The Project Team expected the Mersey Gateway to receive the necessary planning and funding approvals early in 2010 after a successful Public Inquiry. Unfortunately, the economic crisis and subsequent Spending Review meant that the project programme suffered from a lengthy delay.
- The situation has been exacerbated even further due to Government requests for information on various aspects of the project. The Project Team were obliged to undertake a significant amount of further research, studies, etc in order to satisfy these queries. This included revisions and further testing of the traffic model, revisions to the business case and a value engineering exercise. The tasks associated with these requests were not part of the original budget forecast and required the continued mobilisation of a large project team.
- The Secretary of State has asked that the project costs are reduced which includes moving to open road tolling operation from the outset. Other changes are proposed that overall reduce cost by at least £30m. To deliver these changes alterations to the original approved planning applications are required. This additional work was not part of the original budget forecast.

3.1.4 The tables below highlight the budget which had previously been agreed and confirms the budget which will be required in order to progress the Project through the Procurement phase and up to Financial Close.

	Total	Contributions	HBC
2006-07	3.6	3.5	0.1
2007-08	4.9	0	4.9
2008-09	6.7	3	3.7
2009-10	4.8	0	4.8
2010-11	2	0	2
Jan 11- Oct 13	12.4	3.4	9
Total	34.4	9.9	24.5

Table 1 – Budget Profile for Development Costs

HBC Core Costs	£1,535,921
Design & Construction Working Group	£1,780,000.00
Procurement Process	£2,170,000.00
Operation & Maintenance Working Group	£1,320,000.00
Commercial Working Group	£1,065,000.00
Contract Drafting Working Group	£870,000.00
Procurement Steering Group	£190,000.00
Planning Application & Consultation	£540,000
Spend (Jan 2011 - July 2011)	£2,899,241
	£12,370,162

Table 2 – Proposed Budget Allocation

3.1.5 The Project Team had allocated an original budget of £9.1m with a further allowance for contingency of £2.276m. The original programme on which this forecast was based extended from January 2011 until April 2013. Due to the delay in the Project receiving the final funding decision, the programme has slipped by approximately six months. The development budget will need to be extended accordingly. Since January, the Project Team have only progressed those tasks which

have been absolutely critical in terms of the Project remaining on track or have been at the request of Government departments.

- 3.1.6 The Council has received an initial funding offer from the DfT which confirms the commitment to contribute a further £3.4m to the development costs. The Board should note that the funding for this contribution forms part of the £86m capped grant.

3.2 Land Acquisition Budget

- 3.2.1 The planning decisions made by the Secretaries of State on 20th December 2010 have now triggered the next stage in the land assembly process. The progress made in assembling the land required for the project is reported separately but the Council has commenced the exercise of the relevant compulsory purchase powers enabled by the Compulsory Purchase Orders and the made Order under the Transport and Work Act 1992. These powers allow the Council to acquire the remaining land which is necessary for the Project.
- 3.2.2 The Council has served the preliminary notices in the CPO process on the parties affected by these Orders in two stages, as follows. Those land/business owners affected under the CPOs have been served with the official notice regarding the compulsory purchase of their land interest.
- 3.2.3 The Council has an obligation to pay either 90% of its estimate of the compensation due or 100% of the agreed compensation within three months of any request for an Advance Payment. It is expected that most parties will submit such claims, however there are likely, given the number of parties, that agreement will not be reached regarding market values and disturbance payments and will be referred to Lands Tribunal to be resolved. This process may mean that payments are still being made after the land acquisition has been physically completed.
- 3.2.4 Within the budget forecasts for the advance works there is a large contingency, as the actual value of work will only become apparent once the sites have been acquired and the initial ground investigation surveys undertaken.
- 3.2.5 The Land Acquisition budget has been set at £86m, and has not been increased since being originally agreed. This budget is expected to cover the principle elements of:
- Acquisition of the land required, including disturbance payments, SDLT and fees

- Property management, including demolition of buildings prior to handover to the Concessionaire
- Advance works, including ground investigations and remediation of contaminated sites
- Section 10 Claims, as outlined above
- Part One Claims, as outlined above

3.2.6 Land assembly costs are funded by the 'land grant' from DfT; any gap between receipt of funding from DfT and payment to land owners will be funded from the Council's reserves and/or borrowing. Further information is available in the draft Outline Business Case (Financial Case).

3.2.7 Land Acquisition Budget: The table below provides a summary of the expenditure incurred to the end of quarter one 2011-12 together with the current estimate for the expenditure to be incurred under the various activities as described above on an annual basis.

Mersey Gateway - Land Acquisition Budget (Actual and Forecast)
(£000's)

	Current Estimate (2011)	Actual Expenditure to 30-06-2011						Grand Total
			2011-12	2012-13	2013-14	2014-17	Post 2017	
			Total	Total				
Advance Agreement	£ 27,707	£ 19,683	£ 4,163	£ 1,807	£ 1,600	£ 455		£ 27,708
GVD No.1	£ 2,766	£ 21	£ 2,330	£ 414				£ 2,766
GVD No.2	£ 5,055	£ 15	£ 2,443	£ 21	£ 2,108	£ 467		£ 5,055
GVD Phase I	£ 5,371	£ 71	£ 4,441	£ 577		£ 285		£ 5,374
GVD Phase II	£ 7,437	£ 66	£ 4,209	£ 3,042	£ 122			£ 7,439
GVD Phase III	£ 1,073	£ 170	£ 452	£ 249	£ 203			£ 1,073
Total	£ 49,409	£ 20,026	£ 18,039	£ 6,110	£ 4,033	£ 1,206		£ 49,414
Contingency	£ 9,882			£ 5,928	£ 1,779	£ 2,174		£ 9,882
Section 10 Claims	£ 1,457					£ 1,093	364	£ 1,457
Internal Fees	£ 3,925	£ 593	£ 675	£ 1,100	£ 176	£ 990	391	£ 3,925
Part One Claims	£ 3,500						3500	£ 3,500
Property Management	£ 1,000		£ 375	£ 575	£ 50			£ 1,000
VAT	£ 1,125		£ 435	£ 460	£ 140	£ 90		£ 1,125
Land Acquisition Total	£ 70,298	£ 20,619	£ 19,524	£ 14,174	£ 6,177	£ 5,553	£ 4,255	£ 70,303
Advanced Works								
Fees	£ 1,785	£ 41	£ 487	£ 648	£ 609			£ 1,785
Utilities	£ 1,950	£ 3	£ 1,700	£ 248				£ 1,950
Remediation	£ 11,865		£ 5,015	£ 6,319	£ 531			£ 11,865
Advanced Works Total	£ 15,600	£ 43	£ 7,202	£ 7,215	£ 1,140			£ 15,600
Grand Total	£ 85,898	£ 20,662	£ 28,702	£ 21,389	£ 7,317	£ 5,553	£ 4,255	£ 85,903

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 Not Applicable

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 ongoing discussions with the District Auditor could result in a greater proportion of the development costs being treated as revenue than currently assumed in the financial plan. This would restrict the use of prudential borrowing to only the capital proportion of the expenditure and this change would put pressure on Council reserves and revenue budgets. Plans to mitigate this risk are in place. .

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.