

REPORT TO: Mersey Gateway

DATE: 24th January 2013

REPORTING OFFICER: Chief Executive

PORTFOLIO: Leader

SUBJECT: Mersey Gateway – Proposed Procurement Budget – Draft Final Tender to Financial Close

WARDS: All

1.0 PURPOSE OF THE REPORT

1.1 This report advises the Board of the current position relating to the Mersey Gateway Project Development Budget covering the concluding phase of the procurement process from the Evaluation of the Draft Final Tender to Financial Close.

2.0 RECOMMENDATION: That the Mersey Gateway Executive Board:

2.1 note the content of the report and approve the proposed budget for the Mersey Gateway Development Costs up to Financial Close.

3.0 SUPPORTING INFORMATION

3.1 On the 14th June 2012, the Mersey Gateway Executive Board (MGEB) was advised that the Development budget of £12.4m was under significant pressure and that this figure would only be sufficient to cover committed expenditure up to December and the receipt of the Draft Final Tender from bidders. A cost reconciliation and explanation of cost increases was also provided in June.

3.2 The actual funding required to progress procurement to the Draft Final Tender stage was £12.9m and the additional £500k has been included in the outline budget at Annex 1. The budget continues to come under pressure because of additional work which has required considerable input from the project's legal and financial advisers. These include more intensive work on the suite of contract documents throughout the dialogue phase to support the procurement completion and more recently we have introduced the UK Guarantee Scheme to ensure bids are supported with robust financing plans. . In general the activity of the project team is largely dependent on reacting to the discussions with the three main bidder consortia with the aim of driving best value bids. The selection of the Preferred Bidder will also influence the amount of work required to be undertaken before Financial Close. The Project Team are

however committed to progressing only those tasks which are deemed critical to the procurement process of the Project and the resources in the core team are being utilised fully before consultants are deployed.

3.3 In June 2012, the MGEB were also presented with a number of options for dealing with the expected budget shortfall in order to progress the project to Financial Close. These included:

3.3.1 The Conditional Funding agreement with the Department for Transport provides for a Development Cost Grant of up to £86m which includes preparatory, land and remediation costs. As such the grant allows for a contribution to the development cost budget, currently set at £6.4m. In total the Council is likely to under spend in the other areas of its potential claim.

3.3.2 Although using the predicted under spend in the £86m grant was the preferred option to deal with the additional funding required for project development, a fall back option is available by using part of the £10m from the Project Finance Arrangements. Providing that the cost of the successful bid meets the maximum affordability limit set in the Conditional Funding agreement, then the Council would receive a reimbursement of its investment to date of £10m. It could use this to finance the additional funding required to complete procurement.

3.4 On the 30th August 2012, The Project Team (in conjunction with HBC Finance) wrote to the Department for Transport (DfT) requesting an increase in the Department's contribution towards preparation costs for the Mersey Gateway scheme by utilising the forecast underspend within the £86m capital grant. The DfT responded on the 14th December 2012 agreeing to advance £5m in 2012/13 from the agreed capped £86m of development cost funding. However, the funding is to be made available in the form of £3m of revenue grant and £2m of capital grant, which should assist the Council in terms of the current discussions with the Audit Commission (now Grant Thornton) surrounding the issue of capitalisation of Mersey Gateway Development Costs. The DfT have requested that their contribution must be claimed and utilised during the current financial year.

3.5 The relaxation to provide access to the approved grant for the additional development costs will assist the Council greatly to conclude procurement and the budget is now being allocated based on £5m being sufficient to reach Financial Close. However current projections indicate that it would be prudent to consider contingency arrangements to cover delivery risk in the event that £5m proves to be inadequate. A contingency of an additional £1m is thought to be appropriate to cover the level of uncertainty. A request was also made within the letter of 30th August 2012 to the DfT for an additional £1m contingency amount in addition to the £5m contribution. Although the DfT remained silent on this, the Project Team would advocate approaching the Department for a

response on this particular issue should further funding prove to be necessary to achieve Financial Close.

- 3.6 The initial allocation of the £5m budget is set out in Annex 1 for approval. The projections are based on £5m being sufficient to cover the work assumed to be required to achieve Financial Close before the end of October 2013. Any delay is likely to result in additional funding being required and this is indicated in the table at Annex 1 with a month overrun estimated to cost £550k. It should be noted that the allocation of the budget between the task headings included in Annex 1 is still work in progress and as such may alter slightly and such changes will be reported to the Board at future meetings. The resource levels within the Core Project Team are over capacity and no further opportunities exist to re-distribute consultant tasks internally.

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 N/A

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Children and Young People in Halton

- 6.1.1 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

- 6.2.1 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

- 6.3.1 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

- 6.4.1 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

6.5.1 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 As discussed in previous reports, the Council's Auditors have raised concerns relating to the capitalisation of the Project's development costs. It should be noted that only £3m of the £5m DfT contribution is to be provided as a revenue grant. It should also be noted that the fee estimates have been significantly reduced following an internal review in order to meet the financial constraints of the available funding.

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 None under the Meaning of the Act.