

REPORT TO: Mersey Gateway Exec Board

DATE: 21st July 2008

REPORTING OFFICER: Mersey Gateway Project Director

SUBJECT: Progress on Issues Raised with the Department for Transport

1.0 PURPOSE OF THE REPORT

- 1.1 For Members to note the progress made with officials at the Department for Transport (DfT) leading to securing an agreement on the key issues of project value for money and project delivery, which we are required to achieve as part of the Programme Entry funding conditions.

2.0 RECOMMENDATION: That

The Mersey Gateway Executive Board note:-

1. note the progress made and the actions taken; and
2. the estimated scheme cost in outturn terms

3.0 SUPPORTING INFORMATION

- 3.1 Discussions with DfT officials continue to focus on reaching a consensus on value for money based on the revised traffic model outputs (as reported to MGEB on 19th May 2008). The funding agreement with Ministers require both value for money and deliverability to be reviewed prior to any Public Inquiry based on the results of the new traffic model. It was planned to settle these matters prior to making an application for the Transport and Works Act but the progress made combined with the extra assessments required by the DfT prevented this from being achieved. We have, however, made significant progress towards providing all the information requested and there are no concerns raised by DfT to date.
- 3.2 In assessing value for money and project delivery it has been necessary to estimate the project cost up to the opening of the new crossing in outturn terms. The base scheme cost of £390m in 2007 prices has been projected forward using current market estimates of price inflation in the construction sector. The results are given in Table 1 based on construction taking place between 2011 and 2014.

Description	£m
Whole project capital cost (January 2007 prices)	390
Design development increases March 2007	41
Estimated inflation to outturn prices (2012-2015)	147
Construction and land risk allowance for purposes of TWA Order	26
TOTAL PROJECT COST UP TO ROAD OPENING	604
Central expressway and SJB delinking outside the scope of the TWA Order.	(43)
Scheme Cost Covered by the TWA Order	561

Table 1: Projection of Project Cost in Outturn Terms (excl VAT)

- 3.3 The above estimate has been published in the Transport and Works Act Order but the total has been adjusted because the improvements to the central expressway and the delinking of Silver Jubilee Bridge are outside the scope of the Order (hence the adjusted figure of £561m at the bottom of Table 1 is the published scheme cost in the TWA Order).
- 3.4 The projected scheme costs in Table 1 have been input to the financial model along with estimated operating and maintenance costs over a thirty year period commencing in 2011. The revenue to pay for these costs is a combination of tolls collected on both the new Mersey Gateway Bridge and on SJB, plus the revenue support grant agreed with Government (£123m in PFI Credits). The financial projections (based on toll charges equivalent to Mersey Tunnels) show that the project revenue will be sufficient to cover the project costs after allowing for the cost of private finance and profit. The key results of the financial model submitted to the DfT are in Table 2

Year after opening	PFI support payment from Government	Gross Outturn Toll Revenue	Total Outturn Project Revenue Required	Surplus Toll Revenue
1	£8,801,380	£50,648,898	£58,723,437	£759,733
5	£8,801,380	£60,214,672	£66,372,748	£2,676,197
10	£8,801,380	£74,219,675	£75,784,185	£7,269,763
15	£8,801,380	£90,865,629	£85,937,915	£13,761,987
20	£8,801,380	£111,674,602	£97,620,131	£22,888,744
25	£8,801,380	£137,505,077	£110,799,201	£35,540,148

Table 2: Surplus Revenue Forecast based on Mersey Tunnel tolls.

- 3.5 The potential surplus toll revenue indicates the scope for further contingency should costs increase above the current allowance for inflation, or the potential for toll revenue to be passed back to the Council should we deliver the project based on the current financial assumptions. It should be noted however that the contingency is small in the early years of the new road opening. We expect DfT to conclude that the project remains on course to be delivered within the terms of the funding

agreement established at Programme Entry Approval with toll charges similar to those applying for the Mersey Tunnels.

- 3.6 The value for money assessment also uses the cost estimate in Table 1 and the project revenues in Table 2. Recent checks undertaken on the value for money assessment, in consultation with DfT officials, have produced improved results. The most likely forecast produces a benefit to cost ratio of 3.9 to 1 (BCR 3.9:1). It is therefore likely that the project will be confirmed as being high value for money (where BCR is greater than 2:1).

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 DfT officials have advised that they would be prepared to support a bid for development costs based on £6.4m in broadly equal payments over three years, commencing this year, but a final decision on whether to meet the full bid would be a matter for Ministers. To assist in reaching such a decision, we have been asked to consult the region's Transport Board on the potential for meeting a contribution to preparation costs out of the RFA programme. This consultation is progressing well with the proposal being supported by the NW Development Agency and Merseyside Leaders and Chief Executives. We expect to be able to confirm the support of the region over the summer to DfT who will then consult the Minister for a decision. We should be in a position to report the details of the submission to the Minister at the next MGEB in September.

6.0 RISK ANALYSIS

- 6.1 Addressing the value for money and affordability issues with the DfT will deliver a project endorsement that will satisfy funding conditions and demonstrate DfT support the project through the statutory planning process. All the work we have been asked to undertake by DfT officials has now been submitted and we expect a favourable recommendation to be reported to the DfT Management Board towards the end of July. The quarterly progress meeting between the Mersey Gateway project team and DfT officials on 14 July should confirm the content of the draft recommendations to be reported to the DfT Board.

7.0 EQUALITY AND DIVERSITY ISSUES

- 7.1 Mersey Gateway provides an opportunity to improve accessibility to services, education and employment for all.

8.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 8.1 Files maintained by the Mersey Gateway Project Team and by the Highways and Transportation Department.