

**Appendix 1 of this report is Exempt/Confidential under Access to Information Procedure Rules 10.4(3)**

Report of the Director of City Development

Executive Board

Date: 18 May 2011

Subject. Submission of the Best and Final Bid for the New Generation Transport (NGT) Scheme

**Electoral Wards Affected:**

Implications city wide, but with direct impacts on City and Hunslet, Burmantofts & Richmond Hill, Hyde Park & Woodhouse, Headingley, Weetwood, Adel & Wharfedale and Middleton Park Wards.

Ward Members consulted (Referred to in report)

**Specific Implications For:**

Equality and Diversity	<input type="checkbox"/>
Community Cohesion	<input type="checkbox"/>
Narrowing the Gap	<input type="checkbox"/>

**Eligible for Call In**

**Not Eligible for Call In (Details contained in the report)**

## Executive Summary

This report provides an update on the current position on the proposals for a high quality public transport system in Leeds. It provides details of the next key stage of the project; a “Best and Final Bid” (BAFB) to the Secretary of State for Transport, and seeks approval for this application to be made at the most appropriate time, after consultation with the Department for Transport.

### 1.0 PURPOSE OF THIS REPORT

1.1 To seek approval for the submission of the Best and Final Bid (BAFB) for the New Generation Transport (NGT) Scheme to the Department for Transport (DfT).

### 2.0 BACKGROUND INFORMATION

2.1 Metro and Leeds City Council are continuing to work in partnership to develop a high quality trolleybus system for Leeds known as NGT. The NGT project is seeking to provide a high quality transport system that will help to support the growth of Leeds’ economy and

improve the local environment by helping to address congestion.

- 2.2 The initial proposals for the NGT scheme consisted of three routes to North, South and East Leeds, including a loop round the city centre, covering a total distance of approximately 14km and linking key trip generators including the city's hospitals and universities. It is intended to provide significant levels of segregation for NGT vehicles in order to deliver high levels of reliability across the network. Electrically powered trolleybuses would be used to operate the system.
- 2.3 Analysis has shown that NGT could generate around 4,000 long term jobs, both in Leeds and the wider City Region in addition to generating a £160m per annum economic boost for the City Region. In addition around 1,000 jobs would be created during the construction phase.
- 2.4 As reported to the 14 October 2009 meeting of Executive Board, the Major Scheme Business Case (MSBC) for the project was submitted to the Department for Transport (DfT) at the end of October 2009.
- 2.5 Following intensive analysis and scrutiny by the DfT, the Secretary of State announced on the 22<sup>nd</sup> March 2010 that Programme Entry Approval had been granted but only for the North and South Routes. The DfT were not convinced of the value for money case for the route to St James's Hospital or the north and eastern portions of the city centre loop. The DfT did however support the extension of the North Route to serve Holt Park.
- 2.6 The revised scheme therefore comprises the North Route from Holt Park to the city centre and the South Route serving Hunslet and Stourton. Major park and ride sites will be provided at Stourton and Bodington. It remains the promoters' aspiration to deliver a city centre loop and Eastern Route to St James's Hospital as later phases of NGT.
- 2.7 The Programme Entry Approval included in principle DfT funding of £235m towards the £254m project. Under this arrangement the DfT would have funded all of the construction costs and a proportion of the development costs.
- 2.8 However, on 10<sup>th</sup> June 2010, the Secretary of State for Transport announced that all major transport schemes were to be reconsidered as part of the wider Comprehensive Spending Review (CSR) process. As a result development activity on NGT was paused pending the outcome of the CSR and subsequent confirmation of funding from the DfT.
- 2.9 On the 25<sup>th</sup> of October 2010 the Transport Secretary announced that following the CSR, NGT had been placed in the newly created "Development Group" consisting of 22 schemes that had to bid for a share of £600m funding within this CSR period (up to 2014/15). In February 2011 the Development Group was expanded to include 43 schemes but the amount of funding available was only increased by £30 million. As a consequence the ratio of project spending requirements to available funds within the current CSR is 1.5 to 1.
- 2.10 Schemes in the Development Group are required to submit a Best and Final Bid (BAFB) by the Autumn 2011. This bid must put forward the Promoters' final proposal in terms of the revised scope and cost of the scheme, the amount of Government contribution required and the economic case for the scheme. Decisions will be made by the end of 2011 on which schemes have had their BAFB accepted and which can therefore proceed.

2.11 Due to delays caused by the enforced pause in NGT development activity, the NGT construction phase, which is the phase eligible for government funding, will now be post 2014. i.e. outside this CSR period. The DfT have indicated that as the NGT spend will now be incurred beyond this CSR period an early decision on NGT could potentially be made if the BAFB is submitted in the early summer. It is therefore intended to submit the BAFB at the most appropriate time considered by officers, after consultation with the DfT about the timing of the application. Confirmation that the DfT accept this approach is currently being sought. The reasoning behind pushing for an early decision is the fact that if the decision is deferred from July (our preferred) to December then the project would not be held up by 5 months, but by about a year since we would need to re-do various pieces of technical work (land referencing and some ecological surveys etc) since the work previously undertaken would not have sufficient shelf-life to stand up in a Public Inquiry (on balance of probability) – so on this basis, a decision in December could lead to a full £6m of inflationary costs plus up to another £0.5-£0.75m in re-doing previous work. On top of this there is the higher probability as time goes by that we will have lost key staff (internal and consultancy) with substantial invested knowledge. This could add further timescale and cost (and risk) to the overall delivery process.

### 3.0 MAIN ISSUES

#### 3.1 The BAFB

3.1.1. Under the new arrangements for major transport schemes, the DfT have stated that they are seeking to reduce the overall DfT contribution to major schemes and as such will be working with promoters to ensure that all opportunities for cost-saving and value maximisation have been realised.

3.1.2 Since Programme Entry was awarded in March 2010, the overall cost of the scheme has risen mainly due to additional inflation costs resulting from the enforced delay to development of the scheme. In addition further costs relating to utility diversions and increased substation and structures costs have also been identified. The cost plan and scheme design are now at a level of robustness which is considered suitable for use in the Transport and Works Act Order submission. Further refinement and development of the scheme design is planned for prior to receiving tender prices.

3.1.3 A Value Engineering/re-scoping exercise has been undertaken in order to reduce the overall cost of the scheme. This has identified a number of potential cost saving measures, the most significant of which are as follows:

- Removing the stop at Pepper Road. This is the most expensive stop on the network as the route in this vicinity is in a railway cutting and as such ramps and retaining walls would be required to bring the vehicle up to the Pepper Road stop. This stop also has the 2<sup>nd</sup> lowest number of projected passengers along the whole route.
- Reducing the initial number of parking spaces at the Stourton park and ride site from 2150 to 1500 with the intention to increase these to the original number in the future.
- Allowing NGT to run on the existing Balm Road Bridge in Hunslet avoiding the need for a new bridge as was previously assumed.
- Removing the requirement for any strengthening works on Leeds Bridge thereby maintaining the current layout.
- Reducing the specification and facilities at the NGT transit stops
- Careful consideration was given to removing Holt Park extension but this was considered to be an integral part of the base scheme.

- 3.1.4 In addition to the value engineering work, a risk workshop has also been undertaken to review the key risks in light of the continuing delay to the project and to consider whether the costs that have been built into the overall project costs for risk are still appropriate. The review demonstrated that due to the amount of work undertaken since Programme Entry, it is now prudent to reduce the overall cost that has been built in for risk. It should be noted that this is partly offset by risks which have materialised and are therefore accounted for within the increased costs for the scheme set out above.
- 3.1.5 The update to scheme costs and risk assessment has enabled scheme costs to reduce compared to at Programme Entry Approval status. Details of the saving and revised scheme costs are detailed in Appendix 1

It should be remembered that gaining an approval from the DfT on the BAFB submission will be equivalent to gaining Programme Entry. Subsequent approvals stages will still be required, including Full Approval when a preferred contractor and firm scheme price have been determined.

## **3.2 The Local Contribution**

### *Background*

- 3.2.1 In addition to savings on the overall scheme cost as outlined above, the DfT have stated that they are expecting promoters to substantially increase their local funding contribution. Previously the NGT promoters (Metro and the Council) had agreed with the DfT to fund around 7% of the total scheme costs.
- 3.2.2 As part of the CSR process in Summer 2010, the promoters put forward a revised indicative offer for a 20% local funding contribution which based on the revised Programme Entry network, amounted to approximately £50m. It was envisaged that this level of contribution would comprise a combination of the Promoters funding all the development costs, a revised approach to procurement and potential use of Tax Increment Financing (TIF). However, at this time no firm proposals were put forward for how this increased level of local funding would be achieved.
- 3.2.3 Under the previous system the DfT would have funded 50% of the scheme development costs after Programme Entry however they have now announced that they no longer intend to do this. As such the promoters will now need to fund all the development costs for the scheme. The DfT and the Secretary of State in his recent visit to Leeds have reiterated that the BAFB submission is a competition and that only the best submissions will gain funding approval.
- 3.2.4 Following the CSR the DfT and ministers have made it clear that they expect scheme promoters to put forward significantly higher local contributions as part of their BAFB. The details of the proposed local funding contribution are contained in Appendix 1. The level of contribution balances the need to be “competitive” and the level of risk.

## **3.3 Risk**

- 3.3.1 It was reported to Executive Board in October 2009 that the promoters would be required to underwrite 50% of the ‘Additional Risk Layer’, namely the risk of scheme costs exceeding the available funding, with the DfT would have funded the other 50%.
- 3.3.2 The DfT have indicated that where BAFB’s are accepted and schemes given authority to proceed, this will be on the basis of a fixed maximum DfT contribution. This means that the

former cost sharing of risk equally between the DfT and the scheme promoter will no longer exist. Therefore all cost increases beyond the scheme budget will have to be funded in their entirety by the scheme promoters. Hence the need to balance a competitive BAFB with the level of risk as mentioned previously.

### **3.4 Scheme Benefits**

- 3.4.1 The NGT BAFB submission will be informed by the new Leeds Transport Model (LTM) in line with previous agreements with the DfT due to advancements from the existing model. Work is therefore on going in terms of assessment of NGT through the LTM. Metro and LCC are in the process of arranging a number of technical meetings with DfT to gain buy-in on the specification of the modelling works.
- 3.4.2 The new Leeds Transport Model is anticipated to deliver a considerably greater robust estimation of scheme benefits than the model used at MSBC submission. There is however substantial work still underway, which must be completed before BAFB submission in order to establish a scheme Benefit to Cost Ratio (BCR) which both the Promoters and DfT buy-in to. This work is on the critical path for the submission.
- 3.4.3 DfT are once again taking an extremely detailed examination of NGT scheme benefits and it is expected that this examination will continue after submission of the BAFB.

### **3.5 LCC Approval to the BAFB**

- 3.5.1 The Director of Resources will be required to confirm in the BAFB that the scheme estimates are accurate and that the authority has the intention and means to deliver the scheme on the basis of the proposed funding contribution as detailed above, and that no additional funding will be sought from the DfT.

## **4.0 PUBLIC CONSULTATION AND LOBBYING**

- 4.1 Extensive public consultation has previously been carried out on the NGT proposals and the results of this were reported to the Executive Board in October 2009. Consultation undertaken in Summer 2009 showed a positive reaction to NGT with 77% of all respondents supporting/ strongly supporting the proposals. In May 2010 a separate public consultation event was held at Holt Park which showed that 65% of respondents supported the proposed NGT extension from Bodington Park and Ride to Holt Park District Centre, 46% of whom strongly supported the project.
- 4.2 Detailed briefings and presentations also continue to be given to Members, and Area Committees.
- 4.3 Detailed briefings on the project have also been provided to the Chamber of Commerce, Yorkshire Forward, the Integrated Transport Partnership, St James's Hospital, Leeds General Infirmary, the two Universities, local public transport operators as well as key interest and community groups.
- 4.4 A lobbying campaign from the wider Leeds community would need to accompany the BAFB.

## **5.0 PROGRAMME**

- 5.1 Assuming that the NGT bid is successful and approved in July 2011, it is currently

expected that a public inquiry will be held in 2013, construction will start in 2015 and the system will become operational in late 2017/early 2018.

## **6.0 IMPLICATIONS FOR COUNCIL POLICY AND GOVERNANCE**

- 6.1 The NGT proposals support the objectives of the Local Transport Plan and contribute to the delivery of the Council's Strategic Plan objectives for transport and those of the Vision for Leeds in terms of economic growth. The scheme will make a major contribution to improving the attractiveness and quality of travel by public transport and is predicted to encourage a switch from private car to public transport, thereby alleviating congestion on the NGT routes.
- 6.2 Progress will be reported to the Executive Board at the key stages in the delivery process. Oversight of the scheme is provided by a Project Board chaired by the Director General of Metro. The Board also includes the Director of Resources from Leeds City Council and the Chief Officer Highways and Transportation.

## **7.0 LEGAL AND RESOURCE IMPLICATIONS**

- 7.1 The information contained in this report relates to the financial or business affairs of the Council. It is considered that it is not in the public interest to disclose this information at this point in time as it could undermine the Council's bid to the DfT, particularly as the NGT bid will be submitted earlier than competing bids from other promoters. It is considered that whilst there may be a public interest in disclosure, this information will be publicly available from the DfT after all bids from promoters have been received. It is therefore considered that this report should be treated as exempt under Access to Information Procedure Rule 10.4 (3).
- 7.2 Acceptance of the BAFB by the DfT will financially commit the Council as detailed in 3.1 of Appendix 1

## **8.0 CONCLUSIONS**

- 8.1 The opportunity of DfT funding to deliver a rapid transport solution for Leeds offers a real opportunity to deliver a step change to public transport in the city.
- 8.2 A BAFB has been prepared for the NGT project and ongoing liaison with the DfT has indicated that, if the BAFB is submitted following Executive Board approval an early decision could be reached on NGT.
- 8.3 Members are therefore requested to approve the broad content of the BAFB as detailed in this report so that it can be submitted to the DfT at the appropriate time and secure monies for the scheme.

## **9.0 RECOMMENDATIONS**

- 9.1 Executive Board is requested to:
- 9.2 Approve the submission of the Best and Final Bid to the Department for Transport at the most appropriate time for NGT
- 9.3 Agree to the local contribution towards the scheme as detailed in Appendix 1.

- 9.4 Agree that the Council and Metro underwrite the risk of overspend on the project, previously any overspends have been reported as being shared 50/50 with the DfT.
- 9.5 Agree to a lobbying campaign to be developed and undertaken to support the BAFB from the wider Leeds community.

**Background Papers**

None