

GREATER MANCHESTER INTEGRATED TRANSPORT AUTHORITY

REPORT FOR RESOLUTION

DATE: 18th December 2009

SUBJECT: Greater Manchester Transport Fund– Accelerated Package Delivery Programme and Financial Strategy Update

REPORT OF: The Clerk to GMITA, the Chief Executive of GMPTE and the ITA Treasurer

PURPOSE OF REPORT

This report presents an update on the development of the Greater Manchester Transport Fund ('GMTF') Accelerated Package schemes, an overview of the financial strategy and outlines the borrowing requirements for GMTF in 2010/11.

RECOMMENDATIONS

GMITA is requested to note the progress to date on the Greater Manchester Transport Fund Accelerated Package, and in particular to:

- (1) note the content of the report and the progress made to date on developing the schemes within the Accelerated Package and approve the entering into of a number of the contractual agreements for the Metrolink Phase 3B Accelerated Schemes, as set out in sections 2.9 to 2.22 of this report, which are expected to be concluded, within approved budgets, before the end of 2009;
- (2) note the overarching financial strategy for the GMTF as set out in section 5 of this report and as previously reported to the GMITA in July 2009, and in particular the overall level of capital financing costs to be met by the ITA, which will need to be explicitly approved as part of the Authority's Prudential Indicators;
- (3) agree that the budget and associated borrowings for the construction of the Trafford Depot included within the budgets for the Airport line and the Oldham and Rochdale Town Centre extensions of £12.9 million, excluding risk provisions, contingency and procurement costs, be released to enable these works to progress in line with the timescales set out in section 2.22 of this report; and

- (4) agree that GMITA can borrow up to an additional £140 million in 2010/11 (including the borrowings associated with the Trafford Depot) and will incur interest costs of circa £4.9 million in 2010/11 in respect of existing and additional borrowings for the development and delivery of public transport projects within the GMTF, which will be funded by the application of the annual ring fenced levy contributions referred to in paragraph 5.6 of this report.

BACKGROUND DOCUMENTS

Greater Manchester Transport Fund – Delivery Programme Update
(Policy & Resources Committee - 20th November 2009)

Greater Manchester Transport Fund - Accelerated Package Update
(Capital Projects Committee – 18th September 2009)

Greater Manchester Transport Fund – Proposed Delivery Strategy & Financial Arrangements – (Policy & Resources Committee – 24th July 2009)

CONTACT OFFICERS

David Leather	0161 244 1020	david.leather@gmpte.gov.uk
Richard Paver	0161 234 3564	richard.paver@manchester.gov.uk
Bob Morris	0161 244 1022	bob.morris@gmpte.gov.uk
Steve Warrener	0161 244 1025	steve.warrener@gmpte.gov.uk

1. INTRODUCTION

- 1.1. On 24th July 2009, the GMITA Policy & Resources Committee approved the investment package making up the Greater Manchester Transport Fund (GMTF) and agreed that GMPTE should proceed with the schemes in the Accelerated Package, subject to further approvals being obtained prior to contract award.
- 1.2. On 18th September 2009, the GMITA Capital Projects Committee received a report on progress and endorsed certain additions to the Accelerated Package.
- 1.3. On 20th November 2009, the GMITA Policy and Resources Committee received a paper (which also went to AGMA Executive on 27th November) outlining progress and an indicative delivery programme in respect of all the schemes within the GMTF. The report also noted that a proposal would be made to the Authority to borrow up to an additional £140 million for the development of the schemes in the GMTF in 2010/11.
- 1.4. This report presents an update on the development of the Accelerated Package schemes, being the Metrolink extensions from Droylsden to Ashton and from Chorlton to East Didsbury; the Park and Ride schemes; and the Cross City Bus Package.
- 1.5. The report also sets out the overarching financial strategy for the GMTF and includes a request for the approval of up to £140 million of additional borrowings for 2010/11.

2. ACCELERATED PACKAGE - METROLINK PHASE 3B SCHEMES

- 2.1. The Metrolink schemes within the Accelerated Package include the extensions from Droylsden to Ashton and from Chorlton to East Didsbury and the provision of extra stabling at Trafford Depot for additional trams. The current proposed opening dates for the works are as follows:
 - Chorlton to East Didsbury Extension Summer 2013
 - Droylsden to Ashton Extension Winter 2013/14
 - Trafford Depot (Stabling Yard) Autumn 2010
- 2.2. Full Approval for the Metrolink Accelerated package Works is expected from the Department for Transport in mid December.

Procurement Strategy

- 2.3. The procurement of Metrolink Phase 3A included the following principal contract packages:
 - Infrastructure Design, Construct and Maintain (DCM);
 - Tram Operating System (TOS);
 - Light Rail Vehicles;

- Ticket Vending Machines; and
 - Other (including Ticket Vending Machines, shelters and utility/service diversions).
- 2.4. The OJEU notices for the Phase 3A DCM and TOS contracts made provision for the contracts to be extended to include repeat works for Phase 3B. The DCM contract for Phase 3A also includes a pricing mechanism to govern the pricing of the 3B works.
 - 2.5. GMPTE intends to procure the Phase 3B Accelerated Package works by extending the Phase 3A contracts, provided that satisfactory ongoing performance and value for money, within approved budgets, is demonstrated.
 - 2.6. To confirm value for money, an initial price testing exercise was completed with the Phase 3A Contractors to test the contract extension pricing mechanisms contained within the Phase 3A contracts. A robust analysis and challenge of the contractor's Phase 3B price submissions, including modelling against Phase 3A and benchmarking against current industry standards, is currently being finalised and the final price for the programme of works will be within the approved budget.
 - 2.7. Contracts will be finalised to ensure that costs are accommodated within the budgets; and that value for money is demonstrated.
 - 2.8. GMPTE will manage these contracts through its Integrated Delivery Team using the Metrolink Delivery Partner, Parsons Brinckerhoff, who will take day to day responsibility for the delivery and for the interface between the Contractors and GMPTE. Capacity to deliver and manage the schemes is being enhanced in both the internal and contractor teams.

Infrastructure Design, Construction and Maintenance ('DCM')

- 2.9. Negotiations are ongoing with the 3A contractor, and it is currently anticipated that confirmed costs will represent value for money, within approved budgets.
- 2.10. The technical proposals and methodology submitted by MPT for the Accelerated Works align with the technical proposals incorporated in the Phase 3A DCM contract, and are in accordance with the principles of the Design Guide developed by GMPTE in conjunction with the Local Authorities.
- 2.11. The benefits of extending the Contract with the Phase 3A contractor include maintaining a qualified and mobilised workforce; reduced mobilisation costs incurred by both GMPTE and the contractor; pre-agreed rates and discount benefits contained within the Phase 3A contract; and savings in terms of both time and costs as a result of avoiding a lengthy tender exercise, which would typically take between 9 and 12 months to complete.

- 2.12. Furthermore, extending the current contract will provide reduced risk, reduced interfaces and will benefit from the continuity of technical proposals.

Tram Operating System ('TOS')

- 2.13. Negotiations are progressing with the current TOS contractor, and it is anticipated that confirmed costs will represent value for money, within approved budgets.
- 2.14. The proposed technical solution for TOS is the same as the TOS system being implemented under the existing 3A contract. As this is an extension of the technology currently being implemented, there are no anticipated technical interface issues with the other phases of TOS.
- 2.15. The benefits of extending the TOS Contract with the existing contractor are fundamentally the same as those associated with extending the DCM Contract; however additional benefits, including significant reduced risk of systems integration and commonality of spares and maintenance requirements will also be generated.

Light Rail Vehicles ('LRVs')

- 2.16. Negotiations with existing LRV supplier have been ongoing over the last few months and are drawing to a conclusion. It is anticipated that confirmed costs will represent value for money, within approved budgets.

Other (including Ticket Vending Machines, shelters and utility/service diversions)

- 2.17. GMPTE intends to procure the other Metrolink Accelerated Package of works and services by extending existing contracts, provided that satisfactory ongoing performance and value for money, within approved budgets, is demonstrated.

Trafford Depot

- 2.18. The budget for the full Trafford Depot was allocated on a proportional basis across all the Metrolink lines included within the Transport Fund including the Accelerated Package extensions to Ashton and East Didsbury and the extensions to Oldham Town Centre, Rochdale Town Centre, and the Airport.
- 2.19. Building the depot on a piecemeal basis would require work to be undertaken in a live environment, entailing possession working and a reduction in the capacity of the depot to operate a full maintenance schedule. It is therefore proposed that the full depot capacity is built now, which is expected to yield a saving of approximately £0.7 million compared to a phased construction.

- 2.20. GMPTe is therefore in negotiation with MPT for delivery of the full depot and stabling yard expansion provided that value for money, within available budgets can be demonstrated. Advanced orders have been placed, in line with overall budget provision, to progress time critical design works up to the end of December 2009.
- 2.21. The budget for the remainder of the Trafford Depot is included within the budgets for the Airport line and the Oldham and Rochdale Town Centre extensions, and amounts to a further £12.9 million, excluding risk provisions, contingency and procurement costs.
- 2.22. It is currently forecast that between £3 million and £4 million of the £12.9 million of works to build out the full depot would be undertaken in the period to 31 March 2010, with the full depot completed by Summer 2011.

3. ACCELERATED PACKAGE – PARK AND RIDE SCHEMES

- 3.1. The table below summarises the park and ride sites to be delivered as part of the Accelerated Package.

Site	Indicative Spaces *	Comments
Shaw & Crompton (Metrolink)	180	Two separate surface level extensions: one on the site of the old platform and a larger site on private land to be acquired.
Derker (Metrolink)	75	Additional surface level spaces as a second phase to a car park delivered through Phase 3A, bringing total spaces to 155.
Oldham Mumps (Metrolink)	300	Base option utilises the site of the old station – exploring alternatives with OMBC
Hollinwood (Metrolink)	90	Additional decked spaces over the surface level car park delivered through Phase 3A, bringing total spaces to over 200.
Radcliffe (Metrolink)	100	New decked facilities over existing surface level car park on the Bury line, bringing total spaces to 350.
Whitefield (Metrolink)	80	New decked facilities over existing surface level car park on the Bury line, bringing total spaces to 210.
Prestwich (Metrolink)	100	Surface level extension of existing car park onto land owned by Metrolink, bringing total spaces to over 130.
Dane Road (Metrolink)	45	Creation of new surface level spaces on land adjacent to the stop owned by Metrolink (currently no parking at this stop).
East Didsbury (Metrolink)	300	New facility for Phase 3B extension on land owned by Manchester City Council.
Hindley (Rail)	80	Additional surface level spaces expanding the existing car park onto the disused trackbed, increasing spaces to over 130.
Horwich (Rail)	90	Additional surface level spaces expanding the existing car park onto land owned by Bolton MBC, increasing spaces to over 250
Guide Bridge (Rail)	70	Formalisation of existing parking arrangements on Network Rail land, doubling the existing number of spaces to 140.
Irlam (Rail)	50	Additional surface level spaces expanding the existing car park on Network Rail land (currently only five spaces at this site).
Hazel Grove (Rail)	120	Additional decked spaces over existing car park, increasing spaces to over 400.
Rochdale (Rail)	140 (#1)	New spaces provided through a combination of on-highway measures on Miall St and a new car park on private land, plus works to open up the disused subway at the rear of the station.

Cheadle Hulme (Rail)	30	Additional surface level spaces expanding the existing car park, increasing spaces to over 100.
Flixton (Rail)	-	Introduction of extensive safety and security measures to encourage usage of existing under-used car parking facilities.
M60 / A580 (Bus)	265	New surface level car park at the intersection of the Cross City Bus scheme and LSM scheme – land owned by Highways.

** actual number of spaces is subject to finalisation of detailed design*

- 3.2. A business case for the Park and Ride schemes has been reviewed by an independent review panel, sourced from senior GMPTTE officers (who were not involved in the development of the business plan) and specialist independent external parties.
- 3.3. The review panel assessed the business case using a standard methodology which has been developed specifically for the GM Transport Fund, based upon the assessment process used by the Department for Transport (DfT) in their Major Scheme Business Case (MSBC) review process. The review covers four key areas:
- a technical review of scope / design / engineering standards;
 - a financial / appraisal review and challenge;
 - a review of the delivery strategy, covering schedule, risk, procurement, stakeholder engagement, and approvals and consents; and
 - an integration and general consistency check with other schemes in the Transport Fund.
- 3.4. The summary findings of the review panel were as follows:
- the business case is in a good state for the current stage of development;
 - the overall costs are within budget and the schemes are affordable within the capital funding envelope; and
 - the overall delivery strategy and procurement strategy are sound and consistent, and there are no major delivery issues that remain unaddressed.
- 3.5. The review panel recommended that approval be granted to the Park & Ride schemes to further develop the schemes and for the procurement process to be progressed.
- 3.6. The Transport Fund includes £32 million of funding for the Park and Ride schemes, of which £28 million is from RFA Funding. As none of the individual schemes requires more than £5 million of RFA funding, the DfT had agreed that the RFA funding for these schemes does not require submission through their Major Schemes Business Case (MSBC) process, and the funding expected to be transferred to LTP Integrated Transport Block funding.

- 3.7. Procurement activity is ongoing for the park and ride schemes and it is currently forecast that the Park and Ride schemes will be subject to a further independent business case review in the first quarter of 2010 prior to entering into contracts.

4. ACCELERATED PACKAGE – CROSS CITY BUS PACKAGE

- 4.1. The Cross City Bus scheme aims to improve access to employment, healthcare and education and to support economic growth across the region. The developments will enable bus services from the Middleton and Salford corridors to run across Manchester city centre and access Oxford Road without passengers needing to change buses.
- 4.2. The scheme will provide the infrastructure to enable reduced journey times and improved reliability across the city centre, and it is proposed that a Statutory Quality Partnership Scheme will be put in place that will set standards for the quality of services and the vehicles running on the routes.
- 4.3. A Major Scheme Business Case in relation to this scheme was submitted to the DfT for Programme Entry at the end of July 2009. Dialogue with DfT is ongoing, responding to clarifications and supplying supplementary information as appropriate.
- 4.4. The public consultation for the scheme which was launched on 2 October runs until 24 December, and is providing opportunities to inform the public about the proposed measures and to seek their detailed feedback on the proposals.

5. FUNDING & FINANCE

Funding Sources

- 5.1. Nominal capital funding for the GM Transport Fund, which will be drawn down between 2009 and 2020, is summarised in Figure 6 below.

Figure 1 – Nominal capital funding

Funding Source	£m
RFA	448
LTP	147
DfT contribution to SEMMMS	165
Prudential borrowing, fare box revenue and third party contributions	775
Total	1,535

Allocation of Funding Sources to Schemes

- 5.2. GMPTE will act as the delivery body for public transport schemes, with assistance from the district councils as appropriate, in relation to highways matters. Individual district councils will act as scheme sponsors for the four roads schemes and have defined nominal budgets for delivering those schemes. Funding within the Transport

Fund will be allocated to schemes on the basis of the following principles:

- in addition to RFA and LTP Funding, Public Transport schemes, will be funded through borrowings, which will be financed and repaid using a combination of GMITA Levy, net fare box revenue and third party contributions;
- RFA will be used to support schemes with Business Cases which will gain approval through the DfT Major Scheme Business Case approval process.
- road schemes will be funded using a combination of RFA and LTP funding, in addition to any ring fenced funding; and
- ring fenced funding linked to specific schemes, including specifically the £165 million from DfT for SEMMMs will be used for the scheme in question.

Regional Funding Allocation (RFA)

- 5.3. The residual RFA committed to the Greater Manchester city region was calculated after accounting for funds already allocated to the Rochdale Interchange and Greater Manchester retaining walls schemes as these schemes have already been approved. To fund the accelerated package, DfT has agreed that £124 million of RFA will be brought forward from 2016-2019 to 2009–2012. The accelerated package includes £194 million of RFA leaving £254 million for the remaining schemes.

Local Transport Plan

- 5.4. The £147 million of ITB LTP monies reserved for the Transport Fund has been profiled such that the impact on minor works programmes of districts and the ITA is phased in over time, as set out in the table below.

Year ending March	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m	2019 £m	Total £m
LTP contribution	-	10	15	15	15	16	17	17	17	25	147

Prudential Borrowing

- 5.5. Prudential borrowing, which will be supported through a number of resource streams (ITA Levy, third party contributions and net farebox revenues) that will pay interest, cover MRP and subsequently repay the outstanding principle balance. Debt repayment is targeted for 2045 and the average length of time for which debt is expected to be outstanding is 20 years. It is anticipated that the Public Works Loan Board will provide a substantial proportion, of the required prudential borrowing. However, subject to satisfying value for money criteria, other funding sources, including, for example, the European Investment Bank may also be used to maximise benefits and minimise risk.

- 5.6. The resource streams, which will support the prudential borrowing are detailed below:

Levy Contributions

The agreed levy contributions commence in 2010/11 and will be equivalent to 3% of the 2009/10 levy. The contributions will increase each year for 6 years until 2015/16 and will continue at the 2015/16 level for the following 30 years, as follows

Year ending March	2010	2011	2012	2013	2014	2015	2016 onwards
	£m	£m	£m	£m	£m	£m	£m
Levy Contribution	-	4.9	10.1	15.6	21.3	27.3	33.6

Net Revenues

Net revenues generated by the schemes delivered by the Fund will be available to support the prudential borrowing. In line with current agreed ITA policy; fares are assumed to increase at RPI + 1% year on year.

Resource contribution by Manchester Airport

The Manchester Airport Group contribution of £50 million is currently assumed to be received in two £25 million tranches in each of 2011/12 and 2012/13.

- 5.7. The table below shows the projected assignment of funds to specific schemes:

Scheme	RFA	LTP	DfT	Other	PB	Total
	£m	£m	£m	£m	£m	£m
Accelerated Package						
ML: Droylsden to Ashton	62	-	-	-	26	88
ML: Chorlton to East Didsbury	64	9	-	-	15	88
Cross City Bus Package	41	-	-	-	13	54
Park & Ride	28	2	-	-	2	32
Priority Public Transport Schemes						
ML: Rochdale Town Centre	-	3	-	-	30	33
ML: Oldham Town Centre	-	4	-	-	80	84
ML: Airport and 2CC	-	73	-	-	439	512
Contributions to Stations	47	3	-	-	-	50
Altrincham Interchange	-	-	-	1	18	19
Bolton Town Centre Strategy	-	-	-	3	45	48
LSM Busway	-	-	-	-	76	76
Priority Road Schemes						
SEMMMs	89	29	165	7	-	290

Mottram and Glossop	90	10	-	-	-	100
Ashton Northern Bypass	2	12	-	2	-	16
Wigan Inner Relief Road	25	2	-	3	-	30
Total Schemes						
Total Utilised Funding	448	147	165	16	744	1,520

- 5.8. Total projected utilised funding remains within the funding envelope approved by AGMA in May 2009.
- 5.9. Forecast borrowings during 2009/10 are within the £38 million borrowing limit approved by AGMA in July 2009 for the development of public transport projects. The cost of these borrowings in 2009/10, of circa £0.2 million, can be met from the existing ITA financing budget for 2009/10.
- 5.10. Forecast additional borrowings in 2010/11 are up to £140 million. The forecast total cost of borrowings in 2010/11, of approximately £4.9 million will be funded by the application of the annual ring fenced levy contribution referred to in paragraph 5.6 above.
- 5.11. The forecast borrowings to be undertaken in the period to 2017/18 in respect of the public transport projects within the GMTF totals £744 million, as set out in the table in section 5.7 above.
- 5.12. In addition to the borrowings for the public transport projects within the GMTF, GMITA/PTE has previously undertaken borrowings for a number of historic capital schemes and more recently committed to borrowings for Metrolink 3A and £40 million for a series of Metrolink improvements projects.
- 5.13. The capital financing costs and funding sources for the existing and future borrowings, including the borrowings for the GMTF is set out below for the three year period from 2010/11 to 2012/13 and for 2017/18, by which time the total borrowings for the GMTF are forecast to have been incurred.

Capital Financing Costs - Sources and Uses	2010/11	2011/12	2012/13	2017/18
<i>Capital Financing Costs</i>	46.6	55.2	73.1	90.5
<i>Capital Financing Sources</i>				
Base Levy	35.0	35.0	35.0	35.0
Incremental annual ring fenced levy contributions	4.9	10.1	15.6	33.6
Metrolink Net Revenues and Reserves	6.7	9.2	13.4	21.2
Other	-	0.9	9.1	0.7
	46.6	55.2	73.1	90.5

- 5.14. The base levy amount reflects the amount included within the 2009/10 ITA / PTE budget to finance existing loan balances.

- 5.15. The incremental annual ring fenced levy contributions are those amounts referred to in section 5.6 above.
- 5.16. The contribution from Metrolink net Revenues and Reserves represent the contribution from existing Metrolink Reserves and the net operating revenues generated from Metrolink activities.
- 5.17. The other sources include allocations to capital financing costs from available resource funding, including the resource contribution from Manchester Airport Group.
- 5.18. The increasing level of capital financing costs, and the increasing proportion of the ITA budget which they will account for, will need to be approved annually as part of the Authority's Prudential Indicators.

6. RISK MITIGATION STRATEGIES

- 6.1. An overview of the mitigation strategies and financial contingencies included within the Transport Fund is summarised below.
- 6.2. To protect against the risk of increased capital costs the following mitigation strategies and financial contingencies have been built into the financial strategy.
 - schemes have been allocated nominal budgets, and prudent inflation assumptions have been built into the financial projections;
 - each scheme has risk contingency built into the forecast costs which is based on a statistical probability analysis of detailed risk registers; and
 - each scheme has a further contingency, calculated in line with DfT appraisal guidance, included in the forecast costs to manage unquantified or unforeseen risks.
- 6.3. To protect against the risk of reduced revenues or increased operating or financing costs the following mitigation strategies and financial contingencies have been built into the financial strategy:
 - Metrolink passenger numbers and resultant revenue forecasts have been projected using prudent demand and yield forecasts;
 - forecast Metrolink operating costs have been calculated by projecting forward known existing, and projected 3A, operating costs;
 - forecast financing costs are based on published, projected, future interest rates;
 - work is ongoing to identify and evaluate potential sources of additional funding, including fixed rate funding from the European Investment Bank that could be used to support the programme; and
 - discussions are ongoing with officers from the NWDA to review options for securing European Regional Development Funding (ERDF) contributions to individual prioritised projects or programmes.

7. RECOMMENDATIONS

7.1. A full set of recommendations is set out on the front sheet of this report.

Sir Howard Bernstein
Clerk to the Authority

David Leather
Chief Executive, GMPTE

Richard Paver
ITA Treasurer