

**TRANSPORT BOARD**

**30<sup>th</sup> AUGUST 2019**

**SCR MASS TRANSIT PROGRAMME PROGRESS UPDATE**

**Purpose of Report**

To provide the Transport Board with an update on progress and issues associated with the SCR Mass Transit (SCR MT) and related projects.

**Freedom of Information**

This paper will be made available under the Combined Authority Publication Scheme. This scheme commits the Authority to make information about how decisions are made available to the public as part of its normal business activities.

**Recommendations**

That Transport Board notes the contents of the report and provides any feedback, comments or concerns they have to the Project Team.

**1. Introduction**

- 1.1** At Transport Board on 19 July, Board members were provided with a summary of the need for renewal works to ensure that the existing Supertram network can continue to be used safely beyond the end of the current concession agreement in 2024.

The paper provided details of the cost implications of renewal, as well as alternatives for phased renewal activity, as well as do nothing and closure options. Details were also provided on the need for the region to secure a local contribution to the capital costs of works to support the application for grant funding from DfT.

- 1.2** This report provides an update on the latest progress made on the production of the Outline Business Case (OBC), submission for funding, local contribution and capital costs.

**2. Proposal and justification**

**2.1 Local Contributions and DfT Funding**

To date, sources for approximately £14M have been found. This equates to 50% of what is needed if a 7% local contribution is needed (the actual percentage of the local contribution has not been agreed with DfT but current discussions are in the range 7% to 15%). 7% is also

the local contribution made by Nexus (North East Combined Authority) to the renewal of their Metro light rail network vehicle fleet.

The latest on potential sources is as follows:

- A further £3.5M has been earmarked from revaluation reserves to add to £11M revenue resources already identified.
- Local Growth Fund (LGF) to 2021 is nearly fully committed and therefore almost certainly ruled out.
- Following discussions with SCC, they are looking at an additional contribution to the Local Contribution to recognise that they are one of the primary beneficiaries of the network.
- The use of other sources of external funding, including a passenger fare supplement, continues to be investigated.

Work on proposing that previous expenditure could be used as match, or as part of a case to reduce the percentage local contribution, continues. This includes the capital costs borne by the region to date to undertake re-railing work between 2013 and 2020. A summary of the funding for the three rail replacement contracts we have awarded to date is given below:

Item		Notes
<b>EFC of works (3 contracts to date)</b>	£42M	(1)
<b>SYSL Capital Contribution</b>	£1M	
<b>DfT (pinch point and Tram-Train)</b>	£12.2M	
<b>ITB</b>	£3M	
<b>SYPTE/SYSL joint funding (QUEST)</b>	£0.28M	
<b>Borrowing</b>	£15.1M	(2)
<b>SYSL revenue</b>	£10.1M	(3)
<b>TOTAL</b>	<b>£42M</b>	

(1) Does not include revenue lost during works. Post 2024 this will be our responsibility (captured in Grant Thornton operating cost model for Mass Transit)

(2) Amount borrowed, not total cost of borrowing.

(3) Revenue support including cost of providing bus replacement services

Not having an agreed position on local contribution means it is no longer possible to seek full approval for submission of the OBC to DfT in October 2019. This is because the submission needs a firm commitment to the Local Contributions which in turn would need to be approved by the MCA at the September 2019 meeting. An update on the position regarding DfT funding and the plan to resolve the local contributions challenge will be given at a future meeting.

## 2.2 Programme to Submission

In addition to the local contribution, other issues (patronage, costs; more details below) continue to affect progress. Approval to submit the OBC to DfT can no longer be sought from the September 2019 MCA meeting and it is not yet clear if it will be possible to go to the November 2019 MCA meeting. This means the OBC may not be ready for submission this calendar year.

The programme included in the bid to DfT for Local Large Majors Funding (2016) for the production of the OBC, envisaged it being complete by October 2018. The delays to date, and any future delays to Programme Entry (PE) or full approval, will reduce our ability to deal with problems that arise with this project between now and the end of the concession. Given that production of the Full Business Case is a much larger task than OBC production, there is a much greater risk of encountering problems and the cost/time needed to resolve these is likely to be greater. Currently, there is scope for about 9 months' delay from today before it becomes impossible, with the current plan for renewals, to meet the 2024 end of

concession date. Given progress to date, this is a significant risk. The Project's Risk Log has been amended accordingly.

The key milestones for the current plan for renewals are:

<b>Appointing Consultants to work on design, etc</b>	<b>Q2 2020</b>
<b>Design and procure tenderers for works/vehicles</b>	<b>To be complete by Q3 2022</b>
<b>Update and submit FBC and DfT approve it</b>	<b>Q1/Q2 2023</b>
<b>Non disruptive work/vehicle design starts</b>	<b>Q2 2023</b>
<b>Works complete/new fleet in service</b>	<b>Q1 2029</b>

The Project Team are working on actively minimising the impact of these delays.

### **2.3 Comprehensive Spending Review**

As outlined above, a submission for funding from DfT is required to secure the necessary capital funding to renew the asset. DfT have already indicated that the Large Local Majors fund is no longer considered a suitable funding source for light rail system funding, so SCR and SYPTE have been in discussions with DfT about the suitability of a direct funding approach to Treasury as part of the Comprehensive Spending Review (CSR) process.

Government have recently confirmed their approach for a one-year Spending Round which will be completed in September. The next multi-year Spending Review will now be carried out in 2020. We should therefore work on the assumption that a case is prepared for inclusion in the full CSR next year.

As a result, we asked for an urgent meeting with DfT to be convened. An initial conference call took place on 20 August. The call was positive in how DfT see the need for asset renewal and recognition that there is a need for it to be included in a three-year CSR agreed in 2020.

DfT have asked SYPTE to work on project costs which would need to be incurred (and which would have normally taken place post-programme entry) so they can take a view if they can provide all of these costs to allow the programme to continue, or if SCR/SYPTE need to identify local funding to support in addition. DfT noted that any use of local funding could be used to offset future local contributions.

A follow-up conference call will be arranged in September to discuss the outcome of this work and agree the funding source for the pre-programme entry. Furthermore, SCR will write to the Treasury to ask to begin conversations about a 2020 CSR submission, outlining how this is essential work and not a 'nice to have' extension project. This will come from the Mayor and sent to the Chancellor or Chief Secretary, requesting their teams liaise with SCR officials over the coming months.

### **2.3 Patronage Forecasts**

Patronage forecasts play an integral part in the modelling and business case develop given that patronage directly influences revenue and hence network profitability.

At present, there is no confirmed date for when SYPTE's forecasts for 2019/20 and 2023/24 will be available, so the estimates reported to the last SYPTE Transport Executive Board meeting continue to be used in the appraisal and responses to DfT. These estimates were 12M trips p.a. on the original network at 2023/24, a rise of approximately 1.5% p.a. from

2019/20. Tram-Train is currently generating approximately 0.5M trips p.a. and this is forecast to grow to 1M trips p.a. by 2023/24, growth of approximately 20% p.a.

The forecast patronage beyond 2023/24, based on known activities, currently ranges between 0.04% per annum (Low Growth scenario) and 0.48% per annum (High Growth scenario). These low patronage forecasts continue to affect the viability of the network post 2024.

A meeting was held on 06 August to discuss what strategy led growth might look like (where the actions necessary to deliver the strategy are not known and therefore not captured in the WebTAG complaint forecasts noted above). This identified additional work required to develop interventions that could improve the situation. An update on this will be provided at a future meeting.

## **2.4 Capital Costs**

The Cost Plan for the works has been reviewed and savings of £13M at current prices have been identified. These changes are made of a number of small scale cost improvements as opposed to a few significant items or scope change. Some of these savings are negated by increases in risk and client-side costs. The EFC for the renewal option is now £294M at current prices. A decision on the size of the fleet required will not be made until the patronage and service patterns have been finalised, this could impact on the overall cost.

## **3. Consideration of alternative approaches**

- 3.1** There are no specific alternative approaches or options in relation to this update paper. Previous papers have provided alternative options to renewal of the tram asset, including delayed renewal, network closure or replacement with a Bus Rapid Transit network.

## **4. Implications**

### **4.1 Financial**

There are no direct financial implications as a result of this update paper. The paper itself provides details as to the potential size of a local contribution as well as the whole capital costs should full renewal be agreed.

### **4.2 Legal**

As outlined in the previous paper to Transport Board, consideration needs to be given as to the operating model deployed in 2024 to operate the network when the current concession with SYSL expires. Should there be delays in the programme which mean asset renewal commences later than March 2024, this would put even greater emphasis on the need for an effective operating model for delivery to be in place when the current concession ends.

### **4.3 Risk Management**

As outlined in the previous paper, the development of the Outline Business Case is being managed as a formal project and as such has the appropriate risk management controls in place to manage project delivery.

### **4.4 Equality, Diversity and Social Inclusion**

This paper does not contain any specific equality, diversity or social inclusion considerations.

## **5. Communications**

- 5.1** A detailed communications plan supports the development of the OBC. SCR are developing a stakeholder engagement plan to better engage with and generate support from the business

community in South Yorkshire. A draft of this plan has been circulated internally within SCR and SYPTE for comment and will be approved and delivered accordingly.

## 6. Appendices/Annexes

6.1 None included.

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Background papers used in the preparation of this report are available for inspection at: 11 Broad Street West, Sheffield S1 2BQ

Other sources and references: