

23rd March 2020

SUBMISSION OF MASS TRANSIT OUTLINE BUSINESS CASE (OBC) TO DfT

Purpose of Report

The report seeks approval to submit the Mass Transit Outline Business Case (OBC) to DfT as a bid for capital funding for the renewal of the tram network needed when the current concession ends in 2024. It:

- i) summarises the scope of the Preferred Option;
- ii) outlines the main issues arising from the OBC;
- iii) gives the commitments submission involves.

An Executive Summary of the OBC is attached as **Appendix 1**.

Thematic Priority

The work will help secure investment in infrastructure where it will do most to support growth.

Freedom of Information and Schedule 12A of the Local Government Act 1972

This paper will be published under the Mayoral Combined Authority Publication Scheme.

Recommendations

It is recommended that members:

- Approve the submission of the Mass Transit OBC to DfT as a bid for funding for the renewal works noting that acceptance of DfT funding commits the Region to progressing this project and providing the Local Contribution.

1. Introduction

- 1.1 In 2016, Sheffield City Region (SCR) successfully bid to DfT's "Large Local Major" (LLM) fund for a grant towards the cost of preparing an Outline Business Case (OBC) for the future of the tram network. The OBC has been prepared in line with DfT guidelines (e.g. WebTAG compliant appraisal and a 5 Case Business Case). It has been approved by SYPTe's Management Board, Transport Executive Board and the SCR Appraisal Panel. Approval is now sought from the MCA Board to submit it to DfT.

2. Proposal and justification

- 2.1** The last phase of the tram network (Hillsborough) opened in 1995 and in 1997 the operating concession was sold to Stagecoach. Since then they have been responsible for operating and maintaining the network, they also carry the risk regarding patronage and revenue for the network. The design life for many of the assets at the time of construction was forecast to be about 30 years. This was one of the drivers for the current operating concession ending in March 2024 and the need for the renewal works.
- 2.2** Since SCR received funding for the OBC production in 2016, the LLM programme has changed to be solely focused on road schemes. SCR have been in discussions with DfT about which funding programme we would seek entry into once the OBC has been approved by the Department. They have acknowledged that no funding programme exists at this stage, but they are in discussions with the Treasury to establish a new fund following the Comprehensive Spending Review (CSR) during 2020. A similar precedent was set by Nexus (North East Combined Authority) for a direct approach to treasury for the renewal of their Metro fleet in 2017.

2.2 Outline Business Case

The following sections provide a summary of each of the five Cases in the OBC, including assumptions made and implications.

i) Strategic Case

This shows there is a proven need and a clear rationale for the investment needed in the tram network, and that the scheme is aligned to local and national strategies and policies. It also shows retention of the network is vital to the success of the Region's plans, e.g.

- Delivery of other regional projects, including Tram-Train extension to Doncaster and Sheffield Midland Station Integrated Masterplan
- Delivery of the City Region's Transport Strategy, e.g.
 - *“To achieve Policy 1 (Improve the existing transport network...), we will need to...consider opportunities for Tram-Train...as well as the conventional network”*
 - *“To achieve Policy 2 (create a faster more reliable transport system) we will need to...continue to develop the Business Case for Supertram renewals...”*
 - *“To achieve Policy 8 (enhance our public multi-modal transport system...) we will need to...invest in mass transit improvements”*
- To meet the Transport Strategy goals, e.g. *“to increase tram trips by 47% by 2040”*
- Improving Air Quality by moving passengers to a zero emission (at point of use) mode of transport
- To meet our Climate Change Emergency Declaration requirements

This scheme also forms part of the Mayoral commitments in the Transport Strategy *“I will invest in tram...”*

The Strategic Case ends with the outcome of the process to select the Preferred Option. This option is renewal of the network with an improved service to create capacity for future growth. This Option has been selected because:

- a) It delivers the outcomes needed to achieve the Region's Strategy and Policy goals.
- b) It is compatible with the Region's other tram-based aspirations.
- c) It provides the largest contribution to the Region's Climate Change goals.

ii) Economic Case

This details the appraisal undertaken. The first part of this fed into the selection of the Preferred Option referred to above, the second outlined the outcome of a more detailed appraisal of the Preferred Option which looks at Economic, Environmental, Social and Public Account impacts. The outcome of this is that the adjusted BCR is 1.90. It is considered that the non-monetised impacts of the scheme are sufficient to lift the BCR above 2 which is the threshold for high value for money.

iii) Financial Case

Costs - The estimated capital cost of the renewal works (up to 2028) is £439M at outturn (i.e. including inflation).

Funding – Most of the capital costs will be funded by DfT grant, with the OBC forming the basis of our bid to DfT. As noted above, there is no specific fund for schemes of this nature, however DfT are confident there will be later this year. Discussions between the City Region and Central Government, including the Treasury, continue to ensure this is the case.

The Region has to make a Local Contribution as part of its commitment to the scheme. Based on discussions to date with DfT and stakeholders, this has reduced from 25% to 7% (£21.8M at 2018/19 prices) in this OBC. Members have previously committed to continued lobbying for reduced or nil local contribution. This will continue alongside the submission of the OBC. The Local Contribution will be funded in line with principles agreed with the South Yorkshire Leaders and the Mayor in June 2019. The latest position on these is summarised below:

PRINCIPLE	UPDATE
To maximise Central Government support and minimise local contribution.	Local and Central Government split 7%/93%. Lobbying will continue at Political level to reduce this further.
To avoid any direct impact on Council Tax through the levy on all South Yorkshire authorities.	None proposed
To use SCR/SYPTE reserves that can be released without destabilising the Medium Term Financial Strategy (MTFS).	Some identified, undergoing final assessment
To finance some of the cost through a premium on fares for Supertram users.	Work on the impact of a levy on passengers forecast this would not generate additional funding, therefore this is not being pursued at present (approved at January 2019 Executive Board and confirmed in December 2019 paper)
To be funded by a differential Sheffield City Council share.	Currently level of additional funding is 10% of Local Contribution up to a maximum of £4M

The balance of the local funding requirement will be funded from future transport capital sources. The details of these are not yet known but will emerge as part of the ongoing discussions regarding devolution and other funds. No details of the funding sources are required for submission to DfT.

iv) Commercial Case

This looks at the procurement strategy and the market's forecast acceptance of this. Following Market Testing and a quantitative analysis of the Options, the current preferred model, after the current concession ends in 2024, is that the operation of the network be carried out by an organisation owned by the public sector with renewal works (to 2028) managed by SYPTE/SCR. Market testing shows that during the period of the renewal works, there is no-one willing to take the revenue risk as SYSL do now. The option to enter into a short term (4/6 years) operating contract with a private sector operator, with the public sector retaining revenue risk, continues to be investigated in parallel with the above.

v) Management Case

The proposals for delivery of the OBC to FBC stage are based on the management structure used to date.

2.4 Submission to DfT

Subject to approval at this meeting, the OBC will be submitted to DfT. Following submission, the bid will be assessed by DfT and the availability of funding determined. If approved, funding would be set aside for the scheme (Programme Entry (PE)). This commits the Region to:

- Continue to develop the scheme.
- Provide the funding for the Local Contribution,

To access this funding a Full Business Case (FBC), based on returned tender process, would need to be submitted, this is programmed for 2022/23. A copy of the OBC will be put on SCR's website when it is submitted to DfT.

2.5 Related Matters

Most of the above relates to the capital works necessary to renew the network. The operation of the network is considered in the OBC, but it remains a local responsibility. To deal with this a workstream to look at revenue and costs has been started. This includes:

- **Strategy Led Growth** - Actions arising from the Region's Strategies to increase public transport patronage on the tram network.
- **Investigating measures to increase revenue** - These will include TCF funded schemes at Magna and Parkgate as well as a review of the fare structure.
- **Costs** - A review of operating and asset costs.

2.6 Next Steps

Plans are now in place to progress the project to FBC stage, at an estimated cost of £12M, which will form part of our local contribution.

3. Consideration of alternative approaches

- 3.1 A wide range of alternatives have been considered including closure in 2024, delayed closure, reductions in services, truncation of the network and replacement by Bus Rapid Transit. A summary of these is included in the Executive Summary and full details are given in the OBC.

4. Implications

4.1 Financial

The budget for works in 2020/21 (£2.47M) was approved at the January 2020 MCA meeting. The project will be funded by DfT and a Local Contribution, in line with the previously agreed principles. This funding is sufficient to progress the development of the FBC in line with the current timetable.

4.2 Legal

The MCA, through SYPTE, is the owner of the existing Tramway and the operating concession with Stagecoach expires in March 2024. The legislation (Supertram Acts) that authorised the construction and operation of the Tramway places obligations on SYPTE in the event the System is closed. These include obligations to remove the System and make good the highway network and other land. There are significant health and safety obligations under general health and safety legislation and the Railways and Other Guided System Regulations requiring the System to be maintained and operate safely.

4.3 Risk Management

The Management Case of the OBC outlines the risk management plan and the project's risk log contains details of all risks, risk owners and mitigations.

4.4 Equality, Diversity and Social Inclusion

Equality, Diversity and Social Inclusion issues have been addressed in the Economic Case of the OBC. More work on this will be carried out as part of the next stage of development.

5. Communications

- 5.1 A communications strategy has been developed in collaboration with partners, with the intention that public-facing communications activity will go live alongside the publication of MCA papers in March 2020. Activity includes press and media work, a social media campaign, digital media, and a programme of external engagement activity.

6. Appendices/Annexes

- 6.1 Appendix 1 - SCR Mass Transit OBC - Executive Summary

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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: **SCR Mass Transit OBC**