Sheffield City Region MAYORAL COMBINED AUTHORITY

**23rd March 2020**

# DELIVERING THE TRANSFORMING CITIES FUND PROGRAMME

## Purpose of Report

This report seeks agreement to receive £166m Transforming Cities Fund (TCF) from the Department for Transport and sets out a new approach to enable earlier release of scheme development costs to aid full delivery of the TCF programme by March 2023.

## Thematic Priority

Secure investment in infrastructure where it will do most to support growth.

## Recommendations

That members of the Mayoral Combined Authority:

- Confirms the receipt of £166m Transforming Cities Fund (as set out in 2.1) or
- Approve a new approach to enable earlier release of scheme development costs (as set out in section 2.4)

## 1. Introduction

**1.1** On 11th March 2020 the Government announced that Sheffield City Region has been awarded £166m from the Transforming Cities Fund (TCF). The Strategic Outline Business Case (SOBC) for TCF was submitted to the DfT on 27th November 2019.

**1.2** The development of a large capital programme requires significant early investment to ensure constituent projects deliver robust business cases. The delivery of such a programme requires efficient and effective approval processes. This is especially important with this programme given the 3-year delivery timeframe.

**1.3** This paper proposes that TCF scheme development funding should be made available earlier on in a project's life. They are currently paid once a project receives Full Business Case (FBC) approval.

## 2. Proposal and justification

**2.1** The Government has confirmed that Sheffield City Region will receive £166m from the Transforming Cities Fund. This includes 5% inflation across the funding period and an allowance for risks drawn from a quantified assessment of programme level risks. It is recommended that the MCA approve the receipt of this funding.

**2.2** The TCF programme will be judged a success by Government if SCR delivers a time-limited complex programme to time and budget and achieves the outputs and outcomes included in the SOBC. Given the size of the programme and the limited period to deliver schemes we need adapt our way of working to ensure we are well positioned to deliver successfully. This includes early release of funds for scheme development, as discussed below.

**Funding of scheme development costs**

**2.3** The cost of developing robust capital scheme business cases can be significant. Although development costs vary considerably depending on the size and type of scheme, indications are that  the cost of getting from SOBC to OBC is potentially 2% of the total capital cost of the programme and from OBC to FBC, considering detailed design, procurement and other fees, around 10% of scheme value.

**2.4** Given the risks associated with developing and delivering a scheme of this size, a significant mitigating factor is to resource scheme development costs earlier in the development process. Following analysis of schemes of this nature and in consideration of DfT practice we are proposing the following option for consideration:

- release up to 2% of the total scheme cost (as included in the bid/SOBC) to facilitate the development of the OBC.
- release costs (based on a costed fee plan) following approval of the OBC to enable the schemes to progress to FBC

These costs would be claimed back by partners as they are incurred as opposed to waiting for the full scheme approval to be granted.

**2.5** Early release of development funding carries a risk of a capital project not proceeding. If this risk materialises and a capital 'asset' is not created, the project development costs will need to be repaid by promoting partners to the MCA.

## 3. Consideration of alternative approaches

**3.1** **No early release of development funds**, this option has development costs paid once a scheme is approved and in contract. Indications suggest that this approach will slow down the number of business cases that can be developed by a Promotor at any stage and therefore increases the risk of the TCF programme not being delivered in full by 2023. This approach is therefore not recommended.

**3.2** **Development costs to be paid at conclusion of OBC**.  This will strongly mitigate the risk identified in 3.1 above but does not fully mitigate this as it leaves a residual risk that partners don't have the resources to develop schemes from SOBC to OBC. This approach is therefore not recommended.

## 4. Implications

**4.1** **Financial**

This paper recommends the acceptance of £166m.

This paper recommends an approach for early release of scheme development costs. Business case development is always undertaken with the risk of a capital project not proceeding. If this risk materialises and a capital 'asset' is not created, the project development costs will need to be repaid to the MCA by the promoting partner.

Although we do not have any 'grant conditions' from the DfT yet, other grants from the Department have enabled this approach to be pursued and DfT have previously been clear that adopting this revised approach would be a local decision.

**4.2 Legal**

No specific legal implications have been considered at this stage, however, there would be a contractual arrangement (including grant conditions) required with scheme promoters.

**4.3 Risk Management**

The key risk is that capital monies are 'advanced' to fund scheme development costs on schemes that may not then progress – these costs become a revenue liability. To mitigate this the recommendation is that the liability is retained by the promoting authority and not MCA.

The development of robust, transparent, proportionate and efficient systems for delivering TCF is a key part of managing a successful programme and the significant risks associated with delivering a large programme in a relatively short time frame.

**4.4 Equality, Diversity and Social Inclusion**

No specific equality, diversity and social inclusion issues are considered at this stage. These will be considered on a scheme basis including the incorporation of design standards in active travel investments.

## 5. Communications

**5.1** No communications are proposed in relation to this report.

## 6. Appendices/Annexes

**6.1** None


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| Report Author | David Whitley |
| Post | Senior Programme Manager (Transport) |
| Officer responsible | Mark Lynam |
| Organisation | Sheffield City Region |
| Email | mark.lynam@sheffieldcityregion.org.uk |
| Telephone | 0114 220 3445 |


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: n/a