

**SOUTH EAST ENGLAND
REGIONAL TRANSPORT BOARD**

Date: 13 July 2007

Subject: **2008 Refresh of Regional Priorities**

Report of: Planning Manager
South East England Regional Assembly

Recommendations:

It is recommended that the Board:

1. Endorse the need to collect additional information on scheme costs than has previously been the case;
2. Agree that the base year for all scheme costs should be 2007, apart from those schemes which have had a rebasing of scheme costs undertaken subsequent to 1 January 2005;
3. Agree to publish guidance on the inflation figure to be used in providing cost estimates;
4. Agree that only proposals accompanied by an up to date Appraisal Summary Table will be eligible for inclusion in the forward programme;
5. Note the work underway to review the content of the prioritisation questionnaire.

Purpose of Report:

To update the Board on progress with the programme of work agreed for the 2008 Refresh.

Key Issues:

The Project Brief for the 2008 refresh of the forward programme identifies four key issues that, in the light of experience, require further consideration. This paper puts forward for the Board's consideration a set of proposals as to how each issue might be addressed.

1. Robustness of scheme cost estimation

- 1.1 There are two aspects of scheme cost estimation that need to be addressed as part of the refresh. Firstly it is important to ensure that the basis for the initial cost estimate is well founded and takes into account recent experience of costs incurred elsewhere in the region. Secondly, there is a need to ensure that level of optimism bias being applied to the cost estimate is correct for the particular stage in the scheme's development.
- 1.2 The recent Nichols and National Audit Office reports suggest that there are weaknesses with current practice. In order to ensure that published guidance is being applied correctly, the DfT/GOSE and the Assembly are hoping to run a workshop in the autumn to cover these issues in more depth. By then the revised DfT guidance on major schemes will have been published, and it is anticipated that there will be greater clarity in respect of the implications of Nichols for managing scheme costs in the future.
- 1.3 It is clear that we will need to collect additional information on scheme costs than has previously been the case. We anticipate requesting information on the following:
 - a) The cost estimate for the scheme;
 - b) The identification of optimism bias as a separate component of the overall cost;
 - c) The identification of all anticipated funding sources (i.e. Regional Funding Allocation, scheme promoter, third party, etc);
 - d) The separate identification of preparation/scheme development costs.

2. Base year for cost estimation

- 2.1 Information that has a consistent base is paramount in enabling us to manage the forward programme in the most effective way possible. We propose requesting that all cost estimates for schemes in the forward programme are updated to a base year of 2007.
- 2.2 We accept that rebasing cost estimates can be an onerous task for scheme promoters however the need for comparable data is paramount. In order to avoid scheme promoters having to repeat work unnecessarily we propose that where a rebasing of the cost estimate has taken place subsequent to 1 January 2005 it would be acceptable for the cost estimate to be updated in accordance with inflation. We would publish an agreed inflation figure to be used for this purpose.

3. Allowance for Construction Price inflation

- 3.1 We are well aware that the assumptions made in respect of inflation will significantly affect outturn costs. Correctly factoring inflation into scheme costs improves the realism of the forward programme, thereby reducing the potential need to re-programme at a later stage.

- 3.2 We propose to handle the disparity between the Department for Transport's assumption in respect of inflation and the reality of construction price inflation by requesting two cost estimates. The first estimate would use the DfT's guidance on inflation indexing. The second estimate would use a more realistic figure for inflation. Work is ongoing with a view to establishing whether it is possible to identify a regionally specific figure for construction price inflation.

4. Level of appraisal information

- 4.1 Part of the information required as an input into the prioritisation methodology is taken from the Appraisal Summary Table (AST). Scheme promoters are required to prepare this as part of the package of supporting information considered by the DfT.
- 4.2 Our experience to date has been that in some instances scheme promoters have not prepared an AST for their proposal. There is capacity within the prioritisation methodology to make a guesstimate of the required information by drawing on experience with similar schemes. However, this is clearly less preferable to having scheme specific information supplied.
- 4.3 The use of ASTs is recommended by the DfT as a means of helping the scheme promoter develop a robust scheme that delivers on an identified set of objectives. As such we believe it is an invaluable tool in the development of robust proposals. Accordingly we propose to make it a requirement that an up to date AST must be supplied in order for a scheme to be eligible for inclusion in the forward programme. If a scheme promoter fails to provide an AST it would be excluded from consideration through the prioritisation methodology.
- 4.4 Even where a proposal is in an early stage in its development the use of the AST is an invaluable tool in ensuring that the right options are under consideration.

5. Prioritisation Questionnaire

- 5.1 As previously discussed there a number of aspects of the prioritisation process that we suggest are refined further in light of our experience.
- 5.2 Handling of Packages
- 5.2.1 A number of packages are included within the forward programme however we accept that the way in which the prioritisation process handles them is not entirely satisfactory. The key issue that needs to be addressed is how best to assess prospective packages given that their benefit derives from the whole being greater than the sum of the parts, and yet in terms of taking forward individual components they need to stand up to scrutiny in their own right.

5.2.2 Our initial suggestion is that packages should be assessed on the basis of their collective whole, with an increment/decrement approach to individual components. In other words, we would look at the benefit of the whole package and then work with the scheme promoter to understand the impact of removing components from the package on the overall benefit. Such an approach is being promoted by the DfT in terms of assessing the impact of packages being put forward for future TfF bids.

5.2.3 If the Board are content with such an approach in principle we would need to develop more detailed guidance for scheme promoters to follow.

5.3 Addressing Bottlenecks and Improving Access to Gateways

5.3.1 Our initial discussions with the Regional Transport Co-ordination Group suggest that the current prioritisation questionnaire provides sufficient scope to enable the linkage with these policy objectives to be picked up. Accordingly we don't feel there is a need to change the content of the questionnaire. However, there may be a case for the Board considering whether it wishes to consider introducing some form of weighting to the questions.

5.3.2 The justification for introducing weighting to the questions would need to be set out clearly so that all scheme promoters and external stakeholders understand the Board's priorities. Our work on applying the prioritisation methodology at a sub-regional level in the Thames Gateway is giving us some practical experience of the issue of weighting. We recommend returning to this subject at the next meeting of the Board when the work in the Thames Gateway has reached the next stage.

5.4 Linkages with Housing And Economic Development

5.4.1 At present we ask promoters to identify the number of houses that are delivered or the size of employment opportunity that is unlocked by a particular scheme. However, we know that in some instances the importance of the scheme is that it opens up opportunities for development to happen rather than physically being integral to a specific development.

5.4.2 This dimension is relevant in locations where we are seeking to achieve a step change in activity; in locations such as the growth areas and in major regeneration areas. We will need to give this issue further consideration as part of the refinement of the questionnaire. It is important that we have an approach that enables development opportunities to come and yet we must also ensure that the limited funds available are targeted in the most effective way possible.

5.5 Avoiding Double Counting of Benefits

5.5.1 Some concern has been expressed in the past that the benefit facilitating a particular development may be attributed to more than scheme. Initial views from the Regional Transport Co-ordination Group suggest that this may be

an issue of perception rather than reality. However we will review the prioritisation process to ensure that this is indeed the case.

6. Next Steps

- 6.1 An updated version of the timeline for the refresh is reproduced as Annex I. Work is progressing to schedule. We will now proceed on refining the questionnaire with a view to bringing this to the Board for its consideration in October.

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25 June 2007

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2008 Refresh Project Brief Timeline

COMPLETE	Regional Transport Co-ordination Group (RTCG) – discussion of draft project plan
COMPLETE	Regional Transport Board (RTB) – consideration of draft project plan
COMPLETE	Meeting with Local Transport Authorities (portfolio holders and senior officers) – briefing on 2008 refresh process
COMPLETE	RTCG – discussion of potential changes to prioritisation questionnaire
13-Jul-07	RTB - progress report and discussion of any issues arising from LTA member meeting
Aug/Sept	Further refinement of prioritisation questionnaire; taking on board any issues arising from outcome of Examination in Public
11-Oct-07	RTCG – discussion on final version of revised prioritisation questionnaire
26-Oct-07	RTB – consideration of final version of revised prioritisation questionnaire
Nov/Jan	Seek information from scheme promoters - 10 week collection period
Feb/Mar	Inputting of scheme information into prioritisation methodology; consideration of any reported substantial variation in costs associated with schemes in the regional programme
Mar/Apr	RTCG – discussion of initial findings arising from refresh process RTB – consideration of initial findings; identification of areas requiring further consideration
Mid July	RTB - consideration of draft advice to Secretary of State
July 08	Submit advice to Secretary of State