

**SOUTH EAST ENGLAND
REGIONAL TRANSPORT BOARD**

Date: 26 October 2007

Subject: **Major Schemes Guidance**

Report of: Regional Planner
South East England Regional Assembly

Recommendations:

It is recommended that the Board:

- i) note the publication of the new Guidance and the implications it may have for the regional programme;
- ii) seek clarification from the Department for Transport as to how the cost estimates used in the regional programme represent Quantified Cost Estimates or Approved Scheme Costs, and to understand what assumptions have been made by the Department with regards to the application of additional risk layers;
- iii) seek clarification from the Department for Transport as to what would constitute an 'exceptional' circumstance once a scheme has started construction on site.

Purpose of Report:

To advise the Board of the requirements and implications from the publication of the Department's new guidance on major schemes.

Key Issues:

In August 2007, the Department for Transport released 'Guidance for Local Authorities seeking Government funding for major transport schemes' (Note: the guidance does not change the procedure for Highways Agency schemes). The Guidance expands on changes to the process that have come into effect since the inception of the Regional Funding Allocation process in July 2005. The Guidance provides clarity for scheme promoters on what information is required and the timing of the assessment process. The Guidance also seeks to ensure greater local responsibility for the financial management of a proposal, and establishes a new system to clearly define the Department's maximum 'approved scheme cost'.

I. Overview of the Process

- I.1 The new guidance sets out a three stage process for any major scheme;
- Programme entry: approval of initial case submitted to Department
 - Conditional Approval: statutory powers approved
 - Final Approval: Supplier prices secured
- I.2 The guidance is explicit in that the Department will not accept a proposal for major scheme funding unless the scheme has been identified by the region as a priority. Therefore, while not identified in the guidance, the major scheme process has in fact a four stage process, with 'regional prioritisation' as the first stage.
- I.3 The new arrangements are to be applied to all RFA schemes in the current regional programme, and any future rounds of prioritisation. However schemes that submitted a business case to the Department prior to April 2006 are subject to specific transitional arrangements.
- I.4 The guidance confirms that for each Comprehensive Spending Review period the Government will seek advice from the region on priorities for transport investment. As with the current 2006 to 2016 priorities, the region will ask local authorities to submit major transport scheme proposals for consideration as part of the regional programmes. The Secretary of State will then consider whether to accept the region's advice as priorities for government investment.
- I.5 Within a CSR period, the region can seek to add new priorities or withdraw support for schemes allocated as regional priorities. In terms of new priorities, the region must demonstrate that they are not exceeding the indicative allocations for the RFA, and submit any alterations to priorities or spending profiles to the Department.
- I.6 It is assumed that provided there are no significant material changes to a proposal, it will remain a regional priority. However, the Department may ask the region to reconsider support in light of significant cost increases to the RFA, a change in 'value for money' or a change in expected benefits.
- I.7 Under the previous guidance, the Department allowed local authorities to submit 'exceptional' schemes, where the Local Authority was unable to meet the cost of smaller schemes through other mechanisms - in particular Local Transport Plan settlements. The Department has made clear that any 'exceptional' schemes should now be considered for funding through the RFA.
- I.8 The guidance sets out that the Department will expect the promoter to provide a minimum contribution of (whichever is the lesser) ;
- 10% of the total scheme cost (25% in the case of light rail schemes), or

- A sum equivalent to a minimum of 100% of the Authorities Integrated Transport Block in the year which programme entry is sought
- 1.9 At the point a scheme is granted programme entry status the Department will identify a sum of money as being the total cost of the scheme, the Department's intended contribution, and the Department's maximum contribution to the scheme (see Annex I).
- 1.10 Moving to the next stage, conditional approval, represents a firm undertaking by the Department that full approval, and subsequent funding, will be granted upon satisfying certain conditions. To achieve conditional approval, all statutory powers needed for the scheme must be secured. In addition, any assurances sought by the Department at programme entry stage must continue to apply, and a procurement strategy must be in place.
- 1.11 It is at this point that the promoter may retrospectively claim up to 50% of the costs incurred in developing the proposal up to this point. However they are only allowed to claim for certain costs, in particular they can not claim for the purchase of land.
- 1.12 Following the selection of a preferred contractor to build the scheme, the scheme moves into the final category; final approval. The cost of the scheme at this point forms the basis on which the Department will confirm their contribution towards the scheme. From hereon in the Department's contribution is capped; regardless of whether the final agreed contribution is less than the maximum departmental contribution proposed at programme entry. Any additional cost increase is to be met by the promoter or other funding source, the Department will only increase its contribution under 'exceptional' circumstances. Such circumstances are defined as where the increase was not foreseeable, in which case the Department may provide additional funds up to the maximum contribution agreed at programme entry.

2. Transitional Arrangements

- 2.1 The Department recognises that schemes which have reached an advanced stage under the previous guidance need to be considered in a different context. The new guidance therefore sets out transitional arrangements to be applied to schemes that submitted a business case prior to April 2006. In terms of the current regional programme these schemes covered by these arrangements are;
- Bexhill to Hastings Link Road
 - Walton Bridge
 - A24 Ashington to Southwater
 - East Kent Access Phase 2
 - Sittingbourne Northern Relief Road
 - M4 Junction 11

- Central Milton Keynes PT access improvements
- 2.2 Transitional schemes will not have a 'quantified cost estimate' or an 'approved scheme cost' applied retrospectively (see Annex I). As a consequence, the scheme promoter will be required to pay a minimum of 25% of any cost increase over the Department's maximum contribution (as defined in the original letter issued by the Department).

3. Implications for the Regional Transport Board

3.1 Status of 'regional prioritisation'

- 3.1.1 The guidance is clear that the recognition of schemes as regional priorities by the Secretary of State is the primary entry point for schemes seeking to secure funding from the RFA. As with previous rounds of prioritisation, the Board will have to programme within the overall level of affordability as defined by the indicative RFA.
- 3.1.2 It is clear that as a first step in applying the new guidance at the regional level it is essential to understand how the cost estimates used in the regional programme represent Quantified Cost Estimates or Approved Scheme Costs, and to understand what assumptions will be made by the Department with regards to the application of additional risk layers.
- 3.1.3 Compiling a more complete picture on cost estimates is a key objective of the refresh process now underway. It will enable us to better understand the scale of any impact arising from the revised guidance on the current forward programme. While we can work with Local Transport Authorities and the Government Office to establish this information for local authority major schemes we will have to await a separate announcement on the future of the Highways Agency programme before we are able to complete the picture at the regional level.
- 3.1.4 It is almost inevitable that there will be implications for the forward programme. The Board will need to take a view at a later meeting as to whether it wishes to consider the implications in isolation of, or as an integral element of the work on the refresh.

3.2 Dealing with Scheme Cost Increases

- 3.2.1 The Board will have a continuing role to advise on potential action in relation to a scheme that experiences a major increase in its cost. A protocol outlining the Board's approach in such instances was agreed at its last meeting. That approach continues to be valid with the publication of the new guidance.

3.2.2 In order to ensure that the Board has the fullest possible picture in terms of funding sources it will be necessary to seek more specific information of scheme finance from promoters. The prioritisation questionnaire is being redesigned to enable information on potential funding sources that have been sought, optimism bias applied and inflation assumptions to be collected. We propose to collect and monitor this information in the future; in the first instance as part of the refresh of regional priorities in 2008.

3.3 'Exceptional' Schemes

3.3.1 In future we will need to consider how to handle exceptional schemes (i.e. those highlighted in paragraph 1.7). The Department has clarified that the indicative RFA figures include an allowance for funding that would otherwise have been allocated by the Department on exceptional schemes. By their very nature the presumption is that such schemes will be exceptional in their occurrence, therefore the presumption is that they should rarely draw on the RFA.

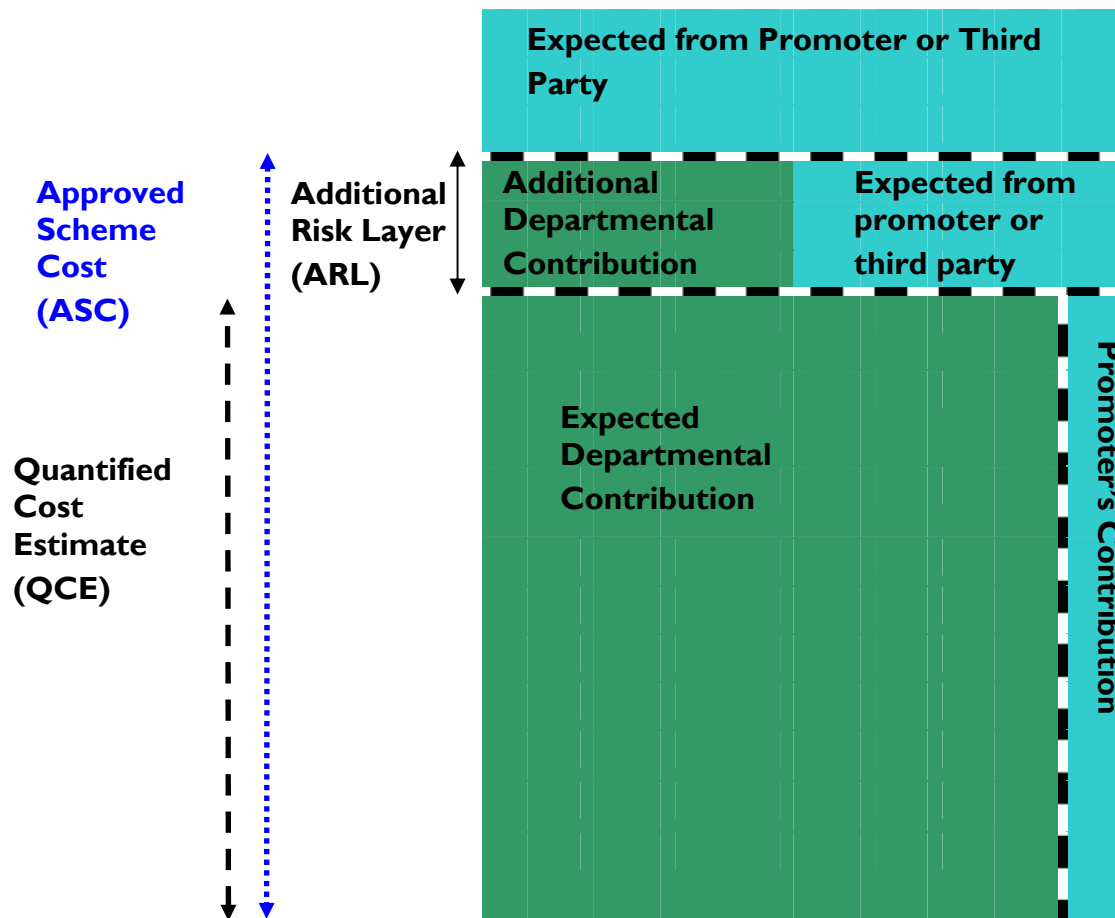
3.3.2 It may be appropriate to consider whether there is a need to identify specific criteria that would be used in considering exceptional schemes in the future. In terms of exceptional maintenance schemes there will be a need to consider the likely consequences of failure to prioritise (i.e. the impact on the performance of transport networks). However, exceptional improvement schemes may offer the opportunity to support innovative schemes to act as pilot projects that take forward other regional objectives, such as mobility management measures. It must be borne in mind that there is no additional funding proposed by Government to cover any additional priorities the region may propose.

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DfT Major Schemes Contribution Model



Quantified Cost Estimate (QCE) : Total cost of developing the scheme (base cost + risk allowance and inflation) Expressed as outturn costs (inclusive of preparatory costs incurred from programme entry onwards).

Approved Scheme Cost (ASC) : 'Approved' cost of scheme by the Department (QCE + 50% of Optimism Bias applied by Department).

Additional Risk layer (ARL): The difference between QCE and ASC.

'Expected Departmental Contribution': the expected departmental contribution is the amount of funds applied for from the Department towards the QCE. In most cases, this will be 90% of the scheme cost. However, in cases where an additional funding source is pursued, i.e. DCLG or where the promoter's contribution is more than 10%, the Department's expected contribution would be less the 90%. The Department does not intend to meet any additional cost above the Approved Scheme Cost.

'Promoters Contribution': Minimum of 10%

'Additional Departmental Contribution': Upon exceeding QCE, the Department may be willing to fund 50% of any cost increase within the ARL. However, the Department's contribution may be below 50% where their contribution to the QCE is significantly less than 90%.

'Expected from Promoter or Third Party': Upon exceeding QCE, the promoter is expected to fund a minimum of 50% of the cost increase within the ARL (or find from third party source). However this may be increased above 50% where the Department's expected contribution is less than 90% of the QCE. The Department does not intend to meet any additional cost above the Approved Scheme Cost.