



West Midlands
Combined Authority

WMCA Board

Date	9 June 2023
Report title	West Midlands Metro Extension to Wednesbury to Brierley Hill
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The issues covered within this report have been considered by	West Midlands Finance Directors - 4/05/23 WMCA Executive Team STOG - 11/05/23 Mayor & Portfolio Leads Liaison - 19/05/2023

Recommendations for action or decision:

- (1) Note the update on the delivery and financial status of the West Midlands Metro network for Wednesbury to Brierley Hill Extension (WBHE).
- (2) Note that the specific financial details concerning the funding strategy are presented as a private addendum to this report for commercially confidential reasons.
- (3) Agree the delivery strategy represented in the body of the report which is intended to enable progression of the programme against the available funding sources authorising continued progression of WBHE delivery to an interim Merry Hill terminus, subject to ongoing discussions with Dudley MBC with regard to funding.

- (4) Note that in agreeing the funding and delivery strategy there are dependencies, including the need for DLUHC to agree the business case for additional funding agreed in principle through the Deeper Devolution Deal; the WMCA and DfT/HMG to separately approve changes to the CRSTS programme and Single Funding Pot; and the requirement for the successful refresh of business cases for the relevant individual schemes.

1. Purpose

- 1.1 To provide the WMCA Board with the latest information on the cost, programme and proposed delivery strategy for WBHE.
- 1.2 To seek direction and agreement from the Board so that the approach set out can then be developed in detail and the inherent critical dependencies and assumptions validated.
- 1.3 Some of the detailed financial figures relating to WBHE are provided within a private addendum to this report due to their commercial sensitivity (as they relate to current and live contract discussions).

2. Background

- 2.1 The metro works programme is a long held and very ambitious programme to transform connectivity across the region and support wider economic and social regeneration benefits. Following the initial Line 1 delivery and a long period without significant funding, it has over the last 7 years been possible to provide significant funding from a cocktail of grants and revenues secured through the WMCA. The WBHE provides connectivity to new housing and commercial sites within Dudley and Sandwell and provides much improved access through sustainable transport for residents to wider employment, education and other public services across the region including Wolverhampton and Birmingham city centres.
- 2.2 In June 2022 it was reported to the WMCA Board that the projected costs of the Wednesbury Brierly Hill Extension had increased through supply chain and inflationary (due to covid, international unrest) and scope pressures and that work was being undertaken to pursue value engineering and review key finance and engineering assumptions.
- 2.3 A further report was considered by the CA Board in March 2023 which provided and update on the situation and agreed to bring a revised financial proposition to the Board's June meeting. This report addresses that agreement. It is linked to a second separate but related report also being reported to the Board in June which covers the wider transport investment programme and an annual report on the CRSTS funding programme.
- 2.4 Through the Deeper Devolution Deal, the WMCA secured a £60m commitment for new money from DLUHC to support the delivery of WBHE. This is subject to a review of the business case for the funding. Once produced, the business case will be assessed by DLUHC in consultation with DfT.

- 2.5 Whilst the firm construction costs remain under development (due to an on-going process of challenge and value engineering with the contractors), there is now greater certainty on the forecast total cost of delivery. This increases the full scheme costs further and despite factoring the additional £60m from DLUHC, the delivery of the full extension is not considered affordable from the WMCA's currently available funding which could be available to be committed to the scheme at this point.
- 2.6 It is therefore proposed to phase overall delivery of the WBHE programme to focus any WMCA funding available within the current funding and delivery period up to 2027 on connecting the line through to Merry Hill. This would use a combination of funding that is already committed within CRSTS1; additional use of WMCA financing; additional funding from CRSTS1, and the newly allocated DLUHC funding to deliver to Waterfront and any potential direct contributions from Dudley MBC to Merry Hill subject to their internal governance requirements.
- 2.7 Of these funding sources, the additional DLUHC funding requires a detailed business case to be produced and approved by Government. It is expected that it will need to set out what the overall funding solution is, as well as re-affirm the value for money of the investment against the increased scheme costs.
- 2.8 The proposed financial management strategy linked to CRSTS1 (as set out in the separate relevant WMCA report to this meeting) is associated with an opportunity to re-base the overall CRSTS programme, which in turn will require further DfT approval. Fundamentally this relies on cash flowing the current financial pressures from WMCA resources over the CRSTS1 delivery period and holding that cash flow pressure against the anticipated funding to be received in the next CRSTS period. This approach should enable the current scope of delivery of schemes within CRSTS1 to be continued, notwithstanding that a number of these scheme may be subject to their own cost and delivery challenges which may be addressed in the re-base exercise.
- 2.9 Despite the financial management strategy, within the boundary of funding currently identifiable there would remain an interim terminus for WBHE Metro Line at the Merry Hill stop. Connectivity from this interim terminus to connect onwards to Brierly Hill High Street can be provided through a combination of pedestrian, cycle and demand responsive bus solutions. These will need to be developed and designed in partnership with Dudley and funding for them would need to be accommodated from within existing budget lines for such activity that is within the current CRSTS1 programme or operational budgets. The ultimate completion of the full WBHE Metro alignment will depend on further funding being secured from other, as yet to be identified, local funding sources and/or future Government grant such as CRSTS2.

3. Overall Financial Position

- 3.1 The overall financial position for the WBHE is set out in a private addendum to this paper. The costs contained within that paper are subject to the negotiation of final contractor prices being confirmed, design changes to provide a turn back facility at Merry Hill and further detailed challenge on cost and scope by WMCA. The out-turn costs will all be subject to contractual pain/gain share arrangements which will be influenced by the actual construction conditions encountered during the build.

- 3.2 The private addendum to this report outlines the intended funding solution for the project which:
- Allows for the completion of Phase 1 (Wednesbury to Flood St, Dudley) as previously reported.
 - Allows for the completion of Phase 2a (from Flood Street in Dudley to Waterfront) using a combination of WMCA resources, DLUHC capital together with a call on CRSTS1.
 - Allows for the completion of Phase 2b (from Waterfront to Merry Hill), subject to Dudley MBC contributing towards the capital costs.
- 3.3 Phase 2c (from Merry Hill to Brierley Hill) currently remains unfunded and options to provide public transport connections will continue to be evaluated and assessed.
- 3.4 With respect to stakeholder engagement, key Finance and Transport Officers within the Local Authorities have been consulted with in designing the strategy outlined above.
- 3.5 Clearly, as with all major public infrastructure projects, risks will continue to emerge and be managed accordingly. Significantly, with respect to the funding strategy, there is a risk that DfT will need to consent to the approach where CRSTS is suggested as a solution. WMCA have been working closely with DfT on these issues and will continue to do so.

4. Key Risks

- 4.1 The following sets out a number of key risks that the Board should formally be aware of, including the activity being undertaken to help manage these.
- 4.2 BUSINESS CASE REFRESH AND APPROVALS:- Due to the scale of cost increase, the overall business case will need to be refreshed. This work will also need to factor reduced demand for metro travel as a result of a post-Covid travel pattern and the emerging realism of wider economic benefits associated with WBHE. The business case will need to reflect a viable funding model for the scheme and will likely face some form of Government scrutiny once the associated WMCA SAF processes have been completed successfully. This work is being progressed as fast as possible, but the scoping work undertaken to inform the position previously reported to the December WMCA Board did not factor the cost increases outlined above. Consequently, the business cases may face robust challenge.
- 4.3 ADDITIONAL INFLATION AND/OR PROLONGATION COSTS:- The Midland Metro Alliance are being placed under considerable cost and programme scrutiny and high range cost estimates are now being used and reported. Furthermore, the client side management arrangements are being re-structured to provide greater assurance, transparency and scrutiny of costs. However, as illustrated by many rail based projects across the UK, there remain significant issues in the international supply chain for materials and energy costs which create a level of uncertainty in construction planning which cannot be completely removed at this stage of delivery.

- 4.4 Is subject to getting agreement with DfT on the re-baseline of the CRSTS programme as referenced in the CRSTS report also presented to the board.

5. Next Steps

- 5.1 Work will progress to agree DLUHC requirements for a refreshed business case to unlock the additional £60m funding and with Dudley MBC in relation to any contribution to secure the extension beyond Waterfront. Also in line with the strategy set out in the report work to continue to drive confidence into the construction cost forecasts and explore value engineering measures will be progressed, as will exploring other options for further local funding for WBHE with local stakeholders

6. Financial Implications

- 6.1 These are set out within the body of the report and summarised in the private addendum to this report.

7. Legal Implications

- 7.1 There are a number detailed contractual and legal implications arising from the strategy linked to the WMCA's supply chain and ability to complete various grant agreements. These will require on-going and further consideration as part of progressing the strategy if it is to be agreed.

8. Impact on Delivery of Strategic Transport Plan

- 8.1 The provision of a core Metro network within the region as a material impact on the ability to provide a comprehensive public transport network, which is a fundamental requirement essential to the ability to deliver the statutory Local Transport Plan.

9. Equalities & Inclusive Growth Implications

- 9.1 Overall, the Metro programme is delivering significant sustainable connectivity benefits with the economic, social, inclusion and environment benefits that entails. The impact of scope and delivery phasing changes will be examined in detail as part of the business case refresh for WBHE and BEE. Two fundamental issues will require evaluation, namely the delay in the ability to secure any social benefits arising from the phased delivery strategy; and any potential opportunity cost arising from the ability to fund future projects.

10. Geographical Area of Report's Implications

- 10.1 The impact of any policy changes will primarily relate to the constituent authority area of the WMCA.

11. Other Implications

- 11.1 No other implications identified.

12. Schedule of Background Papers

None