

## WMCA Board

<b>Date</b>	15 September 2023
<b>Report title</b>	CRSTS re-base proposal
<b>Portfolio Lead</b>	Transport - Councillor Mike Bird
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<b>Report has been considered by</b>	Strategic Transport Board – 27 July 2023

### The WMCA Board is recommended to:

- (1) Approve the proposed re-base of the CRSTS programme detailed in the report, as per DfT's invitation to all Mayoral Combined Authorities in receipt of CRSTS funding, to reflect inflationary scheme cost pressures.
- (2) Note that the net overprogramming value of £160.2m (15%) remains unchanged from the value agreed by WMCA Board in June 2023.
- (3) Note the intention to undertake a 'CRSTS stock take' once commitments reach c.£900m to allow WMCA and sponsors to accurately quantify the precise over-programming value and re-confirm the regional appetite for spending CRSTS2 funding at risk in line with soft contingency principles previously agreed and as set out in para 3.13.
- (4) Note the requirements of DfT in para 2.4
- (5) Note the approval timeline set out in para 2.8
- (6) Note that WMCA/TfWM continues to manage on-going cost pressures on major transport infrastructure projects outside the CRSTS programme, as reported to WMCA Board in June 2023.

- (7) Note an early warning on Rail Package 1 (Willenhall and Darlaston Stations) due to the main contractor for the project going into administration.

## 1. Purpose

- 1.1 The report provides an update to the Board on the City Region Sustainable Transport Settlement (CRSTS), specifically regarding a re-baselining exercise that has been undertaken across the programme, at the request of DfT, in order to reflect inflationary construction cost pressures.

## 2. Background

- 2.1 The CRSTS is a £1.050bn programme of transport improvements across the West Midlands. The programme is spread over a 5-year funding period covering financial years 2022/23 – 2026/27 with a requirement that all funding is spent and all delivery complete by the end of March 2027.
- 2.2 In the Spring Budget it was announced that £8.8bn would be available nationally for the second round of CRSTS (CRSTS 2). The WMCA allocation for this has not yet been determined.
- 2.3 WMCA and GMCA are also currently in dialogue with Government around the concept of receiving single thematic funding pots for specific functions (including Transport), where those funding allocations will align to Comprehensive Spending Review timelines. This has the potential to further enhance the strategic planning of Transport interventions beyond 2027.

### Re-base context

- 2.4 A number of CRSTS eligible MCA's have raised that, given the high rate of inflation since the creation of the original programme, delivery of all the outputs outlined in initial programmes developed over 2021 and submitted in January 2022 will be unaffordable. In acknowledgment of this, the Department for Transport and HM Treasury have agreed to permit a one-time only re-base of the CRSTS programmes. This situation is consistent with previous reporting to WMCA Board where inflationary cost pressures have been highlighted.
- 2.5 This re-base must be agreed locally before being submitted to DfT by 29th September 2022 for approval. The following conditions must be met as part of this exercise:
- Projects can be removed from the programme or added but DfT have emphasised this should not be seen as an opportunity to introduce brand new initiatives.
  - All projects must align with the objectives of the national CRSTS programme.
  - The total funding envelope must remain the same.
  - Overall, the target 15-20% local contribution must be met.
  - The outputs can be reduced.
  - The funding time horizons must remain the same (spend and delivery by March 2027).
  - The re-based programme submitted to DfT will need to demonstrate that it still delivers good value for money.

## WMCA re-baselining process

- 2.6 In June 2023, TfWM issued a template to representatives from the 7 constituent authorities to provide them with an opportunity to re-base their CRSTS schemes. Sponsors were requested to consider their allocation under two scenarios:
- **Scenario 1:- 5 year re-base within CRSTS 1.** Under this scenario, promoters could redistribute their funding allocation within the current 5 year programme (2022/23 – 2026/27) for example by removing projects or reducing project scope. The total funding over 5 years for each authority cannot exceed the allocation from the CRSTS baseline.
  - **Scenario 2:- 10 year re-base over CRSTS 1 & 2.** Under this scenario, promoters could redistribute the profile of funding over a 10-year scenario by moving some spend into the CRSTS 2 period (2027/28 – 2031 / 32). The total funding in the CRSTS 1 period (2022/23 – 2026/27) cannot exceed the CRSTS baseline allocation for the authority.
- 2.7 The completed templates were submitted to WMCA to allow a West Midlands wide view to be developed. The information was consolidated and checked, with further clarifications sought where required. Collaboration between Officers of all seven Local Authorities, TfWM and WMCA Finance has been undertaken to ensure that the total programme remains balanced and affordable, and that the balance of investment across the region remains consistent with that of the original programme.
- 2.8 An initial, high-level, review of returns has highlighted the following points to note:
- The programme remains heavily back-ended with 24% of project spend forecast in the last year of the programme and 66% of projects forecasting delivery completion in the final year of the programme.
  - Where possible, funding has been moved from schemes forecasting only development activity to those where construction can take place (and costs have increased due to inflationary pressures).
  - As would be expected given the general increase in construction costs, in order to remain within the original funding budget there are some reductions in forecast outputs for KMs of cycle lanes and bus lanes (which are key DfT metrics). However, the proposed deliverables still represent a significant step change in provision over the current situation and contribution toward policy delivery.
- 2.9 It should be noted that the approach set out in this paper is contingent on the financial strategy agreed by WMCA Board in June 2023 remaining viable. This set out that emerging cost pressures on key CRSTS projects currently in delivery are to be accommodated by overprogramming against future grant income (e.g. CRSTS2). This is a position which will need to be formally accepted by DfT/HMT. It is also a key element of our Devolution Deal with Government and related to the way the Single Funding Pot is expected to operate (a matter which remains under development and will be considered by the WMCA Board in October 2023).
- 2.10 The over-programming value resulting from cost pressures (as documented in the June 2023 Board report) totalled £160.2m across a range of heavy and light rail projects.

2.11 It should also be noted that the previously submitted CRSTS change control agreed by the WMCA Board and submitted to DfT in February 2023 has yet to be formally agreed by DfT. The current re-base exercise assumes that this will ultimately be agreed.

### **3 Re-base proposal**

3.1 Full details of the re-base proposal are included in an appendix to be tabled. In summary the following key changes are proposed:

#### **3.2 Solihull**

- Circa £4m increase in construction costs for A45/Damson parkway scheme covered by £1m reductions across 4 largely development only activities e.g. Multi modal access to HS2, M42 Bridge, Solihull Station, and UKC - Solihull - Dorridge Bus Priority project.
- Reduction in estimated cycle lane KM outputs (circa 50% reduction) for Dickens Heath to Solihull Town Centre, Chester Rd and Knowle to Solihull Town Centre Schemes. Overall costs remain the same.

#### **3.3 Coventry**

- Transfer of £14m of funding from the Coventry elements of the Very Light Rail (VLR) programme to highways maintenance, including footway and cycleway maintenance (£10m) and the Coventry South project (£4m).

#### **3.4 Wolverhampton**

- Circa £4m increase in construction costs Wolverhampton City Centre Movement scheme covered by reduction in cost and scope of less mature A449 corridor project.

#### **3.5 Walsall**

- Minimal changes to the existing programme at present.

#### **3.6 Dudley**

- Transfer of circa £3m from DMBC Dudley Town Centre project to TfWM Dudley Interchange scheme.

#### **3.7 Sandwell**

- Minimal changes to the existing programme at present.

#### **3.8 Cross Boundary Black Country schemes or programmes**

- Black Country Walking and Cycling Package – potential reduction in KM of cycle lanes delivered from 15KM to 12KM.
- A454 - Some movement of funding and delivery timescales across the various elements of the A454 corridor. Overall budget remains the same.
- Some small changes in outputs e.g. bus lanes on larger corridor schemes e.g. A4123 and A461.

#### **3.9 Birmingham**

- Transfer of £5m of funding from City Centre Active Travel Connections to Interchange to One Station/Smallbrook Queensway scheme.

### 3.10 TfWM

- Hagley Rd – Reduction in scope and cost from £25m to £10m to in this period to cover any Phase 1 residual works, scheme development and business case activity.
- Metro – Cost pressures on WBHE, Depot, Traction power and CAF Battery replacement as per June Board report.
- Swift cEMV contactless payment broker – revised timescales pushing delivery back from 2025 to 2026. The target to agree a £10m DfT rebate on West Midlands expenditure from DfT (due to the nationally strategic nature of the project) remains, but will not likely be resolved until during 2024. To address uncertainty the DRT and Mobility Hubs indicative budget position is temporarily reduced by £5m each until confirmed, or another TfWM promoted scheme will be subject to an equivalent budget adjustment.
- Data and M&E – The funding is agreed as a joint initiative to cover standard data requirements for scheme development and M&E is proposed to be spread over a longer period until 2029 to account for the fact that many schemes in the programme will not be completed until the final year of the programme, and hence will require a period of post-opening monitoring immediately following the main funding period.
- The net reduction of £15.0m arising from the above is recommended to be retained within the TfWM programme to allow some flexibility in meeting critical and unavoidable cost escalations such as those likely to occur on Rail Package 1 as detailed below.

#### Rail Package 1

- 3.11 Whilst no adjustments have been factored into the re-base, on 17 August 2023, WMCA was alerted to the fact that the principle contractor for the delivery of two rail stations in Willenhall and Darlaston filed an administration notice, due to a deteriorating financial position within the company. Whilst actions have been taken by WMCA to limit financial exposure to this particular circumstance, knock on implications for the project cost and schedule unlikely to be fully avoided. As such, WMCA Board are requested to note the potential for adverse cost and schedule changes as an early warning and note a further update will be brought to Board in due course once the next steps are clear.
- 3.12 Overall: In general, delivery partners have managed cost pressures within their existing budget envelope. In some cases, this results in a reduction in delivery over the CRSTS1 period. The total post re-base programme cost, (including with previously identified cost pressures agreed by Board) totals £1.2102bn. This represents an overprogramming of 15% (which is considered to be reasonable for a programme of this size) and is in line with the value agreed at WMCA Board in June 2023. A summary of the changes is set out in the table below.

<b>Baseline Programme</b>	<b>£1,050.0m</b>
<b>Changes</b>	
Plus : TfWM imported pressures (WMCA Board Approved 9 June 2023)	£160.2m
Less : Deduction on Hagley Road Rapid Transit	-£15.0m
Plus : Retained by TfWM for critical / unavoidable cost escalations (e.g. Package 1)	£15.0m
<b>Rebased Programme</b>	<b>£1,210.2m</b>

**SUMMARY OF NET £ NIL CHANGES**

Lead Authority	Scheme	Decrease	Increase
Birmingham	City Centre Active Travel Connections to Interchange One Station and Smallbrook Queensway	£5.0m	£5.0m
Solihull	East Birmingham to Solihull Corridor		£4.0m
	Multi-modal Access to HS2 Enhancement	£1.0m	
	Solihull Rail Station	£1.0m	
	UKC - Solihull - Dorridge Bus Priority	£1.0m	
	West Coast Mainline and M42 Public Transport and AT links to HS2 Hub	£1.0m	
Wolverhampton Sandwell	A4123 Walk, Cycle and Bus Corridor	£1.2m	£1.2m
Walsall Wolverhampton	A454 Walk, Cycle and Bus Corridor	£3.7m	£3.7m
Wolverhampton	A449 Walk, Cycle and Bus Corridor Wolverhampton City Centre Movement - Walk, Cycle and Bus Package	£4.0m	£4.0m
Coventry	Very Light Rail	£14.0m	
	Coventry South Sustainable Transport (GIGA Factory Links)		£4.0m
	Highways Maintenance		£10.0m
Dudley WMCA	Dudley Town Centre Interchange Sustainable Connectivity Package Dudley Interchange	£3.0m	£3.0m
<b>TOTAL</b>		<b>£34.9m</b>	<b>£34.9m</b>

- 3.13 Previous Board reports set out the principle of the “soft contingency” mechanism whereby approvals cannot exceed c.£950m until delivery of committed schemes was certain. It is recommended that following this re-base exercise that there is a 'CRSTS stock take' once commitments reach c.£900m to ensure commitments are not likely to exceed available funding by 2027. This will be particularly important where DfT cap binding funding commitments at £1.050bn and will allow WMCA and sponsors to accurately quantify the precise over-programming value and re-confirm the regional appetite for spending CRSTS2 funding at risk.
- 3.14 If the Board approve the proposals as set out in this report the next step will be to formally submit the re-baselined programme to DfT on 29 September 2023. DfT will then undertake further assurance of the deliverability and Value for Money of the programme in advance of final approval.

3.15 As agreed by WMCA Board in January 2022, the Board will receive annual progress reports on the CRSTS programme, including details of any change controls implemented locally to the programme as projects mature and risks are identified and mitigated. Any significant changes will follow the agreed governance process via the appropriate approval route e.g. Executive Director, Investment Board or WMCA Board.

#### **4 Strategic Aims and Objectives**

4.1 The report aligns to WMCA aims to: -

1. Promote inclusive economic growth in every corner of the region
2. Ensure everyone has the opportunity to benefit.
3. Connect our communities by delivering transport and unlocking housing and regeneration schemes.

#### **5 Financial Implications**

5.1 As detailed within this report, the re-base exercise has provided Sponsors with an opportunity to re-assess delivery timescales and costs. The outcome of this exercise has resulted in an overall expected cost of £1.2102bn to deliver the agreed programme (unchanged from the June 2023 WMCA Board).

5.2 The funding DfT have committed to the region remains unchanged as part of this process at £1.050bn albeit, there is a strong indication that a follow on programme from April 2027 will provide additional capital resources for Transport schemes (CRSTS2).

5.3 At the WMCA Board meeting of 9 June 2023, the principle of 'over-programming' against the £1.050bn to allow commitments to be made to the full programme value was agreed, essentially meaning that c.£160.2m of CRSTS2 could be pre-committed (at risk) in lieu of the CRSTS2 allocation being received by the region. The re-base exercise has validated this over-programming sum remains unchanged.

5.4 A significant amount of time will elapse between this re-base and the latter stages of the programme in 2027. It is recommended therefore that the programme delivery arrangements continue as outlined above and as approved in June 2023, but that once the commitments reach c.£900m, a brief pause is implemented to allow WMCA and sponsors to accurately quantify the precise over-programming value and re-confirm the regional appetite for spending CRSTS2 funding at risk. Regular progress reporting on the programme will also take place as set out previously to Board.

5.5 It should be noted that WMCA expect CRSTS funding to fall within the scope of the single settlement where WMCA and GMCA are likely to receive thematic funding allocations linked to Comprehensive Spending Review Periods (CSR). Should the single settlement be implemented from April 2025 and the thematic Transport fund cover a four year CSR period (to March 2029), the specific risks associated with over-programming in line with the values above may be negated.

## **6 Legal Comments**

- 6.1 The CRSTS funding is delivering a vision for transport that will improve connectivity for the region and provide broad social and economic outcomes as well as health inequalities benefits. The impacts of any changes to delivery programmes have been examined as part of developing the detail of the CRSTS re-base exercise. If the Board approve the proposals as set out in this report the next step will be to formally submit the re-baselined programme to DfT on 29 September 2023. DfT will then undertake further assurance of the deliverability and Value for Money of the programme in advance of final approval.
- 6.2 There have been a number of detailed contractual and legal implications arising from the strategy linked to the WMCA's supply chain and ability to complete various grant agreements. An annual MoU is signed with the Department of Transport and any changes approved by this Board will be incorporated into this annual agreement.

## **7 Single Assurance Framework Implications**

- 7.1 The CRSTS programme as a whole follows and is compliant with the WMCA SAF, with quarterly progress reports being formally considered by the WMCA Investment Board.

## **8 Equalities Implications**

- 8.1 At this stage no significant programme changes are being identified in LA returns and therefore the previous assessment of the CRSTS equalities implications would remain unchanged.

## **9 Inclusive Growth Implications**

- 9.1 At this stage no significant programme changes are being identified in LA returns and therefore the previous assessment of the CRSTS inclusive growth implications would remain unchanged.

## **10 Geographical Area of Report's Implications**

- 10.1 The report applies to the constituent WMCA area.

## **11. Other Implications**

NA

## **12. Schedule of Background Papers**

WMCA Report - 16 June 2023