



West Midlands
Combined Authority

WMCA Board

Date	17 March 2023
Report title	Transport for West Midlands Capital Pressures
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The issues covered within this report have been considered by	Mayor & Portfolio Leads Liaison - 3 March 2023 Strategic Leadership Team Strategic Transport Board Strategic Transport Officers Group

Recommendation(s) for action or decision:

- i. Note the submission of the CRSTS change control documentation to DfT as per the December 2022 WMCA Board Report.
- ii. Note the updated position on the TfWM Capital Pressures.
- iii. Note the intention to return to WMCA Board in June with an update on the overall capital programme budget pressure solutions with an appropriately balanced programme.
- iv. Approve the approach towards integrating into the CRSTS programme the expected net deficit of £53.4m, where this funding is urgently needed for projects to continue in the delivery stage.

- v. Delegate to the Section 151 officer, the power to amend budgets totalling (gross) £75.7m subject to adequate assurances concerning value for money, commercial challenge, technical challenge and the relevant 3rd party consents being in place (as detailed in financial comments).
- vi. Approve that as part of on-going management of adverse cost pressures the following schemes from the main TfWM delivered CRSTS programme are de-scoped to partly alleviate pressure against the overall programme; Rail Development (£2m), and Bus Retrofit (£2m) and note ongoing work to look at further items to de-scope in consultation with Local Authorities.
- vii. Approve the decision to continue spending £38m (from the approved budget) on the Birmingham Eastside Metro extension scheme at risk, in lieu of a funding solution being identified given the early indications around cost escalation; noting that the cost pressure will need to be met from the CRSTS programme if an alternative funding solution cannot be found.
- viii. Approve the release of further funds of £2m from the Birmingham Eastside Metro budget to allow continuation of works to Clayton Hotel pending receipt and approval of Target Cost 2 (noting that this will support early generation of revenue to support the metro programme funding model).
- ix. Note the additional risks being carried by WMCA with respect to WBHE Phase 2 and Metro Lifecycle.

1. Purpose

- 1.1 To provide the Board with an update on the transport capital programme further to the report on cost pressures considered by the Board in December 2022.

2. Background

- 2.1 Transport and construction projects have been facing extraordinary cost inflation pressures as a result of various national and international pressures as advised to the Board previously. Additionally the West Midlands transport capital programme has been subject to a number of specific delivery pressures and scope changes requested by partners, again as advised to the Board previously.
- 2.2 Consequently, there is a need to accommodate additional cost pressures within the region's CRSTS programme, which is the only significant funding source for Transport which is not already fully committed. As part of this previously the Board has agreed to seek approval from DfT to accommodate these cost pressures in CRSTS. These relate to projects displaced from the Transforming Cities Fund programme and to support the emerging cost pressures on Rail Packages 1 & 2.

2.3 The details within this report refer to the 'soft contingency' arrangements agreed by Board in January 2022 and March 2022. There is no traditional 'contingency line' within the £1.050bn CRSTS programme as both DfT and Leaders requested that the full £1.050bn was allocated to named schemes. The concept of a soft contingency refers to the fact these allocations are all 'provisional' until formal approval via the WMCA delegated structures and Single Assurance Framework. The concept of 'provisional' commitments therefore introduces a degree of flexibility and discretion over what funding is actually committed to by WMCA Board. The soft contingency is explained in more detail within the report but was essentially designed to manage and contain unforeseen variations between the CRSTS baseline business case and actual delivery.

3. CRSTS Change Control

3.1 In line with December Board approval a change control application has now been made to DfT to accommodate the above schemes in programme. TfWM have responded to a number of follow-up questions and we are now awaiting the formal response, which if available in time for the March WMCA Board will be verbally reported.

3.2 The full impact of the changes alongside the other financial matters in this report will be addressed as part of a substantive CRSTS annual progress report to the Board which is planned for the June Board meeting.

4. Newly Awarded Funding for Transport Pressures

4.1 WMCA have been successful in obtaining some new capital funding from a government department, £13.6m of which has relieved immediate pressures raised at December WMCA Board. These funds will also remove an additional **£8.3m** of capital pressures from the latest position, further reducing down the overall exposure. This additional element of funding 'flexibility' is incorporated in the overall summary in Appendix 2 [Private]. Whilst the funding conditions have been received, the precise details concerning the funding are strictly embargoed as at 6 March 2023.

5. Updated TfWM Capital Pressures

5.1 The report to December WMCA Board summarised the overall WMCA budget pressure range as being between £171.4m and £85.9m. Following a review with project teams based on latest information, the substantive budget pressure has been assessed at **£125.7m**. The drivers for the cost increases were reported to the Board in December and remain unchanged and the move from December to March is documented in Appendix 1 [Private].

5.2 The latest budget pressure assessment of £125.7m includes £17.4m for the reinstatement of the displaced TCF project (following the diversion of Transforming Cities Funding, as approved in December) and an indicative estimate of £50m for the Birmingham Eastside Metro. With respect to the latter, WMCA are awaiting details of the precise value to emerge through the work to finalise the Target Cost 2 and this cost pressure should be considered as a formal early warning at this stage. It is recommended that more precise details concerning this potential pressure are reported to the June WMCA Board once WMCA have had formal notification of the likely cost pressure from the Midland Metro Alliance and have validated and verified its accuracy. More specific considerations around this scheme are included in Section 7.

- 5.3 Excluding the **£50m** early warning for Birmingham Eastside, there remains a gross cost pressure of **£75.7m**. This represents the gross value of budget pressures for which an urgent solution is required.
- 5.4 Following the award of the [embargoed] funding in January 2023, as detailed above, the gross urgent cost pressure of **£75.7m** can be reduced by **£8.3m** to **£67.4m**.
- 5.5 In order to further reduce the extent of the deficit, a number of TfWM CRSTS projects are to be put forward to be immediately de-prioritised from the main CRSTS programme and will release in total £4m. The release of these schemes from the programme **does not conclude the review into TfWM transport schemes which may need to make way to accommodate underspends**, with more work being required in this area in consultation with Local Authorities (and across the wider programme) to be considered by Board in June 2023. The schemes initially being de-prioritised are:

- Rail Development **£2m** of a total £3m original allocation
- Bus Retrofit **£2m** of a total £3m original allocation

Incorporation of these two projects into the funding pressure solution further reduces the gap from £67.4m to **£63.4m**. The remaining allocations to the new stations programmes will still enable some development work of new stations to identify those warranting a more detailed business case to support delivery in the next capital funding period.

- 5.6 Additionally, and yet to be formally confirmed (but considered highly likely to materialise), there is an opportunity to secure a **c.£10m** off-set to the costs of delivering the cEMV Broker project. This project currently has OBC level approval and is moving into an early deliverable and mobilisation stage. It will enable travellers to use their contactless debit cards across all public transport modes whilst receiving a guarantee of only paying the lowest and best value fare. Whilst the £18m budget in CRSTS cannot be reduced, it is expected that third party contributions of c£10m towards costs can be secured by the end of 2023.
- 5.7 In light of the factors above, the net residual remaining cost pressure for items which require solving urgently totals **£53.4m** and will allow the following schemes to progress:
- Metro traction power.
 - Wednesbury Metro Depot.
 - Rail Camp Hill Line Stations (Package 2).
 - Rail Walsall to Wolverhampton (Package 1).
 - Displaced TCF project activity.
 - Wednesbury to Brieley Hill Metro Phase 1.
- 5.8 The above details are summarised in Appendix 2 [Private].

6. Funding Strategy for Remaining Cost Pressure

- 6.1 As detailed above, the net residual funding pressure which needs identifying urgently totals **£53.4m**. The CRSTS programme is a finite pot and at present, there are no firm assurances about its successor from 2027 onwards. As such, it is prudent financial practice to ensure the programme does not exceed the resources available.
- 6.2 At this early stage of the programme however, there are a significant number of unknown factors regarding the ability of all stakeholders (including TfWM) to bring forward a wide range of complex public infrastructure projects before the fund deadline of 2027. As its nearest comparator, the Investment Programme recently achieved a spend of £500m seven years after it was initially established. Furthermore, whilst the full programme is indicatively allocated to schemes, the total value of uncommitted CRSTS at this point totals over half the programme value at £576m.
- 6.3 In light of the above, it is recommended that the **net £53.4m** pressure is approved for incorporation into the CRSTS programme at this point as a formal pressure on the soft-contingency mechanism. Approval is sought for the Section 151 Officer to be authorised to amend the gross project budgets listed in paragraph 5.7 subject to adequate assurances concerning value for money, commercial challenge, technical challenge and the relevant 3rd party consents (e.g. DfT) being in place.
- 6.4 The budget pressure will be managed against the CRSTS soft contingency mechanism which was agreed by the Board in January 2022 and reaffirmed in March 2022. This mechanism addresses the issue that the CRSTS fund has no formal contingency budget (in-line with DfT requirements) and that the full £1.05bn CRSTS grant is fully allocated in principle to indicative scheme allocations. The mechanism means that in practice the CRSTS programme financial resilience will be managed through the operation of a broad 'soft-contingency' policy across the programme. This means that ALL Final Business Case approval is subject to programme affordability. This will be implemented so that:
- Up to the end of year three of the programme no Full Business Case will be approved if the total hard contractual programme commitments would reduce the uncommitted programme value to below £100m (after the whole programme life TCF, Local Network Improvement Plan and highway maintenance allocations have been accounted for); and
 - During years four and five of the CRSTS programme Full Business Cases will only be approved beyond the £100m soft-contingency threshold on the basis of a formal programme risk analysis. This will be informed by recommendations from the WMCA Finance Directors group and approved through the WMCA SAF governance. This will adopt the principles of a tapering down of the soft contingency sum from £100m towards zero in a way that will ensure the full programme allocation can be spent within the programme delivery period.

- 6.5 The above recommendation remains prudent on the basis of the fact that firm commitments against the CRSTS fund are well below the £1.05bn grant value. In addition, between the March and June WMCA Boards, Transport Officers will undertake a more thorough assessment of the projects which may be able to be re-prioritised from the main programme. Additional mitigations to cost pressures through value engineering schemes, scope reduction and seeking additional new funding will continue to be pursued.
- 6.6 In order to ensure that the overall 5 year programme deliverability remains on track it is proposed that all projects in the CRSTS programme are able to progress if appropriate through to OBC level development. At this point confidence in deliverability, project programme, stakeholder and public acceptability and full delivery costs can be better assured, building the overall delivery confidence in the CRSTS programme.

7. Birmingham Eastside Extension

- 7.1 With respect to the Birmingham Eastside Metro Extension (BEE), the budget of £227m was developed and approved in 2019. Since this point, the construction industry has been exposed to numerous pressures effecting the price and availability of both labour and materials; with the impact being felt across WMCA Transport schemes and public infrastructure schemes nationally.
- 7.2 This report indicates the magnitude of the cost pressure against the BEE project could be in the region of £50m. This is purely an indicative estimate at this stage and WMCA await the receipt of the latest cost estimate from the Midland Metro Alliance; following thorough independent reviews of designs, labour / material prices, risks, latest schedules and interfaces with the HS2 Curzon Station works.
- 7.3 The value of authorised spend against the overall budget totals £131m with spend to date totalling £117m, mostly funded from a project specific DfT grant.
- 7.4 Whilst WMCA are not at this stage able to confirm the precise value of the cost pressure, there are clear indications that the project is unlikely to be delivered within budget. However, in order to avoid the project exceeding its financial authority, approval is requested within this report to release a further £38m (total being £169m) from the £227m budget in order to allow the scheme to continue to be developed and delivered whilst the overall cost pressure detail and solutions are developed. This includes an additional provision to enable earlier opening to Moor Street more specifically described in paragraphs 7.8-7.9 below.
- 7.5 It should be noted, it is highly likely that most or all of the cost pressure solution will need to be found from the CRSTS programme if new sources of grant are not identified in the interim.

- 7.6 Explicit approval is requested from WMCA Board to allow the project to spend additional funding of £38m (funded from within the £227m project budget). This funding will need to be approved in the full knowledge that; **(a)** the indicative cost pressure of £50m is yet to be formally notified and verified and; **(b)** assuming there is likely to be a cost pressure, a funding solution for the scheme remains outstanding and; **(c)** any cost pressure may need to be met from the CRSTS programme but if an alternative funding solution absolutely cannot be found, this could increase WMCAs exposure to sunk costs in the event the scheme is terminated.
- 7.7 A more detailed assessment of the funding challenges and solutions for this project will be brought back to the June WMCA Board.
- 7.8 It has recently been announced that HS2 have adjusted their programme in delivering the Curzon Street Station. This has an impact on the delivery of the metro programme whilst we wait for the construction site enclosed by HS2 being returned to enable the completion of the tram works. This delay will not see full services operating until 2027. Whilst TfWM has successfully negotiated the prolongation capital impacts of this delay with DfT and HS2, this did not include the lost revenue which supports the funding model. In order to mitigate this, it is intended to bring forward that section of the tram to a temporary stop and terminus off Moor Street. This is at a cost of c.£2m from the £38m referred to in paragraph 7.6.
- 7.9 This will enable connectivity between the tram, the bus interchange and Moor Street Station to be brought forward to 2024 and support the overall metro funding model through earlier access to fare revenues. This report therefore recommends the release of this funding for the Eastside extension to bring forward the mitigation and enable early commencement of services.

8. Residual Risks Being Monitored and Assessed

- 8.1 There are additional cost pressures which WMCA are currently managing, these include:
- The Metro Lifecycle 5 year cost was reduced from £65m to £30m in order to ensure the CRSTS project list could match the £1.050bn funding available. WMCA continue to carry, monitor and negate the risk that additional funding in excess of the £30m available will be required. Further updates will be brought to the Board in June 2023.
 - Wednesbury Brierley Hill Phase 2 (from Dudley to Brierley Hill). The estimated deficit of £165m to £200m remains outstanding in terms of a funding solution and WMCA continue to assess options.
- 8.2 Updates on all of the above will be included in the June 2023 report to Board.

9. Financial Implications

- 9.1 The report documents the latest expected capital budget pressures with an interim solution being recommended to ensure the schemes currently in construction are able to continue.

- 9.2 A more detailed update is expected to be presented to the WMCA Board meeting in June where the Birmingham Eastside Metro cost pressure is expected to be known and options for re-balancing the programme to within the £1.050bn ceiling concluded.
- 9.3 However, at this stage, consent from WMCA Board to continue to deliver the schemes subject to this report is important to ensure WMCA remain in line with its financial regulations and prudent financial practices.
- 9.4 In order to ensure the maximum number of options are available to Leaders and Officers in re-balancing the programme, only development activity will be approved whilst we work towards identifying a solution for consideration at the June 2023 WMCA Board. As such, no schemes should enter construction or place significant contractual commitments until the position to June Board is agreed.

10. Legal Implications

- 10.1 There are no new legal implications as a result of this report. As set out above, Board approval of the budget increases and other measures set out in this report will enable continued compliance with WMCA's Financial Regulations.

11. Impact on Delivery of Strategic Transport Plan

- 11.1 The TCF and CRSTS programmes both make a significant contribution to delivering critical infrastructure required to further the LTP policies. This report only concerns the financing and delivery management of schemes and as all key outcomes and impacts as originally planned are expected to be delivered no implications arise from this report.

12. Equalities Implications

- 12.1 This report only concerns the financing and delivery management of schemes and as all key outcomes and impacts as originally planned are expected to be delivered no implications arise from this report.

13. Inclusive Growth Implications

- 13.1 This report only concerns the financing and delivery management of schemes and as all key outcomes and impacts as originally planned are expected to be delivered no implications arise from this report.

14. Geographical Area of Report's Implications

- 14.1 This report only concerns the financing and delivery management of schemes and as all key outcomes and impacts as originally planned are expected to be delivered no implications arise from this report.

15. Other Implications

- 15.1 No other implications identified.

16. Schedule of Background Papers

None