GMCA
GREATER MANCHESTER COMBINED AUTHORITY

5

Greater Manchester Combined Authority
Report for Resolution

DATE: 26th July 2013

SUBJECT: Earnback Model, SEMMMS and Metrolink Trafford Park Extension

REPORT OF: Head of Paid Service, GMCA

PURPOSE OF REPORT

The City Deal agreed at Budget 2012 included the innovative Earnback Model designed to support further investment in GVA enhancing infrastructure.

Detailed negotiations about the formula to underpin this Model have concluded as part of the Spending Round published in June 2013. This report outlines the operation of the Earnback Model and the investment that this agreement unlocks.

RECOMMENDATIONS

Members of the Combined Authority are requested to:

1. Note the key principles of the Earnback formula set out in the report;

2. Approve a funding package of £290 million for the SEMMMS A6 to Ringway Road works through a combination of £165 million of specific DfT capital grant, £105 million of additional capital grant funding being made available by Government in the context of the Earnback deal, and £20 million of existing LTP top slice allocation;

3. Approve the undertaking of short term prudential borrowings by the GMCA Treasurer that may be required as a result of differences in the timing of scheme expenditure and grant funding. Based on current expenditure and grant profiles, the short term borrowing requirements are forecast to peak at approximately £20 million in 2017/18 which are repaid at the end of the programme.

4. Approve that the GMCA Treasurer, as the s.151 officer for GMCA, will conclude the sign off of grant offer letters with central government;

5. Note the proposed further development and finalisation of the Trafford Park Metrolink extension business case and request that a report on progress is brought back in no more than three months to enable the GMCA to take a

decision about the pace of implementation in the light of the business case outcomes and resource availability; and

6. In relation to the Trafford Park Metrolink extension, approve funding of up to £5 million, to develop an updated full business case at a costs of up to £2 million and to procure 'long lead' items for the 8 additional trams at a cost of approximately £3 million, to be met from the GMTF, as set out in sections 3.4 and 3.5 of the report.

BACKGROUND DOCUMENTS

City Deal: Future Transport Prioritisation report to GMCA – 29th June 2012
Greater Manchester City Deal report to GMCA – 30th March 2012

CONTACT OFFICERS

Sir Howard Bernstein	0161 234 3006	h.bernstein@manchester.gov.uk
Dr Jon Lamonte	0161 244 1030	jon.lamonte@tfgm.com
Jessica Bowles	0161 234 4412	j.bowles@manchester.gov.uk
Richard Paver	0161 234 3564	r.paver@manchester.gov.uk
Steve Warrener	0161 244 1025	steve.warrener@tfgm.com

1 City Deal and Earnback

1.0 Greater Manchester Combined Authority agreed a City Deal with Government at Budget 2012. This represented a transfer of powers and responsibilities from central government to local level to support delivery of priorities in the Greater Manchester Strategy. The City Deal was wide ranging and included innovative changes that were tailored to meet the opportunities and needs in Greater Manchester. Work has been underway since this time to implement the City Deal agreement and to develop further proposals, building on the Community Budget Pilots, which would form the basis of further phases of devolution and decentralisation.

1.1 The innovative Earnback Model was a key element of the City Deal. The Model builds on the Greater Manchester Transport Fund established in 2009. It is an agreement that Greater Manchester will receive a share of the increased growth generated as a result of investing local funds in GVA-enhancing infrastructure. The City Deal included a commitment that this would be a 30 year agreement and that Greater Manchester would reinvest the revenues from the Model into further GVA enhancing infrastructure. The priority would be to accelerate the delivery of SEMMMS and the Metrolink extension to Trafford Park.

1.2 The City Deal agreement recognised that there was further work to be done to establish the detailed formula to underpin the model. The detailed operation of the Earnback Model has been agreed between Greater Manchester and central Government as part of the recent Spending Round process. It has been recognised that for an innovative model like Earnback there are significant uncertainties about the way it will operate in practice including the level of stability in the underpinning data. Therefore it has been agreed that there should be a review process built into the formula that will allow us to ensure that it is operating effectively and meeting its objectives.

1.3 The formula has been designed to reward Greater Manchester for sustained improvements in economic performance over a 30 year period, commencing in 2015/16, delivered as a result of the locally funded Greater Manchester Transport Fund. There are a number of principles that are reflected in the detailed formula design. These are that the formula will:

- operate under a series of 5 year control periods and within a budget ceiling that will be no less than £30 million per annum (nominal) for the 30 years covered by the formula. The cap could increase to £40 million per annum (nominal) by 2030. It has been agreed that in the first five years of operation maximum revenues will be £3 million in 2015/16, £6 million in 2016/17, £9 million in 2017/18, £12 million in 2018/19 and £15 million in 2019/20 and that the revenues in these years will be paid as capital grant;

- incorporate a benchmark against which Greater Manchester's economic performance will be judged. This aims to reflect the level of growth that would have been delivered without the benefit of the Greater Manchester Transport Fund. The benchmark is the notional GVA growth GM will be required to exceed in order to 'earn' under the formula and is related to the growth in GVA across a comparator (England, Wales and Scotland, less London surrounding counties and GM). The benchmark will reflect GM's historic growth rate relative to the comparator geography and how this has changed over time;
- be based on GVA data published by the Office of National Statistics;
- determine the amount paid to Greater Manchester by calculating the difference between the benchmark and Greater Manchester performance and applying a 'pence in the pound' rate of 5p;

  enable Greater Manchester to 'bank', at the end of each 5 year control period, a level of revenues which will become the new minimum for the remainder of the 30 year period. 'Banked' revenues at the end of the first 5 year period will be no more than £15 million per annum, but at the end of the second 5 year period could be up to £30 million per annum, depending on performance.

1.4 The development of the formula has been challenging. It is inevitable that there will be some degree of uncertainty about revenues going forward. The objective of the Head of the Paid Service has been to create a stable platform for making informed decisions on large scale commitments. This has given rise to the agreement reached about the formula and the review process.

1.5 The review process will be overseen by a Review Board including representatives from HM Treasury, the Department for Communities and Local Government and Greater Manchester. It would include three independent, non-executive members one of whom will chair the Review Board. The Reviews, which will take place every five years with the first taking place by 2020, will consider the operation of the Model. The focus would be analytical, although it may include comment on policy related issues, and provide advice to Ministers about changes that the Board considers appropriate. In addition to the 5 yearly reviews Government and Greater Manchester will each have the opportunity to trigger an ad hoc review that would be conducted on the same basis.

2 SEMMMS to Manchester Airport Relief Road

2.0 The South East Manchester Multi-modal Study (SEMMMS) A6 to Manchester Airport Relief Road is part of a package of measures, originally proposed, to relieve local communities from the impact of heavy traffic and improve access to the Airport.

2.1 The SEMMMS road scheme was not included in the DfT's Development Pool of Schemes following the 2010 Comprehensive Spending Review (CSR 2010); however, the Chancellor of the Exchequer announced in the 2011 Autumn

Statement, that £165 million of the DfT funding originally set aside for the delivery of SEMMMS was being made available, potentially to an accelerated timetable, subject to funding solutions being identified for the balance of the £290 million then considered required to deliver the scheme.

2.2 The Combined Authority agreed in June 2012 that prioritised further scheme development should be undertaken on the SEMMMS and Trafford Park Metrolink initiatives in parallel, reflecting their relatively advanced nature and their well-articulated economic potential.

2.3 The SEMMMS scheme is an established priority for GMTF, which offers significant congestion relief benefits to the south of the conurbation and around the Airport City Local Enterprise Zone (LEZ) as well as a specific central government funding commitment of £165 million.

2.4 The report to the Combined Authority in October 2012 noted that the cost projections indicated that the scheme, excluding the Interface Works referred to below would require approximately £105 million of funding from the Earn Back model in addition to the DfT funding of £165 million and £20 million of Integrated Transport Block Local Transport Plan (LTP) funding.

2.5 A business case for the SEMMMS scheme was submitted to DfT in November 2012 and was approved, subject to final agreement of the Earnback formula, in May 2013.

2.6 The reinstatement of the £165 million of DfT funding enabled certain scheme development works to be undertaken. GMCA approved expenditure of £3.30 million in May 2011 and a further £2.16 million in October 2012 (£5.46 million in total) related to Stockport MBC (SMBC) Design and Preparation Costs, including in relation to supporting the development of the business case and other works in advance of procurement and public consultation. As at 31 March 2013, SMBC had incurred £5.07 million of the £5.46 million of approved costs. This expenditure is being funded from the LTP funds within the Transport Fund.

2.7 Approval was granted by the Combined Authority in May 2011 (£17.9 million) and January 2012 (£18 million) to deliver the highway Interface works, including the Metrolink underpass (at a cost of £8 million) at Manchester Airport where SEMMMS and the Metrolink Airport line extension interface. The total forecast costs of these works were therefore £35.8 million, of which £8 million related to the underpass, £2.9 million related to SMBC Preparation Costs and £24.9 million related to highways works between the Hilton Hotel Roundabout at Manchester Airport and the Shadowmoss Road junction of Ringway Road.

2.8 In addition, there are other works which are being delivered by Manchester Airport, as a result of their previous obligations in relation to the development of the airport site to contribute £7 million towards the works on the Terminal 2 Eastern Link Road (T2ELR).

2.9 The budgeted and forecast costs for the remainder of the works (the 'A6 to Ringway Road Works'), including the Design and Preparation Costs incurred to date, are currently £290 million. The forecast costs include a current contingency allowance of approximately £58 million and an allowance for cost inflation of approximately £40 million. These allowances are considered to be appropriate given the schemes current state of development; and in particular given that the scheme is currently in the process of an ongoing public consultation; and as the major contracts for the works have not yet been procured.

2.10 The Government have agreed, in the context of the Earnback deal to provide additional capital grant funding of £105 million to Greater Manchester over the period from 2015/16 to 2019/20. This amount is in addition to the previously committed £165 million for SEMMMS and in addition to any other allocation from the Single Local growth Fund.

2.11 It is anticipated that the forecast costs, including the Design and Preparation Costs incurred to date, will be funded from a combination of the DfT £165 million grant; the £105 million additional capital grant agreed at the Spending Round 2013; and the £20 million of LTP funding allocated to the A6 to Ringway Road Works.

2.12 The Earnback deal also allows Greater Manchester to 'earn back' a further, up to, £45 million in the period from 2015/16 to 2019/20, subject to meeting the criteria set out in the Earnback formula, as set out in section 1.3 of this report.

2.13 It is further anticipated that the Combined Authority will enter into a Funding Agreement, by way of a fixed grant, with SMBC, to fund the works. The Funding Agreement will recognise that unallocated scheme contingency, following the conclusion of the procurement of the major contracts for the works, will, as is the case for other projects and programmes, be managed by the Combined Authority through a governance structure that will be determined in conjunction with SMBC and Transport for Greater Manchester.

2.14 The table below summarises the current forecast expenditure and funding profiles. These profiles will be updated following the conclusion of the ongoing procurement exercise for the scheme and any updates will be reported in the quarterly capital programme monitoring reports to GMCA.

	2013/14 (incl Prior Years')	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Total
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Forecast expenditure	**11.3**	**26.1**	**72.8**	**81.6**	**65.1**	**33.0**	**-**	**290.0**
Forecast Grant funding	-	(79.6)	(78.7)	(57.7)	(21.0)	(18.0)	(15.0)	(270.0)
LTP Top slice	-	-	-	-	-	(20.0)	-	(20.0)
	-	**(79.6)**	**(78.7)**	**(57.7)**	**(21.0)**	**(38.0)**	**(15.0)**	**(290.0)**
Cumulative - (grant in advance) / borrowing	**11.3**	**(42.2)**	**(48.1)**	**(24.2)**	**19.9**	**15.0**	**-**	**-**

2.15 The table highlights potential short term borrowing requirements which peak at approximately £20 million in 2017/18 which will be repaid by the end of the programme. Any short term interest costs in this regard will need to be managed within CA revenue budgets.

3 Metrolink Extension to Trafford Park

3.0 The Trafford Park Metrolink Extension has been a long-standing Greater Manchester investment priority. The scheme would extend Metrolink as far as the Trafford Centre (note: any future potential to extend onward to Port Salford would be the subject of a separate costing and business case development exercise). The current forecast cost and funding requirement is approximately £350 million and assumes a local capital contribution.

3.1 The scheme has been extensively redesigned since the original GMTF prioritisation, when it was a relatively poor performer in terms of GVA per £ of net cost to GM. The GVA potential of the scheme per £ of net cost to the Fund has improved significantly with estimated employment and GVA benefits of over 3,000 jobs and gross GVA in the region of £200 million p.a. (in 2006 prices).

3.2 It offers a step-change in public transport connectivity to the largest concentration of employment in Greater Manchester outside the Regional Centre which has traditionally been poorly served by public transport. over 1,300 businesses and 33,000 jobs are located in Trafford Park, with a significant number of people working there coming from across the GM conurbation. Future growth is forecast for Trafford Park, including new media industry developments already underway in the Trafford Wharfside area.

3.3 The updating of the Business Case for the scheme is a key component of the process towards submitting a Transport and Works Act Order (TWAO) application to DfT in summer 2014, on the basis that, subject to a satisfactory business case and the necessary funding being in place, this would be preceded by a public consultation in spring 2014 and would be followed by the award of TWAO powers in autumn 2015; with construction currently forecast to start in winter 2015/16 and be completed in winter 2018/19.

3.4 To meet the indicative timescales above the following work would need to start in late July with a view to being able to produce a revised business case by September 2013.

- Alignment design, to progress the other workstreams below, particularly the cost estimation work; and to protect an alignment at other development interfaces;
- Traffic surveys and modelling, to ascertain a base traffic scenario and then assess the traffic impact at the tram / traffic interfaces and across the wider area;
- Updated cost estimation to underpin the business case. This is also a requirement for an application for Statutory Powers through a Transport and Works Act Order. The current forecast costs to deliver the scheme to the Trafford centre are approximately £350 million. This work will provide more clarity on forecast costs;
- Risk analysis to ensure that potential risks are identified and mitigated through design as far as possible, in order to prevent escalation of scheme costs; and
- Stakeholder management and engagement, including appropriate engagement with Central Government, Local Authorities and land owners;

The estimated cost of developing the above work and producing the business case, in the period to September 2013, is up to £2 million.

3.5 The Trafford line requires an additional 8 trams for the currently assumed 12 minute frequency service, which would cost approximately £20 million. Current contractual arrangements with the tram supplier require the next batch of tram orders to be placed before the end of August 2013, after which likely significant production interruption costs (potentially in excess of £2 million) would apply. Discussions are progressing with the supplier to negotiate a potential extension to this date; however, in order to mitigate any risk in this regard, it will be necessary to place an order with the supplier for 'long lead items' at a cost of approximately £3 million before the end of September 2013. These long lead items could also be used as spares for the existing tram fleet.

3.6 As part of developing the updated full business case, consideration will be given to the phasing of works in order to maximise deliverability, operational benefits and value for money. This will include an evaluation and costing of delivery options.

3.7 It is proposed that the forecast costs of up to £5 million in the period to the end of September 2013 are funded from the GM Transport Fund.

3.8 Officers will bring back a report once this work has been completed (in no more than three months) which addresses options, costs and benefits and funding capability. This will include a robust assessment of revenues from the Earnback model and an update on the Greater Manchester Transport Fund.