

# North Somerset Council

## Report to the Council

**Date of Meeting: 12<sup>th</sup> July 2022**

**Subject of Report: MetroWest Phase 1 – Update**

**Town or Parish: All**

**Officer/Member presenting: Cllr Steve Bridger, Leader of the Council and Executive Member for Major Infrastructure Projects**

**Key Decision: No**

### **Reason:**

Not an Executive Decision

### **Recommendations**

The Council is asked to:

1. Note the project update and that the project is currently paused, and will remain paused, while formal confirmations are awaited from the Department for Transport and the West of England Combined Authority regarding additional funding required to take the project forward, as set out in recommendations 2 and 3,
2. Agree that, subject to:
  - a. approval of the final business case (anticipated autumn 2023),
  - b. confirmation from the West of England Combined Authority of increased capital funding of £10m
  - c. confirmation of increased contribution to capital funding by Department for Transport of £15.58m, and
  - d. confirmation by the Department for Transport that it will take the delivery risk for all the railway works,the North Somerset Council capital funding contribution to MetroWest will be increased by £10m, to be funded from borrowing, and
3. That the capital budget be amended to increase the budget by £35.58m to £152.01m to be funded by the additional £10m as per recommendation 2, a further £15.58m by the Department for Transport and a further £10m by the West of England Combined Authority (subject to formal confirmation by the Department for Transport and the West of England Combined Authority).

## **1. Summary of Report**

- 1.1. MetroWest Phase 1 (the Project) proposes to upgrade the existing local train service for the Severn Beach Line and the Bath Spa to Bristol Line (Phase 1A) and re-open the Portishead rail line with stations at Portishead and Pill (Phase 1B). The Project is being promoted by North Somerset Council and the West of England Combined Authority (WECA) on behalf of the authorities across the West of England including; Bath & North East Somerset, Bristol City and South Gloucestershire Councils. The Project forms part of a wider MetroWest programme to deliver strategic enhancements to the local rail network over the medium term.
- 1.2. This report provides an update on progress since the last report to Council on 19<sup>th</sup> July 2021, noting that the project is currently on hold awaiting resolution of the funding gap and granting of the Development Consent Order. It summarises the position of the DfT on allocating additional funding for the project following detailed negotiations and seeks authorisation for the allocation of additional NSC funding required to proceed with delivery of the project

## **2. Policy**

- 2.1. The project is identified in the Joint Local Transport Plan 4, and North Somerset's Core Strategy as a priority for early delivery. Re-opening the Portishead line was also included in the 2007 Replacement Local Plan and successive Local Plans over a number of decades. MetroWest contributes to the package of infrastructure to support the delivery of housing land in North Somerset through urban intensification, job creation and sustainable growth. As part of a wider package of public transport advancements across North Somerset and the region, the project will promote alternatives to car use and improve the resilience of the existing and future highway network.
- 2.2. The delivery of the project aligns with the vision and priorities set out in the North Somerset Council Corporate Plan 2020 – 2024. The project underpins 'An open, fair and green North Somerset Council', through the delivery of a mode of transport that will be accessible to all including young and elderly people (many of whom have limited access to transport), with step free access to station platforms enhancing transport equality. This is reflected in the Councils priorities to achieve:
  - A thriving and sustainable place
  - A council which empowers and cares about people
  - An open and enabling organisation

## **3. Background**

- 3.1. The key driver for the re-opening of the Portishead Line is to transform rail access and connectivity for Portishead and the surrounding area, whilst resolving the current highway congestion on the A369 highway. The A369 is the only transport corridor between Portishead and Bristol. The A369 has major bottlenecks at both ends of the corridor because of the one of the busiest sections of the M5 dissecting the corridor at the Junction 19, east of Portishead and at the other end of the corridor there is systemic congestion into and through Bristol City Centre. These bottlenecks cause major disruption to the local community and business through

poor highway journey times, poor journey time reliability and severe lack of highway network resilience.

3.2. The following are the primary benefits of the scheme:

- Significantly reduced travel time into Bristol from Portishead to 23mins compared to bus (60min+) & car (50min) significantly improving people's access to employment and services.
- Over 50,000 people brought within direct catchment of a rail station (Portishead & Pill) for the first time in over 60 years,
- 1.2m additional rail journeys and £7m revenue within 15 years of opening.
- Benefits to the regional economy in Gross Value Added (GVA) of £43m per annum
- Delivers the removal of 13 million car-km annually by 2041.

3.3. The primary objectives and phases of MetroWest 1 are the following:

- MW1a: Severn Beach Line infrastructure and service enhancements, including two services per hour to Avonmouth, with one continuing to/from Severn Beach.
- MW1a: Additional trains and necessary upgrades to existing infrastructure to create an overall half-hourly service calling at all stations between Bristol Temple Meads and Westbury.
- MW1b: New hourly service between Portishead and Bristol Temple Meads, consisting of existing 9km freight-only and re-opening 5km of disused railway with two new stations at Portishead and Pill.

3.4. The infrastructure enhancement works associated with MetroWest 1a have been completed. The services between Bristol Temple Meads and Severn Beach have been operational since December 2021. The current plan is to implement the enhanced service to Westbury from May 2023.

### **Progress since the last update to Full Council in July 2021**

3.5. As set out in the last report to Full Council in July 2021. The infrastructure required to support the re-opening of the Portishead line (Phase 1b) is to be delivered via Network Rail (NR). Network Rail started procurement for its Main Works Contractor (design and build contract) in spring 2021, with contract award for detailed design planned to commence in early 2022. NR is currently undergoing a live procurement exercise with their supply chain and obtained market prices for the infrastructure works in December 2021. The returned market prices were significantly higher than forecasted in 2017, when the scheme funding was secured in line with the Outline Business Case (£116.42m).

3.6. The anticipated final cost (AFC) of MetroWest 1 scheme is now estimated at £163.26m, resulting in a funding gap of £46.82m, when compared to the funding secured through the Outline Business Case (£116.42) in 2017. The £163.26m AFC comprises an estimated £152.01m capital expenditure (CAPEX) and up to £11.24m operational expenditure (OPEX), as set out in the following table.

	Estimated Capital Cost (Capex)	Estimated Operational Cost (Opex)	Anticipated Final Cost (AFC)
Revised estimated cost	£152.01m	Up to £11.24m	£163.26m
Less current budget	£116.43m	£0	£116.43m
<b>Funding gap</b>	<b>£35.58m</b>	<b>£11.24m</b>	<b>£46.82m</b>

- 3.7. There have been a variety of different factors that have caused an increase in the estimated overall scheme cost. The main reasons for these increases are linked to the following:
- In 2017, the operating expense costs (OPEX) (of up to £11.24m) were not included within the original funding requirement as these were still under negotiation with GWR. It was expected at the time that any potential funding support between service cost and proposed revenue would be negligible, but this was prior to the impact of COVID-19 on expected revenue.
  - Major delays to the Development Consent Order (DCO) process, due to more onerous demands than anticipated to prepare and submit compliant Development Consent Order (DCO) application.
  - Changes in project scope resulting in delay and re-design,
  - Market prices were greater than those previously estimated, which were caused by, but not limited to, the following:
    - Uncertainty caused by Covid 19 [significant impact on the OPEX costs]
    - Increasing underlying inflation and material costs increases reflecting national and international inflationary increases.
- 3.8. There has been significant effort with all parties (NSC, CA, NR, DfT & GWR) to collaboratively reduce the anticipated final cost of the project to ensure a Minimum Viable Product is being delivered. This included several rounds of scope reduction workshops, value engineering assessments and scope challenge meetings. This process has delivered considerable savings, reducing the funding gap which initially reached £93.2m to the current funding gap of £46.82m.
- 3.9. As part of this exercise, the following scope changes have been made:
- Reduction of scope to bring the existing freight line up to passenger train line standards
  - Reduction of Portishead and Pill platform lengths from 5-Car to 3-Car
  - Removal of Portishead Station building
  - Reduction in selected highway scope (car parks, footpaths, bridge works)
  - Change in governance model, with DfT taking on the client role.
- 3.10. The economic appraisal of the scheme forecasts a Benefit-Cost Ratio (BCR) of 1.5:1, including wider economic benefits. A BCR of greater than 1.5 represents medium value for money.

- 3.11. On the 19<sup>th</sup> April 2022, the DfT announced the Secretary of State for Transport is 'minded to consent' the Development Consent Order (DCO), subject to the positive resolution of the current funding gap. The decision date for the DCO was deferred to February 2023 but representatives of the DfT have advised that this date can be brought forward if additional funding contributions from NSC and WECA can be agreed to bridge the existing funding gap.

#### 4. Consultation

- 4.1. Extensive public consultation has been undertaken over several years on the project proposals. The response to the consultations was very high with almost 2,000 separate responses received over both stages and the level of support for the scheme is also very high with 95% of community respondents fully or mainly in support of the proposals. Further information on the project consultation is set out in the DCO Consultation Report which is a DCO application document and is available from: <https://infrastructure.planninginspectorate.gov.uk/projects/south-west/portishead-branch-line-metrowest-phase-1/?ipcsection=docs>
- 4.2. A members briefing was given to Group Leaders and the chairperson of PCOM Scrutiny panel on 5<sup>th</sup> May 2022 and a briefing for the Place / PCOM Scrutiny Panel/s is being arranged for w/c 27<sup>th</sup> June 22.
- 4.3. This paper has been developed by North Somerset Council in liaison with WECA and Network Rail. No further consultation is required on the content of this paper.

#### 5. Financial Implications

- 5.1. The outline business case included funding as follows:

Funding source	Available Funding (in £m)
Local Growth Fund	£18.87
Economic Development Fund	£49.53
Contributions to date by West of England councils	£4.41
NSC additional contribution	£5.86
CA Investment Fund	£5.86
DfT RYR contribution	£31.90
<b>Total</b>	<b>£116.43</b>

- 5.2. As outlined in paragraphs 3.6-3.11, the revised capital cost (CAPEX) of MetroWest 1 scheme is now estimated at £152.01m, resulting in a funding gap of £35.58m. The proposals to close the capital funding gap, subject to ministerial decision and local agreements, are outlined in the table below.

Funding source	Available Funding (in £m)
<b>Total outline business case funding</b>	<b>£116.43</b>
NSC additional contribution 2022 - 50/50 agreement*	£10.00
WECA additional contribution 2022 - 50/50 agreement*	£10.00
DfT additional capital contribution	£15.58
<b>Capital funding requirement - subject to confirmation from all parties</b>	<b>£152.01m</b>

\* There is agreement in place between WECA and NSC that the project will be jointly funded 50/50 up to delivery phase, therefore any additional contributions will need to be matched.

- 5.3. While the train services are forecast to breakeven and start to yield a revenue surplus, further work is needed on the detailed costs and forecast fare revenues in relation to assumptions on the pace that rail passenger demand recovers from covid 19. There are a number of variables that effect how quickly the services reach breakeven point and the arrangements for the train services require further discussion and negotiation with the DfT. This work will be undertaken in parallel with the detailed design (GRIP 5) over the next 18 months. The aim of this work is to mitigate the additional forecast OPEX costs.
- 5.4. The final CAPEX cost of the project will be confirmed following the outcome of the Network Rail procurement, the appointment of the design and build main works contractor and the completion of the detailed design (GRIP5). The final cost will be reported via the Full Business Case to all funders (NSC, WECA & DfT), in autumn 2023.
- 5.5. Recognising there was insufficient funding in place to complete the project, the MetroWest governance group took the decision to pause the project and minimise additional expenditure during the negotiations with the DfT on the funding gap.
- 5.6. The negotiations have progressed positively and a formal letter from the DfT is awaited, confirming the DfT will increase its capital funding contribution by £15.58m and will take the delivery risk for all the railway works. The railway works account for almost 90% of the estimated £152.01m capital cost, with the NSC / WECA scope of works accounting for just over 10% of the capital cost. The NSC /WECA scope of works includes, ecology enabling works, land assembly, minor highway works and various project integration and mitigation activities.
- 5.7. The total project capital spend to date is £31.042m up to April 2022. There is agreement in place between WECA and NSC that the project will be jointly funded 50/50, therefore NSC are currently carrying risk exposure of approximately £15m.
- 5.8. The forecast capital spend for the NSC/WECA scope for 2022-23 is estimated at £2,325,985, which can be met from the agreed project budget. The project will remain paused and no substantive further spend will be incurred by the project until the formal letter has been received from the DfT confirming the additional DfT funding and acceptance by DfT of the delivery risk for all the railway works.
- 5.9. The additional funding by NSC, WECA and the DfT needs to be allocated and agreed by each party now so that the project can proceed with the Network Rail live procurement and the DCO decision can be made. The NR live procurement process expires in late July 2022. If the additional funding is not agreed by this timescale the procurement will have to be abandoned and a new procurement would need to be started, adding approximately 9-12 months to the overall programme and the associated consequential additional inflationary costs which could amount to up to £150k per week. The impact of this delay and on the anticipated final project cost could mean that the DfT may not be willing to approve the Full Business Case in autumn 2023 if the project costs have increased further. The prompt release of funding is also critical because the project team need to progress critical ecology works in autumn 2022, on the 5km of dis-used railway. This will ensure that NSC / WECA are in a position to hand over the various works sites

to the primary deliverer Network Rail, without causing further programme delay. Should a funding decision be delayed beyond July 2022, the ecology works would need to be delayed by 12 months, to winter 2023/24 and this would directly impact the critical path of the programme.

5.10. It is therefore recommended that:

- subject to approval of the final business case and confirmation of increased capital contribution by Department for Transport of £15.58m, the North Somerset Council capital funding contribution to MetroWest will be increased by £10m, to be funded from borrowing, and
- that the capital budget be amended to increase the budget by £35.58m to £152.01m to be funded by the additional £10m as per recommendation 2, a further £15.58m by the Department for Transport and a further £10m by the West of England Combined Authority (subject to formal authorisation).

5.11. Should the council undertake additional borrowing of £10m, then this will need to be repaid through a charge to the annual revenue budget. Calculations indicate that the principal repayments would equate to £0.25m p.a. and costs may increase further if an external loan facility is drawn down. This cost is not reflected within the medium-term financial plan and so this expenditure would need to be considered alongside the council's other capital spending plans to ensure it is both affordable and sustainable across the longer-term.

## **6. Legal Powers and Implications**

6.1. The Development Consent Order has a range of legal implications which are set out in the report to Council at its meeting of 25<sup>th</sup> June 2019.

<https://apps.n-somerset.gov.uk/Meetings/document/report/NSCPM-38-603>

## **7. Climate Change and Environmental Implications**

7.1. MetroWest Phase 1 requires an Environmental Statement to support the Development Consent Order (DCO) application. Climate change and environmental implications have been assessed in the Environmental Statement. The Environmental Statement is a key DCO application document and is available from:

<https://metrowestphase1.org/dco-application/>

## **8. Risk Management**

8.1. A full risk register is in place for this project and is reported regularly to the MetroWest Phase 1 Board. Project risks are under continual review by the project team, sponsors and the S151 officers.

### **Key Risks**

8.2. As outlined throughout this report, since July 2021 considerable risk materialised and cost increases and delays outside of the control of NSC, which resulted in a funding gap emerging. Extensive efforts at officer level and by key decision makers by both NSC and WECA with the DfT have mitigated the impact of these risks resulting in an affordable project proposal, which entails all three organisations increasing their funding contributions.

- 8.3. Discussions are taking place with the DfT on the arrangements for the apportionment of funding for 2022-23 financial year and up to the completion of the Full Business Case in autumn 2023. By taking the delivery risk for all the railway works, the DfT become the project client for the railway works and will directly enter into a funding agreement with Network Rail, initially for work up to the completion of the Full Business Case. The DfT will also directly fund the non-railway scope led by NSC / WECA including ecology enabling works, minor highways / utilities works, land assembly, some legal interfaces and project management resources, up to the completion of the Full Business Case. This means the revenue reversion risk to NSC of £15m set out in para 5.7 will not increase as the project is taken forward up to completion of the Full Business Case.
- 8.4. If the project continues, the impact on and affordability of the Council's existing Capital Programme and / or future Capital Strategy will need to be considered, given the need for NSC to commit an additional £10m of capital funding as there are no resources set aside within the revenue budget or medium-term financial plan.
- 8.5. If the project continues the OPEX risk will remain and this will need to be resolved leading up to the completion of the Full Business Case. As set out in paragraph 5.3 there are various variables at play which need to be worked through with WECA, DfT and Great Western Railway, over the next 18 months. A further report will be brought back to Full Council setting out further information about the operational costs ahead of the completion of the Full Business Case in autumn 2023.
- 8.6. If the project is cancelled the total amount that will have been spent to date on the capital project will be £31.042m. A further £0.3m of spend would be required to close the project. The total committed spend by partners is £38.04m, taking account of wider project commitments.
- If the project is cancelled the Council would therefore be exposed to up to £15m of revenue reversion (as certain elements of project cost cannot be capitalised if there is no asset to attach to the expenditure), being 50% of the capital project costs
  - If the project is deferred for an extended period (beyond 2-years) or cancelled the only valuable deliverable / asset resulting from the spend to date – and therefore available to reduce revenue reversion - would be the land purchases local to Station Road, Pill Station Car Parks & Quays Avenue (west).
  - This would be subject to further discussion with DfT given the root causes of the funding gap.
- 8.7. There is ongoing risk to delivery of the project including further budget pressures. If the DfT accepts taking on the delivery risk for the railway works aspects of the project, this would significantly reduce the risk profile of the scheme for NSC / WECA.

### **Risk mitigations identified and implemented**

- 8.8. Subject to NSC and WECA committing extra funding, the DfT will take the future 'cost risk' on the railway works aspects of the project by taking delivery lead.



- 8.9. The DfT acceptance of taking the railway works delivery risk for the project, significantly reduces the risk profile of the scheme for NSC / WECA.
- 8.10. Request for DfT to fund an additional £15.58m of Capital and further work to be undertaken jointly DfT, WECA and GWR to work through the Operational Expenditure proposals and risk required in order to deliver the project and report back to Full Council before the completion of the Full Business Case as set out in para 8.5.
- 8.11. 50/50 funding agreement in place between NSC and WECA
- 8.12. Recognising there was insufficient funding in place to complete the project, the MetroWest governance group took the decision to pause the project in April 2022 and seek to cease expenditure, therefore spend since April has been minimal during the negotiations with the DfT on the funding gap.
- 8.13. The project will remain paused and no substantive further spend will be incurred by the project until the formal letter has been received from the DfT confirming the additional DfT funding and acceptance by DfT of the delivery risk for all the railway works.
- 8.14. Since November 2021, decisions on expenditure have been made in consultation with the Director of Place and s151 officer to reduce the likelihood of spend at risk
- 8.15. Achieving a successful DCO decision by the Secretary of State for Transport will reduce the wider risk exposure and will provide greater certainty that the project will be delivered. Furthermore, the completion of the detailed design (GRIP5) and the Full Business Case in autumn 2023 will enable a decision to be made to construct the scheme.
- 8.16. Whilst the project has been paused, NSC project staff have been reassigned to other major projects within the capital programme and their costs will be recharged accordingly. Staff are being supported through regular senior stakeholder catch ups

## **9. Equality Implications**

- 9.1. An Equality Impact Assessment has been undertaken and was attached to the report to Full Council of 10<sup>th</sup> November 2020.

## **10. Corporate Implications**

- 10.1. The improvement of the transport network is a key priority in the Corporate Plan. The project will play a significant role in Supporting Economic Prosperity (Aim 5) and Protecting and Improving the Environment (Aim 3). There are no specific cross-service implications.

## **11. Options Considered**

- 11.1. The WoE Joint Transport Board (superseded by the WoE Joint Committee) considered three main options at its meeting on 17<sup>th</sup> March 2017 and determined to

take a staged approach to the delivery of the scheme. Chapter 3 Scheme Development and Alternatives Considered of the Environmental Statement which is a DCO application documents sets out the options considered in detail. The document is available from:

<https://infrastructure.planninginspectorate.gov.uk/projects/south-west/portishead-branch-line-metrowest-phase-1/?ipcsection=docs>

- 11.2. The wider context for the project option selection is as follows; the local rail network across the West of England is under-developed in comparison with similar sized city regions, the local highway network is congested at key locations on arterial corridors and the overall demand for transport continues to increase. The focus of the project option selection was to address the project objectives by making effective use of dis-used / under-used strategic rail corridors in parallel with enhancements to existing local rail lines.
- 11.3. Several other options have been considered in relation to the project funding gap and discounted at this stage:
- DfT to fund the full funding gap – This option was discounted by DfT who have advised that contributions from both the NSC and WECA will be required if the project is to proceed.
  - Reduce the project anticipated final cost further – All available options to reduce the anticipated project cost at this stage have been realised.
  - Consider other funding options – the option of submitting a Levelling Up 2 bid to DfT has been considered however it is a speculative bidding process with no certainty of success. Furthermore, the timescales for this funding do not align with the project, as the timescale for the funding decision would cause further delays and would lead to further inflation costs.
  - Delay the project – Delaying a decision on allocating additional NSC funding beyond July would make the live procurement exercise underpinning the current project estimate void. Restarting this procurement will delay the project by 12-18 months and increase the anticipated project cost by circa. £14m. Extra costs will erode the business case therefore delaying the project has been discounted unless funding cannot be secured.
  - Cancel the project - If the project is cancelled the total amount that will have been spent to date on the project will be £31.042m with the total committed spend on the project is £38.04m. NSC have exposure of to up to £15m of revenue reversion, subject to further discussion with DfT.

#### **Author**

James Willcock, MetroWest Phase 1 Programme Manager

#### **Appendices**

None

#### **Background Papers**

Report to Council 19<sup>th</sup> July 2021 MetroWest Phase 1 Delivery Update

<https://n-somerset.moderngov.co.uk/ieListDocuments.aspx?CId=169&MId=678&Ver=4>

Report to Council 23<sup>rd</sup> February 2021 MetroWest Phase 1 - 2021/22 Budget

<https://n-somerset.moderngov.co.uk/ieListDocuments.aspx?CId=169&MId=718&Ver=4>

Report to Council 10<sup>th</sup> November 2020 MetroWest Phase 1 Update - Programme and

Procurement - <https://apps.n-somerset.gov.uk/Meetings/document/report/NSCPM-38-603>