

# Cabinet Report/Key Decision      Date: 15th August 2017

<b>Title:</b> MetroBus Budget Update and Part 1 Claims	
<b>Ward:</b> Citywide	<b>Cabinet lead:</b> Deputy Mayor – Finance, Governance and Performance
<b>Author:</b> Adam Crowther	<b>Job title:</b> Service Manager, Strategic City Transport

<b>Revenue Cost:</b> c£400k per annum over 25 years (Borrowing costs & % MRP for maximum c£6.5m of additional borrowing)	<b>Source of Revenue Funding:</b> Transport Revenue Budget parking income										
<table border="0"> <tr> <td><b>Capital Cost:</b></td> <td style="text-align: right;">£m</td> </tr> <tr> <td>Cost overrun in this report</td> <td style="text-align: right;">6.834</td> </tr> <tr> <td>Transport block funding</td> <td></td> </tr> <tr> <td>Payment in 17/18</td> <td style="text-align: right;">(0.400)</td> </tr> <tr> <td>Amount to be Borrowed</td> <td style="text-align: right;">6.434</td> </tr> </table>	<b>Capital Cost:</b>	£m	Cost overrun in this report	6.834	Transport block funding		Payment in 17/18	(0.400)	Amount to be Borrowed	6.434	<b>Source of Capital Funding:</b> Department for Transport Integrated Block, Highways Capital Maintenance 2017/18 and Prudential borrowing
<b>Capital Cost:</b>	£m										
Cost overrun in this report	6.834										
Transport block funding											
Payment in 17/18	(0.400)										
Amount to be Borrowed	6.434										
<b>One off</b> <input checked="" type="checkbox"/>	<b>Saving</b> <input type="checkbox"/>										
<b>Ongoing</b> <input checked="" type="checkbox"/>	<b>Income generation</b> <input type="checkbox"/>										

**Finance narrative:**

Cabinet held on November 2016 approved a revised funding envelope of £220m for the Metro Bus programme contract overall.

The May 2017 Joint Project Assurance Board (PAB) reported further increases in contract costs to the overall MetroBus programme and has estimated a further increase in forecast overspend of £10.496m, bringing the total estimated contract expenditure up to £230.496m. This proposal seeks approval for the funding to be allocated for the Bristol share of the identified overspend which equates to £6.834m.

Sub Project	Approved Nov 2016 £m	Proposed Gross Budget					Cost Share Increase			
		This Proposal £m	Grant Funded £m	BCC' cost Share £m	SG' cost Share £m	NS' Cost Share £m	BCC £m	SG £m	NS £m	Total Additional Cost £m
AVTM (BCC 80%: NS 20%)	56.100	62.660	35.280	21.904	0.000	5.476	5.248	0.000	1.312	6.560
NFHP (BCC 39%: SG 61%)	115.300	118.776	51.100	26.394	41.282	0.000	1.356	2.120	0.000	3.476
SBL (BCC 50%:NS 50%)	48.600	49.060	27.600	10.730	0.000	10.730	0.230	0.000	0.230	0.460
<b>Total</b>	<b>220.000</b>	<b>230.496</b>	<b>113.980</b>	<b>59.028</b>	<b>41.282</b>	<b>16.206</b>	<b>6.834</b>	<b>2.120</b>	<b>1.542</b>	<b>10.496</b>

*\*based on Upper Point cost estimated*

*\*Included in the figures above, there are estimated management costs in relation to the Part 1 Claims.*

The majority of the overspend estimates relate to the Bristol Led AVTM project (£5.248m), key reasons for cost overrun have been identified as follows;

- 1) Subcontractor cost escalation £1.6m (pain/gain);
- 2) The original assumptions of likely cost and probability used for Quantitative Risk Assessments (QRA) were flawed and significantly under-predicted the cost and frequency of risk items; this had been subsequently revised and resulted in £1.2m increase in cost estimates;

- 3) Design changes (pain/gain) vs. tender stage assumption £0.7m;
- 4) Disposal of further Contaminated Material £0.5m;
- 5) Revised land compensation budget estimate £0.4m.

Further considerations:

- 1) The project team for AVTM had re-run the QRA assumptions with revised methodologies on potential cost assessments with a group of expertise including contract manager, client project manager, and the project SRO. However, no one from Finance was part of the discussion/meeting to challenge these assumptions. Going forward this needs to be a regular exercise with the involvement of colleagues from Finance.
- 2) Please note the AVTM contract is subject to pain-gain cost share agreement with the main contractor. However, the contract is set in such a way that shared costs would work on a reclaimable basis. I.e. the Council would have to pay the 100% of the overrun costs first and subsequently reclaim the contractor share of the costs after the contract is closed. This would mean the council would need to cash flow an additional £4.3m until September 2017. Please note, this amount is NOT included in the £6.834m net overrun figure above.
- 3) NFHP scheme has been recently review by South Gloucestershire and SBL has been reviewed by North Somerset as the lead Councils and the QRA processes are now aligned to the same principles used in AVTM.

This report proposes to:

- 1) Fund the cost overrun of £6.8m by reprioritising Local Transport Capital Programme in 2017/18 and making an one-off payment of £400k in year (bearing in mind a £2.1m payment will also be made against cost overruns approved by November 2016 cabinet report from the same funds).
- 2) Borrowing the balance of £6.434m over 25 years. The revenue implication of the additional borrowing will be met within the Transport Revenue budget and it has been agreed to ring-fence additional parking income for this payment.
- 3) This report also proposes the flexibility for potential capital over-repayment in any given year, in consultation with cabinet members based on the agreed priorities.
- 4) The total estimated revenue borrowing cost implication over 25 years is c£400k per annum.

Options considered:

- 1) Implications of the proposed option: The council is highly geared i.e. the council has a large amount of debt compared to available capital. There is currently no headroom for any additional prudential borrowing in the capital programme. To borrow the additional £6.834m would require reprioritisation of the existing capital programme, i.e. stop certain schemes and redirect the funding / borrowing. Please also note this report proposes to reprioritise the transport revenue budget to accommodate the borrowing cost implications while the council still has £42m funding gap over the MTFP period. This will impact on the ability to further close this funding gap.
- 2) Drawn down from capital contingency provision in the capital programme. There have already been multiple calls upon this pot over the coming MTFP period, including the Arena development and Colston Hall project. Please also note as the Metro Bus expenditure will incur in year 17/18, this currently mismatches the phasing of the contingency provision in the capital programme taking into account other calls on this contingency budget.
- 3) Alternative funding sources should be explored, e.g. at West of England funding.

Key risks associated with this proposal are:

- 1) The Transport Capital Programme is largely funded by DfT block grants which are now passed through WECA. Only 17/18 budget has been agreed by WECA, and future years funding may be

subject to change. Therefore this will have an impact on the delivery priorities within the overall transport capital programme in order to accommodate the upfront use of the funding facilitated by the prudential borrowing.

- 2) Risk of future cost increases: the Council has less control over schemes managed by South Gloucestershire and North Somerset. However, the QRA processes are now aligned to the same principles used in AVTM.

**Finance Officer:** Tian Ze Hao Finance Business Partner

**Summary of issue/proposal:**

To seek authority to increase the MetroBus Programme budget to cover forecast expenditure and to enter into Memorandum of Understanding with North Somerset and South Gloucestershire Councils for the purposes of adjudicating on Part 1 Claims under the Land Compensation Act 1973.

**Summary of proposal & options appraisal:**

1. The forecast outturn costs for the MetroBus programme are estimated to exceed the approved budget so a further Cabinet decision is required to increase the budget for the MetroBus programme from £220m to £230.496m. This represents a cost increase to Bristol City Council of £6.834m since November 2016.
2. The November 2016 budget pressure for Bristol was £7.1m. This was to be met by £5m of central prudential borrowing approved at November cabinet as part of the overall Council Capital Programme and £2.1m from the Transport Capital Programme. The additional pressure on the budget of £6.834m is also proposed to be met through the Transport Capital Programme, with a one off contribution of £2.5m from the 2017/18 budget and the remainder to be met through prudential borrowing over the lifetime of the asset assumed as 25 years. Revenue costs of borrowing will be met from the Transport revenue budget. It should be noted that allocating the capital programme to fund the Metrobus overspends will reduce the opportunity for the administration to influence transport spending and deliver improvements to the transport network such as train station upgrades, minor traffic schemes, bus priority measures etc.
3. Part 1 Claims – Under Part 1 of the Land Compensation Act 1973 compensation can be claimed by people who own and occupy property that has reduced in value by more than £50 by physical factors caused by the use of a new or altered road. Local Authority Legal and Estates teams have advised that they do not have the capacity to administer the Part 1 Claims process for the Metrobus project as a whole. Heads of Transport have advised that they would support a small central claims team, to be hosted by Bristol City Council Property Service, as the most efficient and effective way of dealing with Part 1 Claims. A Memorandum of Understanding (MoU) will be required to cover decisions and payments to be made by this central team, on behalf of all three authorities, and authority to enter into the MoU will require Cabinet approval;

**Recommendation(s) / steer sought:**

1. To approve the increase in budget for the MetroBus programme of £6.834 million to meet the current forecast budget pressure;
2. To enter into a Memorandum of Understanding (MoU) between Bristol City, South Gloucestershire and North Somerset Unitary Authorities to ensure that a properly qualified team are employed and provided with the necessary resources to process and adjudicate claims made under Part 1 of the Land Compensation Act ;
3. Authority is delegated to the Service Director for Property, to approve settlement terms and payment for valid Part 1 Claims.

**City Outcome:**

Investment in the transport network will deliver the aims and objectives of three key City outcomes namely;

- Keep Bristol working and learning - ensuring Bristol is open for business & encourages investment;
- Building successful places – enabling movement of people, goods and services within the city;
- Addressing inequality – connecting people where they live with jobs.

**Health Outcome summary:**

The investment in the transport network will ensure the transport network remains operational for public transport operators as well as pedestrians, disabled people and cyclists thereby encouraging and facilitating healthy activity.

**Sustainability Outcome summary:**

Previous decisions at Cabinet were covered by an Environmental Impact Assessment and as this report relates solely to budget issues no further commentary has been provided.

**Equalities Outcome summary:**

Investment in the Transport Network improves access to, in and around the City thereby removing obstacles and potential discrimination against any of the protected characteristic groups.

**Impact / Involvement of partners:**

We will continue to work proactively with partners across the West of England to ensure that cost pressures for the programme are scrutinised and challenged and the programme is delivered as economically beneficial as possible.

**Consultation carried out:**

None carried out as consultation carried out as part of previous Cabinet reports on MetroBus

**Legal Issues:**

A Memorandum of Understanding (MoU) between the 3 involved Unitary Authorities is necessary to ensure that a properly qualified team are employed and provided with the necessary resources to process and adjudicate valid claims made under Part 1 of the Land Compensation Act 1973. The establishment of a team will ensure that all claims are dealt with promptly and consistently to avoid exposure to litigation and interest payments for late payment of compensation.

**Legal Officer:** Joanne Mansfield, Lawyer

<b>DLT sign-off</b>	<b>SLT sign-off</b>	<b>Cabinet Member sign-off</b>
Barra Mac Ruairi, 9 <sup>th</sup> June 2017	Anna Klonowski, 13 <sup>th</sup> June 2017	Cllr Craig Cheney, 19 <sup>th</sup> June 2017

Appendix A – Further essential background/detail on the proposal	<b>YES</b>
Appendix B – Details of consultation carried out - internal and external	<b>NO</b>
Appendix C – Summary of any engagement with scrutiny	<b>NO</b>
Appendix D – Risk assessment	<b>YES</b>
Appendix E – Equalities screening / impact assessment of proposal	<b>NO</b>
Appendix F – Eco-impact screening/ impact assessment of proposal	<b>NO</b>
Appendix G – Exempt Information	<b>NO</b>