

Eastside Extension Business Case

Financial Case

May 2017



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Financial Case Compliance

The table below, taken from the Department for Transport’s guidance on its approach to making major investment decisions, *The Transport Business Case* (April 2011), demonstrates the Financial Case’s fit with requirements.

Element	Addressed in MCF Case	Section
Introduction	Setting out approach to assess the affordability of the scheme	Chapter 1
Costs	Cost breakdown by year, component and funding source	Chapter 2 – Cost Estimation & QRA: Table 3.2; Appendix D1
Budgets/Funding Cover	Funding cover for the project	Chapter 3 – Local Funding

C1. Introduction

Background

- 1.1 This Financial Case has been developed in accordance with the Department for Transport's (DfT) Transport Business Case guidance. It presents the affordability of the Midland Metro Birmingham Eastside Extension scheme.

Outline of the Financial Case

- 1.2 The elements that describe the case are set out in two chapters. The chapters cover the following areas:
- Chapter 2 – Cost Estimation and QRA sets out the capital costs of the project
 - Chapter 3 – Funding describes the project funding arrangements

C2. Cost Estimation & QRA

Introduction

- 2.1 In preparing this business case, Centro has carried out a thorough estimate of the costs for implementing the project in order to ensure it provides a comprehensive, robust and reliable basis for the consideration of the Financial and Value for Money (Economic) Cases. The estimated capital cost for the extension of Midland Metro from Stephenson Street to Eastside, serving the proposed HS2 Curzon Street station and onwards to Digbeth is shown in Table 2.1 below.

Table 2.1: Project Outturn Cost Estimate (£M)

Scheme element	Preparatory/ Advanced Works Costs	Base Scheme Costs	QRA	Total
Metro Extension	8.1	94.4	9.9	112.4
Trams	0.0	24.8	0.0	24.8
Total	8.1	119.2	9.9	137.2

- 2.2 The current cost estimate is based upon the following:

Table 2.2: Basis of Current Cost Estimate - Metro

Cost element	Status
Preparatory Costs	Actual costs incurred to March 2016 and forecast up to end May 2018
Programme Management Costs	Forecast costs based upon the Programme Delivery team structure as set out in this Business Case
Utilities	C3 ¹ cost estimates from utilities
Metro Infrastructure	Cost estimate based upon market/contract prices from external cost consultant based on the current delivery schedule

¹ C3 budget estimate includes: a description of the items of equipment on long delivery and the need for advance ordering; interruptions of supplies to consumers; disconnection of supplies to premises which are to be demolished; special wayleave agreements associated with the diversion of its apparatus; early access to sites for the construction of special structures such as sub-stations, pressure regulation stations etc. and planning consents and special ministerial consents and any high-risk critical items or issues.

Optimism Bias

- 2.3 Transport projects are inherently risky and subject to uncertainties due to the long planning horizon and complex interfaces. Often the project scope or ambition level will change during project development and implementation due to uncertainty at the earlier project stages, as has happened here. Hence, a certain degree of budget uncertainty exists which will typically be reduced through the project cycle.
- 2.4 To address the tendency for appraisers to be overly optimistic about key parameters. **The Green Book** (HM Treasury, 2003) suggests that appraisers should make explicit, empirically based adjustments to the estimates of a project's costs, benefits, and duration. These adjustments are based upon the appraisal of a number of contributory factors in the following categories:
- Procurement – complexity of contract structure, Involvement of contractor in design, contractor capabilities, government guidance, disputes and claims and information management
 - Project Specific – design complexity, degree of innovation and environmental impact
 - Client specific – adequacy of business case, number of stakeholders, funding availability, project management team and project intelligence
 - Environment – public relations, site characteristics and permits/consents/ approvals
 - External Influences – political, economic, legislation/regulations and technology
- 2.5 In accordance with DfT guidance in relation to the value for money appraisal only, adjustments for optimism bias, applied on top of the identified QRA, have been based upon the empirical data available and reflect the characteristics of the costs under consideration.
- 2.6 For Metro there is a strong body of understanding and knowledge in relation to the cost estimates due to the ongoing experience of delivery of the BCCE and Fleet Replacement.
- 2.7 As recognised in WebTAG, the level of optimism bias reduces as the development of a scheme progresses. The Birmingham Eastside scheme has undergone significant refinement, and evidence of costs is available from the current construction of the Midland Metro extension to New Street station. Centro will be procuring the works efficiently through its innovative Midland Metro Alliance, the focus of which will be drive efficiencies in development and construction through innovation and smarter working. Therefore, for the value for money appraisal an optimism bias value of 20% has been applied to the Midland Metro extension capital costs.
- 2.8 For the tram costs, which are based on competitive quotes provided to January 2016, and given Centro's recent experience with fleet replacement, an optimism bias value of 6% has been applied.

C3. Funding

Introduction

- 3.1 This chapter presents the proposed approach for funding the Midland Metro Birmingham Eastside Extension scheme. It is based upon the scheme costs described in Chapter 2 and set out below. The scheme is proposed to be fully funded from devolved Local Transport Growth Deal Funding, together with significant funding from the HS2 Connectivity package.

Table 3.1: Outturn Scheme Cost Estimate (£m)

Scheme element	Preparatory/ Advanced Works Costs	Base Scheme Costs	QRA	QCE
Metro	8.1	94.4	9.9	112.4
Trams	0.0	24.8	0.0	24.8
Total	8.1	119.2	9.9	137.2

Proposed Funding

- 3.2 In the GBSLEP Growth Deal announcement on 7 July 2014 the Government placed great importance on maximising the benefits of HS2.
- 3.3 The Growth Deal noted that HS2 is a game-changing opportunity for the Greater Birmingham and Solihull area, with two stations in Phase One: Birmingham Curzon in Birmingham city centre, and the Interchange in Solihull, adjacent to the NEC and Airport within the Hub of UK Central.
- 3.4 To ensure that the LEP can maximise the local economic benefits before and after the arrival of HS2, the Deal:
- Set out a new way of working between GBSLEP and Government, with strong commitments on both sides, to ensure that the area is able to exploit the potential of HS2 and maximise the benefits in terms of investment, jobs and skills;
 - Provided a package of investment in a range of HS2-related projects that will significantly enhance connectivity to the Birmingham Curzon station and support extended provision of construction skills, noting that;

- The overall package - including four schemes prioritised by the GBSLTB to be funded from the pre-allocation of the Local Growth Fund - would enable Greater Birmingham and Solihull to start getting ready now for the arrival of HS2, and support improved access to jobs and economic growth in the period up to its arrival in 2026.

3.5 In terms of specific commitments by Government to the Eastside Extension the Government have committed to funding of £137.2m which has been allocated through Growth Deal 2014 and the Devolution Deal. Of this £5.5m has been already been provided to WMCA in advance to enable progress through the TWAO stage.

3.6 Full funding for the scheme was announced by the Chancellor as part of the Combined Authority package on 17 November 2015.

3.7 The funding package proposed is in line with the initial submission to GBSLEP Government’s Growth Deal which was announced on 7 July 2014 and the cost phasing has been adjusted for the current delivery schedule.

Table 3.2: Annual Funding Requirements (£m)

	Prep/ Adv	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Total
Estimated Capital Cost (QCE)	2.0	2.5	3.3	20.7	41.5	32.1	28.8	6.3	137.2
Funded By:									
GBSLGF	2.0	2.5	1.0						5.5
DfT Funding			2.3	20.7	41.5	32.1	28.8	6.3	131.7
Total	2.0	2.5	3.3	20.7	41.5	32.1	28.8	6.3	137.2

Local Funding

3.8 Local funding will cover any expenditure above the £137.2m and therefore cover any risk expenditure incurred above that allowed for in the current cost estimate.

Section 151 Officer Sign-Off

3.9 Appendix D2 includes letters from the Section 151 Officer for the West Midlands Integrated Transport Authority confirming that:

- The cost estimates are accurate and represent the best estimates based on currently available information

