

**REPORT TO: WEST OF ENGLAND COMBINED AUTHORITY
COMMITTEE**

DATE: 29th July 2022

REPORT TITLE: METROWEST 1 (PORTISHEAD LINE)

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Purpose of Report

To secure approval from Committee on key decisions and associated funding (where applicable) related to the following project within the Combined Authority's Rail programme.

1. MetroWest 1 - Re-opening of Portishead Line [Recommendation 1]

Recommendations

Recommendation 1 – To approve the allocation of a further £10m of funding for MetroWest 1 (Portishead Line) from the Investment and Transforming Cities Funds.

Voting arrangements

- Decision requires majority agreement of Committee Members in attendance, or their substitutes (one vote representing each Authority) and including the West of England Combined Authority Mayor.

Climate Change Implications

The Combined Authority is committed to taking climate change considerations fully into account as an integral part of its governance and decision-making process. These schemes within the Rail Programme are important interventions as we move towards a decarbonised transport system and providing a viable alternative to the private car, and specifically:

- Maximising the opportunities to enhance service in a joined-up way that enables integration of transport services, and, a shift to more sustainable forms of transport.
- Maximising the opportunities to minimise the carbon footprint of any construction project, through the whole life of the infrastructure.

1. Recommendation 1 – MetroWest 1 - Background / Issues for Consideration

Background / Context

- 1.1 The MetroWest 1 scheme, which includes re-opening of the Portishead Line, is a jointly promoted by North Somerset Council (NSC) and the Combined Authority (CA) with a funding contribution from the Department for Transport (DfT).

- 1.2 The key outputs MetroWest 1 will deliver are as follows:
- Severn Beach Line infrastructure and service enhancements, including two services per hour to Avonmouth, with one continuing to/from Severn Beach.
 - 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.
 - 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.
- 1.3 The infrastructure enhancement works required to operate the Severn Beach and Wesbury service enhancements have been delivered. 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.
- 1.4 The key driver for MetroWest, 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.
- 1.5 The following are the primary benefits of the scheme:
- Significantly reduced travel time into Bristol from Portishead
 - Over 50,000 people brought within direct catchment of a rail station
 - 1.2m additional rail journeys and £7m revenue within 15 years of opening
 - Delivers the removal of 13 million car-km annually by 2041
 - Benefits to the regional economy in Gross Value Added (GVA) of £43m per annum.
- 1.6 The delivery of the infrastructure required to support the re-opening of the Portishead line will be primarily delivered by Network Rail (NR) with minor scope, including vegetation clearance, ecological enabling works and highways works, to be delivered by NSC and the CA.
- 1.7 The anticipated final cost (AFC) of MetroWest 1 project was estimated in March 2022 at £163.26m. This represents a funding gap of £46.82m when compared to the funding secured in at Outline Business Case (£116.42m) stage in 2017. The funding gap comprises of £35.58m capital costs and £11.24m operational costs.
- 1.8 The main reasons for the AFC increase are associated with, but not limited to, the following factors:
- Market prices are greater than those previously estimated, which have been 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.
 - Extensive programme delays (detailed in section 1.9) associated with DfT's Development Consent Order (DCO)/PINS process.
 - More onerous demands than anticipated to prepare and submit a compliant DCO application.
 - In 2017, the OPEX costs (£11.24m) were not included within the original funding requirement as these were still under negotiation with Great Western Railways (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.

- 1.9 In last report to Joint Committee, in June 2020, the key programme milestones were as follows. These has been impacted significantly by the full implications of the DCO process and Covid-19.
- Development Consent Order received – June 2021
 - Full Business Case approval – February 2022
 - Start of main construction works – April 2022
 - Line opening and commencement of train services – March 2024
- 1.10 The full implications of programme delays, associated with the DCO process and COVID-19, are to still to be assessed and an updated project timeline has not been finalised, including input from rail industry partners. However, it is expected that the line opening, and commencement of train services will not be delivered until 2026 at the earliest.
- 1.11 There has been significant effort with all parties (NSC, CA, NR, DfT & GWR) to collaboratively reduce the AFC of the project, which 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.
- 1.12 As part of this collaborative 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, bridge works)
 - Change in governance model, with DfT taking on the client role.
- 1.13 On the 19th of 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.

Finance Implications, including economic impact assessment where appropriate:

- 1.14 The existing project funding allocation approved in 2017 (At Outline Business Case stage) is £116m. The funding was to be provided through the following funding sources:
- Local growth Fund - £18.868m
 - Economic Development Fund - £49.531m
 - Local Authority Contributions - £4.413m
 - NSC Contributions (2019) - £5.860m
 - Investment Fund (Combined Authority) - £5.860m
 - DfT RNEP contribution (2019) - £31.9m
- 1.15 To bridge the current capital funding gap the total recommended additional CA contribution is £10.00m. The additional funding is proposed to be drawn from the following funding sources:
- £2m - Investment Fund
 - £8m – Transforming Cities Fund (to be underwritten by Investment fund – see section 1.16)
- 1.16 Current restrictions on Transforming Cities Funding dictate that any funding needs to be spent by the end of March 2023. DfT are considering extending this deadline specifically for MetroWest 1 (Portishead Line) to enable £8m to be spent after the

deadline. DfT's agreement to this proposal is subject to further discussions on profiling of the respective DfT, CA and NSC funding commitments. DfT's main concern is that because they will be funding the next phase of development, any forecast Transforming Cities Fund spend will be pushed into 2024/25 at the earliest. This means that their spending deadline for the fund would need to be extended by over 12 months. Unless the Transforming Cities funding is confirmed by DfT it is assumed that this funding is underwritten by Investment Fund. This means that the Investment Fund contribution could increase to £10m.

- 1.17 The proposed CA funding will be drawn from existing headroom in both the Investment Fund and Transforming Cities Fund.
- 1.18 The proposed £10m funding contributions from NSC and the CA resulted from extensive and delicate negotiations with DfT over the past 7 months regarding the respective contributions to be made to bridge the funding gap.
- 1.19 The CA's contribution is subject to additional funding commitments from NSC (£10m) and DfT (£15.58m), which have now been confirmed. NSC's additional £10m capital funding contribution was approved at their Full Council meeting on the 12th July 2022. DfT's additional £15.58m capital funding contribution was confirmed in a letter from the Minister of State for Transport, dated 19th July 2022.
- 1.20 Under the proposed governance approach, the DfT will take on the future capital 'cost risk' on the project, which is currently being held by NSC and CA. Beyond the additional £10m contributions each, the NSC and CA capital funding contributions will be fixed.
- 1.21 Due to DfT concerns about potential cost escalation during detailed design phase, the intent is for DfT to provide an initial £13.8m of funding to support the detailed design process and to enable NSC/ CA and NWR to undertake activities to de-risk the programme and to increase cost certainty. At the end of the detailed design stage market prices will be secured for the construction phase. These market prices will be used to support the Full Business Case submission and approval by DfT. Approval of the FBC by DfT will release the remaining £33.68m of DfT funding. NSC and the CA will be allocated £3.5m of the £13.8m to conduct (in part) the following activities/roles:
 - Ecology Enabling Works
 - Highways and utilities design and development
 - Site and Ground Investigations
 - Business Case Modelling and Appraisal
 - Development Consent Order – Planning and Legal Support
 - Land Agent Services
 - NSC & CA Project Management
 - Estimation, Procurement and Commercial Support
 - Local Planning Authority Payments

Given that DfT are funding the next development stage, the authority to spend this £3.5m will be approved via the DfT, rather than via NSC and/or the CA.

- 1.22 Unless otherwise approved, no further Combined Authority and NSC capital funding will be committed, beyond that which has been invested to date, between now and Full Business Case approval.
- 1.23 Whilst DfT are committing to increase their funding contribution to bridge the capital funding gap (subject to Full Business Case approval), they are not committing at

this stage to funding the operational costs associated with the project, which are estimated to be £11.24m. The operational costs include a revenue subsidy to be paid to GWR covering the assumed difference between the cost of mobilising the three enhanced MetroWest 1 services for the first 3 years – Portishead Line, Bristol Temple Meads to Severn Beach and Bristol Temple Meads to Westbury. The Combined Authority is in a contract with GWR to deliver the Enhanced Services to Severn Beach and Westbury – the value of this contract specific to MetroWest 1 is £7.8m. No agreement is yet in place with GWR to operate the new services on the Portishead line. So far, only the enhanced Severn Beach services are in operation and our committed operational spend to date (to June 2022) is c.£1.311m. DfT have committed in their funding letter to continuing a dialogue with the Combined Authority about how the operational costs may be reduced and whether they may fund this in the future.

- 1.24 The economic appraisal of the scheme forecasts a Benefit-Cost Ratio (BCR) of greater than 1.5:1 (with wider benefits). A BCR of greater than 1.5 represents medium value for money. The Full Business Case for MetroWest 1 will be reviewed and signed off by the DfT at the conclusion of the detailed design stage. Given the DfT's role in assuring the Full Business Case, formal local assurance of the Full Business Case by the Combined Authority will not be required.

Consultation

- 1.25 This paper has been developed by the West of England Combined Authority in conjunction with North Somerset Council and Network Rail. Other key stakeholders have been engaged through the West of England Strategic Rail Steering Board and the regions Planning, Housing and Transport Board.
- 1.26 The Combined Authority, and specially the West of England Metro Mayor, have actively engaged with government departments in support of securing support and funding for the project.

Other Options Considered

- 1.27 Several other options of have been considered and discounted at this stage:
- DfT to fund to the full funding gap – This option was discounted by DfT who have advised that contributions from both the Combined Authority and North Somerset Council 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. Further design work is required before any further savings can be identified.
 - Delay the project – The DfT funding letter sets out strict budgetary and programme conditions on both the next phase of development and the future delivery phase. Any delay will expose the project to inflationary and market pressures which will erode our ability to meet these conditions which need to be met if the project is to proceed into delivery. Mobilisation of ecological enabling works is also predicated on a funding decision and release of the DfT's Development Consent Order (assumed to be 3 months later). These ecological works are a critical enabler to the main works programme which is due to start from 2024 onwards. Any delay to the funding decision beyond the end of July reduces the window to complete these ecological works in winter 2022/23. This removes programme flexibility and significantly increases the risk on the cost and programme to deliver the new railway line and stations.

- 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 (up to March 31st 2022). The total committed spend on the project is £38.04m (up to March 31st 2022), including operational costs. The CA will have exposure of up to £12m of revenue reversion, subject to further discussion with DfT.

Risk Management/Assessment

- 1.28 If the project is cancelled, approximately £300,000 of further spend would be required to bring the project to a controlled stop. The Combined Authority are contractually committed to spending a further £6.7m of revenue subsidies agreed with GWR to support enhanced services being delivered under MetroWest 1a to Westbury and Severn Beach.
- 1.29 A full risk register is in place for this project. Subject to the Combined Authority committing extra funding, the DfT will take the future 'cost risk' on the project.

Legal Implications

- 1.30 Legal support would be requested should the project be stopped to support understanding the Combined Authority and North Somerset Council's respective liabilities for costs incurred and committed.
- 1.31 The transfer of DfT funding to NSC and the CA will through a funding agreement with Network Rail. The terms of this funding agreement remain to be reviewed and approved.

Land/property Implications

- 1.32 If the project was deferred for an extended period (beyond 2-years) or cancelled the only valuable deliverable / asset resulting from the spend to date would be the land purchases local to Station Road, Pill Station Car Parks & Quays Avenue (west), with an approximate land value of £1.0m.
- 1.33 If the project does not proceed, agreement will need to be reached with NSC on how this land asset is maintained and/or managed moving forward.

Human Resources Implications

- 1.34 Not applicable.

Background papers:

Not applicable.

Appendices:

Not applicable.

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