

WEST YORKSHIRE PASSENGER TRANSPORT AUTHORITY

DATE: 18 NOVEMBER 2005

AGENDA ITEM NO: 18

SUBJECT: LEEDS SUPERTRAM

Report of the Passenger Transport Executive

MATTER FOR CONSIDERATION

1.1. The Leeds Supertram funding decision and associated implications.

2. INFORMATION

Funding Decision

2.1. The Leeds Supertram scheme was cancelled in a statement by the Secretary of State for Transport on 3 November 2005, with the same information set out in a letter from the Transport Minister, Derek Twigg. The statement, attached as Appendix 1, gave the reasons for the cancellation of the project as:

- the costs were too high;
- greater risks were being borne by the public sector;
- it did not represent the best use of public money.

2.2. The decision is very disappointing in view of the enormous amount of work that has been undertaken, with the knowledge and support of the Department for Transport, to reduce the overall cost of the project. Most local responses have criticised the decision, including views that:

- it is contrary to the Regional Planning Guidance and the Northern Way Growth Strategy.
- It fails to provide the necessary investment in high quality public transport to support economic growth in Leeds, to provide improved access to employment opportunities and to support the regeneration of inner-city communities.

2.3. The statement indicates that a very high quality bus based system would provide better value for money on the basis of work commissioned by the Department for Transport. However there were significant disagreements between Metro / Leeds City Council and the Department for Transport and their consultants during the course of this study. Metro / Leeds City Council expressed serious reservations about the ability of a bus based system to achieve the mode switch, de-congestion, economic and regeneration benefits suggested by the

consultants. There was also a lack of clarity about a viable mechanism for implementing and sustaining a very high quality bus scheme in a de-regulated market with the potential for on-street competition. The study failed to identify a satisfactory solution to this issue.

- 2.4. The Department for Transport did not acknowledge offers made by the promoters to meet short-term costs, (if the scheme was approved, as part of the local contribution). This offer was made to defer further call for Department for Transport funding until 2008/09 at the earliest. It also did not refer to the promoters offer to implement the scheme within the original funding approved in 2001 of £355 million (Present Value).
- 2.5. The decision to cancel the project attracted considerable news coverage, mostly sympathetic to the transport needs of Leeds and West Yorkshire and raising concerns about a north-south divide in transport investment.
- 2.6. Metro issued a press statement, which is attached as Appendix 2.

Basis of Project Costs

- 2.7. The statement announcing the cancellation of the project alleged that the costs put forward by Metro and Leeds City Council were 'seriously misleading'.
- 2.8. It must be emphasised that the project costs provided by Metro have at all times complied with Department for Transport major scheme appraisal guidance and have been on the same basis (Present Value, 2001 prices) as the original funding approval in 2001 of £355 million.
- 2.9. The reason that all Supertram costs have been set out on this basis is that large transport projects such as this involve capital and revenue costs and incomes over a long period of time (32 years in the case of Leeds Supertram). This makes comparisons impossible unless a common time baseline is used and future costs are discounted. Discounting is a standard and widely used process whereby costs and benefits in the future are 'worth less' than costs and benefits today. The sum resulting from the discounting process is called the Present Value.
- 2.10. The Department for Transport's major scheme appraisal guidance therefore requires the discounting of future costs and benefits to a common year, using a common price base and a standard appraisal methodology.
- 2.11. Metro's revised figure of £380 million (the figure of £348 million in the Secretary of State's statement allows for revenue of £32 million in the initial period) was set out on exactly the same basis as the original funding of £355 million, both being Present Values of all expenditure discounted to 2001.

- 2.12. The comparison that has been made by the Department for Transport of £486m against £355m, suggesting a 40% cost increase does not follow this approach since and merely shows discounting to 2005, rather than 2001.
- 2.13. The Department for Transport's statement that in cash terms the costs had 'almost doubled' is a reference to the total of payments over the life of the project, with the increase being due to the Department for Transport's requirement for a larger proportion of the costs to be paid for over the 32 years, coupled with a delay in the start and completion dates.
- 2.14. One broad analogy is the universal practice of quoting the purchase price of a house as one sum, rather than as the total of all payments, which will vary significantly according to the size of the deposit, the length of the mortgage and the interest rate for the loan. A house costing £100,000 is often purchased through a small deposit with monthly payments totalling as much as £300,000 or £400,000 over the life of the mortgage depending on the financing package used.
- 2.15. Metro therefore continues to believe that the costs it presented were not misleading, as they
- were on the same basis as the original funding approval, allowing a true comparison between different options,
 - they were produced in accordance with the advice and guidance laid down by the Department for Transport.

Implications for Winding Down the Supertram Project

- 2.16. The decision to cancel the project means that work must now be undertaken to wind-up project activity. This work is significant and will take several months, at a minimum. The work will include ensuring all monies have been claimed from the Department for Transport, legal and land issues are resolved and the appropriate documentation archived for potential future use in connection with other proposals.

Alternative Transport Proposals

- 2.17. Some work on alternatives had been undertaken in advance of the announcement on 3rd November. This work identified a number of potential short-term actions, such as rail and bus based park and ride proposals and these need to be considered by the Authority and Leeds City Council and, if appropriate, additional funding sought from the Department for Transport.
- 2.18. It will also be necessary to liaise with the Department for Transport to ascertain their commitment to bus based proposals. Whilst the statement falls short of a specific funding commitment to the bus based proposals, it appears that the Department for Transport are keen for

Leeds to develop a 'showcase' system "that could lead the way for other cities".

- 2.19. The availability of funding needs clarification as the Department for Transport have not as yet given full funding approval to proposals for A65 Kirkstall Road, Yorcard or for the Yorkshire Bus Initiative major scheme bid.
- 2.20. The process for securing funding for a bus based alternative is also potentially complicated by the role of the Regional Transport Board and need for further clarity about the availability of future funding on the basis on the recently announced Regional Allocations. These allocations do not include PFI credits, which would have made a major contribution to the funding for Leeds Supertram. PFI credits may well not be appropriate for a bus based option without a concession agreement.
- 2.21. There is also a need to reconsider the overall transport strategy for Leeds, incorporating work that has already been undertaken on the Harrogate Line, access to the Aire Valley Employment Area as well as the development of bus based alternatives on the three 'Supertram' corridors, and the potential that exists for other key transport corridors (such as Leeds – Bradford) where requirement for significant public transport infrastructure measures has increased in recent years.
- 2.22. This work will need to consider the deliverability of various options in the context of the work on Metro's Bus Strategy and Quality Contracts and any requirement for new powers to acquire land and construct new transport infrastructure. The process of obtaining any new powers could involve objections and a Public Inquiry.
- 2.23. It is proposed to arrange a seminar for all Authority members to allow fuller discussion of the process for implementing short-term proposals and developing a revised medium and longer-term strategy.

3. FINANCIAL AND EC PROCUREMENT IMPLICATIONS

- 3.1. Part of the process of winding up the Supertram Project will be to ensure that all outstanding claims for funding from the Department for Transport are identified and progressed.

4. STAFFING IMPLICATIONS

- 4.1. The staffing implications have yet to be fully assessed.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. None as a result of this report.

6. RECOMMENDATIONS

6.1. That the report be noted.

6.2. That a seminar be held for members of the Authority to discuss how to bring forward public transport proposals to address the present and future transport needs of Leeds and environs in the context of the decision to cancel the Supertram project.

Director General
West Yorkshire Passenger Transport Executive