

EXECUTIVE REPORT

TEES VALLEY METRO

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PURPOSE OF THE REPORT

1. This report sets out the current status of the Tees Valley Metro project and its key benefits, both to the City Region and to each individual Local Authority.
2. TVR seeks a commitment from Middlesbrough Council and each of the Tees Valley Local Authorities to an “in principle” funding contribution towards the Tees Valley Metro project as a fundamental part of the submission of a revised business case to the Department for Transport (DfT) and Network Rail in early 2008.
3. In order for the project to progress and be considered by the DfT and through the Regional Funding Allocation (RFA) process, an “in principle” funding commitment from each of the Tees Valley Local Authorities to provide a local contribution covering 10% of the capital cost is required. Any contributions from the Local Authorities (and other sources) are likely to be required between 2011 and 2013, and a confirmation on the exact contribution from each Authority will not be required until 2009/10.
4. The report covers:
 - Policy Context;
 - Summary of the Preferred Scheme;
 - Costs;

- Funding;
- Key Benefits;
- “Local” Contributions; and,
- Financial Implications.

5. The main issues relating to these items are discussed under each heading below.

BACKGROUND AND POLICY CONTEXT

6. The Government’s 30 Year Strategy for Rail and High Level Output Specification, published in July 2007, makes reference to the need to look at more innovative and cost effective ways of providing rail-based solutions on suburban lines. The Tees Valley could be an effective pilot of such new proposals.
7. Network Rail’s recent Route Utilisation Strategy (RUS) for the East Coast Main Line (ECML) states that capacity is increasingly becoming an issue on the ECML – part of the Metro proposals will, in fact, free up additional capacity on the ECML.
8. The recently issued Modifications to the Draft Regional Spatial Strategy (RSS) included, as part of Policy 51 – Regional Public Transport Provision, the “development of a rail-based metro system” as a “priority for further investigation” for the Tees Valley City Region. The scheme is also listed in the Transport Investment Priorities in Table 4. The need to improve connectivity within and between City Regions is also set out in the Regional Economic Strategy (RES).
9. The development of the Tees Valley Metro scheme was also highlighted in the Tees Valley City Region Business Case, submitted to Government in October 2006. The need for the scheme to support long term regeneration aspirations for the City Region was set out, and the scheme was also reference in the supporting Investment Plan, which is shortly to be incorporated within a new Multi-Area Agreement with Government.
10. The Tees Valley Metro scheme was also referenced and consulted upon within all of the Tees Valley Authorities’ Second LTPs as a key intervention for which a detailed business case was being developed. The proposals would contribute to the delivery of many elements of the individual Community Strategies for the Tees Valley, particularly tackling social inclusion and enhancing accessibility to all services by public transport.

OPTION APPRAISAL/RISK ASSESSMENT

11. TVR has been developing the Metro proposal since November 2004, and in October 2006 produced an outline business case that set out the preferred option for Metro at that time. This was based on an assumption that the new system would be required to be almost completely segregated from the existing heavy rail network (albeit in the same alignment).

12. However, as discussed in the preceding section, DfT and Network Rail are now looking at an arrangement whereby such systems as that proposed for the Tees Valley can “share” track with existing heavy rail services, both passenger and freight. This offers possibilities for the Metro system such as additional services along the Durham Coast line to Hartlepool that could not have been considered previously.
13. The ECML RUS also noted the future conditions for the continuation of services to Bishop Auckland, which update the position contained in the Regional Rail Strategy (North East Assembly, 2004) from which the initial Metro proposals took their lead.
14. Finally, since October 2006, a significant amount of work has been undertaken to develop the Tees Valley Bus Network Improvements scheme (with a capital cost of some £40 million between 2008 and 2011), which aims to provide a “step change” in the provision of bus services across the Tees Valley. It is important that these proposals and the Metro proposals are complementary to provide a wholly integrated network.
15. Hence, some work was recently been undertaken to refine the Metro proposals, and the current elements of the scheme that will be assessed in terms of cost and feasibility over the next period of work are:
 - A four trains per hour service between Darlington and Saltburn throughout the working day;
 - New rolling stock with higher levels of passenger quality and comfort;
 - Up to five new stations along the route, serving key employment sites, major regeneration areas and Durham Tees Valley Airport;
 - Upgrades to all other stations along the route;
 - Supporting heavy rail/metro service enhancements to Hartlepool and Nunthorpe (the latter possibly with park and ride to serve East Cleveland);
 - Complementary links to the existing Community Rail Partnerships along the Esk Valley and Bishop Auckland lines; and
 - Integrated express bus services where heavy rail/metro services are not economically viable in the short term.
16. Members should be aware that detailed cost benefit evaluation remains to be undertaken on the additional elements, and that the proposed phasing of the implementation of the improvements will need to be addressed in terms of economic viability. However, the need to provide an integrated network across the whole of the Tees Valley is fundamental to the development of the scheme.

Costs

17. During the project development to date, two separate value engineering and risk management exercises have been undertaken in order to provide a robust estimate of the capital costs. A Quantified Risk Assessment (QRA) has also been undertaken, following HM Treasury guidelines.
18. The capital cost estimate for the core section of the route, taken from Darlington to Saltburn, including the QRA cost, was estimated at £141.9 million (2005 prices).
19. In working with Network Rail, a new option for using shared running along much of the route is now being discussed, as described previously, which should reduce the level of new infrastructure required, and hence the comparative cost. On the other hand, there may be some additional costs associated with the elements of the scheme that are being examined in a little more detail in the next stage of work, that were not included in the core scheme.
20. In terms of operating costs, the total forecast annual operating cost for the core system is £6.6 million, compared with the estimated operating costs for the existing service of £5.7 million. This is due to increased frequency of service and higher staff costs, although maintenance and fuel costs are lower and the proportional operating cost increase is less than the frequency increase proposed.
21. However, due to the attractiveness of the system to existing trips and those new trips allied to the regeneration proposals, the new system will require less subsidy than the existing system for all of the ridership scenarios modelled to date. Under the central ridership scenario, the new system will require around £1.5 million less per year in subsidy payments, even with the increased frequency and quality of service for passengers. This subsidy saving benefits central Government directly.
22. The option for increased use of shared running currently being examined also assumes that the system remains part of the national rail network, which will not place additional operating cost risk on the Local Authorities if this model is pursued.

Key Benefits

23. The work done by TVR for the outline business case assessment showed that there was a strong economic benefit: cost ratio, even assuming a relatively modest transfer of ridership from the private car.
24. In addition to the reduced long term subsidy that accrues to central Government, other headline benefits of the proposals are as follows:
 - Enhanced capacity on the ECML and Trans Pennine rail routes;
 - Opportunities for additional passenger and freight train services, particularly Teesport (although additional paths over and above those available at present are not needed as part of the current Northern Gateway proposals);

- Potential to serve new markets along the Durham Coast whilst enhancing connections to Tyne and Wear;
 - Support sustainable development and contribute to reducing CO₂ emissions;
 - Support for economic regeneration and delivers significant uplift in GVA (currently calculated at some £400 million);
 - Significant accessibility and social inclusion benefits.
25. Significant local benefits would accrue to each of the Tees Valley Authorities, both with the proposals being considered at present, and as part of any future network extensions, as described in turn below:
26. In Darlington:
- New platforms at Bank Top adjacent to the Central Park development;
 - New station at Durham Tees Valley Airport;
 - Possible new station serving the football stadium or Morton Palms to support development opportunities;
 - Release of track capacity on the ECML to allow more trains to run from Darlington to York and Newcastle;
 - Continued rail service on the Bishop Auckland line; and,
 - Complements plans to remodel Bank Top station and offers the opportunity to develop car parking adjacent to the new Metro platforms.
27. Looking beyond the core scheme, Metro offers the potential for a future street-running extension into Darlington town centre.
28. In Hartlepool:
- New services to Hartlepool Interchange (both bus and rail);
 - Enhanced heavy rail connections along the Durham Coast line, including Grand Central;
 - Supports development proposals within the town centre and at Victoria Harbour; and,
 - Creation of additional track capacity to allow more trains to run from Hartlepool to York and Middlesbrough.
29. Beyond the core scheme, Metro offers the potential for a future station serving Queen's Meadow.

30. In Middlesbrough:
- Fast and frequent connections to the ECML at Darlington, Grand Central at Eaglescliffe and Durham Tees Valley Airport;
 - Direct support for the Stockton Middlesbrough Initiative;
 - Possible new station at Teesside Leisure Park;
 - Support for the regeneration at Middlehaven and Middlesbrough Football Stadium, including a possible station; and
 - Possible extensions to Nunthorpe, including a park and ride site to serve East Cleveland and relieve peak hour congestion on key radial routes.
31. Looking beyond the core scheme, Metro offers the potential for a new station at James Cook Hospital with any extension to Nunthorpe, and a future street-running extension in Middlesbrough.
32. In Redcar and Cleveland:
- Fast and frequent connections to the ECML at Darlington, TransPennine Express at Middlesbrough and Grand Central at Eaglescliffe;
 - Support for the Northern Gateway at Teesport;
 - Possible new stations to serve residential areas such as The Ings;
 - Possible links to the Wilton site; and
 - Possible extensions to Nunthorpe, including a park and ride site to serve East Cleveland.
33. Beyond the core scheme, Metro offers the potential for future services to East Cleveland and a street-running extension to Guisborough.
34. In Stockton-on-Tees:
- Fast and frequent connections to the ECML at Darlington, TransPennine Express at Thornaby, Grand Central at Eaglescliffe and Durham Tees Valley Airport;
 - Direct support for the Stockton Middlesbrough Initiative; and,
 - Support for development opportunities at Eaglescliffe, Preston Farm, Thornaby and Teesside Retail Park, including possible new stations.
35. Looking beyond the core scheme, Metro offers the potential for future street-running extensions to Stockton town centre and Ingleby Barwick.

FINANCIAL, LEGAL AND WARD IMPLICATIONS

36. Network Rail has already identified committed funding that overlaps with Tees Valley Metro and is currently estimated at £88.8 million in total, subject to confirmation by Network Rail as part of their Business Plan for 2009 - 14. This leaves a funding “gap” of around £45 million to bridge.
37. TVR is now working to close this funding “gap”, aiming to determine suitable sources of funding by October and confirm the value of planned rail renewal work that will be superseded by the Metro project. This “gap” will need to be funded principally from regional sources, as well as the “local” contribution, as defined by the DfT.
38. Crucially, TVR is working to secure a contribution from the DfT in respect of major transport schemes, and, in order to do this, position Metro favourably for the review of the RFA process to be undertaken later in 2007. In order to ensure that the project can be part-funded in this way, it is now necessary to secure an “in principle” commitment to a local funding contribution, otherwise the scheme will not be taken further within the RFA review.

“Local” Contributions

39. As set out above, in order to progress the scheme within the DfT’s appraisal process and qualify to be considered within the review of the RFA, an “in principle” commitment is required now. The DfT requires a “local” contribution to each major local transport scheme of at least 10% of the gross capital cost. At the present time, this equates to a combined funding contribution of £14 million.
40. However, the DfT does not necessarily define “local” as simply meaning a Local Authority contribution. “Local” contributions can also include the following within the DfT guidelines:
 - European sources;
 - Private sector;
 - LTP funding already secured and diverted to the project; and
 - Any other mechanisms outside a central Government grant.
41. Therefore, although at the present time, the Tees Valley Authorities are being asked to provide an “in principle” funding commitment to the Metro project, there are a range of additional funding sources that can be classed as “local” within the DfT’s definition that will be need to explored fully as the business case for the proposals is developed.

42. TVR and Officers will continue to work to maximise the value of the contribution from sources other than the Local Authorities during the next stage of the project, but the “in principle” funding commitment is still required at the present time in order for the project to progress.

Funding Implications

43. Based on the current capital cost estimate of £141.9 million, a 10% contribution is some £14 million, and hence there is a need to secure the “in principle” funding commitment for this sum between the Tees Valley Authorities.
44. Dividing this equally between each of the Authorities gives a contribution of around £3 million per Authority. Again, however, it should be stressed that TVR and Officers will continue to work to maximise the value of the contribution from sources other than the Local Authorities during the next stage of the project.
45. A draft timescale for implementing the improvements has been developed, linked to the period of the current Northern Rail franchise, which ends in 2013. This is viewed as the preferable date for any changes, given that any alteration to the existing franchise arrangements will incur a cost penalty.
46. Therefore, any “local” contributions from the Local Authorities (and other sources) are likely to be required between 2011 and 2013. Hence, a confirmation on the exact contribution from each Authority will not be required until 2009/10, by which time more details will be available on the benefits of the scheme for each Authority, and the phasing of the project.

Ward Implications

47. The introduction of a Metro Service in the Tees Valley would have a beneficial impact on every ward.

SCRUTINY CONSULTATION

48. This matter has not been considered by Scrutiny other than as part of the LTP consideration.

RECOMMENDATIONS

49. It is recommended that:
- a) Executive authorises the Director of Resources to enter into negotiations with the other four Tees Valley Boroughs and other sources to endeavour to provide a combined local funding contribution of 10% of the capital cost (currently around £14 million) towards the Tees Valley Metro project between 2011 and 2013.
 - b) That a further report be presented to Executive for the approval of the precise commitment required from Council funds.

REASONS

50. The reasons for this recommendation are:
- a) The Tees Valley Metro will deliver a step change in sub-regional public transport across the Tees Valley, providing a high frequency, high quality service, and a 21st Century metropolitan public transport system.
 - b) The funding requirements are significantly less than envisaged previously, by using existing infrastructure and use of funds already in the national rail network. However, a “in principle” commitment to fund a “local” contribution of 10% of the capital cost of the scheme is a DfT requirement.
 - c) Metro leverages planned funding in an innovative way to bring strong benefits, including support for economic regeneration that will deliver a significant uplift in GVA of up to £400 million and help the Tees Valley realise its potential.
 - d) Metro serves many brownfield sites and communities along the River Tees, opening up development potential in proximity to its stations, with the potential for Local Authorities to leverage Section 106 contributions from private sector developers.

BACKGROUND PAPERS

51. The following background papers were used in the preparation of this report:

TVR Reports on Metro Project.

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