
TEES VALLEY BUS NETWORK IMPROVEMENT

Responsible Cabinet Member – Councillor David Lyonette, Transport Portfolio

**Responsible Director - Richard Alty,
Assistant Chief Executive (Regeneration)**

SUMMARY REPORT

Purpose of the Report

1. To seek approval for the conditional acceptance and release of a funding offer by the Department for Transport to undertake year 1 investment under the Tees Valley Bus Network Improvement (TVBNI) and to set out a possible strategy for dealing with future decisions about investments scheduled in subsequent years of this programme.

Summary

2. During the preparation of the Second Local Transport Plan (2LTP), this Council and the other Tees Valley Authorities set out a common position for the Tees Valley sub-region based on removing the barriers that local people may face in getting to work, healthcare, leisure and other facilities. One of the proposals derived from this position was the need to improve bus services through the region under the TVBNI.
3. The TVBNI bid would bring investment worth up to £9.631m into the Borough, benefitting bus users and others who travel on local roads. This investment includes improvements to junctions that currently experience some traffic congestion at times. The local contribution from this Council could be up to £2.544m to be funded from Darlington's share of regional budgets, the private sector and the LTP. It is expected that the forecast reduction in 3LTP grant will leave very little funding for other priorities than statutory commitments and TVBNI schemes.
4. The Department for Transport (DfT) grant offer for TVBNI is for £2.624m less than that requested across the Tees Valley and came with conditions that increase the risks to this Council and its partners. DfT funding for the TVBNI project has been confirmed in the Comprehensive Spending Review. The consequential impact on local funding requirements is also more complicated due to the uncertainties over the settlement for the Third Local Transport Plan and the formula grant for the Council. Increased spend on TVBNI schemes from these funding sources would have immediate impacts on other work.
5. Changes made by DfT in the period between the submission of the business case and grant offer have given rise to concerns regarding a commitment now by this Council to the full 5 year programme, given that the grant will only be confirmed annually leaving inflation costs at the risk of the Council. These concerns have been discussed with the DfT and are

reflected in the draft acceptance letter set out in **Appendix 1**. A strategy for dealing with the uncertainty is recommended in this report, so that Members can proceed on the basis of securing the benefits of the TVBNI programme whilst minimising the risks involved, through a staged decision making process.

Recommendations

6. It is recommended that Members:-
 - (a) Accept and release the Department for Transport year 1 grant offer, subject to agreement on grant conditions as set out in the draft letter to the Department attached to this report **Appendix 1**.
 - (b) Authorise the Borough Solicitor to complete the purchase of land at North Road, required for the delivery of a Tees Valley Bus Network Improvement scheme, subject to agreement with partner Councils about the financial arrangements as set out in this report and release the sum of £400,000 from the Local Transport Plan.
 - (c) Delegate the addition, deletion or modification of schemes in the Tees Valley Bus Network Improvement for Darlington each year to the Assistant Chief Executive (Regeneration) in consultation with the Cabinet Member for Transport, subject to the overall benefits set out in the business case being maintained.
 - (d) Agree that the finalisation of the Financial & Administrative Agreement be delegated to the Assistant Chief Executive (Regeneration) and Director of Corporate Services.

Reasons

7. The recommendations are supported by the following reasons:-
 - (a) To draw down the confirmed grant for year 1 of the Tees Valley Bus Network Improvement programme.
 - (b) To enable future acceptance of grant for years 2 & 3 of the programme within the timescale for the option on this land. The funding would be drawn from the 2LTP (£190,000) and DfT year 1 grant repayable from the 3LTP (£210,000).
 - (c) To aid efficient decision making in a programme involving all five Tees Valley Local Authorities.
 - (d) To expedite the grant acceptance process.

Richard Alty,
Assistant Chief Executive (Regeneration)

Background Papers

- (i) Business Case 2009
DfT offer letter, 29 March 2010

S17 Crime and Disorder	The proposed designs of bus shelters will include the opportunity to fit CCTV cameras where required. Arriva and Scarlet Band buses in Darlington are already fitted with CCTV.
Health and Well Being	Encouraging bus use will result in more sustainable travel patterns that increase walking. Bus use also produces lower vehicle emissions per passenger trip.
Sustainability	Bus travel is a sustainable mode.
Diversity	No implications.
Wards Affected	All urban wards, although buses travelling through select rural wards will also benefit.
Groups Affected	All bus users & road users passing through selected schemes.
Budget and Policy Framework	No change to budget or policy framework.
Key Decision	Yes
Urgent Decision	No
One Darlington: Perfectly Placed	Conforms to the principles set out in the Community Strategy.
Efficiency	The provision of new infrastructure will reduce maintenance liabilities. The more efficient use of the transport network will help maximise the benefits gained.

MAIN REPORT

Information and Analysis

Bid Process

8. During the preparation of the Second Local Transport Plan (2LTP), this Council and the other Tees Valley Authorities set out a common position for the Tees Valley sub-region based on removing the barriers that local people may face in getting to work, healthcare, leisure and other facilities. One of the proposals derived from this position was the need to improve bus services through the region. Members agreed the business case for the Tees Valley Bus Network Improvement (TVBNI) at their meeting on 3 November 2009.
9. Since November 2009, there has been a lengthy process that resulted in a grant offer being made by the Department for Transport (DfT) on 29 March 2010. Crucially, the grant offer was for £2.624m less than that requested and came with conditions that increase the risks to the partner Councils. The DfT funding has been confirmed in the Comprehensive Spending Review.
10. The grant offer was for £37.498m and came with the following conditions:
 - (a) that the maximum grant payable would be £37.498m or 65% of the outturn cost, whichever was the cheaper. Thus, overspends are at the risk of the sponsoring Councils whilst underspend is shared 65:35 (there is a contingency budget within the programme to deal with overspends that are agreed by all partner Councils);
 - (b) that the grant offer would be made over five years, not the four requested, so increasing scheme costs due to inflation (£0.173m) and project management charges;
 - (c) that the grant would be confirmed annually, with no commitment to subsequent years so schemes being delivered over more than 1 year (such as the new junction at North & Whessoe Roads) are delivered at the risk of the Council; and
 - (d) that 10% of the grant will be paid each year by the DfT, with the balance of 10% being retained by them unless funding was available to allow payment of the full grant. It is the advice of Tees Valley Unlimited (TVU) & the Programme Director that this condition should be seen more as a cash flow clause, than one indicating that the 10% may never be paid. This position has been agreed verbally by DfT officials and the addendum letter refers to this understanding.

TVBNI Project Board Proposed Response

11. The TVBNI programme is supervised on behalf of member Councils by a Project Board made up of senior officers from each Council, TVU, Arriva, Stagecoach and the Programme Director.
12. Subsequent to the grant offer, the partner Councils have been discussing possible solutions to both the reduction in grant and the conditions. These discussions are all the more difficult given the uncertainty over the indicative settlement for the 3LTP and the formula grant to the Council, since these are the most obvious sources of alternative funding for

TVBNI in the absence of developer funding. It has been proposed by the Board that the solution could be:

- (a) to re-profile the bid over five years; and
 - (b) to absorb the shortfall in DfT grant through increasing local contributions from each partner Council.
13. The Board suggest that the shortfall in grant is allocated on the basis of considering the programme cost as a whole and dealing with the 35% local contribution by:
- (a) assuming that start up scheme spends (prior to April 2010) are a given and will not be repaid from the DfT grant;
 - (b) assuming that developer contributions are a given;
 - (c) making any land purchase costs the responsibility of the partner Council; and
 - (d) sharing the balance equally amongst the partner Councils.
14. The Board's proposal has the immediate effect of increasing Darlington's contribution by £1.226m, due to the funding of the land purchase at North Road from local sources rather than DfT grant and the share of the outstanding balance. No previously identified funding exists for these sums. Whilst the Board's method is disproportionate in its effect on Darlington in terms of meeting the shortfall in the grant offer, this Council's share of the total programme cost is still the lowest by some margin, e.g. Darlington's match funding would be approximately 26% and the next lowest is Redcar & Cleveland at 34%. The Board consider that the change to the land purchase funding source could be dealt with by making an advance on the North Road scheme from the DfT grant. This Council would then pay back the £400,000 sum in instalments to the central programme account, thus spreading out the cost of this additional local contribution. This sum would be taken from the Local Transport Plan.
15. The Board proposal is made possible by considering the TVBNI programme as a way of achieving defined outcomes that are agreed with the DfT and achieved by a set of schemes and complimentary actions that can be changed as required. Thus, the focus is now firmly on the results, rather than individual schemes per se. This then means that the finance is simplified to making sure that the total local contributions are 35% of the total cost, rather than being apportioned on the investment that each Council would receive. Thus Darlington's local contribution would be £2.544m in return for a projected £9.631m budget spend.
16. The Board further consider that DfT are willing to accept amendments to the scheme list in the business case, as long as these did not reduce the agreed overall cost:benefit ratio. Thus, the opportunity now arises for the addition, removal or amendment of individual schemes in Darlington as the design process continues; rather than implementing the original scheme list in the Business Case. An example of this process is the computer traffic modelling for the proposed Woodland Road/Milbank Road junction improvement, which shows that the scheme has a detrimental impact on bus journey times (and on those of other vehicles),

compared to the smaller benefit of reducing the walking distance to the Memorial Hospital.

17. There is now an urgent need to conclude the discussion and accept or reject the DfT grant offer. This is because of the risk that further delay would threaten the delivery of years 1 and 2 of the 5 year programme. The grant cannot be paid to any partner until all Councils agree to accept the grant. This will enable the repayment of significant expenditure already incurred elsewhere in the Tees Valley.

Wider Context

18. As has been widely discussed, the funding climate for public spending is now very different to what it was in November 2009. This matters because the most obvious source of additional funding for TVBNI is from the Local Transport Plan, both in 2010/11 and subsequently. Funding for the Third Local Transport Plan (3LTP) from 2011/12 may be for £9.3m over five years or 40% lower than original indicative amounts; or a higher or lower amount that will not be known until late this year. Currently, the thinking around the likely implementation plan for the 3LTP is to spend the same or a little less on statutory duties such as highway maintenance, with the balance on actions that improve how the existing transport network is used. This scenario means that a significant amount of new infrastructure is likely to be a lower priority for the 3LTP in the short term, due to lack of funding, although there may be opportunistic investments as circumstances change.
19. Whilst £1.603m of the local contribution has already been identified from private sector funds, regional budgets or the 2LTP (**Table 1**), it is proposed that the balance is taken from the 2LTP, the 3LTP and private sector contributions. The debate is therefore about whether to take money from both LTP plan periods for TVBNI compared to other spending priorities. The £190,000 from the 2LTP means that proposed schemes in the categories listed in **Table 1** would be deleted on the basis that they do not materially affect the targets set for 2LTP. The funding from the 3LTP could mean that other emerging priorities may not be funded. Spending extra on TVBNI schemes from the 3LTP could mean no or little work on local safety schemes, cycling or traffic management for instance since up to £750,000 is required, unless the TVBNI programme was reduced or another funding source was found. The implementation plan for the 3LTP is currently scheduled for members' approval at the February Cabinet meeting.

Table 1 TVBNI Darlington budgets

Funding Source	Amount £'000s
DfT grant	7.088
Local contribution already identified from various sources (including all year 1 schemes except for land purchase)	1.603
Local contribution to be found from 2LTP (including contribution towards land purchase). 2LTP budget spend to be withdrawn in following categories - Travel Safety Schemes, Network Management Duty, Casualty Reduction, Speed Management Strategy, Monitoring & 3LTP consultation.	0.190
Local contribution to be found from 3LTP, developer	0.750

contributions or other funding source.	
Total projected spend	9.631

20. Assuming that the funding allocation for the 3LTP is 40% less than the previously published indicative values, then there would be up to £8.55m available for expenditure on other priorities over 5 years, after funding committed TVBNI schemes (£0.750m). If it is assumed that spending on statutory duties and maintenance remains at similar levels to current spending at £7.4m over the five year period this leaves £1.09m for other purposes. This is a significant reduction when compared to the budget levels in the 2LTP and will have commensurate impacts.

Suggested Strategy for Dealing with the Bid

21. Given all the issues summarised above, the following strategy for progressing with the TVBNI programme is recommended to Members as a way of securing the investment at the least risk to the Council whilst ensuring that the stated benefits in the business case are achieved. The strategy would allow the Council to respond to changes in circumstances, especially if more or less money became available. The implementation of this strategy would need the agreement of the DfT, since it means a change to the grant conditions and partner Councils (concerning the land purchase financing).
22. It is recommended that Members agree that:
- (a) The Council agrees to accept and release the year 1 grant offer, since the local funding for year 1 is already in place except for the purchase of land. This acceptance should be subject to proposed new conditions **Appendix 1** being agreed with the DfT on the basis that TVBNI is a programme with defined benefits, rather than a specific list of schemes.
 - (b) The offer to sell land at North Road by the British Rail Residuary Board is accepted, with £210,000 being taken from the year 1 DfT grant claim on the basis of repayment to the programme account in later years and £190,000 from spend released from 2LTP. The £210,000 would be repaid using 3LTP funding. It is considered essential to complete this land purchase since the option to buy expires in December 2010 and it was a condition of previous major scheme guidance that the Council should have access to the land it required before accepting any grant. The land would also be key to unlocking any future regeneration proposal in this area that requires improvements to the railway station.
 - (c) The agreement whether to accept and release the year 2 grant offer is made in February 2011 dependent on the wider funding climate, including the 3LTP settlement, and the benefits of future investment to local people compared to other spend decisions (A report on the 3LTP implementation plan will be brought to members at this time, to allow for consideration of the relationship between TVBNI & 3LTP schemes). Any agreement to accept the grant offer needs the DfT to recognise the financial context that this Council is in. Therefore, it is recommended that counter conditions are proposed; namely that a withdrawal from the programme by Darlington would not impact on the other partners who wish to receive grant, that any grant balance owed

would be paid or repaid to the DfT and that any contractual committed funding would be honoured by the DfT (although the schemes would be managed to minimise any liabilities for the Council). It is also recommended that members make a decision in February 2011 about accepting subsequent years' funding (years 2 to 5), although this decision could be made annually.

- (d) The conclusion of the grant negotiations for year 1, the governance of the TVBNI programme, decisions on schemes and the day to day operation of the Council's investment be delegated to the Assistant Chief Executive (Regeneration) and the Director of Corporate Services where appropriate.
23. A draft Financial & Administrative Agreement between the five partner Councils is currently being negotiated and it is recommended that Members delegate decisions on the detail of this document to the Assistant Chief Executive (Regeneration) and the Director of Corporate Services. The purpose of the agreement is to clarify contractual and administrative arrangements. It will include.
- (a) Processes for claims and the drawdown of funds.
 - (b) Safeguards for all partner Councils in managing overspends.
 - (c) Processes for managing underspends and redistribution of programme funds.
 - (d) The management of the contingency fund across the whole programme.
24. Programme risks, which are defined as those risks present across the Tees Valley authorities are managed through a defined risk management strategy. The risk management strategy has been developed by the TVBNI Project Director and programme risks will be included in the programme risk register.
25. The decision at this meeting to accept and release the DfT grant for year 1 schemes **Appendix 2, Table 1**, covers the projected expenditure on 11 schemes including a mini-roundabout at Surtees Street, bus boarders at bus stops in Harrowgate Hill and verge hardening to reduce delays to buses due to parked vehicles on the carriageway. The budget sum of £187,000 across the sub-region has also been allocated to bus stop improvements such as new bus shelters, with another £181,000 allocated to smarter travel choice style work to encourage people to try the bus for some of their journeys. The detail of both the bus stop improvements and the smarter travel choice actions are still under development.
26. The decision to accept the DfT grant for year 2 in February 2011 is required before substantive work can start on schemes listed in **Appendix 2, Table 2**. It is highly unlikely that the larger schemes would go ahead if the DfT grant was not received. The year 2 schemes include a new junction at North Road & Whessoe Road, new signals at Geneva Road & Yarm Road and new bus stops along Clifton Road. Initial computer modelling scenarios indicate that the new junction at North & Whessoe Roads will improve travel conditions for bus passengers, through a reduction in the average delays experienced in this location. It should be noted that modelling work suggests that these benefits at this new junction may only be achieved by including banned movements within the design. The detailed design would be subject to planning permission and the normal public engagement processes. Further design work on year 2 schemes is ongoing for completion by February

2011.

Outcome of Consultation

27. The principles of the TVBNI programme have been discussed many times over the development of the bid; most recently at a Talking Together event on 20 January 2010 about the programme as a whole. In Darlington, further consultation would be undertaken on the detail of each scheme, but not on the need for that scheme since this has already been dealt with in the consultation process for the bid.

28. Risk Management

29. Risk will be managed at three levels. The TVBNI Programme Board will be accountable for Tees Valley programme risks and will be owned by the Programme Director. Individual authorities will be accountable for their own programme risks and project managers for project risks. Risks registers are in place and officers are using the Capital Project Management processes.

30. The major risk of cost escalation across the programme can be managed by regular programme review that adjusts the programme to within the overall budget. This will be a matter reported to Cabinet on an annual basis before commitments to future year spending. There is also agreement that each authority will be responsible for its own risk and calls on the central risk pot would only be made by exception. The financial agreement between the authorities is important to set out how these cost risks will be managed.

31. Subject to the DfT agreeing to the addendum letter major risks on future developer contributions will be mitigated. Darlington has already received its developer contributions and any further contributions received could reduce pressure on the 3LTP.

32. The major decision to commit to the longer programme due to uncertainties about local funding streams can be fully considered in February 2011 when the Cabinet will have an opportunity to consider the position on LTP3 and TVBNI together.

Draft letter responding to grant offer by Department for Transport

Gerald Otoo
 Department for Transport
 Section 31 Grant Claims Manager
 Regional and Local Major Projects Division
 3/18 Great Minster
 76 Marsham Street
 London
 SW1P 4DR

Dear Gerald

**TEES VALLEY BUS NETWORK
 (DfT Scheme Reference NE-Tee-A190)**

I refer to my letter dated XXXX behalf of Middlesbrough Borough Council and the Tees Valley local authorities, working in partnership with the bus operators ARRIVA and Stagecoach, concerning the Department's Full Approval and Section 31 Grant conditions.

In consideration of discussions held with the Department in June of this year, members of the five Tees Valley authorities have confirmed that the acceptance of the conditions should be read in conjunction with the contents of this letter.

1. Expenditure Profile

We confirm our agreement to re-profile the delivery of the programme of improvements over five rather than four years. The indicative funding profile is shown below.

Year	Total Spend (£m)	DfT Allocation (£m)	Local Allocation (£m)	Total LA%
Pre 2010	4.608	1.675	3.043	65%
2010-11	10.701	5.641	5.060	52%
2011-12	9.918	7.010	2.908	44%
2012-13	13.412	10.984	2.428	35%
2013-14	11.000	7.000	4.000	35%
2014-15	7.596	5.188	2.298	35%

We also confirm that we will schedule the delivery of the projects that make up the programme, such that we are able to accommodate some flexibility in the DfT funding allocation by agreement.

However in undertaking the re-scheduling the LA contribution is now greater in the early part of the programme. Whilst the Tees Valley Authorities have accepted this consequence there remains a concern over how this would be dealt with in the unlikely event that the Department decided to withdraw funding due to events outside of the control of the Tees Valley Authorities. If this were to occur we would seek to recover from the Department, our proportion in accordance with Department's Full Approval letter.

2. Department's contribution

We acknowledge that in extending the delivery of the programme of schemes from four to five years the Department's contribution remains at £37.498m. Inevitably by adding a further year to the programme the increase in cost due to inflation will have to be funded by the Tees Valley Authorities.

As stated in our business case submission we will manage the delivery of projects that make up the programme of network improvements to maintain the overall bus corridor benefits. If we find that an individual project no longer contributes to these benefits then it will be redesigned or removed from the programme. Equally, we reserve the right to introduce new projects to the programme if these provide more desirable benefits. We will formally advise you of any proposed changes, as this will amend the business case. We understand that any reduction in the overall estimated out-turn cost will reduce our respective contribution by the agreed 65/35%.

However we would point out that of the 120 individual schemes in the infrastructure register there are two schemes which are over 90% funded by s106 contributions. The need for these schemes is solely related to the proposed development and if the developments do not progress then the schemes will be removed from the programme.

If these schemes, M8b -Newport Road in Middlesbrough (£4.0m) and R20 - Low Grange Farm (£710,000) in Redcar & Cleveland, were to be removed from the programme then the overall estimate would reduce to £52.526m. If the Department insisted on the 65% rebate then the true effect on the local authorities is to increase their overall contribution by £1.65m which regrettably is unaffordable. We therefore propose that these two schemes are excluded from any rebate calculation.

3. Annual Funding

We note that the agreed lump sum grant of £37.498m will be allocated on an annual basis to suit DfT affordability criteria. We also have affordability issues due to the transition from LTP2 to LTP3 and therefore we will review and agree with you our commitments two months in advance of the financial year to which they apply. The affordability to Local Authority partners is heavily predicated on future LTP funding and the programme would be at risk without this continuing support. We also seek the ability for individual partners to withdraw from the programme without affecting the provision of grant to the remaining partners. Again, we would formally advise you of any proposed changes, as this will amend the business case and we understand that any reduction in the overall estimated out-turn cost will reduce our respective contribution by the agreed 65/35%.

4. 90% allocation

We acknowledge that the Department can only commit to 90% of the annual allocation at the commencement of the financial year to which it applies. We should be able to accommodate this requirement, but as stated in point 1 above we will schedule our programme to maintain flexibility in expenditure. If the 10% balance is not paid, then individual partners reserve the right to withdraw from the programme or make necessary amendments to it.

The Tees Valley authorities and our partners ARRIVA and Stagecoach remain committed to improving the provision of bus services in the area. We look forward to working with the Department in delivering the programme of improvements to the Tees Valley bus network.

Yours sincerely

Mike Robinson

Year 1 proposed scheme list*

- D16 Darlington Memorial Hospital new bus stop & signalised junction.
- D50 Brinkburn Road, bus stop at Harrison Terrace.
- D47 Surtees Street/Northcote Terrace mini-roundabout.
- D63 Minors Crescent Bus Stops.
- D54 Verge hardening in Branksome.
- D17 Harrowgate Hill, bus boarder at North Road.
- D23 Springfield, bus boarder at Post Office.
- D20 Mayfair & Glebe Road Bus Stops.
- D43 Yarm Road bus boarders and verge hardening.
- D46 New bus stop on Salisbury Terrace and amendments to parking restrictions.
- D14b Amendments to signals at Corporation and North Roads.

Year 2 proposed scheme list*

- D8 New bus stop on Yarm Road opposite Eastbourne Methodist Church.
- D59 Minors Crescent verge hardening.
- D56 Verge hardening in Springfield.
- D58 Verge hardening in Lascelles.
- D32 New bus stop at Parkside (Clifton Road).
- Start construction of D14a new junction at North & Whessoe Roads (2 year construction period).
- D57 Verge hardening in Firthmoor.
- D31 alterations to traffic calming on Clifton Road.
- D39 Enhancement to signals at Geneva & Yarm Roads.
- D30 New bus stops on Clifton Road and changes to waiting restrictions.

* Schemes listed in approved Business Case, 2009 (Cabinet, 3 November 2009).