

FINANCIAL CASE

29. Funding Requirements

Introduction

- 29.1. This section sets out the approach to determining the funding requirements for delivering the Preferred NGT Option only. Section 10 set out the capital costs for the scheme. This illustrated that the methodology for deriving the scheme cost is comprehensive and robust. This section sets out the assumptions underlying the scheme cost and presents the outputs of the financial modelling undertaken.
- 29.2. The scheme cost for NGT has been derived using DfT's guidance for the development of the Quantified Cost Estimate (QCE) for major capital projects. As defined within the guidance, the QCE for the scheme equals the sum of the base cost, risk (QRA) and inflation. It is noted that there are significant costs which will be incurred by the Promoters but are not eligible for inclusion within the QCE, these are described later in this section.
- 29.3. The financial analysis of NGT has been modelled in detail, with cash flows outputs for the scheme used to establish the scheme's funding requirement.

Key Assumptions

- 29.4. The inputs and calculations of the financial model are based on assumptions provided by the Promoters and their advisors.
- 29.5. The financial model and the assumptions cover the construction period of NGT and include macroeconomic factors; scheme timing; capital expenditure (the costs that build up the base cost); risk; the treatment of inflation; and funding.
- 29.6. The base case assumptions have been subjected to sensitivity analysis to provide an indication of the robustness or otherwise of the project cash flows to changes in assumptions.

Inflation

- 29.7. A key assumption to determining scheme outturn costs is the level of forecast annual inflation anticipated to occur to construction/development prices. Inflation is applied to real scheme costs, to determine scheme outturn costs. Outturn scheme costs, which are used to determine the QCE, provide the actual cost of the scheme in cash terms.
- 29.8. The DfT have advised a basic nominal rate of forecast annual inflation of 2.70% p.a. from 2009 onwards be used to determine outturn scheme costs.
- 29.9. However work undertaken by the Promoters' cost consultants highlights that there is significant risk associated with assuming this level of inflation. If inflation is higher than 2.7% p.a., the outturn cost of the scheme will increase.

This MSBC does not specify how any increase in scheme cost from increased inflation is funded, however the QRA allows for some inflation risk.

Quantified Cost Estimate

- 29.10. Table 29.1 shows the breakdown of the QCE for the Preferred Option, including the components of the base cost, cost inflation and the Quantified Risk Assessment (QRA).

TABLE 29.1 BREAKDOWN OF QUANTIFIED COST ESTIMATE (£000 OUTTURN)

Cost Item	£000
Construction Costs	£154,000
Development Costs	£26,629
Land Acquisition and Compensation	£32,809
Vehicle Purchase	£19,566
TROs, Testing/Commissioning, Monitoring & Evaluation	£3,962
Risk	£39,424
Quantified Cost Estimate	£276,390

- 29.11. The allocation of spend over time for the QCE has been developed and is based on the anticipated procurement, construction and delivery programme for the scheme. The QCE spend profile is presented below as Table 29.2.

TABLE 29.2 TIME SERIES FUNDING REQUIREMENT (£000 OUTTURN)

Year	Period From	Period To	Capital Expenditure in period	Cumulative Capital Expenditure
1	1 st April 2007	31 st March 2008	£1,386	£1,386
2	1 st April 2008	31 st March 2009	£2,913	£4,299
3	1 st April 2009	31 st March 2010	£3,810	£8,109
4	1 st April 2010	31 st March 2011	£4,416	£12,525
5	1 st April 2011	31 st March 2012	£6,165	£18,690
6	1 st April 2012	31 st March 2013	£2,816	£21,506
7	1 st April 2013	31 st March 2014	£53,529	£75,035
8	1 st April 2014	31 st March 2015	£105,178	£180,213
9	1 st April 2015	31 st March 2016	£80,273	£260,486

Year	Period From	Period To	Capital Expenditure in period	Cumulative Capital Expenditure
10	1 st April 2016	31 st March 2017	£15,904	£276,390

Additional Risk Layer

- 29.12. In line with DfT guidance, the Additional Risk Layer (ARL) is set at 50% of the assumed Optimism Bias. The level of Optimism Bias included in the economic appraisal for this scheme is 44%, therefore the ARL is equivalent to 22% of the QCE (Table 29.3).

TABLE 29.3 APPROVED SCHEME COST

	£000	
Quantified Cost Estimate	276,390	QCE
Additional Risk Layer (50% of OB)	60,806	ARL
Approved Scheme Cost	337,196	ASC = QCE + ARL

Costs Not Included within QCE

- 29.13. There are material costs which are not eligible for inclusion within the QCE but nonetheless will be incurred by the Promoters during development and delivery of the scheme. These are the costs associated with the preparation of the Transport and Works Act Order application and associated Public Inquiry. These costs are summarised below in Table 29.4.

TABLE 29.4 NGT COSTS OUTSIDE QCE

Cost Item	£000
TWAO Costs	£5,169
Inflation	£529
Outturn Scheme Cost	£5,695

Holt Park Extension

- 29.14. The extension of the Preferred Option to Holt Park is not included within the QCE. However, the Promoters see the delivery of the Holt Park as crucial to maximising the benefits of the NGT network. As a result of the detailed work undertaken to gain cost certainty for the project, the Promoters wish to maintain the option of including Holt Park within the QCE at a later date, if the cost of the Preferred Option reduces. Table 29.5 below sets out the incremental capital expenditure of delivering the Holt Park extension.

TABLE 29.5 HOLT PARK EXTENSION CAPITAL COST SUMMARY

Cost Item	£000
Construction	£7,626
Development Costs	£600
Land Acquisition and Compensation	-
Vehicle Purchase	-
TROs, Testing/Commissioning, Monitoring & Evaluation	£254
Project Costs at Q1 2008 Prices	£8,480
Risk	£610
Project Costs & Risk at Q1 2008 Prices	£9,090
Inflation	£1,537
Outturn Scheme Cost	£10,627

30. Sources of Funding

Introduction

30.1. This section details how the preferred NGT option will be funded.

Sources of Funding Considered

30.2. The strategy for funding NGT has been developed in accordance with DfT guidance. A range of funding options have been and continue to be considered for NGT. This section sets out the favoured route for funding the Preferred Option.

30.3. It is proposed that the scheme is funded through three key funding sources, each of which is discussed within this section:

- Yorkshire and Humber Regional Funding Allocation;
- West Yorkshire Integrated Transport Authority; and
- Leeds City Council.

30.4. Other potential funding sources will continue to be explored.

Funding of the QCE

30.5. Major Scheme Guidance specifies that the maximum contribution which DfT will make towards a non-Light Rail Major Scheme is 90% of the QCE. This Major Scheme bid proposes (as agreed through discussions with DfT), that 90% of the QCE will be funded by DfT, through the £248.75 million prioritised for NGT by the Yorkshire and Humber Regional Assembly. The remaining 10% of the QCE will be funded locally by WYITA and Leeds City Council. Table 30.1 below illustrates how the QCE will be funded.

TABLE 30.1 BREAKDOWN OF FUNDING CONTRIBUTION (£000 OUTTURN)

	QCE	Local Contribution	DFT/RFA
Construction	£154,000	£166	£153,834
Development	£26,629	£14,505	£12,124
Land	£32,809	£12,969	£19,840
Vehicle purchase	£19,566	£0	£19,566
Other Costs	£3,962	£0	£3,962
Project costs	£236,966	£27,640	£209,326
Risk	£39,424	£0	£39,424
Total Funding Solution	£276,390	£27,640	£248,750

Funding of the Local Contribution

- 30.6. Table 30.1 illustrates that the total local contribution split between LCC and the ITA is £27.64m.
- 30.7. The Promoters’ investment represents significant local funding towards the development of the scheme and reflects the funding agreement between the Council and the ITA for the scheme. The Promoters’ commitment to fund the local contribution is set out in the NGT Joint Venture Agreement.
- 30.8. Table 30.2 sets out the elements of the QCE which will be funded locally. In accordance with DfT guidance the Promoters propose to include 50% of advanced design, post advanced design and business case development costs that will be incurred after Programme Entry in the local contribution.
- 30.9. The Promoters have set aside a large amount of land for the NGT scheme. The Promoters need to acquire additional LCC land and third party land for the scheme, however only the Promoters’ own land will form the local contribution. Land acquired from third parties will be paid for through DfT’s contribution.

TABLE 30.2 LOCAL FUNDING CONTRIBUTION

Promoter Contribution	£000
Pre Programme Entry	7,144
Programme Entry to Full Approval	7,362
Contribution to Preparatory Costs	14,506
Land Contribution	12,968
Contribution to Capital Expenditure	166
Total	27,640

Pre-Programme Entry Costs

- 30.10. The Promoters have identified an additional £7.1m of costs which are proposed to be included as part of the Local Contribution. The Promoters believe that they have good reason, due to the unique situation of NGT, (as a result of the cancellation of Supertram) to include a proportion of these costs as part of Local Contribution. These reasons are described below.

Achieving a level of cost certainty for NGT over and above that typically achieved for a Programme Entry submission;

- 30.11. The Promoters have identified £1.9m of expenditure over the past two years on NGT which would be considered eligible for inclusion as part of Local Contribution, if spent after a Programme Entry decision were given. However, since the Promoters wish to achieve a high level of cost certainty, these costs have been incurred prior to Programme Entry. These costs include advanced

reference design works/assessment and procurement development activity. Together these reduce the Local Contribution shortfall to around £5.2m.

Development of proposals between 2005 and 2007 as directed by the then Secretary of State, following the decision to cancel the Supertram project;

- 30.12. The Promoters incurred £1.1m of development costs, following the cancellation of the Supertram project and prior to the commencement of the NGT project in Summer 2007. These development costs included defining the way forward for the project, staffing costs, accommodation and commissioned work.

Utilising development works undertaken for the Supertram project on NGT.

- 30.13. The Promoters incurred sizeable costs to develop the Supertram proposals throughout the 1990s and up until cancellation of the project by DfT in 2005. Significant elements of this work have been used as the foundation for the development of the NGT proposals. The Supertram project expenditure (excluding the majority of land costs) is broken down into two main phases of activity:

- Pre-2000 £6.96m
- 2000-2007 £32.1m

- 30.14. The Promoters funded the majority of expenditure Pre-2000. Within the 2000-2007 expenditure, the sources of funding were made up of:

- Section 56 Grant £12.7m
- PTA Revenue }
- LCC Borrowing } £14.8m
- PTA Borrowing }
- Developer Contributions £1.5m

- 30.15. Based on the information above, the Promoters incurred around £22m of costs in developing Supertram proposals. Of these costs, the Promoters believe that there are a number of key expenditure items where there is little dispute around their beneficial use on NGT. These relate to Advance Works and utilities diversions, which total £13.9m. A large proportion of these costs would have been required for the NGT project.

- 30.16. In summary, the Promoters have spent almost £25m on achieving cost certainty for NGT and in relation to historic Supertram work, which has been utilised in the development of the NGT proposals. The Promoters need only include £7.1m of the £25m historic Supertram costs, or only 30% of the total amount spent in order to make up their required 10% local contribution.

Funding of QCE over time

30.17. Table 30.3 sets out how the QCE will be funded over time by authority. In accordance with Major Scheme guidance, costs between Programme Entry and Full Approval will be split between DfT and the Promoters.

TABLE 30.3 SOURCES AND USES OF FUNDING (£000 OUTTURN)

	Preparatory costs			Costs after Full Approval			Total
	up to PE	PE to CA	CA to FA	Year 1	Year 2	Year 3	
	Aug 07 – Dec 09	Dec 09 – Apr 12	Apr 12 – Jun 13	July 13 – Mar 14	Apr 14 – Mar 15	Apr 15 – Mar 16	
DFT/RFA contribution	-	£5,889	£1,472	£55,696	£108,077	£77,616	£248,750
Local contribution	£7,144	£5,889	£1,473	£13,134	-	-	£27,640
Quantified Cost Estimate	£7,144	£11,778	£2,945	£68,830	£108,077	£77,616	£276,390

Additional Risk Layer

30.18. The ARL for the project is £60.806m, as specified in Section 29. The funding of the ARL is specified in Table 30.4 below.

TABLE 30.4 FUNDING OF ADDITIONAL RISK LAYER (£000 OUTTURN)

	Total
Additional Risk Layer	60,806
DfT Contribution to funding of ARL	30,403
Local Contribution to funding of ARL	30,403

30.19. Both LCC Executive Board and West Yorkshire ITA have signed up to the proposals for the scheme. This includes the requirement for the Council and ITA to underwrite 50% of the 'Additional Risk Layer' (ARL). Further details are provided at Appendix 57

Costs not included in QCE

30.20. Costs which are not eligible for inclusion within the QCE will be underwritten by the Promoters. These costs were set out in Section 29. They are not included within the QCE and do not form part of the Local Contribution.

Holt Park Extension

- 30.21. The Holt Park extension is not included within the QCE, as specified in Section 29. The Promoters propose that the Holt Park extension could be included within the QCE, if the existing costs of the existing elements of the QCE reduce as a result of continuing project development.

Revenue Liabilities During Operations

- 30.22. Based on the projected demand/revenue for the NGT service, Operating and Maintenance costs will be funded through scheme revenues.

Section 151 Officer Sign Off

- 30.23. The Section 151 officer sign off letter is included in Appendix 58 to this MSBC.

Summary of Major Scheme Funding Specifications

- 30.24. Table 30.5 below summarises the funding requirements, as specified in Chapter 2.7 of the Major Scheme guidance.

TABLE 30.5 SUMMARY OF MAJOR SCHEME COST ELEMENTS (£000 OUTTURN)

	£000	Notes
Quantified Cost Estimate (QCE)	£276,390	Scheme Cost
Additional Risk Layer (ARL)	£60,806	50% of OB
Approved Scheme Cost (ASC)	£337,196	QCE + ARL
Department for Transport's Intended Contribution	£248,750	90% of QCE
Maximum DfT contribution	£279,153	90% of QCE + 50% of ARL