

<b>Report to Accountability Board</b>	<b>Forward Plan reference number:</b> FP/AB/111
<b>Date of Accountability Board Meeting:</b>	<b>17<sup>th</sup> November 2017</b>
<b>Date of report:</b>	<b>27<sup>th</sup> October 2017</b>
<b>Title of report:</b>	<b>The Open 2020 Championship Rail Infrastructure Funding Decision</b>
<b>Report by:</b>	<b>Rhiannon Mort, SELEP Capital Programme Manager</b>
<b>Enquiries to:</b>	Rhiannon.mort@essex.gov.uk

## 1. Purpose of report

- 1.1 The purpose of this report is to seek Accountability Board (Board) approval for the inclusion and award of £1,025,745 Local Growth Fund (LGF) to The Open 2020 Championship Rail Infrastructure Project (the Project) at Sandwich Railway Station, Kent.
- 1.2 A Business Case has been prepared for the Project and has been considered through the SELEP Independent Technical Evaluator (ITE) review process, as a condition of the SELEP Assurance Framework.
- 1.3 The ITE report sets out the detailed analysis of the Project. This report is included in Appendix 1, of Agenda Item 5.

## 2. Recommendations

- 2.1 The Board is asked to:

### 2.1.1 **Consider** the following risks:

- 2.1.1.1 The proposed funding contributions from the Department for Transport (DfT) or the R&A are not committed. The proposed, but uncommitted funding contributions from the DfT and the R&A are identified in the Business Case as amounting to 68% of the total project cost; and
- 2.1.1.2 The R&A have not yet confirmed that the event will be returning to Sandwich, which was a condition of funding set out in the Board letter of support dated 10<sup>th</sup> January 2017.

### 2.1.2 **Approve** the inclusion of the Project into the LGF Programme;

- 2.1.3 **Approve** the award of £1,025,745 LGF, identified from the underspend and reallocation of LGF from Ashford International Connectivity Project, to support the delivery of the permanently in situ solution as identified in the Business Case and which has been assessed as presenting high value

for money with medium certainty of achieving this. This award is subject to:

- 2.1.3.1 The underspend from the Ashford Spurs project being confirmed; and
- 2.1.3.2 Confirmation from the R&A that the event will be hosted at Royal St George's on at least 3 further occasions on a 7-8 years cycle; and
- 2.1.3.3 Written confirmation from the DfT and R&A that their funding contributions have been committed.

### **3. The Open 2020 Championship – Royal St George's Golf Course Sandwich (The Open) Rail Infrastructure Project**

- 3.1 Following negotiation between Kent County Council, Dover District Council and The R&A, The Open Championship will be returning to Royal St George's Golf Club in Sandwich for the fifteenth time in 2020, provided the required works under the Project are delivered.
- 3.2 The last time Kent hosted The Open in 2011, it generated a £77m benefit to the Kent economy, of which £24.14m was direct additional spend. The event is forecast to grow from 180,000 spectators in 2011 to at least 200,000 spectators for 2020.
- 3.3 As the Board have previously been made aware one of the major issues arising from the event in 2011 was the impact the High Speed rail service had on the town. Twelve car rail carriages were used to increase rail capacity for trips to the event, however Sandwich railway station can only support 8 carriages along its platform length. As a result, the additional carriages blocked a level crossing for up to 40 minutes in every hour, causing delays for road vehicles including the park and ride buses. This led to a very poor customer experience, along with disruption to local residents and businesses. The R&A have made it very clear that The Open cannot return to Sandwich without the transport problems of 2011 being fully addressed.
- 3.4 Accordingly, transport improvements are required at Sandwich Railway Station to enable the expected number of spectators to access the Royal St George's Golf Course when The Open is underway. Without these transport improvements, the R&A have confirmed that Kent will not be invited to host The Open, and the area will lose the resultant economic impact.
- 3.5 The proposed infrastructure investments at Sandwich Railway Station under the Project include platform extensions and a second over-footbridge. These improvements will enable longer trains to stop at Sandwich Railway Station without blocking the level crossing.
- 3.6 The platform extensions will provide a new walking route to the golf course to be established that will be separate to other modes of transport. This will

improve capacity and the safety of spectators, as well providing a good customer experience.

- 3.7 At the Board meeting on the 22<sup>nd</sup> September 2017, the Board endorsed the delivery of the permanently in situ solution, as opposed to the temporary solution which was considered by the Board in January 2017. However, SELEP has subsequently been made aware that the additional rail infrastructure delivered at Sandwich Rail Station through this 'permanent' solution will only be operational whilst the event is being held in Sandwich, as the infrastructure will not be fully compliant with DDA standards. The cost of delivering the infrastructure to the DDA standards would further increase the Project cost.
- 3.8 The Business Case for SELEP's consideration has been developed on the basis of a permanently in situ solution being delivered. However, the DfT has made SELEP Secretariat aware of its view that the temporary extension option is still under consideration by the DfT.
- 3.9 As the Board is considering the award of LGF to the Project based on the delivery of a permanently in situ intervention, any change to the proposed intervention, from a permanently in-situ option to an alternative solution, will be subject to further Business Case review and consideration by the Board.
- 3.10 There is an agreement in principle with the R&A that The Open will return on a further two occasions after 2020, no more than eight years apart each time. This commitment was insisted upon by the Board on the 20<sup>th</sup> January 2017 as a requirement of the SELEP LGF contribution to the Project, and remains a condition of the SELEP contribution. This condition was communicated to the R&A in the SELEP Letter of Support dated 10<sup>th</sup> January 2017. Accordingly the permanent solution will enable the event to return in the future with no further rail infrastructure improvements needed.
- 3.11 The Project objectives are to:
- Secure The Open, and two subsequent Opens in a shorter cycle than usual;
  - Positively contribute to economic growth by encouraging growth in spectators numbers;
  - Use the international and national corporate interest in the event to support Kent's inward investment ambitions;
  - Encourage modal shift from the car to train for the event;
  - Improve spectator experience of the Sandwich Open; and
  - Grow long term golf tourism in Kent

#### **4. Funding allocation to Project**

- 4.1 This Project has been identified as a priority by the Kent and Medway Economic Partnership (KMEP) to support The Open 2020 Championship, subsequent to the LGF Round 3 submission and funding announcement from Government. Accordingly an appropriate funding stream has had to be identified.
- 4.2 This Project has followed the approved process for the re-allocation of LGF and for the introduction of new projects into the LGF programme, agreed by the Board on the 22<sup>nd</sup> September 2017.
- 4.3 On 7<sup>th</sup> September 2017 KMEP provided endorsement that the £1,025,745 allocation will be fulfilled through the identification of LGF underspend on its Ashford International Rail Connectivity Project (Ashford Spurs). On 26<sup>th</sup> May 2017, Ashford Spurs was approved a LGF allocation of £9.8m. This included a substantial level of contingency to meet with Network Rail's requirements, but it is KMEP's expectation that Ashford Spurs will come in around £2.3m underspent, when it completes in March 2018.
- 4.4 Accordingly KMEP will re-allocate £1,025,745 of its LGF allocation from Ashford Spurs to the Project, reducing the LGF allocation to Ashford Spurs allocation to £8,774,255. Any further underspend identified from Ashford Spurs will be brought to the Board's attention and it is expected that KMEP will identify a proposal for the use of that remaining LGF underspend at a future date.

#### **5. Funding allocations**

- 5.1 The total cost of the Project is estimated at £4,299,200, with funding contributions from Kent County Council and from a collection of five local authorities in East Kent. The remaining funding contribution is expected from The R&A and the Department for Transport, although to date the exact amount is unknown, and there is no formally confirmation from either party that they will be contributing to the overall costs of this Project. Accordingly without their contributions there is a gap of £2,923,455 in funding. This is equivalent to 68% of the total funding required.

*Table 1 Proposed Funding Profile*

	2017/18	2018/19	2019/20	2020/21	Total
SELEP LGF sought	£101,460	£ 914,285		£ 10,000	£1,025,745
Kent County Council	£250,000				£ 250,000
East Kent Councils	£100,000				£ 100,000
R&A					TBC
DfT					TBC
Total	£451,460	£2,333,581	£1,504,720	£ 10,000	£4,299,761

- 5.2 Following a meeting with Kent County Council, the R&A, and the Secretary of State for Transport, the Secretary of State has instructed further value engineering work, to be undertaken by Network Rail. Once the value engineering exercise has been completed, the exact share of the outstanding contribution will be determined. It is expected that the value engineering will be completed before the end of the calendar year.
- 5.3 At this stage, the DfT has not confirmed a precise funding contribution to the Project. The potential DfT contribution to the Project will be informed by the cost of the scheme, following the review by Network Rail and other partners, and an appropriate apportionment of the costs based on a clear indication of the beneficiaries of the scheme.
- 5.4 In addition, the DfT has commented that any funding contribution from the DfT would be subject to meeting value for money criteria and that this must include both the capital cost of the Project and the ongoing operation and maintenance costs of the infrastructure.
- 5.5 Furthermore, the proposed R&A contribution is also uncommitted and of unknown value at this stage.
- 5.6 As part of the Board's decision making, the Board is asked to consider the delivery risk if DfT and/or R&A contributions are not committed or are insufficient to bridge the funding gap.
- 5.7 To mitigate the risk that the expected underspend from Ashford Spurs does not materialise or that DfT and R&A contributions are insufficient to bridge the funding gap, it has been agreed with Kent County Council that no LGF will be spent on the Project in advance of:
- 5.7.1 the underspend from the Ashford Spurs project being confirmed; and
  - 5.7.2 written confirmation that the R&A and the DfT contributions have been committed; and

5.7.3 confirmation from R&A that the Open would return to Sandwich in line with the expectations set out at paragraph 3.9.

5.6 The Board will be updated once these risks have been mitigated, to enable funding to be released to enable LGF spend on the Project.

## **6. ITE Review**

6.1 The SELEP ITE has assessed the Project Business Case through the Gate 1 and Gate 2 process and has recommended that the Project achieves high value for money with a medium certainty of achieving this.

6.2 The economic appraisal has indicated a Benefit Cost Ratio (BCR) of 3.92:1, which is categorised as high value for money. This BCR has been calculated based on the GVA benefits to the local economy, which have also been converted into welfare benefits. The Project benefits have been assessed on an assumption that the event will be held on at least a further two occasions.

6.3 The ITE review confirms that a sensible and proportionate appraisal methodology has been applied to the analysis. Although at the time of the ITE undertaking their review there was some uncertainty as to a reduced optimism bias having been applied within the Business Case, this has subsequently been confirmed by Network Rail as sufficient for the scope and nature of this Project.

6.4 The maintenance and renewal costs have been omitted from the Business Case value for money assessment. However, these costs will be included in the on-going schedule of costs agreed between Network Rail and the incumbent Train Operating Company.

6.5 In addition, very little sensitivity analysis has been undertaken. Sensitivity analysis would have helped to determine the resilience of the scheme's value for money to changes in input assumptions and model parameters. As such, there is medium certainty that high value for money will be received.

6.6 There is a risk that if the event fails to return on a further two occasions, then the Project would not demonstrate high value for money. As such, a commitment to the event being held in Sandwich on a further two occasions is identified as a condition of the funding.

## **7. Compliance with SELEP Assurance Framework**

7.1 Table 2 below considers the SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework. The assessment confirms the compliance of the project with SELEP's Assurance Framework.

*Table 2 SELEP Secretariat assessment of the Business Case against the requirements of the SELEP Assurance Framework*

Requirement of the Assurance Framework to approve the project	Compliance	Evidence in the Business Case
A clear rationale for the interventions linked with the strategic objectives identified in the Strategic Economic Plan		<p>The Business Case does not give specific reference to the SELEP Strategic Economic Plan, but the rationale for intervention is defined.</p> <p>The Project will support SELEP's ambition to deliver 200,000 new additional jobs, through creating new temporary employment, supporting the tourism sector, coastal communities and the wider East Kent economy.</p>
Clearly defined outputs and anticipated outcomes, with clear additionality, ensuring that factors such as displacement and deadweight have been taken into account		<p>The expected project outcomes are set out in the Business Case and detailed in section 3 above.</p> <p>The ITE review confirms that a sensible and proportionate approach to assess the expected outputs and outcomes of the intervention.</p>
Considers deliverability and risks appropriately, along with appropriate mitigating action (the costs of which must be clearly understood)		<p>A Quantified Risk Assessment has not been undertaken, but will be produced at the end of GRIP Stage 4 (Network Rail's project development phase for single option development), currently expected to be April 2018. For now, a contingency allowance of 35% has been applied.</p> <p>Full risk assessment will be determined at GRIP 3 and included in detailed risk register. Key risks are identified within the Business Case and a risk management strategy is included as an appendix to the Business Case.</p> <p>A project delivery plan has been prepared by Network Rail and is available as an appendix to the Business Case. A more detailed delivery plan will need to follow in due course and will be made available to the Board as part of the SELEP Capital Programme Update Report.</p>

<b>Requirement of the Assurance Framework to approve the project</b>	<b>Compliance</b>	<b>Evidence in the Business Case</b>
A Benefit Cost Ratio of at least 2:1 or comply with one of the two Value for Money exemptions		A BCR has been calculated as 3.92:1 which indicates high value for money based on the Open Championship being held in Sandwich on at least two further occasions.

## **8. Financial Implications (Accountable Body comments)**

- 8.1 The Board should note the substantial risk to the project due to the unconfirmed and unquantified contributions from both the DfT and the R&A. At time of writing there is a gap of £2.9m, which is equivalent to 68% of the total £4.3m required for the project.
- 8.2 If the gap cannot be closed the Project will not be able to be completed. Any costs incurred will be abortive and as such, will not be applicable to be funded by LGF. We advise that no spend is made in advance of total funding being agreed and that if any spend is incurred, the risk of underwriting that spend sits with the authority incurring the costs.
- 8.3 It should also be noted that no confirmation has been received from the R&A that the Open will return to Sandwich in line with the SELEP Board's requirements. The assessment of value for money and BCR has been made on the basis that the event will return for a further two occasions. If these assurances aren't received it is recommended that the BCR is recalculated based on the benefits created from just a single event should the Board be minded to continue with the project.

## **9. Legal Implications (Accountable Body comments)**

- 9.1 The Board should be aware that the approval of the LGF funding to this Project is conditional on a number of factors being formalised and confirmed namely;
- 9.1.1 R&A provide confirmation that the Open will return on at least 3 separate occasions on a 7-8 year rota;
- 9.1.2 R&A and the DfT provide confirmation of their funding commitment to the project; and
- 9.1.3 LGF underspend is formally identified from the Ashford Spurs project.
- 9.2 Mitigation has been put in safeguard the LGF spend on this project, and in the event that the conditions are not met. Funding will only be released by the Accountable Body on confirmation that these conditions have been satisfied. Any spend on Project will be either through partner contributions or at Kent County Councils risk.
- 9.3 Furthermore the Board at its meeting in September 2017, were informed that the change from the temporary solution to the permanent one sought under



the Business case would allow for improved access to the Sandwich station for international travellers. The Board should note that the permanent solution is not intended to be open to the public outside the Open being hosted, and therefore these benefits will not be realised.

## **10. Staffing and other resource implications (Accountable Body comments)**

10.1 None at present.

## **11. Equality and Diversity implication**

- 11.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 11.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 11.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and where possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

## **12. List of Appendices**

- 12.1 Appendix A - Report of the Independent Technical Evaluator (As attached to Agenda Item 5).

## **13. List of Background Papers**

- 12.1 Business Case for The Open 2020 Championship Rail Infrastructure

**(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)**

<b>Role</b>	<b>Date</b>
<b>Accountable Body sign off</b>	
Stephanie Mitchener, Head of Finance	09/11/17

(On behalf of Margaret Lee)	
-----------------------------	--