Proposed Light Rail Schemes in Leeds, Manchester and South Hampshire

Review by the National Audit Office of the role of the Department for Transport

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Introduction

1. Light rail schemes can bring significant benefits for passengers and the wider community. They can help reduce congestion and pollution by attracting people to public transport, particularly those who would otherwise use cars. They can also help to regenerate deprived areas and improve accessibility to employment, education and leisure facilities. In view of these benefits the Department for Transport (the Department) may fund up to 75 percent of the costs of such schemes. The remainder is met by the sponsor, usually local authorities or passenger transport executives.

2. This review examines the role of the Department in the assessment of three schemes for which funding was originally requested in 2000. These were a proposal for extending the existing light rail scheme in Manchester, and proposals for new schemes in South Hampshire and Leeds (the Leeds Supertram). Appendices 1-3 set out key dates in the Department's consideration of these proposals and more information on each scheme.

3. The Department reviewed the three sets of proposals and gave funding approval for the schemes in July 2000 (Manchester) and March 2001 (South Hampshire and Leeds). The estimated costs of all three schemes then increased substantially. Discussions took place to reduce the extent of the increase but as at July 2004 the costs stood at between 41 percent and 84 percent above the funding caps set by the Department (Figure 1).

Figure 1: Cost increases at July 2004				
Scheme	Original funding cap £ millions	Revised funding requirement £ millions	£ increase	% increase
South Hampshire Rapid Transit	170	270	100	59
Leeds Supertram	355	500	145	41
Manchester Metrolink	282	520	238	84
Source: Statement to Parliament by Transport Secretary 20 July 2004 Note: All figures relate to the total public sector funding requirement. South Hampshire Rapid Transit and Leeds Supertram costs were expressed in 2001 present value terms; Manchester Metrolink costs were expressed in cash terms.				

4. Because of this the Department withdrew its funding approval from all three schemes in July 2004. The promoters of the Leeds, South Hampshire and Manchester schemes presented revised proposals to the Department in November 2004, April 2005 and February 2006, respectively.

5. We were asked to examine aspects of the Department's role in considering the schemes following the Department's decision in November 2005 not to continue to fund work on the light rail schemes in Leeds and South Hampshire.[1] Funding for an amended Manchester scheme was approved in July 2006. Our review focussed on the period after July 2004.

The evaluation process

6. Once the Department had, in July 2004, withdrawn funding approval for original schemes the promoters drew up revised proposals which were submitted to the Department in November 2004, April 2005 and February 2006. The revised proposals and the issues they raised, like all light rail schemes, were complex and complicated to evaluate. The Department had to evaluate costs, benefits, risks and revenues (from fares) for proposals for the design, build, operation and maintenance of the projects for periods of over 30 years.

[1] We were asked to review aspects of the handling of the Leeds scheme by Tom Brake MP and Greg Mulholland MP and Transport 2000, and of the South Hampshire scheme by Hampshire County Council, one of the scheme promoters. We included the Manchester proposal in our review because it was considered by the Department at broadly the same time but unlike the Leeds and South Hampshire schemes ultimately received funding. We did not include in our review proposals for a scheme in Merseyside as this has already been subject to Judicial Review.

Departmental funding could be requested as upfront capital payments, as PFI credits or as a combination. The Department also had to be aware of competing demands for funds – light rail schemes are funded from the same budget as other public transport schemes including local road schemes.

7. The Department also evaluated the proposals against the background of policy objectives and options that were developing. The Department indicated in March 2000 that funding was available to support up to 25 new light rail schemes, depending on their costs and value for money but by July 2004 it had concluded that buses would usually be more cost effective than light rail.

8. In addition the Department was making its evaluation against the background of strong feelings about these flagship projects engendered at local level which made such projects sensitive to handle.

9. Since 1998 the Department has assessed major scheme proposals using its New Approach to Appraisal which considers five key criteria: economy, safety, accessibility, environment and integration. In making its decisions on the light rail schemes the Department mainly considered three key economic factors: value for money (measured by cost benefit analysis), cost increase, and affordability within the major schemes budget. Other factors, such as the regeneration benefits a scheme might bring, were also considered. In practice, much of the evaluation was required to be carried out by the promoters and their contractors with the results being scrutinised and evaluated by the Department, its economics experts and its consultants.

The emergence of a 'Bus Transit' scheme as an alternative to Leeds Supertram

10. The evaluation of the Leeds Supertram scheme coincided with the emergence of a potential alternative – a 'Bus Rapid Transit' scheme. Bus Rapid Transit schemes have been described as providing a combination of the best elements of light rail (speed and comfort) and bus (flexibility and low cost) to provide a higher quality mode of transport compared to traditional buses. The broad nature of the term means Bus Rapid Transit can encompass a number of different types of system including guided busways.

11. During 2005 the Department kept abreast of developments in Bus Rapid Transit through its contacts with the bus industry. In such contacts First Group identified Leeds as one of the cities for which its brand of Bus Rapid Transit, known as "ftr", was particularly suitable and in January 2005 indicated to the Department that "ftr" might provide a more comprehensive service, and at a lower cost, than the proposed Supertram scheme.

12. Tom Brake MP and Greg Mulholland MP, whilst recognising the need for the Department to explore possible transport solutions for Leeds, questioned the value for money implications of this given that, by this time, considerable sums had been spent on the Supertram scheme (set out in Figure 6 and in paragraphs 24 and 25). Our examination indicated that Bus Rapid Transit schemes were new to the United Kingdom and information about the potential for them was still developing. Against this background we saw no evidence that the Department could have initiated serious consideration of the Bus Rapid Transit option before February 2004. Once the decision had been taken in July 2004 to withdraw funding approval, given the projected cost increases in the Supertram scheme and the emergence of the Bus Rapid Transit alternative, new spending commitments ceased although a further £3 million was incurred meeting commitments already made.

The results of the Department's evaluation

13. The evaluations showed that all three of the Manchester, Leeds and South Hampshire schemes were positive in cost benefit terms although the Department's assessment indicated that Leeds scheme was likely to be less cost effective than an alternative Bus Rapid Transit scheme (Figure 2).

Figure 2: Benefit to cost ratios of the schemes at November 2005

	South Hampshire Rapid Transit	Leeds Bus Rapid Transit	Leeds Supertram	Manchester Metrolink Phase 3 extensions
Benefit to cost ratio	3:1	2.3:1 - 3.6:1	2.4:1	2.16:1

Source: Department for Transport

14. The promoters of the Leeds scheme, however, contest this conclusion because they consider that the Bus Rapid Transit scheme would attract fewer passengers than light rail. The Department based their views on the conclusion of their consultants, working closely with the promoters and their advisers,

who were employed to examine the Bus Rapid Transit alternative. The promoters based their view on the views of their own set of consultants. The public sector funding requirements of the three light rail schemes are shown in Figure 3.

Figure 3: Public sector funding requirements of the schemes at November 2005			
	South Hampshire Rapid Transit	Leeds Supertram	Manchester Metrolink Phase 3 extensions
Public Sector Funding £ millions (cash)	674	1,313	520
Source: Department for Transport			

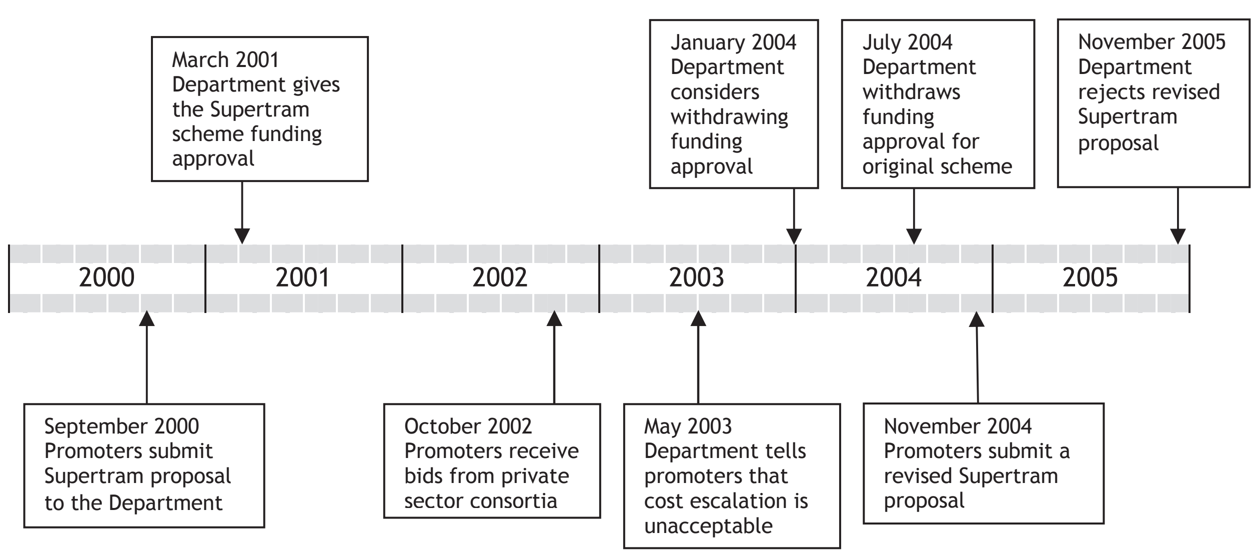
Consideration of the results of the evaluation

15. The Department set out the conclusions of their assessments to Ministers as a series of options, although they did not make a formal recommendation to Ministers as to which option to choose. Based on the assessment and options Ministers made the final decision. They chose to provide funding to the revised Manchester scheme, but not to fund the Leeds or South Hampshire schemes. This was on the grounds that they considered that a Bus Rapid Transit scheme would be more cost effective in Leeds and on the grounds that the increased costs on the South Hampshire scheme were not acceptable.

The time taken to reject unsuccessful schemes

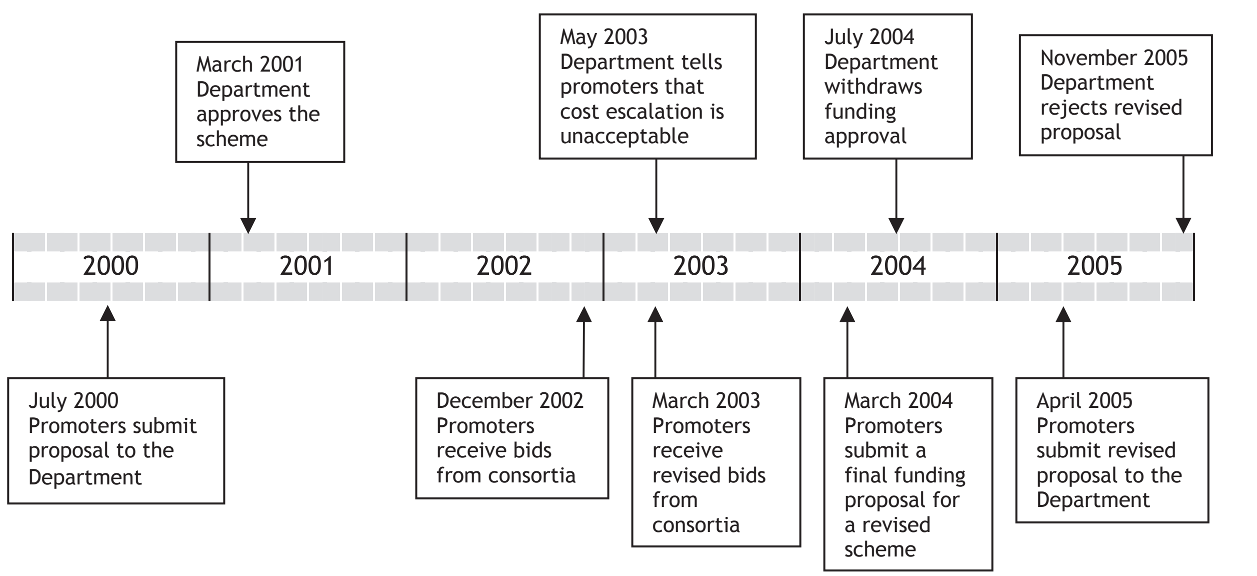
16. Figures 4 and 5 set out the key points in the Department's decision making process on the Leeds and South Hampshire schemes. They show that it was 5 years 1 month and 4 years 5 months between the Leeds and South Hampshire schemes originally being submitted and being finally rejected. Although these timescales include the time taken by promoters to revise schemes in light of cost increases, nevertheless promoters and consortia members for the unsuccessful schemes have told us that they consider the decision making process took too long.

Figure 4:Timeline showing milestones and key decisions on the Leeds Supertram scheme



Source: National Audit Office analysis

Figure 5: Timeline showing milestones and key decisions on the South Hampshire Rapid Transit scheme



Source: National Audit Office analysis

17. In particular the consortia members for the South Hampshire scheme point to the period from July 2004, when funding approval for the original proposals was withdrawn, to November 2005 when revised proposals were rejected. Of

that period, it took 9 months for the promoters to submit a revised scheme and 7 months for the Department to reach a decision to reject the proposal on grounds of cost increases. The consortia members have told us that they would have welcomed a clearer indication from the Department in July 2004 on the criteria that would need to be met in order for the project to go forward. At the time they considered that the cost increases that the scheme had suffered would not necessarily rule the scheme out given its very positive ratio of benefits to costs. A clearer steer in July 2004 of what sort of costs were acceptable would have been useful in deciding whether to submit a revised proposal at all.

18. They also point out that it took the Department 7 months before rejecting the revised proposal on cost grounds although there was no significant additional evaluation work to be done on the proposal in that time.

19. Similar points were made by the Department's stakeholders as part of the Department's 'Capability Review' where some stakeholders and delivery partners considered that the Department could be more open and receptive to requests to share its evidence and explain its decisions.

Improvements to the process introduced by the Department

20. In April 2005 the Department introduced a new approval process to address the risk of cost increase on major schemes. The Department now approves a scheme for entry into the Local Transport Plan programme after reviewing the business case, but will only give full funding approval when it has gone through the procurement process and firm bids have been received. Funding is therefore given for known costs rather than estimated costs. Under this new regime scheme promoters will therefore not be able to spend significant sums of money before procurement has been completed.

21. Funding for light rail can be provided as grant from the Regional Funding Allocations or through the use of Private Finance Initiative (PFI) Credits.

22. In addition, in future, where a proposed new light rail system or extension to an existing system is part of a package of measures designed to tackle congestion, such schemes could seek funding from the Congestion Transport Innovation Fund, with up to £200 million per year available to support

appropriate packages. But this funding will only be available for schemes that form part of a wider package that includes hard demand management such as road pricing.

23. In September 2007 the Department issued guidance on major scheme funding. This guidance seeks to clarify the roles and responsibilities of the Department and scheme promoters and enhance the Department's control over funding of major schemes. It proposes new requirements for the inclusion of risk in initial cost estimates, clarifies local authorities' responsibilities for bearing cost overruns and commits the Department to funding half of local authorities' preparatory costs for schemes that have gained programme entry status, and sets indicative timelines for the Department to respond to bids.

Costs of the unsuccessful proposals

24. In developing their proposals and in preparing for the schemes the promoters incurred considerable costs. Altogether work on the aborted schemes cost £54 million (Figure 6). The majority of this expenditure, all except £3 million, was incurred prior to July 2004 when the Department withdrew funding approval. Of the total £54 million, £25 million was provided by the Department, the remainder by the schemes' public sector promoters.

25. A large part of this expenditure, some £21 million, was spent on land purchase and construction work of which some can be used for other transport schemes or sold and some of the work by consultants can also be used to inform alternative transport schemes. In their agreements with the promoter of the South Hampshire scheme the Department had no formal arrangement for recovering any of their contribution should property purchased for the scheme be sold. However grant letters sent to the promoters of the Leeds Supertram and Manchester Metrolink schemes state that "Should land or any other assets purchased with this grant turn out to be unnecessary for the scheme and subsequently sold, the Department shall be reimbursed either the cost of the original purchase or the receipts obtained from its sale, less legal expenses, whichever is the greater amount".

26. As highlighted at paragraph 20 above, the Department has introduced new approval arrangements which will in future prevent significant sums being spent prior to Full Approval.

Figure 6: Expenditure on unsuccessful light rail proposals in Leeds and South Hampshire			
	Leeds Supertram £ millions	South Hampshire Rapid Transit £ millions	Total £ millions
Land and fees	18.7	1.6	20.3
Construction	8.2	0.5	8.7
Consultancy	9.7	4.0	13.7
Promoter costs	8.5	3.0	11.5
Total	45.1	9.1	54.2
Source: National Audit Office analysis of promoters' expenditure data			

Conclusions

27. Overall our conclusion is that, against the background of a complex set of proposals and issues, the Department's evaluation after July 2004 of the revised schemes was robust and that the Department presented options to Ministers in a fair and even handed way. Based on this evaluation and advice, Ministers then made the final decision. The Department has made improvements to its funding and approval arrangements including improvements to address the issue of the costs of schemes increasing significantly after initial approval. In addition, promoters will not be able to commit funds until final approval has been granted which should reduce the risk that significant sums are spent on schemes that are not proceeded with.

28. The evaluation and decision making process took a long time and that there is scope for speeding up the process possibly through, for example, the setting of an indicative timetables for each stage. The Department is seeking to address this in the new major schemes guidance. Our review indicates, however, that there could have been scope for more effective communication with promoters and consortia to give them a clearer idea of the criteria the proposals will have to meet if they are successful.

Appendix 1

Leeds Supertram	
September 2000	The promoters submitted an Outline Business Case for the Supertram scheme to the Department. Its key features were for a new three-line light rail system 28 km long with 49 tram stops and four park and ride sites. It was forecast to carry 22 million passengers per year, saving 5.7 million trips by car. The Department and its consultants spent six months reviewing the proposal. Supertram had been under consideration in Leeds since 1989, and legislation was passed in 1993 to allow construction to begin (although funding approval was not given at this point).
March 2001	The Department concluded that the proposal was robust and offered value for money and agreed to provide funding for the scheme. It noted that the required level of funding would not be known until the tendering process had been completed, but set a cap on total public sector funding of £355 million.[2] Of this figure the Department agreed to contribute 75 per cent (£266 million) with the remainder being funded from local sources. The terms of the funding agreement stated that should this cap be exceeded the Department and Treasury would need to consider all available options, including whether the scheme should continue as planned.
March 2002	The promoters selected four consortia to bid following the pre-qualification process. During the tender period two of the four consortia withdrew from bidding, leaving Airelink (Arriva, Siemens, AMEC and Transdev) and Momentis (First Group, Bombardier, Bouygues and Jarvis) as the only bidders.
October 2002	Airelink and Momentis submitted bids for the contract to Design, Build, Operate and Maintain Supertram, both of which required public sector support in excess of the maximum £355 million agreed. This contract structure was used in line with advice at the time from HM Treasury and Partnerships UK. The promoters spent several months working with the bidding consortia to attempt to bring costs down.
March 2003	The promoters updated the Department on its progress, setting out the reasons for the cost increase, arguing that the scheme still offered value for money and asking the Department to increase its funding contribution to £494 million from a revised public sector funding requirement of £658 million (an 85 per cent increase on the original cap).
May 2003	The Department informed the promoters that the cost increases were not affordable, and asked the promoters to look at how a light rail scheme, or an alternative transport solution, could be delivered within the original public sector funding limit of £355 million. Over the coming months the promoters and the Department identified ways of reducing costs on the Supertram scheme, such as the deferral of part of the southern branch. This would, however, have reduced the benefits of the scheme.
January 2004	The Department considered that, despite the cost of the scheme falling from £658 million to £551 million, funding approval should be withdrawn because: • The scheme was still almost £200 million over the approved funding cap;

[2] All costs and funding figures for Leeds Supertram are in 2001 present values.

	• Agreeing to fund the scheme despite the increase would mean that the Department would have to delay or reject other major transport schemes; and • Other schemes offered better value for money. The Department decided against offering to ring-fence the original £355 million for Leeds because of uncertainties over future funding. However, the Department decided not to withdraw funding approval at this point but asked the promoters to continue exploring ways of bringing costs within £355 million and to conduct a further review of alternative transport options.
February 2004	The promoters commissioned consultants and began a fundamental review of transport options for Leeds with support from the Department. By May a shortlist of three options emerged: a shortened Supertram scheme; Bus Rapid Transit; and an improved conventional bus service.
July 2004	The Department withdrew funding approval for the scheme because of the cost increase and suggested the promoters continued to work on developing alternative proposals with the Department.
November 2004	The promoters presented the Department with the results of their work which they began in February. The promoters proposed to defer construction of the 7km southern stretch to Tingley and revised the allocation of risk to bring costs down. They benchmarked costs against other UK light rail schemes, concluding that costs in Leeds were higher because of higher land prices and because Supertram had more on-street running than other schemes and passed through environmentally-sensitive areas. They concluded that a shortened Supertram scheme remained the best option for Leeds, compared with the other main options of a Bus Rapid Transit scheme and a more conventional bus scheme. The promoters calculated that Supertram's benefit cost ratio would be 2.2:1, Supertram's compared to 1.8:1 for the Bus Rapid Transit. The cost to the public sector for the scheme was estimated at some £392 million.
November 2004 - May 2005	The Department engaged in a detailed review of the promoters' appraisal. It concluded, initially in February 2005 and then in May, that the Bus Rapid Transit option offered a better solution, achievable at a lower cost than the Tram scheme and with a higher benefit to cost ratio. It did not share these findings with the promoters until its review has been considered by Ministers.
July 2005	The Department asked the promoters to provide more detail on the funding of Supertram and to work with the Department to explore further the Bus Rapid Transit alternative. The Department appointed its own consultants, Atkins Transport Planning (Atkins), to lead this work.
November 2005	Atkins presented its findings to the Department and concluded that, on its most positive assumptions, a Bus Rapid Transit scheme would provide 85 per cent of the benefits of Supertram for 50 per cent of the costs. Even at the lower end of its assumptions Atkins found that Bus Rapid Transit would deliver more than half the benefits of Supertram for half the costs. Based on the Atkins report the Department rejected the promoters' revised Supertram proposal and urged the promoters to develop proposals for a "top of the range bus option" instead. The promoters disagreed with Atkins' findings, particularly on the relative attractiveness of Bus Rapid Transit for potential passengers compared with Supertram. Because of the lack of comparable schemes in the United Kingdom it was difficult to predict accurately how well a Bus Rapid Transit scheme would perform in a major city such as Leeds.

	Another factor in the final decision was the increase in cash costs to the government, which had risen from £664 million to £1.3 billion. However, the extent of this increase was partly caused by the proposed funding mix with smaller up-front grants and larger PFI credit funding in later years. With higher up-front grants the total cash cost would have been some £985 million.

Appendix 2

South Hampshire Rapid Transit	
July 2000	The South Hampshire Rapid Transit scheme proposal was included in the Local Transport Plan for Hampshire and Portsmouth and submitted to the Department for review. The proposal was for a new light rail system linking Fareham, Gosport and Portsmouth, including a tunnel under Portsmouth Harbour. The system was to be 14.3 km in length with 16 tram stops, and was forecast to carry 11.7 million passengers per year, saving 3 million trips by car. The Department and its consultants spent the next nine months reviewing and appraising the proposal.
March 2001	The Department concluded that the proposal met its appraisal requirements and granted funding approval for the scheme with a central estimate of the required total public sector contribution of £146 million and an upper threshold set at £170 million.[3] The Department committed to contribute 75 per cent of the scheme costs up to the agreed cap, with the promoters providing the remaining 25 per cent.
April 2002	The promoters invited three pre-qualified consortia to bid: South Hampshire Supertram (Bouygues, Mowlem, Siemens and Stagecoach); SMART (at this point made up of Mitsubishi, Obayashi, AMEC and Serco) and Harbour Light Rail (ALSTOM, Carillion, Nuttal and TRANSDEV).
December 2002	The promoters received bids to design, build, operate and maintain the scheme from the SMART and South Hampshire Supertram consortia. The third consortium, Harbour Light Rail, withdrew from the process and did not bid. The bids received were substantially higher than the £170 million cap agreed in March 2001. The promoters informed the Department of this development and initiated a thorough clarification and challenge process with the bidders to try and reduce costs.
March 2003	The consortia submitted clarification bids, both close to £270 million, still some £100 million above the cap originally agreed.
May 2003	The Department informed the promoters it could not approve the cost increases and asked the promoters to see what could be done with light rail or alternatives within the original cost envelope.
June 2003	The promoters reported the findings of their procurement review to the Department. They concluded that costs had risen largely due to a change in market sentiment due to the poor commercial performance of existing light rail schemes, and that potential changes to the scope would not reduce costs significantly. The promoters argued that the scheme still offered value for money and requested that the total public sector contribution should be increased from £170 million to £310 million. The Department found this increase unacceptable and asked the promoters to try and reduce the forecast cost by changing the scope of the scheme and reducing the level of risk transferred to the private sector.
September 2003	The promoters submitted a revised proposal to the Department incorporating changes to the scope and the balance of risk. The promoters estimated that the scheme's maximum public sector contribution would be £273 million.

[3]All costs and funding figures for South Hampshire Rapid Transit are in 2003 present values.

December 2003	The Department asked the promoters to explore with bidders whether a revenue risk sharing arrangement would make a material difference to their offers. This work continued into the Spring of 2004.
March 2004	Having completed their work on revenue risk sharing with bidders, the promoters reported to the Department that the final funding requirement would be a maximum of £270 million.
July 2004	Following the outcome of the Government's Comprehensive Spending Review and the release of the Department's *Future of Transport* White Paper, the Department withdrew funding approval for the scheme because of the cost increase. The Department offered to work with promoters to develop alternative transport options and to examine alternative contractual arrangements for a light rail scheme.
April 2005	The promoters submitted a revised business case to the Department. It set out a revised contract structure (separating the infrastructure provision and maintenance from the scheme operation) and risk allocation, as well as some reduction in the scope of the scheme. It rejected the next best alternative of Bus Rapid Transit, as it delivered fewer wider benefits for the region and at only a marginally lower cost than light rail. The revised total cost to public sector for the light rail scheme was now £214 million.
May 2005	The promoters urged the Department to make a decision on the scheme before the summer recess in order to allow work to commence under the existing planning powers which were about to expire.
November 2005	The Department rejected the revised proposals because of cost increase above the original funding cap.

Appendix 3

Manchester Metrolink Phase 3 extensions	
January 2000	The promoters presented their proposal for three new lines plus an upgrade to the existing network to the Department for review. The extensions would reach north to Oldham and Rochdale, east to Ashton and south to Manchester Airport.
March 2000	The Department announced funding for the Phase 3 extension.
July 2000	The Department agreed funding profile for the scheme. The public sector funding requirement was set at £326 million (or £282 million plus an annual performance payment to the concessionaire of £5 million per year) from a total scheme cost of £593 million.[4] The promoters would contribute a notional £70 million through a reduction in the local transport settlements over 10 years and the Department would contribute up to £256 million. Figures included a significant compensation payment to Altram for early termination of its contract to operate the existing network, which was felt to be underperforming.
September 2000	The promoters began their pre-qualification process for bidding consortia to build Phase 3 and operate the entire network. Six submissions were received, from which the promoters selected four consortia to progress. All the bidders indicated that sharing revenue risk with the public sector would bring the value of their bids down. The promoters believe the Department rejected this option as it felt that the private sector was better equipped to manage the risk.
July 2001	The promoters issued formal bid documentation to the four selected consortia.
January 2002	The four bids received required much higher levels of government funding than previously agreed. The Department's initial response was that it would be very difficult to fund the scheme alongside its existing major scheme commitments, and that the scope of the scheme might have to be reduced.
April 2002	The promoters looked again at their proposal and concluded that the current procurement approach remained the most appropriate. The report also noted that the funding shortfall was unlikely to be significantly reduced by further negotiations with the bidders.
May 2002	The Department decided to delay making a decision on the future of the scheme until the outcome of the Comprehensive Spending Review was announced in July.
August 2002	Following the Comprehensive Spending Review the Department decided that, while the scheme was worth supporting and had a strong benefit cost ratio, the promoters had to agree to fund 25 per cent of the cost increases above the original funding cap, and 100 per cent of any increases above a new funding cap, yet to be decided.
December 2002	The Department agreed to increase upfront public sector funding to £520 million, of which it would contribute a maximum of £390 million. Further cost increases would have to be met entirely by the promoters through local taxation.
April 2003	The two preferred bidders - Manchester Tram Company (SNC-Lavalin and Serco) and Greater Manchester Tramways (Mowlem, Nuttalls and Stagecoach) - assured

[4] All costs and funding figures for Manchester Metrolink are in cash terms.

	the promoters that they would be able to deliver the scheme within the £520 million budget.
May to July 2003	The bidders informed the promoters that they would be unable to deliver the scheme within the £520 million budget. The promoters deferred the deadline for bids from June to September 2003 whilst the reasons for the cost increases were investigated.
September 2003	The two bidding consortia submitted their best and final offers to the promoters, taking the expected costs of Phase 3 to some £870 million. Promoters spent several months evaluating the bids and seeking ways to bring costs down with the consortia. The consortia submitted revised best and final offers in November.
December 2003	The promoters informed the Department that it could not deliver all three lines within the £520 million budget, and that they now favoured dropping most of the line south to Manchester Airport but adding a spur to Didsbury. Even this reduced scheme could not be delivered within the £520 million budget, so the Department and promoters agreed to explore how much of Phase 3 could be delivered within that original cost envelope.
July 2004	The Department withdrew funding approval for the scheme because of the cost increase and suggested the promoters worked with the Department to develop alternative proposals.
September 2004	The promoters submitted another revised proposal to the Department which was rejected by the Department, who calculated the new funding requirement at some £700 million. The Department asked the promoters to take a fresh look at the procurement approach and the balance of revenue risk. The Department set up a working group with GMPTE to explore options and consultants were employed to advise DfT during the process.
December 2004	The Department confirmed that £520 million was still available to the promoters for public transport in Manchester, but did not ring fence this funding for the Metrolink extensions. It was therefore left to the promoters to come forward with proposals on how this money would be used to deliver transport improvements to the areas that the Phase 3 extensions would have reached. The promoters were free to supplement this funding with money from other sources, such as prudential borrowing or through the new Transport Innovation Fund. At this point the cost of going forward with the original Phase 3 extension was estimated at some £900 million, and some £600 million for a reduced scheme to build two out of the three planned lines.
June 2005	The Department agreed to release £58 million of funds for Phase 1 & 2 renewals, to come from the Department's share of the £520 million budget announced in December 2004.
February 2006	The promoters submitted new proposals for three shorter extensions known as Phase 3A, to be delivered within the remaining allocation budget. This proposal shortened the extensions to the east and south yet further than the scheme proposed in December 2003. The rest of the original Phase 3 extension (known as Phase 3B) would seek funding from other sources such as the Transport Innovation Fund.
May 2006	The promoters submitted their revised business case for the Phase 3A extensions to the Department.
July 2006	The Department gave approval for the extensions to the north and south which formed part of the Phase 3A proposals. They agreed to provide £244 million to complete Phase 3A to fulfil their remaining contribution to the £520m funding

	commitment. The Department did not provide any funding for the Eastern extension.