



North East Leadership Board

Tuesday 14th July 2015 at 2.00 pm

Meeting to be held at Northumberland County Council, County Hall, Morpeth, NE61 2EF

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SUPPLEMENTAL AGENDA No.2

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To All Members

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North East Combined Authority

North East Leadership Board

DATE: 14 July 2015

SUBJECT: Coast Road A1058 – Change of Scheme Scope and Cost, and Approval to Proceed

REPORT OF: Chief Executive Officer for Transport

EXECUTIVE SUMMARY

The A1058 Coast Road major transport scheme is part of the Local Growth Fund (LGF) programme and one of the six schemes previously prioritised by the former Local Transport Body in 2014 to receive devolved major transport schemes funding.

The Coast Road scheme is planned to deliver a wide range of multi-modal benefits, including journey time and reliability improvements for bus and car users, as well as accessibility and safety enhancements for pedestrians and cyclists.

Since the scheme was entered into the Local Growth Fund programme with a given budget, detailed site investigation and design work has taken place which has resulted in the base construction cost of the scheme rising by over 10% despite a value engineering exercise. This cost overrun is compounded by a previous cut to the scheme 'optimism bias'¹ cost cushion at the early stages of business case development in order that a meaningful programme was formed within the funding allocation for devolved local major transport schemes, which were prioritised by the former Local Transport Body. The full business case for the amended scheme has been modified following an independent review and shows that the scheme represents a very high value for money, as well as complying with other assessment criteria.

A report will be submitted to the NELEP Board later in July, to seek approval of the increase in LGF funding from £5.840M to £6.523M, to implement the Coast Road scheme on the basis of a compliant and satisfactory business case, to ensure that the scheme proceeds to construction with adequate risk contingency funding. This report requests that, subject to the approval of the NELEP Board, the Leadership Board approve that the scheme be include in the capital programme at the revised level.

This report is being brought to the Leadership Board, rather than Transport North East Committee, for approval due to the request for increased draw down of Local Growth Fund than in the initial scheme approval made by the former Local Transport Body.

RECOMMENDATIONS

That the Leadership Board:-

¹ Optimism Bias is a variable cost uplift factor added to a project cost estimate to account for the tendency for project designers and surveyors to underestimate the real final costs, or to overestimate the value of the benefits, of a project. The Optimism Bias is reduced from project conception to implementation stage to reflect progression towards greater project base cost certainty.

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- 1) Approves a revised capital programme provision of £6.523M (previously £5.840M) in principle for Coast Road, subject to the agreement of the NELEP Board to ensure that the scheme moves to construction with adequate contingency funding;
- 2) Authorise the Monitoring Officer to enter into relevant Funding Agreements in accordance with a decision in accordance with Recommendation 1 above, subject to the cost increase being met as part of the overall LGF programme management.

1. Background Information

- 1.1 A Strategic Outline Business Case for the scheme was developed in order to evaluate the scheme as part of the Devolved Transport Major Scheme funding process in 2014 which demonstrated a benefit-cost ratio² of 6.43.
- 1.2 The A1058 Coast Road scheme will contribute to economic growth by delivering specific benefits for public transport on the A1058 Coast Road; improving general traffic flows on this strategic corridor linking North Tyneside and Newcastle; support growth along the corridor including facilitating the development of West Chirton Industrial Estate; and improve road safety throughout the corridor.
- 1.3 The scheme package includes:
 - i. Capacity enhancements and signalisation, with bus priority measures to allow for easier access/ egress to bus stops;
 - ii. Introduction and enhancement of pedestrian crossing and cycle facilities;
 - iii. A replacement bridge structure; and
 - iv. Associated improvements including speed management measures.
- 1.4 The total outline budget for the scheme at programme entry was £6.521M, with a £5.840M contribution from the Local Growth Fund, and £681K from North Tyneside Council's Capital Programme funding.
- 1.5 The full business case, which has taken account of the comments and amendments of an independent review in accordance with the Transport Assurance Framework, has demonstrated that the scheme achieves a very high value for money, with an initial benefit-to-cost ratio of 6.43, rising to 10.49 subject the requested cost increase being met. The full business case (or subsequent qualifications made by the scheme promoter) also demonstrates that the scheme supports delivery of the North East Strategic Economic Plan's objectives, is deliverable within given funding timeframes,

² A Benefit-to-Cost ratio is a statistic that summarises the value of monetised benefits delivered by a proposed scheme divided by the scheme costs, essentially providing the value for money status of the proposed scheme.

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- 1.6 and is supported by a robust procurement strategy and funding case.
The scheme will be delivered across both 2015/16 and 2016/17, with approximately 60% completion by the end of the current financial year.
- 2. Scheme Cost Increase and Scope Changes (Since Programme Entry)**
- 2.1 Since the outline business case was received based on a cost quote at the early stages of scheme development, the detailed design of scheme has been undertaken and a refined cost received. This cost was returned significantly higher than the quote provided at outline design. Early contractor involvement was undertaken in the scheme planning stage to provide initial cost estimates, however at this time construction workloads in the North East were relatively low. As the project has developed, the region now has had a larger pipeline of infrastructure work brought forward and subsequently the demand for construction now exceeds supply, which has had an effect on construction prices.
- 2.2 To minimise the impact of the increased cost, a value engineering and de-scoping exercise has been undertaken, together with further cost validation from wider market testing. This re-evaluation exercise resulted in the following:-
- i) A reduced programme duration, including concurrent working on scheme components;
 - ii) Removal of an average speed camera scheme and replacement with a more localised speed management scheme;
 - iii) Design alterations to Norham bridge foundations;
 - iv) Existing vehicle restraint systems to be reused where possible;
 - v) Rates challenged and reduced where possible;
 - vi) Further market testing.
- 2.3 Through the design stages, two options were considered for the Norham Road Bridge works, a strengthening and widening option, and a replacement bridge. The difference between the strengthening and widening and the replacement bridge were found to be significantly less than originally estimated. Whilst more expensive, when the benefits of longevity of the structure and future maintenance are considered, the replacement bridge was considered to offer greater value for money.
- 2.4 The speed management component now promotes a more focused speed management scheme from the A19 Silverlink junction to the A1058 Billy Mill roundabout, rather than average speed cameras along the entire route.
- 2.5 Given the base cost increase, the current budget allocation would leave very little (less than 1%) to manage risk through the construction stage.
- 2.6 Whilst the measures outlined in paragraph 2.2 have gone a considerable way to minimise the scheme cost overrun, the revised cost estimate for the scheme now stands at £7.204M (up from £6.521M), which comprises of a

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£6.467M scheme base cost and £737K risk cost element. The risk cost element has been determined through a comprehensive quantified risk assessment of the revised scheme package and comprises 11% of base scheme costs. It is considered that this level of risk contingency funding is required to enable the scheme to cope with a median level of risk occurrence during its construction phase.

2.7 It is requested that the revised cost is made up of an increased LGF contribution of £6.523M and the currently committed local contribution of £681K. Any underspend of the risk funding allocation would be manifested in a saving to the LGF contribution. The requested revised LGF contribution represents a £683K increase in the original LGF contribution of £5.840M.

2.8 The scheme is being brought to North East Leadership Board, rather than Transport North East Committee, for approval due to the recommendation for increased draw down of Local Growth Fund than in the initial scheme approval made by the former Local Transport Body.

2.9 Due to the increased cost and consequent re-scoping, a revised full business case has been developed, which has been through a further independent assessment, with arising comments incorporated. The revised business case demonstrates that the proposed scheme achieves a benefit-to-cost ratio of 10.49, maintaining a 'very high value for money'. As the revised budget for the scheme has not yet been approved, the business case will be further updated following confirmation of budget security.

2.10 The scheme is ready for immediate commencement as soon as the business case and new funding requirements has been approved, with completion expected in 2016/17. The contractor will be incentivised by a pain/gain share mechanism to minimise actual cost through creating efficiencies leading to potential for savings.

3. **Accommodation of Increased Costs within the Local Growth Fund Programme**

3.1 Whilst usually scheme cost overruns following budget allocation at LGF programme entry should be met by a scheme promoter, it is considered that an exceptional case surrounds Coast Road in that:-

- i) The optimism bias attached to the scheme during its initial development stage was heavily cut as part of the DfT Transport Majors prioritisation process prior to a final cost estimate;
- ii) There is no alternative funding available to meet the increased scheme costs locally due to extreme financial challenges with local (authority) transport funding, and the timelines for seeking other local funding opportunities will critically delay the scheme;
- iii) There is pressure to complete the majority of the scheme before Highways England commence works on a dependent junction,

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- and an early approval to avoid further cost overrun is required;
- iv) There is underspend elsewhere in the wider LGF programme.

3.2 If the additional £683K funding was not obtained through the LGF, approval from North Tyneside Full Council would be required for the required extra scheme funding. This is unlikely to be successful within the current financial climate and obtaining the necessary approvals would, at least, delay the scheme resulting in increased costs due to increased conflict with the regionally significant Highways England scheme at A19/A1058 Silverlink interchange.

3.3 Further de-scoping or value engineering is not deemed to be possible if a meaningful scheme package is to be maintained that meets the objectives of the scheme as aligned to the objectives of the Strategic Economic Plan. Proceeding to construction with the current budget (with a contingency fund of £54K – less than 1% of base scheme costs) is highly likely to result in delays on site, and further increased costs, when issues arise in determining remedial de-scoping or quality reduction.

3.4 The approval of an increased LGF contribution to this scheme is subject to the approval of the LEP Board at its meeting on 23rd July to increase the LGF contribution to the scheme to £6.523M. Due to the time pressure of needing to commence the scheme as soon as possible, it is not possible to wait until the Leadership Board meeting in September (following the NELEP Board decision) to obtain approval to include the scheme in the capital programme and proceed with the revised scheme, so this report has been brought to this meeting subject to the approval of the LEP Board to the change in LGF funding.

4. Next Steps

4.1 If the two recommendations of this report are approved, the next steps are expected to be:-

- i) Examination of the revised scheme cost and scope and provisional programme re-allocation by the North East Local Enterprise Partnership programme management team;
- ii) Consideration by the Local Enterprise Partnership Board on 23rd July 2015;
- iii) Subject to (ii), the NECA completes a Grant Funding Agreement with the scheme promoter to deliver the scheme;
- iv) The scheme is implemented in accordance with the Grant Funding Agreement and Final Business Case.

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5. Potential Impact on Objectives

- 5.1 Approval of the recommendations will enable the Coast Road scheme to proceed as planned, albeit with a slightly higher Local Growth Fund contribution. The scheme has been tested and demonstrates alignment with the objectives of the Strategic Economic Plan and a very high value for money. Failure to implement the scheme, or to further reduce its scope or quality, will negatively impact on the delivery of the Strategic Economic Plan as well as the Tyne & Wear Local Transport Plan.

6. Finance and Other Resources

- 6.1 The total required Local Growth Fund contribution requested to deliver the scheme now stands at £6.523M from the previous allocation of £5.840M, which is subject to North East Leadership Board and NELEP approval.

7. Legal

- 7.1 The Combined Authority, as Accountable Body for the NELEP enters into funding agreements with the recipients of Local Growth Funding. The agreements reflect the requirements and obligations placed on the funding by the funding providers including provisions relating to clawback. The recipient Council will be required to enter into the funding agreement to enable the release of the proposed LGF funding contribution of £6.523M for the Coast Road scheme. The agreement of the NELEP Board to the change in the level of funding is required prior to entering into such funding agreements.

8. Other Considerations

8.1 Consultation/Community Engagement

A Stakeholder Engagement Plan has been developed as part of the scheme business case and will be implemented once the scheme has been given approval to proceed.

8.2 Human Rights

There are no specific human rights implications arising from this report.

8.3 Equalities and Diversity

The implementation of the scheme proposals will have a positive impact on low income and vulnerable groups by making walking, cycling and bus travel safer and more convenient.

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8.4 Risk Management

A full quantified risk register has been developed to support the scheme. Despite the scheme cost increase, risks of greater magnitude will arise from withholding or delaying scheme approval, impacting adversely on delivery of the wider LGF transport programme.

8.5 Crime and Disorder

There are no crime and disorder implications arising from this report.

8.6 Environment and Sustainability

Delivering the scheme outlined in this report will assist the Combined Authority in achieving a more sustainable transport system for the region.

9. Background Documents

- i) Coast Road A1058 Full Business Case;
- ii) “More and Better Jobs” – the Strategic Economic Plan for the North East – available at <http://nelep.co.uk/wp-content/uploads/2014/11/North-East-Strategic-Economic-Plan-More-and-Better-Jobs.pdf>

10. Links to Plans in the Policy Framework

This report has no direct link to plans in the policy framework.

11. Appendices

None.

12. Contact Officer

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13. Sign off

Head of Paid Service ✓

Monitoring Officer ✓

Chief Finance Officer ✓

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