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Report to: West Yorkshire and York Investment Committee

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Subject: Wakefield Eastern Relief Road: Change Request

1. Purpose

- 1.1 To provide Investment Committee with information relating to the submitted Change Request from Wakefield Council for the recently completed Wakefield Eastern Relief Road (WERR), to highlight key lessons learned and to recommend that the cost over-run be met from the West Yorkshire +Transport Fund.

2. Background

- 2.1 The Wakefield Eastern Relief Road (WERR) is a 5.5km single carriageway highway between the A638 Doncaster Road to the south east and the A642 Aberford Road to the north east of the city centre. The Road crosses the River Calder and the Wakefield–Normanton–Castleford railway line. A plan of the scheme is provided as **Appendix 1**.
- 2.2 Gateway 3 Approval (equivalent to Full Business Case/Decision Point 5 in the current Assurance Process) was granted by WYCA in December 2014 with a total pre-tender project cost estimate of £33.954m. Following a tender process, a Funding Agreement was signed between Wakefield Council and WYCA in October 2015 for a total ceiling cost of £32.019m which included the provision for any cost over-runs beyond this ceiling figure to be met by Wakefield Council.
- 2.3 The funding agreement made requirements for a Pain:Gain share arrangement. However, that arrangement would only have been applicable where there was a shift in target costs rather than where compensation events are the cause of cost increases. This was not the case.
- 2.4 The funding agreement, dated 12 October 2015, states that “The recipient (Wakefield Council) are to pay any costs of the project which are not payable from the grant”. WYCA are therefore under no obligation to make payments over and above the contracted amount.
- 2.5 The scheme is now complete and opened to the public on 27 April 2017, and is viewed as a significant success in terms of the strategic benefits that it will deliver. These benefits are already materialising with the first phase of housing development

adjacent to the road at City Fields well under way, with 329 new homes either completed or under construction. Planning applications for further stages of development are well advanced, with projections of over 2,000 houses coming forward. This is a strategically significant scheme in the Leeds City Region providing access to a large strategic site providing housing development, reducing decongestion and improving journey times.

- 2.6 The total project cost is currently estimated at as a maximum figure of £37.593m, some £5.574m (or approximately 15%) over the designated budget approval. Notwithstanding the cost increase, the project still represents 'very high' Value for Money with a Benefit:Cost ratio of 8.89 (reduced from 10.4). The causes leading to the cost over-run and the measures taken to mitigate them are explored below.

3. Causes of the Change Request

- 3.1 A summary of project costs as supplied by Wakefield Council is provided as **Appendix 2**. This is exempted information as set out in 7.1 due to ongoing discussions between Wakefield Council and the Contractor.
- 3.2 The identified causes of the project change are set out below. Key lessons learned are provided as **Appendix 3**.

Treatment of Risk

- 3.3 The DfT Green Book requires the application of both risk and Optimism Bias during the development of the scheme.

Risk Register

- 3.4 In line with standard practice for construction projects, a risk register was developed for WERR which set out the full extent of risks that Wakefield Council believed could potentially have materialised on the project. These risks were rated by probability of occurring and their potential impact. The supplied April 2015 risk register shows that using standard risk techniques, a risk figure of £3.468m was generated. The cost figures provided at the time of the Funding Agreement (October 2015) set out a lower risk figure of £2.866m together with a project contingency of £1.5m. This represented an overall risk plus contingency level of around 13%.
- 3.5 A review of the project risk register by WYCA post-completion has shown that a number of key risks materialised which had been allocated insufficient risk cost. These included unforeseen ground conditions, design changes, construction risks, land access costs paid to Network Rail and traffic signals costs. Had these risks been more fully understood and costed, it is arguable that a higher risk cost allocation would have been included with the Funding Agreement, and that the project over-spend would have been lower – albeit with a potentially higher budget ceiling figure agreed. The budget allocation to Wakefield Council set at the time of the funding agreement was partly a function of the calculated risk figure.

Optimism Bias

- 3.6 As risk is based on probabilities as well as estimates, Optimism Bias is added to the calculated costs for all projects. This starts at a designated figure depending on scheme type and is then reduced during the feasibility and design stages to allow for more accurate costings and possible identified reductions in the risk.
- 3.7 Between the approval at Gateway 3 (as 2.2 above) and the signing of the funding agreement, Wakefield Council were advised by WYCA to remove all Optimism Bias allowance from the submitted business case on the understanding that provision would be made centrally within the WY+TF programme and managed outside the project. However, as WY+TF projects have progressed through our revised Assurance Process, the expectation now is that these costs are included within approved project costs.

Accelerated Start on Site

- 3.8 The project was identified as an “early win” for the overall Transport Fund. In order to achieve delivery within Programme, the timing of the construction was such that there was a fixed point in the works for the construction of a rail-over-road crossing to be completed. This was between 25 and 26 December 2015, when the railway would be closed.
- 3.9 This closure needed to be planned in late 2013, in line with Network Rail’s required two year notice period. This became a fixed point in the project. All other dates in the procurement / agreement process had to be calculated forward or back from this date.
- 3.10 If this timetable had not been met, the next time the correct conditions would occur would have been Christmas 2020. Due to the above restriction, all delays / problems with the railway bridge works leading up to Christmas 2015 had to be dealt with by accelerating works at cost.
- 3.11 Wakefield Council have notified WYCA that the need for an accelerated start has impacted on costs to the order of around £340,000.

On-site issues

River Bridge Design

- 3.12 Problems were encountered with the design of the river bridge. The required design check by an independent consultant advised that the bridge was under-designed and needed larger steel. A few additional weeks were needed to overcome this problem. Wakefield Council took the view that the cost of the additional works would be substantially less than the ongoing delay costs.

Ground Conditions.

- 3.13 Despite pre-works site investigations, a critical number of piles for the river bridge failed to achieve “sett”. This required additional works to be carried out that could not have been foreseen.

- 3.14 Phase 3 of construction also ran across poor ground conditions, formed by fill created from inert waste. Again, although substantial ground investigation was carried out and a large allowance made in the budget for ground improvement, a small area was found to be substantially poorer than elsewhere and had to be dealt with, at an added cost.

Network Rail

- 3.15 A large unexpected cost while on site was a £1m “Shared Value” charge made by Network Rail for access under their railway. Shared Value is defined by Network Rail as where a land owner seeks a share of the increase in value created when it grants property rights in respect of its own land, to a developer, and this increases the value of the developer’s land. This figure appears to have been established on the basis of future development opportunities off the new road rather than on any more scientific basis.
- 3.16 The figure of £1m was requested by Network Rail following the awarding of the construction contract, and was agreed by Wakefield Council on the basis that the timescale window for construction was tight/fixed due to the bridge possession schedule. Wakefield Council, as the highway authority, had allowed £350,000 in the original scheme estimates.
- 3.17 Since Wakefield Council have agreed the £1m figure with Network Rail, grounds for appeal would appear to be limited – although it is arguable that Wakefield Council only agreed the figure because of the time constraints relating to the rail possession, and that the costs of not agreeing to the figure would have delayed the project by 5 years. This cost needs to be challenged.

4. Reporting of the Change Request

- 4.1 WYCA was made aware of the projected overspend in the 2016/17 Q2 return at the end of September 2016; a projected £34.9m projected outturn against the £32.019m Funding Agreement figure. WYCA requested Wakefield Council for formal notification of the Change Request and to submit a request for approval for a projected overspend.
- 4.2 A Change Request was submitted by Wakefield Council to WYCA in February 2017, which highlighted a requirement for an additional £5m approval – implying an approximate £37m outturn cost. This report was brought to the 8 February 2017 Programme Appraisal Team (PAT) meeting. The detail sitting behind these figures was not available at that time, therefore a request was made for a more comprehensive breakdown of the increased costs and the rationale behind the overspend from Wakefield Council prior to formally reporting the exception. A revised Change Report was submitted to the PAT on 28 June 2017.

5. Dealing with the Change Request

- 5.1 This Change Request presents the first challenge to the WY+TF programme in terms of how it balances the need to support Districts and scheme promoters in delivering

projects to defined timescales (and delivering outcomes), against the need to demonstrate that robust processes are in place.

- 5.2 It is clear that a number of unforeseen and unplanned circumstances arose during the delivery of the WERR project, and that a Funding Agreement was in place to deal with such matters. However, the Assurance Framework was in the early stages of definition and challenges that were faced in terms of Wakefield Council defining risk were not fully addressed prior to any Funding Agreement being reached.
- 5.3 What is also clear is that the situation would not have arisen had the current Assurance Process been in place, since project tolerances and the management of risk would have been given significantly greater scrutiny. Less clear is whether the initial budget estimates and the understanding and allocation of risk were sufficient to deliver the scheme.
- 5.4 Three options have been considered in dealing with the Change Request. These are:
- Accepting the extenuating circumstances around WERR, that WYCA fully meet the cost of the change through the WY+TF budget. Alongside this, Wakefield Council seek to reduce the £1m Network Rail 'Shared Value' charge and negotiate with contractors around liability in areas such as bridge design (these are common to all options);
 - Accepting that there was a lack of clarity from WYCA around the treatment of Optimism Bias/risk within the approved project costs, agree to meet half of the cost over-run from the WY+TF budget, with the other half potentially coming from Wakefield Council; and
 - All elements of the cost over-run falling to Wakefield Council, as per the Funding Agreement.
- 5.5 In the course of discussions with Wakefield Council in respect of the means by which the overspend would be funded, they have indicated that if it were to fall on Wakefield Council, then there is a high likelihood that front-line services would be affected.
- 5.6 The WY+TF funding is currently fully allocated to projects and programmes, and no headroom theoretically exists to meet the cost over-run. However, we have committed to accelerating projects, and over time there could be changes within the programme which results in:
- Projects where there is programme slippage (and hence no or reduced expenditure);
 - Projects which come in under-budget – where some of the allocation remains unspent; and
 - Projects which may not proceed at all, or may do so with a reduced scope (and cost).
- 5.7 As a result of the above, WYCA has a reasonable degree of confidence that the Change Request as presented can be accommodated within the overall programme and that the initial option set out in 5.4 (above) be brought forward.

- 5.8 WYCA are clear that the means of dealing with this Change Request will not become the norm and are mindful that the precedent of approving the change may have ramifications in terms of other Districts perceptions of the Assurance Process. The rationale here is clear, in that due to the issues around the Assurance Process at the point in time at which WERR was approved, allowances have had to be made in resolving the Change Request at this stage. Had the current Assurance Process been in place, it is likely that WYCA would have made an allowance for at least some of the expenditure in the Funding Agreement. As set out in Section 2.6 of this report, WERR does still represent 'Very High' Value for Money with a Benefit:Cost ratio of 8.89 and is already delivering a range of strategic benefits.
- 5.9 Going forward Funding Agreements will be adhered to, which WYCA believe is a defensible position due to the robustness of the Assurance Process that has been implemented after WERR was approved.

6. Financial Implications

- 6.1 As a consequence of implementing the recommendations of this Change Request, Wakefield Council will require up to an additional c£5m from the WY+TF. This presents risks to the affordability of the overall programme, although it is considered that this will be mitigated by the extent of 'flux' that relates to schemes within the programmes coming in under cost or through slippage in programme terms.

7. Legal Implications, Access to Information

- 7.1 The information contained in **Appendix 2** is exempt under paragraph 3 of Part 1 to Schedule 12A of the Local Government Act 1972 as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information). It is considered that the public interest in maintaining the content of the appendix as exempt outweighs the public interest in disclosing the information as publication could prejudice current and future decision making.
- 7.2 A Funding Agreement is in place between WYCA and Wakefield Council to cover the eventuality of a cost over-run on the project. Non-adherence to future Funding Agreements presents a risk to WYCA funding, although processes are now in place to ensure that there is no ambiguity around risk and project processes going forward.
- 7.3 An addendum to the Funding Agreement will be required to formalise the changes to the agreement in light of the circumstances highlighted in this report and the recommendations made. No payments will be made to Wakefield Council until this document is signed-off by both parties.

8. Staffing Implications

- 8.1 None as a result of this report.

9. Recommendations

- 9.1 That Investment Committee notes the Change Request and recommends to WYCA that the cost over-run be met from the West Yorkshire +Transport Fund and approves expenditure on the project of up to £37.593m, subject to Final Account on the scheme.
- 9.2 That Wakefield Council endeavour to resolve outstanding contractor issues and seek to reduce the cost figure payable to Network Rail.
- 9.3 That an addendum to the Funding Agreement is developed and agreed by both parties to approve payment to Wakefield Council up to the maximum £37.593m costs, subject to evidence around the areas of additional incurred cost.

10. Appendices

- Appendix 1 – Plan of WERR
- Appendix 2 – Cost Summary (supplied by Wakefield Council)
- Appendix 3 – Lessons Learned

11. Background Documents

- 11.1 None as part of this report.