



Derby City Council

**URGENT LEADER OF THE COUNCIL  
CABINET MEMBER MEETING  
12 March 2012**

# ITEM 4

Report of the Strategic Director of  
Neighbourhoods

## **Station Interchange Improvement Scheme – Projected Cost Increases**

### **SUMMARY**

- 1.1 This report sets out the current situation with regard to the Derby Rail Station Interchange Project, which is being progressed as a partnership between the Council, Network Rail and East Midlands Trains.
- 1.2 The scheme design has now progressed to a stage where the estimated total scheme cost can be refined. This has identified a significant cost increase to the scheme and a shortfall in funding.
- 1.3 Although the overall scheme cost has increased by £418,000, the shortfall in funding still to be identified is £238,000.
- 1.4 The report details the reasons for the increases, and puts forward recommendations to continue to support the scheme delivery and to approve additional funding towards the project.
- 1.5 An urgent decision is required as in order to meet the projected timetable works must start on site on 2 April 2012, and a contract has still to be signed with the main contractor. The signing of this documentation, needs to begin on 12 March and can only commence once the Council is able to confirm that all of the funding to deliver the project is in place.

### **RECOMMENDATION**

- 2.1 To continue to support the delivery of the Rail Station Interchange Project as a valuable project in encouraging the economic growth and regeneration of the city.
- 2.2 To approve an increase in the scheme cost and the associated funding of £418,000, bringing the estimated total scheme cost to £2.22m.
- 2.3 To amend the Councils capital programme 2012/13 -2014/15 to increase the Station Interchange scheme and associated funding as detailed in the report.
- 2.4 To agree to underwrite £205,000 funding from corporate capital receipts pending the European Regional Development Fund (ERDF) additional funding decision.
- 2.5 To approve the scheme commencement as detailed in the report.

## REASONS FOR RECOMMENDATION

- 3.1 The Derby Rail Station Partnership Board has a long term vision for significant improvements and development at the station to support the economic growth and regeneration of the city, and this scheme forms an integral part of this vision. Over the last few years there have been significant improvements to the infrastructure in and around the station, and this scheme is seen as the next logical step in the regeneration of the station. The importance of this project is acknowledged in a number of strategy documents and recent bids for funding for other transport related projects.
- 3.2 The Councils Financial Procedure Rules state that adequate budget provision must be in place prior to signing a contract.

## SUPPORTING INFORMATION

### Introduction

- 4.1 This report sets out the current situation and cost increases that have been identified for the Derby Rail Station Interchange Project, which is being progressed as a partnership between the Council, Network Rail and East Midlands Trains.
- 4.2 The scheme itself has proved to be very complicated to bring forward for a whole variety of reasons. However the make up of the funding, with such a large proportion coming through the ERDF is now also adding to the complexity of scheme delivery. It is regrettable that information has not been sufficiently clear until very recently in relation to all aspects of this project, despite efforts to seek clarity.
- 4.3 The key areas of cost pressures relate to;
- Detailed design
  - Construction costs
  - Fee recovery rates
- 4.4 The financial matters report due to go to Cabinet on 13 March 2012 recognised to some degree this increase in costs by proposing to allocate an additional £70,000 to the Station Interchange scheme cost from unallocated public realm programme funding. However the very recent update on estimated costs means that this is insufficient. If approved then this report will supersede the financial matters recommendation with regard to this project.
- 4.5 Whilst the increase in scheme cost that is being reported is significant at approximately £418,000; the shortfall in identified funding is £238,000.
- 4.6 The total scheme cost that is eligible for ERDF funding is £2.06m, which is an increase over the initial scheme cost estimate of £258,000. A project variation has been submitted to the Communities and Local Government Department, CLG, with the aim of securing an additional £205,000 towards this shortfall, which if supported would leave the balance to be funded from Council resources..

- 4.7 The project variation submission to CLG is requesting an increase of 15% in the scheme funding, which is significant. There is a rigorous process that will be followed by the ERDF Management Team at CLG in Nottingham to consider the application. A representative of the ERDF team is on the Station Interchange Project Board and is fully aware of how the project has progressed and the issues that have been faced. There has been significant dialogue over the project variation submission and it is hoped that this will aid the decision making process.

### **Reason for the urgent decision**

- 4.8 Since the significance of the additional costs have only become known at a late stage in the project there is an urgency to seek support both for the continuation of the project and for the approval of additional funding.
- 4.9 The project must start on site on 2 April, if we are to meet the new timetable for works, which are planned around the Olympic Games period. In order to start on 2 April the Council must enter into a contract with Ringway to confirm that the funding is in place to deliver the project. We must be in a position to enter into the contract on 12 March to enable all of the appropriate contract documentation to be completed for a start of work on 2 April.

### **Background**

- 4.10 A scheme to improve the Derby rail station forecourt and interchange facilities was started in 2008 by Cityscape, on behalf of the Derby Rail Station Partnership Board. Cityscape was the Council's urban regeneration company at the time of this work.
- 4.11 The Partnership Board has a long term vision for significant improvements and development at the station to support the economic growth and regeneration of the city, and this scheme forms an integral part of this vision. Over the last few years there have been significant improvements to the infrastructure in and around the station, and this scheme is seen as the next logical step in the regeneration of the station. The importance of this project is acknowledged in a number of strategy documents and recent bids for funding for other transport related projects.
- 4.12 Initial funding for the scheme development was provided through a range of funding sources and the project was lead by Cityscape. This lead to a design layout for the station forecourt which was at the time approved by the three key partners in the project; the Council, Network Rail and East Midlands Trains.
- 4.13 A successful bid for £1.802m was made to fund the detailed design and scheme delivery. The funding was made up from a range of sources including ERDF, East Midlands Development Agency (EMDA) single programme funding and match funding from the Council's capital programme.
- 4.14 At the time of the allocation the City Council agreed to be the lead partner for the project, and take forward the detailed design and construction of the scheme. A partnership project board to oversee the delivery of the scheme was established in 2010.

- 4.15 As the project started there were changes to the funding mechanisms, as the single programme funding was withdrawn. This led to a further bid to ERDF to increase the proportion of the contribution to the project to 79.5%, and also required some additional match from the city council and the National Station Improvement Programme (NSIP) funding, which Network Rail and East Midlands Trains administer.

### **Detailed Design**

- 4.16 As the design progressed it became apparent that the original scheme layout was not deliverable, for a number of operational reasons. Since East Midlands Trains would ultimately be responsible for managing the operation and maintenance of the interchange, and Network Rail would be the asset owner, the scheme design has to accord with their requirements. Reaching a design solution that met the requirements has proved very time consuming, and has required significant additional staff resources.
- 4.17 Also there were a number of Network Rail Agreements and approval processes that had to be progressed, and whilst they were known about from the start of the project, the actual level of resources required to carry out this complex work was not fully understood.
- 4.18 Whilst the partnership project teams have worked hard to come to agreed layouts, working with the difficult approvals processes that are required by rail industry has led to significant delays on the project, and numerous re-designs of the scheme. The original scheme approved in the bid was Revision A; we are currently working on Revision R.
- 4.19 The funding profile for eligible internal and external consultants costs, associated with the detailed design, was estimated at £140,000. It was envisaged that the scheme would be on site in early 2011 and completed by June 2011.
- 4.20 The current estimate for the detailed design stage, which will come to an end on 31 March 2012 is £245,000, an increase of £105,000.
- 4.21 The financial matters report due to go to Cabinet on 13 March 2012 recognised to some degree this increase in costs by allocating an additional £70,000 to the Station Interchange scheme cost from unallocated public realm programme funding.

### **Early Contractor Involvement and Target Cost**

- 4.22 In January 2011 we procured a contractor to deliver the construction elements of the project. As we expected to start on site early 2011, the Project Board agreed to use the Midlands Highways Alliance contractor framework to appoint the contractor. Through this we secured the services of Ringway; this contractor is currently carrying out works at Loughborough Rail Station and is therefore very aware of working within the rail environment.
- 4.23 The early engagement of Ringway has allowed for a significant amount of early contractor involvement (ECI). This work has been carried out at the contractors risk; as we do not yet have a formal contract signed with them.

- 4.24 The ECI stage of the contract allowed us to get some initial estimates for materials and works, which did highlight a number of cost issues. The project team, including the contractor, has worked very hard to bring about significant cost reductions to the original design. However there were equally a number of issues that had not been covered within the Revision A design.
- 4.25 Also in January 2012, it became clear that we would have to alter the planned phasing of the works, to ensure that there was minimum amount of work going on around the station entrance during the Olympic Games period between 25<sup>th</sup> July and 9<sup>th</sup> September. This has also made it critical that we start work on 2 April, if we are to complete the first key phase of the project, which is to improve the taxi ranking area and provide for short stay car parking in between the station buildings and the Midland Hotel.
- 4.26 Whilst we have made every effort to be as innovative as possible in reducing the scheme costs, the latest target cost from the Contractor that was received on 28 February means that the overall construction element of the scheme cost is estimated to increase by £153,000 above the current allocation.
- 4.27 It should also be noted that the construction cost estimate does not include for any contingency sum. This is due to the fact that the ERDF regime does not provide support for any contingency to be added into the scheme cost. The Council does also have a corporate contingency set aside within the capital programme, rather than encouraging each scheme to include its own contingency.

#### **Fee recovery rates**

- 4.28 The ERDF eligibility criteria does not enable the Council to recover the full recharge costs of the staff time that has been spent on the scheme. The costs that can be recovered are the salary cost, national insurance and pension contributions. The costs that can not be recovered are overhead costs, such as supplies and services, and the allowance made for reasonable non-productive time, such as holidays and training.
- 4.29 It has unfortunately taken some time to establish the full effect of this on the fees that can be reclaimed through the project costs. The effect is that around 65% of the usual staff recharge can be reclaimed through the ERDF application process.
- 4.30 In 2011/12 the shortfall in funding to cover these staff costs is estimated at £110,000. This is proposed to be funded from underspends within the revenue Repairs & Maintenance budget in 2011/12.. The Neighbourhoods Directorate 2011/12 revenue breakeven forecast had assumed that such a contribution would be required.
- 4.31 However the estimated shortfall in fee income associated with the construction management in 2012/13 is £50,000. It is proposed that at this stage in the project funding should be allocated from corporate capital receipts to cover these costs in 2012/13.

### **Total cost increases**

- 4.32 As set out in the report there are a number of reasons for the increase in the costs of this scheme. The total increase in the scheme cost that should be reflected in the capital programme is £418,000.
- 4.33 Of this increase £258,000 can be considered an increase in the overall project cost that is supported through the ERDF.
- 4.34 We are in the process of bidding to Communities and Local Government Department to support a further allocation of ERDF funding. This is forecasted to be around £205,000. . The balance of match funding is required to be made by the Council and is included in the proposed funding options below..
- 4.35 The proposed funding of the £418,000 increase is:
- £70,000 reallocated from within the public realm programme (which had already been identified in the financial matters Cabinet report for 13 March)
  - £110,000 revenue contribution from the 2011/12 Repairs and Maintenance budget
  - £33,000 from corporate contingency reserve
  - £205,000 anticipated to be provided through additional funding from ERDF project variation

### **Conclusion**

- 4.36 It must be acknowledged that this is a significant increase in scheme cost, from £1.8m to £2.22m. Due to the complexity of the project this is not wholly unexpected, but there are some elements that should have been able to be brought to Members attention before now; though the outcome and recommendations would not have been any different.
- 4.37 However the scheme itself is of strategic importance to the redevelopment of the rail station and to the economic growth of the city, and therefore the Leader is recommended to continue to support the delivery of this high profile scheme for the city, despite the increase in costs.
- 4.38 The recommendations also therefore include for the approval of the funding for the cost increases.

## OTHER OPTIONS CONSIDERED

- 5.1 To abandon the scheme at this stage and not progress to construction. This has not been recommended as the scheme is of such significance to the rail station and to the city, that not to progress now when there is such momentum in place from all of the partners to achieve the delivery of the scheme, would not deliver the best outcome for the city. The Council would also have to repay the cost of any capital work to date on the project, which is estimated at around £250,000.
- 5.2 To delay the start of the scheme until the additional funding from ERDF has been secured. Delaying the scheme now would mean that it could not start construction until 9 September, after the Olympics. The momentum of the delivery team would be lost and many of the approvals already gained may need to be re-approved adding further costs.

**This report has been approved by the following officers:**

<b>Legal officer</b>	N/A
<b>Financial officer</b>	Michael Kirk, Nicola Goodacre
<b>Human Resources officer</b>	N/A
<b>Service Director(s)</b>	Stuart Leslie; Richard Williams
<b>Other(s)</b>	Andy Smart

<b>For more information contact:</b>	Christine Durrant 01332 256004 Christine.durrant@derby.gov.uk
<b>Background papers:</b>	Background document - None
<b>List of appendices:</b>	Appendix 1 – Implications

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 These are largely detailed in the main body of the report, with the key changes set out in this section.
- 1.2 The total increase in the scheme cost that should be reflected in the capital programme is £418,000. The key areas of cost increase are;
  - Detailed design; £105,000
  - Construction costs; £153,000
  - Fee recovery rates; £160,000

The proposed funding of the £418,000 increase is:

- £70,000 reallocated from within the public realm programme (to be reported in Financial Matters 13 March 2012 report)
  - £110,000 revenue contribution from the 2011/12 Repairs and Maintenance budget
  - £33,000 from corporate contingency reserve
  - £205,000 anticipated to be provided through additional funding from ERDF project variation
- 1.3 Since the outcome of the bid will not be known before the 12 March, the Leader is asked to approve that the Council will agree to underwrite the £205,000 which is expected to be the level of funding approved through ERDF from corporate capital receipts.
  - 1.4 Current funding does not include for any contingency and in light of the complications around this project both technically and due to the involvement of a number of partners there is a risk that further funding support will be required. This will be monitored within the capital programme going forward and reported through to Cabinet as necessary.

**Legal**

- 2.1 Under the Financial Procedure Rules contained within the Council Constitution, variations to the total cost of approved capital schemes greater than 10 per cent are required to be reported to Council Cabinet. Given the urgency of this decision, the Leader of the Council in his role as Executive Leader is able to approve this variation on behalf of the Council Cabinet under Part B of the Scheme of Delegations.

**Personnel**

- 3.1 None arising directly from this report.



## **Equalities Impact**

- 4.1 The scheme itself brings significant improvements for all users of the station; how ever they have travelled to the interchange.
- 4.2 In developing the project there has been significant consultation with disabled and young people groups and other users of the station.

## **Health and Safety**

- 5.1 None arising directly from this report.

## **Environmental Sustainability**

- 6.1 Improving the interchange for all modes of travel to the station is aimed at encouraging people to reduce their reliance on the private car for journeys to and from the rail station, thus reducing carbon emissions and congestion around the station. The project includes Sustainable Urban Drainage systems to help reduces surface water run off into the piped system.

## **Asset Management**

- 7.1 The majority of the assets that are being delivered as part of this project will be handed over for operation and maintenance to East Midlands Trains and Network Rail.
- 7.2 The project does provide for improved parking provision at the Sovereign Car Park, which is now owned by the Council, and which is expected to become a public car park once this scheme is completed.

## **Risk Management**

- 8.1 There is no doubt that there remain risks associated with the delivery of this complex project. The revised scheme cost, which should have a high level of confidence due to the fact that it is based on the detailed design and actual contractor estimates, does not incorporate a contingency figure. This is due to the fact that ERDF does not allow for a contingency sum to be included within the total eligible scheme cost.
- 8.2 A Quantified Risk Assessment is being completed by the project team which will look to identify any significant risks. This will be reported verbally to the meeting on 12 March to consider whether a specific project contingency should be set up. It is usual for projects of this size to have allocated a contingency sum of between 10 and 15%.
- 8.3 There has been a move away from identifying contingency sums within the various capital programme areas as there is considered scope to manage the risks within the overall programme. Construction costs will be closely monitored to identify emerging issues promptly.

- 8.4 There does also remain the risk that the ERDF application for additional funding is not supported, or only supported up to a certain level leaving the Council to fund up to an additional £205,000.

### **Corporate objectives and priorities for change**

- 9.1 This project supports the delivery of the outcome of a thriving sustainable economy.



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- 1.2 The scheme design has now progressed to a stage where the estimated total scheme cost can be refined. This has identified a significant cost increase to the scheme and a shortfall in funding.
- 1.3 Although the overall scheme cost has increased by £418,000, the shortfall in funding still to be identified is £238,000.
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### **RECOMMENDATION**

- 2.1 To continue to support the delivery of the Rail Station Interchange Project as a valuable project in encouraging the economic growth and regeneration of the city.
- 2.2 To approve an increase in the scheme cost and the associated funding of £418,000, bringing the estimated total scheme cost to £2.22m.
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## REASONS FOR RECOMMENDATION

- 3.1 The Derby Rail Station Partnership Board has a long term vision for significant improvements and development at the station to support the economic growth and regeneration of the city, and this scheme forms an integral part of this vision. Over the last few years there have been significant improvements to the infrastructure in and around the station, and this scheme is seen as the next logical step in the regeneration of the station. The importance of this project is acknowledged in a number of strategy documents and recent bids for funding for other transport related projects.
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- 4.9 The project must start on site on 2 April, if we are to meet the new timetable for works, which are planned around the Olympic Games period. In order to start on 2 April the Council must enter into a contract with Ringway to confirm that the funding is in place to deliver the project. We must be in a position to enter into the contract on 12 March to enable all of the appropriate contract documentation to be completed for a start of work on 2 April.

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- 4.31 However the estimated shortfall in fee income associated with the construction management in 2012/13 is £50,000. It is proposed that at this stage in the project funding should be allocated from corporate capital receipts to cover these costs in 2012/13.

### **Total cost increases**

- 4.32 As set out in the report there are a number of reasons for the increase in the costs of this scheme. The total increase in the scheme cost that should be reflected in the capital programme is £418,000.
- 4.33 Of this increase £258,000 can be considered an increase in the overall project cost that is supported through the ERDF.
- 4.34 We are in the process of bidding to Communities and Local Government Department to support a further allocation of ERDF funding. This is forecasted to be around £205,000. . The balance of match funding is required to be made by the Council and is included in the proposed funding options below..
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### **Conclusion**

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## OTHER OPTIONS CONSIDERED

- 5.1 To abandon the scheme at this stage and not progress to construction. This has not been recommended as the scheme is of such significance to the rail station and to the city, that not to progress now when there is such momentum in place from all of the partners to achieve the delivery of the scheme, would not deliver the best outcome for the city. The Council would also have to repay the cost of any capital work to date on the project, which is estimated at around £250,000.
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**This report has been approved by the following officers:**

<b>Legal officer</b>	N/A
<b>Financial officer</b>	Michael Kirk, Nicola Goodacre
<b>Human Resources officer</b>	N/A
<b>Service Director(s)</b>	Stuart Leslie; Richard Williams
<b>Other(s)</b>	Andy Smart

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<b>Background papers:</b>	Background document - None
<b>List of appendices:</b>	Appendix 1 – Implications

<b>IMPLICATIONS</b>
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**Financial and Value for Money**

- 1.1 These are largely detailed in the main body of the report, with the key changes set out in this section.
- 1.2 The total increase in the scheme cost that should be reflected in the capital programme is £418,000. The key areas of cost increase are;
  - Detailed design; £105,000
  - Construction costs; £153,000
  - Fee recovery rates; £160,000

The proposed funding of the £418,000 increase is:

- £70,000 reallocated from within the public realm programme (to be reported in Financial Matters 13 March 2012 report)
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  - 1.4 Current funding does not include for any contingency and in light of the complications around this project both technically and due to the involvement of a number of partners there is a risk that further funding support will be required. This will be monitored within the capital programme going forward and reported through to Cabinet as necessary.

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- 6.1 Improving the interchange for all modes of travel to the station is aimed at encouraging people to reduce their reliance on the private car for journeys to and from the rail station, thus reducing carbon emissions and congestion around the station. The project includes Sustainable Urban Drainage systems to help reduces surface water run off into the piped system.

## **Asset Management**

- 7.1 The majority of the assets that are being delivered as part of this project will be handed over for operation and maintenance to East Midlands Trains and Network Rail.
- 7.2 The project does provide for improved parking provision at the Sovereign Car Park, which is now owned by the Council, and which is expected to become a public car park once this scheme is completed.

## **Risk Management**

- 8.1 There is no doubt that there remain risks associated with the delivery of this complex project. The revised scheme cost, which should have a high level of confidence due to the fact that it is based on the detailed design and actual contractor estimates, does not incorporate a contingency figure. This is due to the fact that ERDF does not allow for a contingency sum to be included within the total eligible scheme cost.
- 8.2 A Quantified Risk Assessment is being completed by the project team which will look to identify any significant risks. This will be reported verbally to the meeting on 12 March to consider whether a specific project contingency should be set up. It is usual for projects of this size to have allocated a contingency sum of between 10 and 15%.
- 8.3 There has been a move away from identifying contingency sums within the various capital programme areas as there is considered scope to manage the risks within the overall programme. Construction costs will be closely monitored to identify emerging issues promptly.

- 8.4 There does also remain the risk that the ERDF application for additional funding is not supported, or only supported up to a certain level leaving the Council to fund up to an additional £205,000.

### **Corporate objectives and priorities for change**

- 9.1 This project supports the delivery of the outcome of a thriving sustainable economy.



Derby City Council

**URGENT LEADER OF THE COUNCIL  
CABINET MEMBER MEETING  
12 March 2012**

# ITEM 4

Report of the Strategic Director of  
Neighbourhoods

## **Station Interchange Improvement Scheme – Projected Cost Increases**

### **SUMMARY**

- 1.1 This report sets out the current situation with regard to the Derby Rail Station Interchange Project, which is being progressed as a partnership between the Council, Network Rail and East Midlands Trains.
- 1.2 The scheme design has now progressed to a stage where the estimated total scheme cost can be refined. This has identified a significant cost increase to the scheme and a shortfall in funding.
- 1.3 Although the overall scheme cost has increased by £418,000, the shortfall in funding still to be identified is £238,000.
- 1.4 The report details the reasons for the increases, and puts forward recommendations to continue to support the scheme delivery and to approve additional funding towards the project.
- 1.5 An urgent decision is required as in order to meet the projected timetable works must start on site on 2 April 2012, and a contract has still to be signed with the main contractor. The signing of this documentation, needs to begin on 12 March and can only commence once the Council is able to confirm that all of the funding to deliver the project is in place.

### **RECOMMENDATION**

- 2.1 To continue to support the delivery of the Rail Station Interchange Project as a valuable project in encouraging the economic growth and regeneration of the city.
- 2.2 To approve an increase in the scheme cost and the associated funding of £418,000, bringing the estimated total scheme cost to £2.22m.
- 2.3 To amend the Councils capital programme 2012/13 -2014/15 to increase the Station Interchange scheme and associated funding as detailed in the report.
- 2.4 To agree to underwrite £205,000 funding from corporate capital receipts pending the European Regional Development Fund (ERDF) additional funding decision.
- 2.5 To approve the scheme commencement as detailed in the report.

## REASONS FOR RECOMMENDATION

- 3.1 The Derby Rail Station Partnership Board has a long term vision for significant improvements and development at the station to support the economic growth and regeneration of the city, and this scheme forms an integral part of this vision. Over the last few years there have been significant improvements to the infrastructure in and around the station, and this scheme is seen as the next logical step in the regeneration of the station. The importance of this project is acknowledged in a number of strategy documents and recent bids for funding for other transport related projects.
- 3.2 The Councils Financial Procedure Rules state that adequate budget provision must be in place prior to signing a contract.

## SUPPORTING INFORMATION

### Introduction

- 4.1 This report sets out the current situation and cost increases that have been identified for the Derby Rail Station Interchange Project, which is being progressed as a partnership between the Council, Network Rail and East Midlands Trains.
- 4.2 The scheme itself has proved to be very complicated to bring forward for a whole variety of reasons. However the make up of the funding, with such a large proportion coming through the ERDF is now also adding to the complexity of scheme delivery. It is regrettable that information has not been sufficiently clear until very recently in relation to all aspects of this project, despite efforts to seek clarity.
- 4.3 The key areas of cost pressures relate to;
- Detailed design
  - Construction costs
  - Fee recovery rates
- 4.4 The financial matters report due to go to Cabinet on 13 March 2012 recognised to some degree this increase in costs by proposing to allocate an additional £70,000 to the Station Interchange scheme cost from unallocated public realm programme funding. However the very recent update on estimated costs means that this is insufficient. If approved then this report will supersede the financial matters recommendation with regard to this project.
- 4.5 Whilst the increase in scheme cost that is being reported is significant at approximately £418,000; the shortfall in identified funding is £238,000.
- 4.6 The total scheme cost that is eligible for ERDF funding is £2.06m, which is an increase over the initial scheme cost estimate of £258,000. A project variation has been submitted to the Communities and Local Government Department, CLG, with the aim of securing an additional £205,000 towards this shortfall, which if supported would leave the balance to be funded from Council resources..

- 4.7 The project variation submission to CLG is requesting an increase of 15% in the scheme funding, which is significant. There is a rigorous process that will be followed by the ERDF Management Team at CLG in Nottingham to consider the application. A representative of the ERDF team is on the Station Interchange Project Board and is fully aware of how the project has progressed and the issues that have been faced. There has been significant dialogue over the project variation submission and it is hoped that this will aid the decision making process.

### **Reason for the urgent decision**

- 4.8 Since the significance of the additional costs have only become known at a late stage in the project there is an urgency to seek support both for the continuation of the project and for the approval of additional funding.
- 4.9 The project must start on site on 2 April, if we are to meet the new timetable for works, which are planned around the Olympic Games period. In order to start on 2 April the Council must enter into a contract with Ringway to confirm that the funding is in place to deliver the project. We must be in a position to enter into the contract on 12 March to enable all of the appropriate contract documentation to be completed for a start of work on 2 April.

### **Background**

- 4.10 A scheme to improve the Derby rail station forecourt and interchange facilities was started in 2008 by Cityscape, on behalf of the Derby Rail Station Partnership Board. Cityscape was the Council's urban regeneration company at the time of this work.
- 4.11 The Partnership Board has a long term vision for significant improvements and development at the station to support the economic growth and regeneration of the city, and this scheme forms an integral part of this vision. Over the last few years there have been significant improvements to the infrastructure in and around the station, and this scheme is seen as the next logical step in the regeneration of the station. The importance of this project is acknowledged in a number of strategy documents and recent bids for funding for other transport related projects.
- 4.12 Initial funding for the scheme development was provided through a range of funding sources and the project was lead by Cityscape. This lead to a design layout for the station forecourt which was at the time approved by the three key partners in the project; the Council, Network Rail and East Midlands Trains.
- 4.13 A successful bid for £1.802m was made to fund the detailed design and scheme delivery. The funding was made up from a range of sources including ERDF, East Midlands Development Agency (EMDA) single programme funding and match funding from the Council's capital programme.
- 4.14 At the time of the allocation the City Council agreed to be the lead partner for the project, and take forward the detailed design and construction of the scheme. A partnership project board to oversee the delivery of the scheme was established in 2010.

- 4.15 As the project started there were changes to the funding mechanisms, as the single programme funding was withdrawn. This led to a further bid to ERDF to increase the proportion of the contribution to the project to 79.5%, and also required some additional match from the city council and the National Station Improvement Programme (NSIP) funding, which Network Rail and East Midlands Trains administer.

### **Detailed Design**

- 4.16 As the design progressed it became apparent that the original scheme layout was not deliverable, for a number of operational reasons. Since East Midlands Trains would ultimately be responsible for managing the operation and maintenance of the interchange, and Network Rail would be the asset owner, the scheme design has to accord with their requirements. Reaching a design solution that met the requirements has proved very time consuming, and has required significant additional staff resources.
- 4.17 Also there were a number of Network Rail Agreements and approval processes that had to be progressed, and whilst they were known about from the start of the project, the actual level of resources required to carry out this complex work was not fully understood.
- 4.18 Whilst the partnership project teams have worked hard to come to agreed layouts, working with the difficult approvals processes that are required by rail industry has led to significant delays on the project, and numerous re-designs of the scheme. The original scheme approved in the bid was Revision A; we are currently working on Revision R.
- 4.19 The funding profile for eligible internal and external consultants costs, associated with the detailed design, was estimated at £140,000. It was envisaged that the scheme would be on site in early 2011 and completed by June 2011.
- 4.20 The current estimate for the detailed design stage, which will come to an end on 31 March 2012 is £245,000, an increase of £105,000.
- 4.21 The financial matters report due to go to Cabinet on 13 March 2012 recognised to some degree this increase in costs by allocating an additional £70,000 to the Station Interchange scheme cost from unallocated public realm programme funding.

### **Early Contractor Involvement and Target Cost**

- 4.22 In January 2011 we procured a contractor to deliver the construction elements of the project. As we expected to start on site early 2011, the Project Board agreed to use the Midlands Highways Alliance contractor framework to appoint the contractor. Through this we secured the services of Ringway; this contractor is currently carrying out works at Loughborough Rail Station and is therefore very aware of working within the rail environment.
- 4.23 The early engagement of Ringway has allowed for a significant amount of early contractor involvement (ECI). This work has been carried out at the contractors risk; as we do not yet have a formal contract signed with them.



- 4.24 The ECI stage of the contract allowed us to get some initial estimates for materials and works, which did highlight a number of cost issues. The project team, including the contractor, has worked very hard to bring about significant cost reductions to the original design. However there were equally a number of issues that had not been covered within the Revision A design.
- 4.25 Also in January 2012, it became clear that we would have to alter the planned phasing of the works, to ensure that there was minimum amount of work going on around the station entrance during the Olympic Games period between 25<sup>th</sup> July and 9<sup>th</sup> September. This has also made it critical that we start work on 2 April, if we are to complete the first key phase of the project, which is to improve the taxi ranking area and provide for short stay car parking in between the station buildings and the Midland Hotel.
- 4.26 Whilst we have made every effort to be as innovative as possible in reducing the scheme costs, the latest target cost from the Contractor that was received on 28 February means that the overall construction element of the scheme cost is estimated to increase by £153,000 above the current allocation.
- 4.27 It should also be noted that the construction cost estimate does not include for any contingency sum. This is due to the fact that the ERDF regime does not provide support for any contingency to be added into the scheme cost. The Council does also have a corporate contingency set aside within the capital programme, rather than encouraging each scheme to include its own contingency.

#### **Fee recovery rates**

- 4.28 The ERDF eligibility criteria does not enable the Council to recover the full recharge costs of the staff time that has been spent on the scheme. The costs that can be recovered are the salary cost, national insurance and pension contributions. The costs that can not be recovered are overhead costs, such as supplies and services, and the allowance made for reasonable non-productive time, such as holidays and training.
- 4.29 It has unfortunately taken some time to establish the full effect of this on the fees that can be reclaimed through the project costs. The effect is that around 65% of the usual staff recharge can be reclaimed through the ERDF application process.
- 4.30 In 2011/12 the shortfall in funding to cover these staff costs is estimated at £110,000. This is proposed to be funded from underspends within the revenue Repairs & Maintenance budget in 2011/12.. The Neighbourhoods Directorate 2011/12 revenue breakeven forecast had assumed that such a contribution would be required.
- 4.31 However the estimated shortfall in fee income associated with the construction management in 2012/13 is £50,000. It is proposed that at this stage in the project funding should be allocated from corporate capital receipts to cover these costs in 2012/13.

### **Total cost increases**

- 4.32 As set out in the report there are a number of reasons for the increase in the costs of this scheme. The total increase in the scheme cost that should be reflected in the capital programme is £418,000.
- 4.33 Of this increase £258,000 can be considered an increase in the overall project cost that is supported through the ERDF.
- 4.34 We are in the process of bidding to Communities and Local Government Department to support a further allocation of ERDF funding. This is forecasted to be around £205,000. . The balance of match funding is required to be made by the Council and is included in the proposed funding options below..
- 4.35 The proposed funding of the £418,000 increase is:
- £70,000 reallocated from within the public realm programme (which had already been identified in the financial matters Cabinet report for 13 March)
  - £110,000 revenue contribution from the 2011/12 Repairs and Maintenance budget
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  - £205,000 anticipated to be provided through additional funding from ERDF project variation

### **Conclusion**

- 4.36 It must be acknowledged that this is a significant increase in scheme cost, from £1.8m to £2.22m. Due to the complexity of the project this is not wholly unexpected, but there are some elements that should have been able to be brought to Members attention before now; though the outcome and recommendations would not have been any different.
- 4.37 However the scheme itself is of strategic importance to the redevelopment of the rail station and to the economic growth of the city, and therefore the Leader is recommended to continue to support the delivery of this high profile scheme for the city, despite the increase in costs.
- 4.38 The recommendations also therefore include for the approval of the funding for the cost increases.

## OTHER OPTIONS CONSIDERED

- 5.1 To abandon the scheme at this stage and not progress to construction. This has not been recommended as the scheme is of such significance to the rail station and to the city, that not to progress now when there is such momentum in place from all of the partners to achieve the delivery of the scheme, would not deliver the best outcome for the city. The Council would also have to repay the cost of any capital work to date on the project, which is estimated at around £250,000.
- 5.2 To delay the start of the scheme until the additional funding from ERDF has been secured. Delaying the scheme now would mean that it could not start construction until 9 September, after the Olympics. The momentum of the delivery team would be lost and many of the approvals already gained may need to be re-approved adding further costs.

**This report has been approved by the following officers:**

<b>Legal officer</b>	N/A
<b>Financial officer</b>	Michael Kirk, Nicola Goodacre
<b>Human Resources officer</b>	N/A
<b>Service Director(s)</b>	Stuart Leslie; Richard Williams
<b>Other(s)</b>	Andy Smart

<b>For more information contact:</b>	Christine Durrant 01332 256004 Christine.durrant@derby.gov.uk
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