

## Stage 2 – Out of Tolerance / Change Request

<b>Project/Programme Name:</b>	Milton Interchange (Local Pinch Point)
<b>Total Capital Budget:</b>	£11.560m increasing to £12.544m
<b>Divisions Affected:</b>	Chilton, Didcot, Harwell, Milton
<b>Purpose of this report:</b>	This report requests approval to increase the budget by a further £0.984m to give a revised total capital budget of £12.544m following agreement of the final account.
<b>Approval No:</b>	To be entered by the capital finance team

### Sign-off & Approval

*In preparing this report input must be obtained from the following:*

Responsible Owner	Name	Date
Client / Project Sponsor (Author)	Pat Mulvihill	
Service Finance Business Partner or Senior Financial Adviser (Approver)	Katy Jurczynszyn	09.02.17
Service Manager (Approver)	Paul Fermer	30.01.17
Director for Infrastructure Delivery (Approver)	Chris McCarthy	01.02.17

*Final approval as per the Financial Procedure Rules must be obtained from:*

Approval Level Required	Name	Date
Under £0.025m Corporate Finance Manager		
£0.025m to £0.5m - relevant Director and the Chief Finance Officer		
Over £0.5m - Cabinet/ On behalf of Cabinet (Leader of the Council)	Cabinet	

\*\* Higher level if significant cost/scope change or controversial / sensitive - as deemed necessary

## **1 Description of the change in cost**

- 1.1 Milton Interchange was awarded through competitive tender and has been implemented in the standard way through a New Engineering Contract (NEC).
- 1.2 The contract has a pain/gain mechanism that requires management of a target price, this being the tender price adjusted by agreement of Compensation Events (CEs). If defined costs exceed the target price, the county council are liable for 50% of the defined costs up to 120% of the target price. Above 120% of the target price, the contractor receives no payment for their costs.
- 1.3 All compensation events are now agreed and the final accounts have been established. The construction target price at tender was £6,986,764, however, the adjusted price through agreed CEs increased to £8,773,229.86.
- 1.4 The defined cost (what Skanska actually spent) is £10,799,754.94 and due to the contract terms we have to bear some of this cost as outlined on para 1.2, the County Council is therefore liable for £877,322.99 of this cost.
- 1.5 The costs above relate to construction and do not include non-construction contract costs such as Design, OCC staff time, which is in addition and also needs to be taken into account. The final value of this work is £1.687m.
- 1.6 Therefore the final project cost to the authority is £12.364m, which, when taking into account the previous budget increase of £0.935m and retaining £0.18m contingency for the outcome of road safety audit stage 4 and post scheme traffic monitoring, there is a need for an additional budget increase of £0.984m
- 1.7 In summary the increase in project cost is mainly as a result of the following;
  - a) Higher than expected material, plant and labour costs (30%)
  - b) Additional Highway England requirements (40%)
  - c) Necessary changes to project scope (15%)
  - d) Design enhancements and changes (15%)

## **2 Options considered to address the situation**

- 2.1 Due to the nature of the scheme there was limited opportunity for a reduction in scope of the scheme. The site team minimised scheme costs where possible and completed the scheme at the earliest opportunity, including removal of the site compound. It is worth noting that the CE's were agreed at £0.919m below the contractors claimed value.

## **3 Revised Cost & Proposed Funding Plan**

- 3.1 Cabinet approved the scheme for implementation with an overall budget of £10.625m in September 2014. Within the budget approved there was an allowance of £7.634m for construction, £1.901m for design & non construction activities, and £1.09m contingency.

- 3.2 In light of increase in construction costs during the first year of Milton construction a request to increase the budget by £0.935m to £11.56m was made and approved by Cabinet in February 2016.
- 3.3 The previous £0.935m approved cost increase, in agreement with OxLEP, was met through an allocation from the Local Growth Fund (one scheme was removed from the programme and the funding reallocated) and an increase in the amount of borrowing to be repaid from business rates.
- 3.4 The Oxfordshire Local Enterprise Partnership (OxLEP) have approved to fund this additional increase from within the overall borrowing requirement of the LEP as it is expected that there will be underspends on other schemes funded through this mechanism, therefore keeping the overall borrowing requirement at the same level.

Table 2 – Milton Financial Summary

Cost Element	Stage 2 Business Case	Approved Variation (Feb 2016 OOT report)	Approved Value (Feb 2016 OOT report)	Final Cost	Variation from BC2	Variation from Approved OOT report
	£m	£m	£m	£m	£m	£m
<b>Design</b>	0.871	0.726	1.597	1.678	0.807	0.081
<b>OCC Staff Costs</b>	0.149	0.182	0.331	0.314	0.165	-0.017
<b>Utilities &amp; Enabling works</b>	0.805	-0.551	0.254	0.47	-0.335	0.216
<b>HE Fees</b>	0.076	-0.006	0.07	0.251	0.175	0.181
<b>Contingency</b>	1.09	-0.383	0.707	0.18		
<b>Construction</b>	7.634	0.967	8.601	10.8	3.166	2.199
<b>Skanska Pain Share (construction only)</b>				-1.149		
<b>TOTAL</b>	10.625	0.935	11.56	<b>12.544</b>	1.919	0.984
OCC Pain Share				0.877	*Included in above calculations	

#### **4 Programme/ Project Governance**

- 4.1 There remain two activities that require undertaking which are costed in the above with a small allowance remaining in contingency for potential redial measures required following the stage 4 safety audits.
- 4.2 The audit will be due to take place in May 2017, an allowance of £160k for any mitigation of any identified issues has been allowed for.
- 4.3 The post scheme traffic modelling is planned for February 2017 an allowance of £20k for required traffic surveys and interpretation of the results.