

**SOUTH EAST ENGLAND
REGIONAL TRANSPORT BOARD**

Date: 13 July 2007

Subject: **Protocol for Significant Scheme Cost Increases**

Report of: Regional Planner
South East England Regional Assembly

Recommendations:

It is recommended that the Board:

- i) Approve the revised protocol contained in Annex I, and the thresholds proposed in Annex II;
- ii) Agree that, pending the work on the refresh of the forward programme, the protocol is applied to those situations where the increase in scheme cost is a consequence of factors other than inflationary effects;
- iii) Require scheme promoters to submit a revised Benefit-Cost Ratio calculation prior to its consideration of a significant increase in scheme cost.

Purpose of Report:

At its meeting the Board agreed in principle a draft protocol that would be used to manage its consideration of schemes with significant cost increases. In so doing the Board identified a number of areas that needed refinement. Following consultation with the Local Transport Authorities, a revised protocol is presented for the Board's approval.

1. Background

- 1.1 In agreeing the need to have a protocol the Board identified a number of refinements that needed to be incorporated into the final version of the protocol. These are reflected in the final version of the protocol (Annex I).
- 1.2 The final version of the protocol (Annex I) retains the principles of the original draft. It ensures that our approach is pragmatic and logical, allowing for the fact that the certainty associated with scheme costs will vary according to the stage at which a scheme has reached in its development. The protocol will only be applied to those schemes that have yet to commence construction. Cost increases identified once a scheme is on site will continue to be considered on a case-by-case basis.
- 1.3 There are two substantive issues identified by the Board that require more detailed consideration, specifically:
 - i) Whether the proposed threshold for triggering the application of the protocol is the most appropriate;
 - ii) Whether there is a need to give consideration to assessing alternative schemes (i.e. the intervention) to deliver a defined proposal (i.e. the objective) when defining future actions.

2. Consideration

- 2.1 It was originally proposed that an increase of £5m or 25% over the 'approved' scheme cost (whichever is the lesser) would 'trigger' the use of the protocol. Any increase lower than the threshold will be considered as part of day-to-day programme management.
- 2.2 Concern was raised that this threshold would be inappropriate for large schemes; potentially causing a low proportionate increase in scheme cost to require the regular application of the protocol. A variable threshold is proposed to address this issue (Annex II).
- 2.3 It is clear from the monitoring information that a regular cause of an increase in scheme cost being reported is a consequence of inflationary factors. At present this is a particular issue because the costs identified within the forward programme do not have a common base year. In addition, the timing of the schemes in the forward programme does not necessarily reflect the year for which the cost estimate has been produced. These are issues that have been identified as needing to be addressed as part of the refresh of the forward programme now underway.
- 2.4 Accordingly, it is recommended that in the short term the Board only apply the protocol in those situations where the cost increase is a result of factors other than inflationary increases.
- 2.5 The scope for the Board to consider whether a more 'effective' solution to a problem exists is difficult to incorporate within the protocol. Guidance from the Department for Transport is clear in that the allocation funds are associated with

a specific proposal. It is, at present, not possible to transfer the funds to an alternative proposal. However impending guidance from the DfT may change this position. If this is the case, then the protocol would be revised accordingly.

- 2.6 The Regional Transport Co-ordination Group has debated the issue of how the Board might be advised on the implication of any significant cost increase on the Value for Money (VfM).
- 2.7 This is a key metric in terms of assessing whether or not a scheme should remain within the forward programme. However the work associated with undertaking the VfM is quite extensive. Moreover the DfT will only wish to undertake such an assessment once the Board has indicated that it continues to support a scheme notwithstanding an increase the cost of the scheme.
- 2.8 Herein lies a potential dilemma in so far that in considering whether it wishes to continue to support a proposal the Board will require some guidance as to the potential impact of the cost increase on the VfM.
- 2.9 The calculation of the Benefit-Cost Ratio (BCR) is more narrowly defined than the more extensive assessment of VfM. As a consequence it is a less complicated calculation. However, the BCR represents a significant proportion of the VfM assessment. It should therefore be possible for the Board to have a 'feel' for the effect a cost increase on the VfM through a revised BCR calculation.
- 2.10 It is therefore recommended that where the Board is asked to consider a significant increase in cost, the scheme promoter should be asked to provide an updated BCR. The promoter would also be asked to provide a statement outlining any changes to the scheme and their potential impacts.

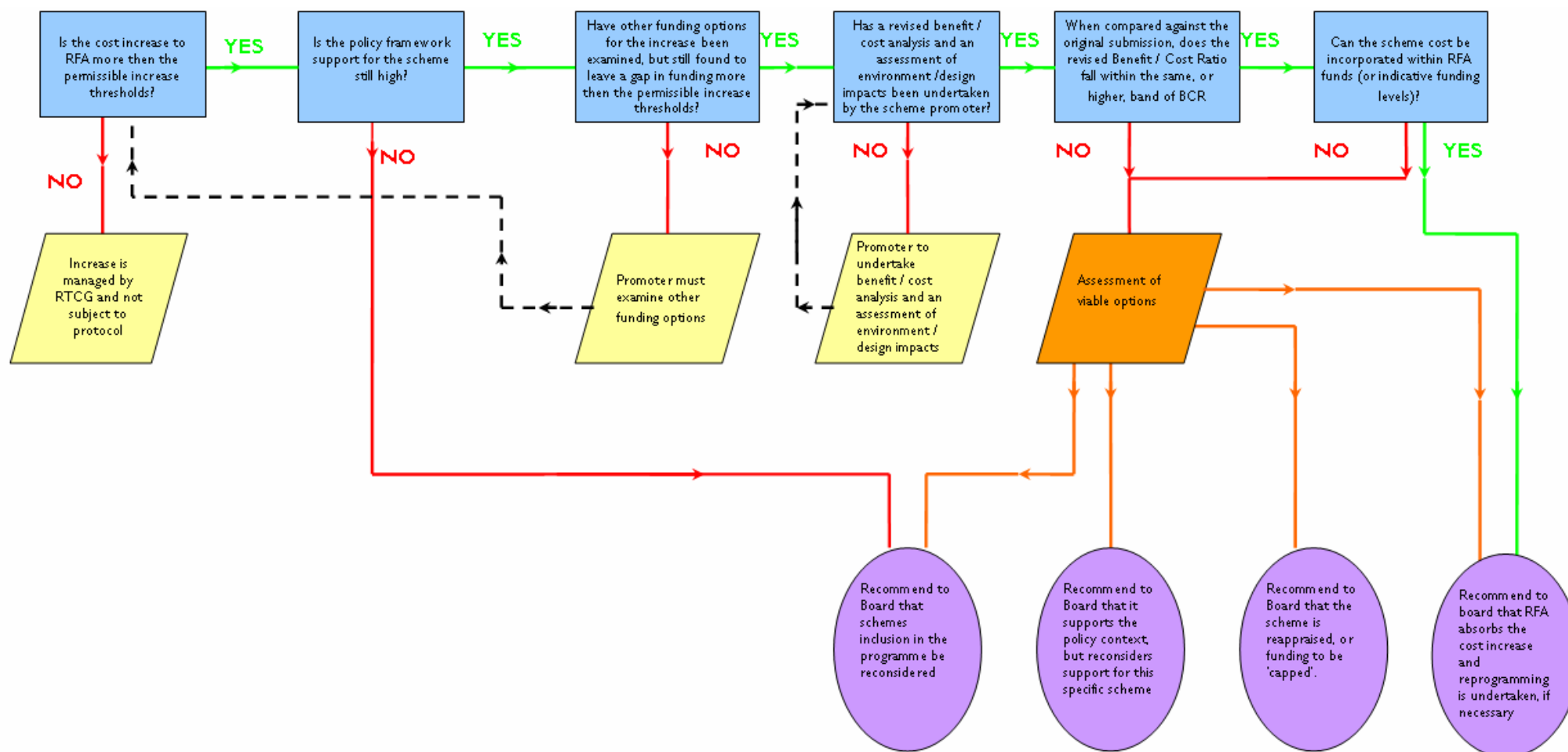
3. Next Steps

- 3.1 The revised protocol in Annex I sets out a clear process for the Board to follow when considering significant increases in scheme costs.

James Renwick
Regional Planner

13 July 2007

Contact: James Renwick, Regional Planner
T: 01483 555205 E: jamesrenwick@southeast-ra.gov.uk



KEY:



Key Questions:
(To be assessed by RTCG)



Further Action to be Taken



Assessment of Viable Options:
To be presented to the Board



Decision by Regional Transport Board

Permissible Increase threshold

Original base cost of scheme	Threshold (upon which exceeding would be subject to protocol)
Less than £25m	20% increase on last estimate agreed by Regional Transport Board
Between £25m and £50m	Increase of £5m on last estimate agreed by Regional Transport Board
Over £50m	Increase of 10% on last estimate agreed by Regional Transport Board

Original base cost of scheme	Threshold (upon which exceeding would be subject to protocol)
£5m - £10m	2
£10m - £15m	3
£15m - £20m	4
£20m - £25m	5
£25m - £30m	5
£30m - £35m	5
£35m - £40m	5
£40m - £45m	5
£45m - £50m	5
£50m - £55m	5.5
£55m - £60m	6
£60m - £65m	6.5
£65m - £70m	7
£70m - £75m	7.5
£75m - £80m	8
£80m - £85m	8.5
£85m - £90m	9
£90m - £95m	9.5
£95m - £100m	10
£100m+	10