

1. General

The Chair welcomed everyone to the meeting and asked that the officers introduce themselves for ease of reference.

(1) Apologies for absence

An apology for absence was received on behalf of Councillor Jeff Clarke.

(2) Members Declarations of Personal and Prejudicial Interests

None.

(3) Chair's Announcements

The Chair announced that this was a special, single issue meeting of the Communities Overview and Scrutiny Committee, and as such did not have a specific item on the agenda for public questions. He added that, in his role as Chair, he had agreed to two public questions which had been put forward.

2. Public Question Time

(1) Question from Mr Terry Stothard

"Was the cost of the new green fencing that runs along the boundaries of the two quarries included in the final price?, If yes, how much did it cost and why? when that is the duty of CEMEX to protect their quarries, the council have provided the crash barriers."

Roger Newham, County Transport Planner, Environment & Economy Directorate provided the following response to Mr Stothard:

"The cost of the green fencing was £85.60 per metre and there is about 950 metres in total. This cost is included in the final cost of the scheme.

Before construction of the Western Relief Road began there was fencing in place provided by CEMEX to exclude the public from the quarries. This comprised a variety of fencing types. As part of the Western Relief Road construction this fencing had to be removed. It was therefore the responsibility of the County Council to replace the fencing taken down with fencing on the new highway boundary line.

CEMEX will be responsible for future maintenance and replacement of the fencing.”

(2) Question from Mr Mike Whittingham

“Why was it decided that the urgency of the project was a bigger priority than finalizing the full design?”

Roger Newham, County Transport Planner, Environment & Economy Directorate provided the following response to Mr Whittingham:

“The urgency to start work was primarily due to the time limit on S106 funding from three major developers. Developer funding provided over £15M for the scheme and further delay to the start of the scheme risked loss of some of this funding. In the event even with the start in August 2007 about £1M of funding was lost from the oldest S106 agreement. A secondary but still important factor was the then high inflation in the construction industry which was devaluing the fixed funding contribution granted by DfT in March 2007.”

In response to a further query from Mr Whittingham asking that, given the fact that there was a £1m overspend on lighting and traffic signs, whether the decision to move forward with the contract before the design was complete had been made in haste. Roger Newham responded that a distinction had to be made between costs that had become higher than anticipated due to the design being incomplete and costs that had not been built in due to incomplete information available on the design. He added that the choice to proceed without a completed design had not been taken lightly. It was considered that the financial risk of delaying construction (loss and S106 funding and inflation) outweighed the risks in starting with some design incomplete.

2. Rugby Western Relief Road (RWRR)

The Committee received a verbal presentation from Councillor Alan Cockburn, Portfolio Holder responsible for Environment and Economy for approximately 18 months and before that holding office as the Portfolio Holder responsible for Resources. He made the following points:

- i. While all parties, including the County Council, needed to share some of the responsibility for the issues that had arisen in relation to the RWRR, Councillor Cockburn felt there was no reason to investigate the integrity of the officers involved.
- ii. It was important that lessons were learnt from the problems that had arisen with this project.

- iii. There were still some outstanding compensation events to be settled with Carillion, which meant that the final cost of the scheme was not yet known. Councillor Cockburn assured the Committee that as soon as everything was settled, details would be made public.

The Committee then received a verbal introduction of the report from Paul Galland, Strategic Director for Environment and Economy. He noted the following:

1. There was still some information which was confidential due to the fact that commercial discussions with Carillion had not yet been concluded. These discussions were at a key stage and decisions on confidentiality had been made to keep the risk to the County Council at a minimum.
2. The RWRR had been a long time in preparation, including a number of processes such as two public inquiries. These delays had increased the pressure to proceed with the scheme particularly in terms of the risk of losing developer contributions.
3. The RWRR had been opened fully to traffic on 10 September 2010 and the beneficial impact on the town and the reduction of traffic around the town centre of up to 28% was welcomed.
4. The costs of the RWRR had overrun dramatically, but even at the current predicted outturn cost, the cost/benefit ratio was 1:4.5, therefore for every £1 spent, there was £4.50 benefit brought to the local community and economy.
5. The estimated cost of the project at the time the contract was awarded was approximately £36.5m and the estimated final outturn was approximately £60m.
6. In the summer of 2008 the significant increase in construction costs was brought to the attention of both the Council and the Cabinet. A partially successful bid was made to the Department for Transport (DfT) for additional funding. At this time the County Council Internal Audit Team was also brought in to assist, as well as specialised financial support from the Resources Directorate.
7. Following a confidential report to the Cabinet in October 2009 setting out an estimate of the predicted costs at that time and recording concern at the escalating costs, the Cabinet established a Board of Members and Strategic Directors to oversee a review of the scheme and establish reasons for the increased costs.
8. At the time of the procurement process, target cost contracts were considered best practice. This process is under scrutiny nationally and is acknowledged as being a complex and difficult style of contract to manage. This type of contract may not be recommended in the future.
9. The original contract had been awarded to a company called Mowlem, this company was taken over by Carillion in 2006.
10. Although this was a target cost contract, this relies heavily on partnering to drive efficiency benefits. At some point the nature

of the contract appears to have shifted away from a partnering style of contract to a more traditional, adversarial contract, with less focus on making savings and more than 1,400 compensation events.

11. There were many issues that would be approached differently in hindsight. Lessons that had been learnt would need to be considered in any future situations.
12. Increases in costs on contracts could not always be foreseen and most of the increases in this case were beyond the control of the Council and Carillion. An example of this was the problems in accessing Network Rail's property, which had resulted in a 13 month delay. There was also no ability to make compensation claims against National Rail or the Utility companies. Paul Galland also drew attention to the range of challenges that had been faced in building the road, which had been highlighted to members in their tour of the road.
13. Contractauditline (CAL), a specialist audit and contract consultant, had been brought in to assist the County Council with their review of the Contract, focussing on the questions that had been identified by Cabinet in October 2009 and a number of issues and areas for improvement/action which would be used to form part of the lessons to be learnt by the Council.
14. Fundamental to entering into contracts was the ability to identify and put a financial value on the potential risks, and then to build sufficient contingency into the estimated costs to cover this. Officers had worked hard at identifying and managing risk, but it was acknowledged that there were concerns about the valuing of risk and the size of the contingency. This was a weakness that existed more widely across the public sector.
15. Stradia, an external specialist cost consultant, was appointed in January 2010 to provide dedicated commercial expertise to the council and their work to date had not revealed any evidence that the Council has paid unjustifiable costs. Paul Galland recorded his thanks to Stradia for the work they had undertaken to ensure the increase in costs was kept under control and that the County Council was not exposed to risks or costs they should not be exposed to.
16. One area that had been reviewed was whether the project management had been robust enough from the beginning of the contract. Paul Galland stated that while savings were sought in contracts through avoiding an overload of bureaucracy, it was felt that there had been sufficient project management. However additional resources were put into this area when it became clear that costs were increasing significantly and there were large numbers of unresolved compensation events.
17. Questions had been raised about the level of strategic engagement in the project. Paul Galland said he felt that the project would have benefited from a high level board involving directors and councillors.

18. Some problems had been experienced with the design process and this was currently under internal investigation. It was felt using a combined team of internal and external experts during the design process had blurred lines of accountability. It was felt that future projects should be delivered by external consultants to allow for greater focus on project management.

Councillor John Whitehouse thanked Paul Galland and Councillor Alan Cockburn on behalf of the Committee for their candid assessments of the issues. He noted the following points:

- a. The timescale of the meeting had been set in good faith with an expectation that negotiations with Carillion would be complete and an open and honest public discussion could be held.
- b. Members felt constrained by the position they found themselves in, particularly in terms of issues covered in the CAL report, which had to remain confidential for the time being for reasons set out above.
- c. The meeting today had been valuable in terms of getting the opening statements into the public domain and setting out some of the key issues. The Chair apologised to members of the public who had attended the meeting with certain expectations and undertook to reconvene the meeting at the earliest opportunity.

Councillor Richard Chattaway proposed a motion, seconded by Councillor Martin Shaw, and a vote was recorded with seven in favour and none against, that the meeting be adjourned until such time as all relevant documents were available to the public.

The Chair noted that the next step was for a report to be produced from this meeting for full Council on 14 December. At that meeting a separate report setting out the predicted scheme outturn costs and seeking approval to proposals for funding increased costs in 2010-11 would also be considered.

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Chair

The Committee rose at 3:20 p.m.