

AGENDA MANAGEMENT SHEET

Name of Committee Cabinet

Date of Committee 12 May 2011

Report Title Scrutiny of the Rugby Western Relief Road

Summary This reports outlines the Communities OSC's findings and recommendations following its Select Committee in relation to the Rugby Western Relief Road.

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s) N/A
- Other Elected Members
- Cabinet Member
- Chief Executive
- Legal Ian Marriott
- Finance
- Other Strategic Directors David Carter, Strategic Director for Resources, Paul Galland, Strategic Director for Environment and Economy
- District Councils
- Health Authority

Police

Other Bodies/Individuals

FINAL DECISION NO

SUGGESTED NEXT STEPS:

Details to be specified

Further consideration by this Committee

To Council *To be confirmed*

To Cabinet

To an O & S Committee

To an Area Committee

Further Consultation

Cabinet - 12 May 2011.

Scrutiny of the Rugby Western Relief Road

Report of the Chair of the Communities Overview and Scrutiny Committee

Recommendation

Cabinet is recommended to:

- i) Endorse the Communities OSC's findings and recommendations following its Select Committee in relation to the Rugby Western Relief Road
- ii) Forward the report, along with the Cabinet's response to full Council

Attached as Appendix A is the report of the Communities OSC following its scrutiny exercise in relation to the Rugby Western Relief Road. The recommendations of the Committee are as follows:

- A) Target cost contracts should not be awarded for major construction projects going forward
- B) If presented with a similar situation in the future, where the original contractor is acquired by a third party during the contract, a detailed review should automatically be undertaken before awarding the contract to the third party to ensure that none of the assumptions upon which the choice of contractor was based has changed
- C) As much design work as possible should be undertaken in future projects prior to contracts being let
- D) Design work on major projects be entirely contracted out to avoid the Council's role as a client being compromised
- E) A more rigorous and dynamic approach to risk management, in line with the approach advocated in the CAL report needs to be introduced for all major projects. SDLT should be required to instigate the introduction of an improved approach to risk management as a matter of urgency
- F) The improved approach to risk management should include a greater role for members to work with officers to assess the risk around major capital programmes to agree an appropriate level of contingency

- G) Major projects should include a full skills analysis and identify any gaps in the internal skills base, where external expertise may be required
- H) Officers selected to manage projects should be released from their role to work on the project full time
- I) A detailed audit of those officers qualified and experienced in applying the principles of Prince2 is undertaken and, where appropriate, staff are supported to undertake the qualification
- J) Major projects and programmes should be overseen by an Officer and Member Project Board that meets regularly throughout the life of the project
- K) SDLT should form part of the monitoring and appraisal processes of major projects
- L) The Leader should review how relevant Portfolio Holders should discharge their responsibilities for major projects and programmes, and for ensuring full and timely reporting back to both Cabinet and Full Council as appropriate
- M) Prince2 training should be available to members in the member development programme, subject to a learning need being identified through a Personal Development Plan
- N) The Leader and the Portfolio Holder should write a letter to the Secretary of State, copying in local MPs, lobbying for a change to statutes and agreements that allow Network Rail and utilities, to generate costs for local authorities, and that where possible, other local authorities should be invited to sign this letter

CLLR JOHN WHITEHOUSE
Chair of the Communities
Overview and Scrutiny
Committee

Shire Hall
Warwick

28 April 2011

Cabinet – 12 May 2011 – Item 3

Communities Overview and Scrutiny Committee

Scrutiny of the Rugby Western Relief Road

April 2011

Foreword by Chair of the Communities OSC, Cllr John Whitehouse

This has been a very important scrutiny exercise undertaken by the Committee, and has been unprecedented in a number of key respects.

The scale of the Rugby Western Relief Road project, the time and money spent delivering it, and the delays and budget overruns incurred during its construction, all meant that a major scrutiny review was justified. In order to retain public confidence in the council and its processes, it was essential that all the evidence considered by the Committee could be made freely available to the public. In our select committee meeting we were able to involve members of the public fully, both through questions submitted in advance and via questions and answers at the meeting. I pay tribute to the helpful contributions and perspectives from members of the public during our whole review process.

I would like to thank all the members of the Committee for their work in absorbing the details of this matter, and contributing to a very clear set of recommendations. In this they were assisted greatly both by the professional support of the Democratic Services and Legal teams, and also by the open-book approach of both the Portfolio Holder and the Strategic Director for Environment & Economy. A shared determination to get all the facts on the table, and to extract the key lessons to be learned for the future, has underpinned the whole review process.

The Committee has made a number of key recommendations for the future management of large, complex projects undertaken by the Council. These are lessons for the whole Council to take on board, not just an individual directorate. We make these recommendations for Cabinet to consider, with the further recommendation that our report should be referred on to a full Council meeting. This will enable the key changes we recommend to gain the widest possible support, and to allow all elected members to contribute their views on the many important perspectives on the ways in which the Council operates that this review has highlighted so clearly.

1. Introduction

1.1 On the 15th March 2011, the Communities Overview and Scrutiny Committee held a select committee meeting in Rugby in relation to the Rugby Western Relief Road (RWRR). The Committee sought to explore and understand the factors that contributed to the delays and overspend experienced in the project and to identify learning points in order to ensure that future projects do not experience similar issues. The Committee invited the following individuals to attend the select committee meeting to share their views and experiences in relation to the RWRR project.

- Cllr Alan Cockburn, Portfolio Holder for Environment and Economy
- Paul Galland, Strategic Director for Environment and Economy
- Graeme Fitton, Head of Transport and Highways
- Roger Newham, County Transport Planner
- Dave Clarke, Strategic Director for Resources
- Chris Jukes, Head of Projects, Resources
- Nigel Barr, Stradia Ltd.

1.2 Recognising that the issue was one of significant local importance, members of the public were invited to participate in the scrutiny exercise by submitting questions in advance.

1.3 The Committee used the following evidence to inform their deliberations of the issues at the Select Committee meeting:

- Strategic Director for Environment and Economy's Report to the Committee
- Independent report by Contractauditline Ltd

1.4 Following the Select Committee meeting, the Committee also considered a report by Stradia, an external specialist cost consultant, which was not available at the time of the meeting.

1.5 The Committee concluded that the delays and overspends of the project were not attributable to a single cause, but were rather the result of multiple factors which were indicative of systemic failure in both project management and governance. This report summarises the Committee's findings and recommendations.

2. Background to RWRR

2.1 In 1997, Rugby Local Plan identified the Western Relief Road as a key infrastructure requirement to support major developments at Cawston, Malpass Farm, Swift Valley and Coton. The development of the project spanned several years and included two public inquiries prior to the contract for construction being awarded in 2007.

2.2 In July 2007, the Council entered into a target cost contract with Carillion JM Ltd for the construction of the RWRR. The target cost for the contract was set

at £24.16m and included a projected end date of September 2009. The total cost of the project at the time the contract was awarded to Carillion JM Ltd was an estimated £36.57m. However, the project experienced significant delays and overspends. The RWRR finally opened to traffic in September 2010, with the outturn costs of the project having increased to £60m. The costs for the construction contract had increased from the target cost of £24.16m to £39.75 m.

2.3 In the summer of 2008 the significant increase in the 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's Internal Audit Team and specialist financial support from the Resources Directorate were brought in to assist the Environment and Economy Directorate in managing the project. Following a confidential report to 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 project and to establish reasons for the increased costs. Cabinet asked the Board to consider the following questions:

- i) Was the procurement process robust enough?
- ii) Was this the right contract for the scheme?
- iii) Could any of the increased costs have been foreseen?
- iv) Are the increased costs justified?
- v) Has the project management been robust enough?
- vi) Are there any wider lessons for the Council?

2.4 Contractauditline (CAL), a specialist audit and contract consultant, was brought in to assist with the review. The report from CAL identified a number of issues and areas for improvement and formed part of Communities OSC consideration of the matter.

2.5 In response to a recommendation made in the CAL report, Stradia, an external specialist cost consultant, was appointed in January 2010 to provide dedicated commercial expertise to the Council in relation to RWRR. Stradia also produced an independent report, which was published in April.

2.6 A timeline of the development of the project is attached as Appendix A.

3. Key findings and recommendations of the Committee

Route Choice for the Southern Section

3.1 The Committee's first consideration was to explore whether the route choice for the southern section of the RWRR had been appropriate. The original public consultation for the RWRR in 1998 proposed that the southern section of the route would be on the disused railway between Leamington and Rugby. However, the context surrounding the scheme subsequently changed, leading to changes to the original proposals. The introduction of the Local Transport

Plan in 2000 enabled Local Authorities to bid for funding and consequently influenced the Council's decision to extend the scheme the full length of the road to Potsford Dam to divert traffic away from the Cawston Housing Estate. Additionally, at this stage Rugby Cement were considering reopening the disused railway line in order to divert trucks off the road network. This subsequently led the Council to re-plan the southern section of the route on greenbelt land. Whilst Rugby Cement later decided that re-opening the line would not be economically viable and decided against this option, the Council decided that the possibility of re-opening the railway line at some stage in the future should be preserved.

- 3.2 Changes to the original proposal increased the controversy surrounding the project and prompted the first Public Inquiry in 2003. The outcome of that inquiry supported the original proposal for the southern section to be on the disused railway. In June 2004, Cabinet considered the views of Rugby Area Committee, rejected the outcome of the first Public Inquiry and called for a second Public Inquiry. This was subsequently held in 2005 and led to the Secretary of State approving the revised plans, subject to some minor modifications.
- 3.3 The OSC sought to understand whether pursuing the original proposal for the southern section of the route would have avoided significant delays and expenditure. It is not clear whether the cost of the scheme would have been substantially less if the southern section of the road had been built on the disused railway line. The ecological and engineering challenges of using the disused railway line for the southern section are unknown, but it is unlikely that this approach would have saved £10m. The cost of acquiring the additional land for the southern section had not been high, but inevitably there was an environmental impact that cannot be easily quantified. Additionally, the ownership of the disused railway line has since transferred to Sustrans, where it is held under a covenant by the Secretary of State limiting use to rail or cycle routes only.
- 3.4 Overall, there is no evidence to suggest that using the disused railway line would have been more cost effective. Costs associated with planning work between 1998 and 2002 that was subsequently not carried out, whilst regrettable, could not have been foreseen.

Finding	Recommendation
<p>The decision to move away from the original proposal to use the disused railway line for the southern section of the route was influenced by changing context and circumstances which could not have been foreseen at the time that the original proposal was published. There is no evidence to suggest that using the disused railway line would have substantially reduced the overall costs of the project.</p>	<p>None</p>

Procurement process and contract

3.5 The *Rethinking Construction* report produced by Sir John Egan in July 1998 sought to raise standards in the UK construction industry and shift from an adversarial approach to a collaborative partnership approach to contracts. Target cost contracts, where clients and contractors develop a partnership approach seeking to achieve cost savings and subsequently sharing any savings (gain) or increases (pain) in expenditure, became common practice. Organisations such as the Highways Agency and British Airports Authority began adopting such contracts. Therefore, following advice from ARUP and Warwick Business School, the Council decided to adopt a target cost contract for the RWRR with early contractor involvement (ECI), with the aim of benefits being realised in the construction stage. Mowlem were awarded the professional services contract (ECI) in 2003, which included an expectation that the construction contract would subsequently be awarded to Mowlem, if the Council chose to do so and subject to the agreement of an acceptable price. The Committee is satisfied that at the time of letting the contract, target cost contracts were considered best practice in the industry and that the initial procurement process for the ECI was robust and in-line with required standards. However, it is now possible to conclude that the perceived benefits of ECI and a target cost contract were not realised.

3.6 Mowlem were acquired by Carillion in 2006 and at this point the Council decided to continue the professional services contract (ECI) with Carillion on the basis that Carillion were, and still are, on the Council's approved tenderers list. Moreover, the Council had experience of working with Carillion on the highways maintenance contract, where a good working relationship had been developed with the company. There were no identified risks at the time in continuing with Carillion as there was an expectation that key staff within Mowlem would remain on the project. Indeed, the majority of the Mowlem project team continued to work on the project for 18 months following the takeover and meetings continued to be held at a senior level during this time.

- 3.7 Carillion submitted an acceptable price for the construction element of the contract, which the Council awarded to them in July 2007. However, the evidence suggests that following the award of the construction contract to Carillion, the nature of the relationship between the Council and Carillion shifted to a traditional adversarial style of contract, rather than a partnership approach. The high level of compensation events that were submitted by Carillion (over 1,400) were indicative of this shift. The Council had insufficient experience with target cost contracts on major capital projects, which was not uncommon at the time, but limited the ability of the Council to effectively manage the contract and the shift in relationship that occurred.
- 3.8 Consideration needed to be given as to whether, at the point at which Carillion acquired Mowlem, the Council made the right decision to continue with the ECI contract with Carillion and subsequently award the construction contract to Carillion. It appears that throughout the project there was a strong desire to start the construction of the road and to avoid any further delays. Indeed, elected members expressed a desire for the construction to start as soon as possible and were concerned about the potential loss of Section 106 funding and implications of high inflation if the project was delayed any further. This is illustrated by the motion to Council on 12th December 2006. These were reasonable concerns, which were symptomatic of the circumstances surrounding the project at that time. The desire to progress the construction influenced the Council's decision not to re-tender the ECI at the point when Mowlem was acquired by Carillion. It would not have been possible for the Council to revert to the other companies who submitted tenders for the ECI contract at the construction stage of the project, as at it would have been a substantially different contract. Re-tendering at this stage would have required an entirely separate tendering process.
- 3.9 Whilst it was reasonable for the Council to seek to continue the contract with Carillion, this decision should have been informed by a robust risk assessment, including consideration of the culture within Carillion, to allow a balanced decision to be made against the costs of a retendering exercise. Instead, it appears focus was placed on the costs and delays to the project if a retendering exercise was carried out, rather than whether the assumptions upon which the original contract was awarded to Mowlem would or could change if the contract was transferred to Carillion.

Findings	Recommendations
The Committee is satisfied that at the time of letting the contract, target cost contracts were considered best practice in the industry. However, the experience of the RWRR project has illustrated the difficulties and challenges involved with this type of contract for major capital projects and programmes.	A) Target costs contracts should not be awarded for major construction projects going forward.

The Committee recognises that there was a strong desire for the construction of the road to be started as soon as possible and re-tendering the construction element of the project would have inevitably led to further delays and increased costs associated with the potential loss of section 106 funding and rises in inflation. It was reasonable for the Council to seek to continue the contract with Carillion as the company was on the approved tenderers list and already had a good working relationship with the Council in relation to highways maintenance contract. However, this position should not be assumed and should have been informed by a robust risk assessment, including consideration of the culture of Carillion, to allow a balanced decision to be made against the costs of a retendering exercise.

B) If presented with a similar situation in the future, where the original contractor is acquired by a third party during the contract, a detailed review should automatically be undertaken before awarding the contract to the third party to ensure that none of the assumptions upon which the choice of contractor was based have changed.

Design

- 3.10 The contract for construction of the RWRR was let to Carillion without a complete design. Whilst progressing infrastructure projects without a complete design is common practice in the industry, this should be mitigated by the identification of the risks posed by this approach and a realistic estimation of the costs associated with these risks. However, in the case of the RWRR the impact and risks of progressing with an incomplete design had not been appropriately assessed and lacked appropriate levels of contingency. Again the desire to progress the scheme as soon as possible and concerns regarding potential loss of external funding, were the primary drivers for progressing the scheme without a complete design.
- 3.11 However, it is now clear that the incomplete design contributed to the increased costs and delays experienced by the project. A more complete design would have produced a more realistic cost and would have avoided some of the issues that arose. Indeed, the design of some elements of the project had to be altered due to design deficiencies that became apparent during construction. In some cases these design alterations were made after partial construction of the original design. For example, two of the roundabouts on the route required a major change in design and one other required a minor redesign. The CAL report identifies a number of compensations events valued at £200,000 or more that were directly attributable to the incomplete design or errors within the design, including:

- Error in drawings regarding existing and proposed location of Cemex Tunnel leading to an additional estimated cost of £900,000
- Correction of error in traffic signs specified for the scheme leading to an additional estimated cost of £621,733
- Design error resulting in extra setting out, drainage and traffic signage following remodelling of Cawston roundabout leading to an additional estimated cost of £400,000
- Extra work, including design, following the introduction of the south west wing wall at Parkfield Road Rail Bridge leading to a cost of £324,000

3.12 The Committee acknowledges that the engineering issues that arose on the site were extremely difficult and unavoidable. In their consideration of the issues, Stradia are confident that the Council has not paid any unjustifiable costs. Nevertheless, a more complete design could have avoided some or all of the additional costs. The Committee welcomes the internal investigation that is currently being undertaken in relation to the design of the scheme.

3.13 In addition to issues regarding the content of the design, the Committee also has concerns regarding the design process. The design was carried out by a combination of the Environment and Economy Directorate's internal design team, its partner design consultant ARUP and the construction contractor under ECI (Mowlem and subsequently Carillion). However, the Council's client role was potentially compromised by involvement in the design process. Such joint working inevitably creates blurred lines of responsibility and accountability. Therefore, on major projects it would be prudent for the entire design work to be contracted out to an external provider.

Findings	Recommendations
<p>Progressing the scheme without a complete design, although common practice in the industry, contributed to the increased costs and delays.</p> <p>The Council jointly working with external designers and the ECI contractor on the design work potentially compromised the Council's client role.</p>	<p>C) As much design work as possible should be undertaken in future projects prior to contracts being let.</p> <p>D) Design work on major projects be entirely contracted out to avoid the Council's role as a client being compromised.</p>

Risk Management and Contingency

- 3.14 Risk management and contingency for the project were inadequate. The CAL report highlights weaknesses in the risk management and cost reporting procedures that were in place and that these weaknesses resulted in an insufficient provision for contingencies and allowed a backlog of unresolved compensation events to occur.
- 3.15 Whilst the Strategic Director for Environment and Economy is confident that steps were taken to identify and manage risks throughout the project, the extent to which the risk management process effectively identified, logged, costed and appropriately dealt with risks is unclear as the approach to maintaining the risk register was not as robust as it should have been. The CAL report highlights that whilst 'Risk Reduction' meetings took place, these focussed on the mitigation of risks in respect to events that had already occurred, rather than focussing on potential future risks.
- 3.16 It appears that significant risks were effectively identified, but the judged impact and value of those risks was clearly underestimated. A low level of contingency, 2% of the tendered construction target cost, was allocated on the basis that the combination of ECI and a target cost contract would lead to a lower risk of costs increasing. However, a 2% contingency budget was inadequate. The CAL report suggested that a 10% contingency budget would have been more appropriate for a project the size of the RWRR. However, it is now clear that 10% would have not been sufficient.
- 3.17 Ultimately, the experience of RWRR suggests that the Council needs to improve its approach to risk management and contingency, which will in turn improve projections of outturn costs. The CAL report proposes a more rigorous approach to risk management, however the approach advocated is at a higher level than has been traditionally operated within the Council and raises the question whether the Council has sufficient levels of skills and knowledge for the dynamic risk assessment envisaged. What is clear, is that there needs to be closer working between Members and Officers to assess the risk around major capital programmes and to agree an appropriate level of contingency. Members need to have a full understanding and appreciation of all risks involved within major capital programmes and projects.

Findings	Recommendations
It appears that whilst significant risks had been effectively identified, judged impact and costing of these risks was inadequate, leading to an insufficient contingency budget being allocated. The approach to managing the risk registered was not as robust as it should have been.	E) A more rigorous and dynamic approach to risk management, in line with the approach advocated in the CAL report, needs to be introduced for all major projects. SDLT should be required to instigate the introduction of an improved approach to risk management as a matter of urgency.

	F) The improved approach to risk management should include a greater role for members to work with officers to assess the risk around major capital programmes and to agree an appropriate level of contingency.
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Project Management

- 3.18 Inevitably, given the significance of the delays and overspends experienced on the project, questions have been raised regarding the Council's project management of the scheme. The CAL report is critical of some aspects of the Council's project management, in particular the staff resources allocated during the early stage of construction to deal with design issues and compensation events, were considered insufficient. From the Council's perspective, the project was still being managed on the basis that the client and contractor were working together to identify efficiencies and drive down costs. Therefore, additional resources were not deemed necessary.
- 3.19 The overspend on the project was identified in the summer of 2008 and was immediately brought to the attention of the Strategic Director and the Portfolio Holder. Extra resources were swiftly allocated and an internal review was instigated. Following this a report was taken to the Cabinet in early autumn 2008 and Internal Audit and a Systems Project Team were brought in late autumn 2008. The Committee is satisfied that the actions that followed the identification of the overspend were sufficiently prompt and robust. However, it is the Committee's view that recognition of the issues should have occurred sooner.
- 3.20 In managing major projects like the RWRR it is fundamentally important to ensure that the Council has the appropriate skills, knowledge and capacity to manage the project effectively. Whilst the Council has a lot of project management expertise, it needs to be recognised that the Council may not have all the required skills to effectively manage major projects. In the case of the RWRR, the Council lacked sufficient commercial skills to manage the challenging circumstances that arose during the project. Clearly, it is not expected that the Council should possess all the skills required to effectively manage a major project, but there needs to be an awareness of the skills gaps within the Council and knowledge of how to procure these skills externally as and when required. Therefore, the planning process for major projects should include a full skills analysis to identify the best individuals within the organisation to manage the project and to identify any gaps in the internal skills base where external expertise maybe required. Moreover, sufficient Council resources need to be allocated to manage projects from conception to implementation. Officers selected to manage major projects should be released from their role to work on the project full time.

3.21 With current reductions in the Council's workforce, there is a need to ensure that there remains an appropriate level of officers across the Council who are fully trained and experienced in applying the principles of Prince2, the Council's recognised project management tool.

Findings	Recommendations
<p>The Council had sufficient project management capabilities to manage the RWRR, but lacked sufficient commercial skills to manage the challenges that arose.</p> <p>Sufficient resources need to be allocated to projects from conception to implementation.</p> <p>Whilst the Council currently has sufficient skills and expertise in project management, the Council needs to ensure that during a period of workforce reduction an appropriate level of officers across the Council who are fully trained and experienced in applying the principles of Prince2 is maintained.</p> <p>The actions that followed the identification of the overspend were sufficiently prompt and robust.</p>	<p>G) Major projects should include a full skills analysis as part of the planning process and identify any gaps in the internal skills base, where external expertise may be required.</p> <p>H) Officers selected to manage projects should be released from their role to work on the project full time.</p> <p>I) A detailed audit of those officers qualified and experienced in applying the principles of Prince2 is undertaken and, where appropriate, staff are supported to undertake the qualification.</p> <p>None</p>

Project Governance

3.22 There were inadequate project governance arrangements in place to oversee the project management of the RWRR. A Strategic Management Board (SMB), consisting of the Contractor's Regional Director and Senior Contract Manager, and the Council's Project Manager and the Design Services Group Manager was established. The Board met three times between July and December 2003 but became dormant when the scheme was put on hold following an adverse decision from the first public inquiry. The Board was reconvened in November 2007 following the start of construction in August. During the period that the SMB was dormant, the internal Warwickshire Engineering Board assumed the governance role for the project. The Project Manager provided update reports to that internal Board on a two monthly basis. However, the RWRR was just one aspect of the Warwickshire Engineering Board's work at this time. This arrangement was inadequate given the scale of the RWRR project.

- 3.23 Additionally, the CAL report highlights that when the Board did reconvene there were fewer formal reports presented than might have been expected for a project of this size. CAL also expressed the view that the minutes of the Board lacked sufficient evidence to confirm that the quantum of the increasing costs were being reported prior to July 2008 or that the actions being taken to address them were being recorded. In July 2008, the Board was advised that additional costs had accrued totalling some £3.3m, however the minutes from this meeting do not contain any comments or actions to be taken. By December 2008, the Board had been made aware that the increases in cost could be more than £12m. CAL recommended a number of actions for enhancing the cost reporting processes for the remainder of the project, which were then put in place.
- 3.24 Ultimately, a more rigorous approach to Project Governance, with a Project Board meeting regularly and continually throughout the project, would have enabled greater challenge to the Project Management of the RWRR. Moreover, a level of corporate oversight would have also proved beneficial, enabling a degree of strategic challenge. SDLT should be part of the monitoring and appraisal processes of major programmes and projects.
- 3.25 The experience of the RWRR raises interesting questions regarding the role of elected members in the project governance of major projects. Concern was raised that following the letting of the contract, there was a period of a year before the Cabinet was made aware of the financial issues. Reports were made to Cabinet in the Spring and Winter of 2007. Whilst regular briefings were held with the relevant Portfolio Holder, this is insufficient mechanism for project governance or member involvement with major projects. All major programmes and projects should be governed by an Officer and Member Project Board, responsible for overseeing the project and challenging progress.

Findings	Recommendations
The project governance arrangements were inadequate for a project of this size.	<p>J) Major projects and programmes should be overseen by an Officer and Member Project Board that meets regularly throughout the life of a project.</p> <p>K) SDLT should form part of the monitoring and appraisal processes of major projects.</p> <p>L) The Leader should review how relevant Portfolio Holders should discharge their responsibilities for major projects and programmes, and for ensuring full and timely reporting back to both Cabinet and Full Council as appropriate.</p>

<p>There is a need for members to have greater exposure to, and involvement with the project governance of major programmes and projects.</p>	<p>M) Prince2 training should be available to members in the member development programme, subject to a learning need being identified through a Personal Development Plan.</p>
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Network Rail and Public utilities

- 3.26 A significant amount of the increased costs on the RWRR were a direct result of issues that emerged in relation to gaining access to Network Rail's land. CAL's report provides an insight into these difficulties:
- Difficulties in getting Form A & B approved by Network Rail which caused uncertainty in predicting when work would restart for the removal of the south west wingwall at the Parkfield Road Rail Bridge costing £2,315,100
 - Reprogramming of work at Parkfield Road Rail Bridge, due to delays by Network Rail in the diversion of 25kv power supply and other apparatus, costing £634,918
- 3.27 The Council is required to negotiate with Network Rail to gain access to land, under the terms of a national agreement between the Local Government Association and Network Rail. This national agreement required the County Council to accept all risk associated with the contract, other than negligence. The Council is unable to seek redress from Network Rail for additional costs the Council incurred. The agreement with Network Rail needs to be challenged at a national level.
- 3.28 As part of the scheme design, detailed enquiries were made to all Public Utilities to determine how utilities would impact on the scheme and to determine the requirements for utility diversions. Legislation requires the Council to pay Public Utilities to design and execute service diversions. The Council is ultimately reliant on the Public Utilities for accurate information about the presence of services and diversion costs. However, the Public Utilities' estimates for work proved to be inaccurate which led to an underestimation of costs. During construction, difficulties with service diversions and inaccuracies in the Public Utilities records lead to a 78% rise in the costs associated with Public Utilities on the project. In addition to the direct costs paid to the Public Utilities, these difficulties also caused delays and disruptions, which inevitably increased costs.
- 3.29 Whilst the level of inaccurate information provided by Public Utilities was exceptional, the Council should have anticipated a higher level of risk than it did, with a substantially higher contingency to manage this. The inaccuracy of Public Utilities' records needs to be addressed at a national level.

Findings	Recommendations
<p>A significant portion of the increased costs are attributable to problems faced in terms of getting access to network rail land and the inaccuracy of Public Utilities records.</p> <p>The Council should have anticipated a high level of risk associated with public utilities records than it did and set aside a more substantial level of contingency to manage this risk.</p>	<p>N) The Leader and PH should write a letter to the Secretary of State, copying in local MPs, lobbying for a change to statutes and agreements that allow Network Rail and utilities, to generate costs for local authorities, and that where possible, other local authorities should be invited to sign this letter.</p> <p>As per recommendation E above.</p>

Value for Money

- 3.30 Analysis of the new road indicates a cost-benefit ration of 4.5:1, (for every pound invested there is £4.50 worth of benefits), supporting the claim that the RWRR represents good value for money despite costing far more than originally budgeted. However, better value for money could have been achieved through the scheme and although the scheme stills stands up to the Government's calculation of Value for Money, this does not justify the substantial loss of value that has occurred due to the significant delays and increased costs. If the final costs of the project had been known at the outset, it is unlikely that the project would have been pursued.
- 3.31 In terms of the effectiveness of the scheme, an initial assessment of the impact of the RWRR on traffic flow undertaken in October 2010, indicated that there had been a reduction in traffic flow that was broadly in line with the predictions, including a 24% reduction in Main Street, Bilton, 27.8% reduction on Bilton Road (near Lidl Supermarket) and 15.7% reduction in Newbold Road. It is anticipated that these reductions will further increase as time progresses.

Findings	Recommendations
<p>Whilst the RWRR represents a cost-benefit ratio of 4.5:1, the value for money of the scheme has inevitably been reduced due to the significant delays and overspend.</p>	<p>None</p>

4. Conclusion

- 4.1 The Committee concludes that the delays and overspend experience on the RWRR cannot be attributed to a single cause. Rather multiple interrelated factors were responsible. These factors can be summarised as:
- Shift in the relationship between the Council and its contractor
 - Lack of commercial skills within the Council and lack of experience of managing Target Cost Contracts for major construction projects
 - Desire to progress the construction as soon as possible
 - Incomplete design and design errors
 - Inadequate risk management and contingency
 - Inadequate project governance
 - Problems associated with Network Rail and Public Utilities
- 4.2 The identification of multiple factors is symptomatic of systemic failure and illustrates weaknesses in the Council's approach to the management and governance of major projects. There are important lessons for the Council to learn from the experience of the RWRR and the Committee's recommendations are well placed to drive improvement in the Council's approach to project management and embed a corporate responsibility for major projects like the RWRR in the future.

Cabinet – 12 May 2011 – Item 3 - Appendix A
Communities Overview and Scrutiny Committee –
29 November 2010

Rugby Western Relief Road

Rugby Western Relief Road – Development History

Date	Activity, Event or Decision	Estimate
1997	Rugby Local Plan adopted with the Western Relief Road as a key infrastructure requirement to support planned major developments at Cawston, Malpass Farm, Swift Valley and Coton.	
1997 to 2000	Negotiations with developers to secure S106 funding. Agreements gave 10 years for the money to be spent before refunds had to be made to developers. The amount of developer funding secured was insufficient to fund the full length of the scheme. WCC decided to implement a shortened first phase which utilised the primary distributor road of the Cawston housing estate.	
October 1999	Planning permission granted for the shorter scheme with alignment on the disused railway and utilising the primary distributor road of the Cawston housing estate at the southern end.	
August 2000	Rugby Cement announced its intention to reopen the disused railway line. Cabinet had previously agreed in March 2000 to support reopening if Rugby Cement decided to proceed.	
Autumn 2000	A bid was made to DfT for funds to extend the road to Potsford Dam and to move alignment off the disused railway. Provisional approval was granted by DfT in December 2000 with a provisional major scheme funding allocation of £8.06M.	£20.2M
October 2001	Cabinet approved a revised scheme with an alignment off the disused railway and extending to Potsford Dam. Approval given to commence statutory procedures for planning and Orders.	
April 2002	Further revisions to the outline scheme design and revised estimate approved by Cabinet.	£20.6M
May 2002	Planning application for current scheme submitted	
July 2002	Rugby Cement abandon plans to reopen railway.	
Sept 2002	Cabinet approve continuation with scheme off the disused railway to preserve the opportunity for reopening and a revised estimate	£21.4M
Spring 2003	Planning permission granted for full length scheme. First public inquiry held.	
July 2003	Cabinet approved award of Early Contractor Involvement (ECI) contract to Mowlem	
January 2004	Cabinet approved revised estimate	£23.9M

Feb-June 2004	Secretary of State (SoS) announced in February 2004 that he was minded to approved the Orders only the northern section of the road. Reports to Area Committee (May) and Cabinet (June) led to a decision to reject the SoS decision and to seek a second public inquiry.	
April 2005	Cabinet approved revised estimate	£26.8M
Spring 2005	Second public inquiry held	
Dec 2005	SoS approved the Orders for the full length scheme subject to a range of amendments	

Feb 2006	Cabinet approved : 1. scheme amendments to meet SoS requirements. 2. Continued employment of the ECI contractor	
May 2006	Cabinet approved revised estimate	£30.57M
May 2006	Mowlem taken over by Carillion	
July 2006	Revised planning permission granted incorporating the amendments required by the SoS	
Nov 2006	SoS gave final approval to the scheme Orders	
Dec 2006	Notice of Motion to Full Council expressing concern of lack of progress with the scheme	
Feb 2007	Cabinet approves 1. Revised estimate 2. Letting of a contract for construction subject to full approval of the scheme (funding) by DfT. 3. Letting of an advanced contract for site clearance. This work had to be carried out before the bird nesting season to avoid undue delay to the start of the scheme. It was necessary to let a low value advance contract due to the lack of final funding approval from DfT which prevented letting of the main contract.	£35.1M
Feb 2007	Planning permission granted incorporating further requirements of the SoS	
8 March 2007	DfT granted full approval and £17.083M funding	
29 March 2007	Cabinet approved revised estimate	£36.5M
June 2007	Cabinet approved award of main contract to Carillion	
August 2007	Work started on main construction contract	
January 2008	Cabinet approved earmarking of capital receipts for RWRR from sale of properties previously purchased for road improvements made redundant by the Western Relief Road	
Sept 2008	Cost increase reported to Cabinet. Network rail and Utilities were identified as the cause	£38.5M
January 2009	Cost increase and an 11 month delay reported to Cabinet. Additional costs and delays due to Network rail and Utilities were identified as the cause	£42.9M
January 2009	DfT granted an additional £4.179M to the scheme following a bid of £6.33M from WCC	
October 2009	Major report to Cabinet and Council. Council approved a revised estimate.	£55M