

Committee(s):	Date(s):	
Streets and Walkways Sub Committee	11 Feb 2013	
Projects Sub Committee	12 Feb 2013	
Subject: Outcome Report (Gateway 7) – Heron Tower Highway Improvement Works (S.278(No.2))		Public
Report of: Director of the Department of the Built Environment		For Decision

Summary

Dashboard

- Project Status: Green
- The project is 95% complete
- Total Estimated Cost: £1,426,109
- Expected Final Spend: £1,133,532
- Overall Project Risk: Green

Brief description of project

In July 2007, Members approved the highway improvement scheme for enhancement works, predominantly on the footways, around the Heron Tower development, a 46 storey office building. This followed the revision to the carriageway layout that was a consequence of an initial S.278 agreement with the developer.

This project was delivered in time for the occupation of the building, which was the project's priority. It was fully funded by the developer through an agreement under section 278 of the Highways Act 1980 (S278) and originally estimated to cost £1,426,109. Environmental improvements funds had been required in an agreement under Section 106 of the Town and Country Planning Act 1990 (S.106) to mitigate the impact of the development.

This was the second S278 agreement (S.278(No.2)) associated with the Heron Tower development. S278(No.1) dealt with the revision to the carriageway layout that were essential before the development could be constructed. This has been dealt with and reported separately. Appendix 1 shows how the various agreements relate to one another.

The original design of the scheme is briefly described as:

- Motor vehicles would be excluded from Houndsditch (between Outwich Street and Bishopsgate) from 7am-7pm creating an improved pedestrian environment that helps to mitigate the large development;
- Houndsditch would have improved materials with granite paving in the carriageway and York stone footways;
- Trees would be introduced on Houndsditch to improve the public realm and act as wind mitigation measures; and
- Additional trees, seats, cycle parking and enhanced lighting would be

introduced around the development.

Appendix 2 shows the originally approved design.

The S278(No.2) comprised two components of works, both funded by the developer:

1. Houndsditch Works to be delivered by the developer at an estimated cost of £1,226,000; and
2. Footway Works to be delivered by the City utilising our highways term contractor at an estimated cost of £200,109.

Prior to the works being finished, the project had undergone the following main changes:

1. Additional drainage works were required in Houndsditch, which would be delivered by the City.
2. The cost estimate for the footway works was revised in 2010 prior to the works commencing. This resulted in a significant increase in the estimated cost of the footway works.
3. In January 2011, planning permission was granted for Heron Plaza. This impacted on the agreed S278(No.2) agreement and a S278(No.2) Variation Agreement was put in place which changed the scope of the Houndsditch Works, some of which are now covered by a separate S278 agreement and are expected to be delivered in time for the completion of the Heron Plaza development.

Appendix 3 shows the S278(No.2) Variation Agreement design that was agreed and implemented. The variation design:

- Removed many of the improvements to the Houndsditch carriageway and northern side footway from the Houndsditch Works (these are to be delivered as part of a Heron Plaza Highway Works S.278 agreement, fully funded by the developer).
- Provided the City with £395,983 to be used for other highway improvements in the City to compensate for the diminution in benefit as a result of the changed design.

Appendix 4 shows a few images of the completed scheme.

The developer fully funded the project. An Escrow account was used as a means to ensure both parties were happy with any spend incurred and that there were funds available if the City needed to step in and deliver all the works.

The final outturn cost of the project is £1,133,532, comprising:

1. £370,621 to complete the footway works. The City received £421,312 for the footway works and is required under the S.278(2) agreement to return unspent funds.
2. £762,911 for the Houndsditch Works, with the City and the developer delivering different parts of these works.

Appendix 5 details the finances of the project.

Recommendations

Outcome Report recommendation

1. Authorise the closure of the project
2. Instruct the Chamberlain's Department to return unspent funds to the developer, including any interest accrued, as is required under the conditions of the S278(No.2) and related variation agreement.
3. Note that as a result of the S.278(No.2) Variation Agreement, £395,983 (for the diminution in benefits for the implemented scheme) will be available for other improvement works; the scope of which is still to be determined.

Overview

1. Evidence of Need	Owing to the significant size of the development, environmental improvement works were required to mitigate the impact of a building of this size. This mainly focussed on Houndsditch where such an opportunity was feasible. As part of the improvements, trees were included as a way of mitigating the wind in this location.
2. Project Scope and Exclusions	The project does not include the: <ol style="list-style-type: none">1. Carriageway changes that are the basis of the S.278(No.1).2. The use of £350,000 <i>initial improvement works payment</i> provided to the City as part of the S.278 (No.2) agreement. This £350,000 is still available for the City to spend on other enhancement works.3. The Heron Plaza S.106 and S.278 agreements.
3. Link to Strategic Aim	It will help provide modern, efficient, and high quality local services and policing within the Square Mile for workers, residents and visitors with a view to delivering sustainable outcomes. This will be achieved by enhancing the area around the new development in such a way as to ensure the development can function as it needs to and the vehicle and pedestrian facilities in the area are safe and convenient.
4. Within which category does the project fit	4. Substantially reimbursable (fully funded by the developer)
5. What was the priority of the project?	A. Essential

<p>6. Resources Expended</p>	<p>The developer fully funded this project.</p> <p>£1,133,532 is the projected final spend for the whole project including the works delivered by the developer and the City (including staff time).</p> <p>The project was originally estimated to cost £1,426,109. However, both components of the scheme underwent significant changes and the budgets were later revised to total £1,160,872.</p> <p>These changes and the impact on the budgets can be seen step by step in Appendix 5.</p> <p>Paragraph 9 contains further financial information and discussion.</p>
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Outturn Assessment

<p>7. Assessment of project against Success Criteria</p>	<p>This project had to be largely delivered prior to the development of the Heron Tower in order for the occupation of the building to occur as planned.</p> <p>The project was delivered in time for the occupation of the building in 2011.</p>								
<p>8. Programme</p>	<p>The bulk of the works were implemented in early 2011 and allowed the occupation of the building to occur as planned.</p>								
<p>9. Budget</p>	<p>The agreed budget at evaluation approval stage in 2007 was £1,426,109, made up of:</p> <ol style="list-style-type: none"> 1. Houndsditch Works to be delivered by the developer at an estimated cost of £1,226,000; and 2. Footway Works to be delivered by the City utilising its highways term contractor at an estimated cost of £200,109. <p>The following table compares the original estimated cost of the scheme with the expected final spend:</p> <table border="1" data-bbox="662 1688 1437 1977"> <thead> <tr> <th></th> <th>Original Approval (£)</th> <th>Expected Final Spend (£)</th> <th>Variance (£)</th> </tr> </thead> <tbody> <tr> <td>Houndsditch Works</td> <td>1,226,000</td> <td>762,911</td> <td>- 463,089</td> </tr> </tbody> </table>		Original Approval (£)	Expected Final Spend (£)	Variance (£)	Houndsditch Works	1,226,000	762,911	- 463,089
	Original Approval (£)	Expected Final Spend (£)	Variance (£)						
Houndsditch Works	1,226,000	762,911	- 463,089						

Footway Works	200,109	370,621	170,512
Total	1,426,109	1,129,982	- 292,577

Subsequent to the original approvals, the project went through a number of significant changes, still fully funded by the developer. The value of the financial implications of each change to the scheme are explained in detail in Appendix 5 and can be described in summary as:

1. Additional drainage works were required in Houndsditch, which would be delivered by the City.
2. The cost estimate for the Footway Works was updated in 2010, prior to the works occurring. This resulted in a significant increase in the estimated cost due to inflation (since the original estimate in 2006) and statutory utilities companies' works.
3. The scope of the Houndsditch Works to be delivered was changed in January 2011, when planning permission was granted for Heron Plaza. This impacted on the agreed S278(2) and a S278(2) variation agreement was put in place.

The change in scope was formally agreed in the S.278(2) variation agreement and was essentially a reduction in the area to be enhanced to avoid:

- Implementing a scheme that does not fit with both developments; and
- Needing to dig up a recently finished scheme to accommodate the construction of the Heron Plaza development.

The S.278(2) variation agreement also stated that the City would be provided with £395,983 to enhance areas elsewhere in the City to compensate for the reduced amenity improvements resulting from the necessary changes to the Heron Tower S.278(2) agreement compared to one that would be delivered as part of the Heron Plaza Highway Works S.278 agreement.

The £395,983 is in addition to the Heron Plaza Highway Works S.278 agreement (fully funded by the developer) to enhance the carriageway and north side of Houndsditch under the new scheme.

	<p>Appendix 5 shows the financial information for this project in greater detail including all areas of expected and actual spends.</p> <p>The figures include:</p> <ul style="list-style-type: none"> • The projected final spend on staff costs. • An allowance of £19,557 for the introduction of a CCTV camera that was not implemented by the developer as part of the Houndsditch works. This will be implemented by the City. • An allowance of £14,427 that is being set aside for the tree and cycle stands that will be installed after the temporary cabin is removed (see paragraph 14). <p>Under the terms of the S278(2) agreement, the City is required to return any unspent funds to the developer including interest accrued. This will occur after the Chamberlain has calculated the values.</p>
<p>10. Risk</p>	<p>The impact on the City's reputation was the biggest risk. Opening the building for occupation was something that the City could not delay as this could have had significant knock-on effects for the developer and building occupiers.</p> <p>Works around the entrance of the building were given the highest priority and delivered first in order to ensure that occupation could occur as planned.</p> <p>There was a risk that S.106 funds would not be enough to deliver the full improvements necessary to mitigate the impact of the building and that the City would have to contribute extra funds. Therefore, it was agreed with the developer that the design/scope of the scheme would be delivered though a S.278 agreement and that the developer would pay the full costs. This meant that there was certainty over the scheme being delivered even if there was uncertainty over the cost of the scheme.</p>
<p>11. Communications</p>	<p>Regular communication with the developer and contractors was an important component of delivering this project effectively.</p> <p>Communication between the City and the developer made it very clear that high priority had to be given to delivering the scheme in time for the occupation of the building.</p>
<p>12. Benefits achieved to date</p>	<p>The improvement works around the development have made the area a more pleasant place for pedestrians.</p>

	<p>The improved materials, added seating and trees contribute positively to this.</p> <p>However, the full benefits of the improvements are yet to be realised because:</p> <ul style="list-style-type: none"> • The approval of the Heron Plaza planning application resulted in a change of scope for the works on Houndsditch. The finished scheme for Houndsditch will not be delivered until the completion of the Heron Plaza development, which is not expected for a number of years. • The Heron Plaza development has been granted a hoarding licence on Houndsditch that will help facilitate the safe demolition of the existing buildings. The hoarding is in place and therefore is constraining the area of Houndsditch that people can use. • A temporary worksite cabin is approved to be in place on Outwich Street. Unfortunately, this obstructs a portion of the footway preventing the installation of a tree and cycle stands.
<p>13. Strategy for continued achievement of benefits</p>	<p>The improvements to the area around Heron Tower will be maintained as part of the City's normal highway maintenance programme.</p> <p>The benefits of the area will be fully realised when:</p> <ul style="list-style-type: none"> • The cabin is removed and the tree and cycle stands are implemented; and • The Heron Plaza S.278 works for Houndsditch are implemented.
<p>14. Outstanding actions</p>	<p>A temporary worksite cabin (image shown in Appendix 4) has been in place on Outwich Street since before the Footway Works were completed. This obstructs a portion of the footway preventing the installation of a tree and cycle stands. It has been agreed with the developer that the City will retain funds to implement these when the cabin is removed.</p> <p>In addition, the developer has agreed that the City will install the outstanding CCTV camera that it was supposed to have implemented as part of the Houndsditch Works.</p> <p>These have been estimated at £33,984 which has been included in the expected costs of the scheme.</p>

Review of Team Performance

15. Governance arrangements	A senior responsible officer was given overall responsibility for this project.
16. Key strengths	<p>The ability to deliver the project efficiently under constrained timeframes was key to ensuring the success of the project.</p> <p>Coordination and communication between the various contractors and the City was very important. There were numerous contractors on site, which included those that the developer was utilising to complete the construction of the building and the Houndsditch Works. It was necessary to not only coordinate the City's contractors, but also to work closely with the developers to ensure that the end goal of having the works completed in time for occupation was achieved.</p> <p>Negotiation skills were particularly critical when the S.278(2) variation agreement was developed and signed. This ensured that the value of improvements that had been originally required from the S.106 funds continue into the S.278(2) variation agreement. The negotiation of the £395,983 and the funding of the revised design of Houndsditch to be delivered from a Heron Plaza S.278 agreement ensured the public benefits did not diminish.</p>
17. Areas for improvement	<ol style="list-style-type: none">1. Setting the project budgets as three separate codes instead of one complicated the project. A single budget code covering all elements of the project would have made it easier to keep track of how much budget was spent and what remained. These unnecessary duplications made the financial monitoring of the project very cumbersome and inefficient.2. The lack of records of the original estimate made it difficult to accurately compare the cost of the scheme over time to determine what was responsible for the changes in expected costs.
18. Special recognition	Numerous people involved in this project should be praised, most significantly those that have been able to finalise and close the project. This project has been one of the most complicated highways projects to manage and untangle. There have been so many significant changes throughout the life of the project, including personnel, that deciphering what and why things have happened has been particularly difficult. Add to this the complicated nature of the finances and multiple delivery

	<p>contractors, the many changes in scope and finally, the granting of the Heron Plaza planning permission which ultimately resulted in the S.278(2) needing to be significantly varied.</p> <p>Special recognition should be given to the following people who's involvement has been vital in the delivery of the project and ensuring that the benefits to the public have not been diminished thought the course of the various changes and negotiations that have taken place:</p> <ul style="list-style-type: none"> • Deborah Cluett • Kevin McDonald <p>The following people should also be recognised for their contribution:</p> <ul style="list-style-type: none"> • Aaron Banfield • Ben Manku • Joe Weiss
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Lessons Learnt

<p>19. Key lessons and how they will be used and applied</p>	<p>1. The City should deliver the works on the highway, not the developer. Risks increase with the many complications when a decision to allow the developer to deliver the works is taken. These include:</p> <ul style="list-style-type: none"> • Ensuring the design and specifications are in accordance with the City's requirements, not simply the developer's desires. • The difficulty in ensuring that the agreed design is not altered by the developer before or during implementation. • The potential of poor quality implementation by external contractors. • The potential for claims by the developer's works contractor. • Complications in managing the whole process that involves contractors not directly employed by the City. <p>Both the developer and the City agree that splitting the delivery of the work between the two was not the best decision. The Heron Plaza S.278 agreement (between the same organisations) has learnt from this and states that the works will be</p>
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	<p>delivered by the City.</p> <p>Only under very special and limited circumstances should the works be delivered by the developer.</p> <p>2. The value of corporate knowledge should not be underestimated. The loss of numerous staff between the original approvals being granted and the works being completed made it difficult to clearly know what and why certain decisions were made. Concise and accurate record keeping will minimise the impact of such instances. Project Vision will also help this in the future.</p> <p>3. Budgets were not set up in a manner that allowed efficient delivery of the project, they were unnecessarily complicated. This is noted and care will be taken on future schemes to ensure that the set up of the budgets is better.</p>
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Appendices

Appendix 1	Relationship between various Heron Tower projects.
Appendix 2	Agreed S.278(2) design
Appendix 3	Agreed S.278(2) variation design
Appendix 4	Images after implementation
Appendix 5	Financial spend

Contact

Report Author	Jereme McKaskill
Email Address	jereme.mckaskill@cityoflondon.gov.uk
Telephone Number	020 7332 3580