

Committee(s):	Date(s):
Streets and Walkways Projects Sub	30 November '15 1 December '15
Subject: Issue Report and Request for Delegated Authority – Aldgate Highway Changes and Public Realm Improvements	Public
Report of: Director of the Department of the Built Environment	For Decision
<p style="text-align: center;"><u>Summary</u></p> <p><u>Dashboard</u></p> <ul style="list-style-type: none"> - Project status: Amber. - Timeline: Construction Phase - Approved Spend: £21.37M - Spend to Date: £14.23M - Overall Project Risk: Amber. <p><u>Brief description of project</u></p> <p>1. The main elements of the scheme are: the introduction of two-way working on Aldgate High Street and St Botolph Street; and the creation of a new public space between the Sir John Cass's Foundation Primary School and St Botolph without Aldgate Church. Members have also agreed, following the results of traffic modelling, that the scope of the project should be extended to include Minorities changing to two-way traffic to reduce the traffic flow through the Mansell Street junction with Aldgate High Street.</p> <p><u>Reason for this report and for a request for delegated authority</u></p> <p>2. This report advises Members of two newly identified risks that could require an increase in the approved construction budget for the Aldgate project. This report also requests that authority be delegated to the Town Clerk in consultation with the Chairmen and Deputy Chairmen to approve an increased construction budget, to a maximum value of £1M, subject to a review of the overall financial position of the project and the available sources of funding.</p> <p>3. Delegated authority is considered necessary because:</p> <ul style="list-style-type: none"> - key project decision dates fall outside of committee cycles; and - delays in implementing these decisions will have cost implications to the project. <p>4. In June 2014 Members approved the construction of the Aldgate Highway and Public Realm Improvement scheme, with a £18.35M cap placed upon the construction cost.</p> <p>5. Since then, construction has proceeded according to overall programme. Whilst certain elements of the scheme have been subject to unforeseen delays, Officers have managed risks by accelerating other elements of the project such</p>	

that the overall project remains on target.

6. In parallel with this, Officers have been progressing a funding strategy which seeks to maximise the amount of external funding which can be used on the scheme. This strategy is proving to be successful, as further funding of £3.28M has been confirmed for the scheme since Gateway 5, thus reducing the potential call upon the On Street Parking Reserve. The funding strategy ultimately aims to secure full external funding for the project.

7. With regards to the £18.35M construction cost cap, whilst some scheme elements have increased in cost, officers have sought to largely balance these by corresponding reductions in other cost elements on the scheme. Officers have been actively tracking cost variations in order to manage the overall project budget.

8. As part of this tracking exercise, Officers have identified two unforeseen issues which have potential cost implications which are unlikely to be wholly compensated for by savings elsewhere on the project.

Unforeseen Issues

i) Pavilion Cost Increases

9. Since Gateway 5 approval was received, activity in the construction market has increased significantly, along with the costs of key construction materials. As a result, quotations that are currently being received for other projects are significantly higher than has been the case in recent years. Consequently, Officers expect the Pavilion costs to increase from £2M to £2.5M, an increase of £0.5m.

11. It should be noted that we will not know the exact cost increase until the formal tendering exercise has been carried out. The results of this tendering exercise will be known by mid-December.

12. A further issue relates to the programmed construction period for the Pavilion. It had previously been understood that Pavilion construction could proceed in advance of the Western Space being closed. However, Officers were informed earlier this year by Kier (who are procuring the Pavilion on behalf of the City through the SCAPE framework) that this was not the case. As a result, the project programme had to be revised and resources reallocated to bring forward the closure to traffic of the Western Space. This was achieved on 12 October '15.

13. However, the design delivery for the Pavilion has also slipped and as a result, the construction programme for the Pavilion will slip by three months. We are currently seeking to establish with the consultant the reasons for this slippage. The slippage will have cost implications in terms of staff cost and materials storage cost. It is also possible that consultants/suppliers will claim for prolongation costs incurred as a result of the delay. There will also be cost penalties incurred, should Kier be delayed in commencing the Pavilion Construction. Officers are currently in negotiation with Kier to minimise these prolongation costs.

ii) Fill Materials

14. As part of the Aldgate project, a series of pedestrian subway exits must be sealed and filled. Following advice from our contractors Arcadis (formerly Hyder), we were advised that a foamed resin (Benefil) would be the appropriate material

to use in this instance. However, shortly after using this material, it became apparent that the material was failing.

15. Whilst we do not expect this failure to impact upon overall completion of the project, it will undeniably have cost implications in terms of unanticipated staff costs, re-design costs and abortive work costs.

16. We are currently in negotiation with the company that provided this product. It is unclear at the moment whether the reason for the failure was poor design, poor technical advice or substandard material quality. The precise costs of this issue have yet to be determined, but could lie in the region of £150k - £0.5M – dependent upon the commitment of the supplier to remove the foamed resin material, and the results of further litigation.

17. Negotiations to date suggest that the project budget will need to be extended to cover the cost of the known abortive works - £150k. However, Members should be aware of the risk that the full cost of rectifying this problem could amount to £0.5M (which includes the £150k abortive costs).

Discussion of Options

Timescales

18. As set out previously, any delay to the commencement of work on the Pavilion may incur materials storage costs and potentially claims for prolongation costs. They will also delay the project overall. In order to avoid the programme for the Pavilion slipping any further, it is necessary for Officers to place an order with Kier on 8 January '16. For this to take place, prior Member authority meet costs must be in place.

19. The December committee calendar is affected by the Christmas period, with most December committees occurring earlier in the month. Similarly, the January committee calendar is affected, with no committees sitting until 7 January '16. As a result, the only way to achieve the 8 January '16 deadline is by submitting this report to the November/December committee cycle and requesting delegated authority for the Town Clerk, in conjunction with the Chairmen and Deputy Chairmen of the Streets and Walkways and Projects Sub-Committees respectively, to consider a report ahead of the Christmas period.

20. As is clear from the content of this report, the exact scale of the cost impacts arising from the issues set out above have yet to be quantified. We will not have any degree of certainty of the likely Pavilion cost until it is provided by Kier in mid-December '15. Officers have been advised that the cost increase could lie in the region of £0.5M.

21. It is imperative to avoid further slippage in timescale for the project (and to avoid incurring further storage and prolongation costs) that we are able to place orders with Kier in good time. It is therefore recommended that the decision to procure the pavilion at the tendered cost, which may be higher than set out at Gateway 5, be delegated to the Town Clerk, in consultation with the Chairmen and Deputy Chairmen of the Streets and Walkways and Projects Sub-Committees respectively, subject to the increase in costs for the Pavilion not exceeding £0.5M.

Potential Scope Changes

22. Officers have identified a number of areas where some cost savings could be made to partly offset the increased costs identified above. These are set out below.

- Remove Urilift from project scope (£90k). This is achievable, but not necessarily desirable as it is likely to lead to increased cleansing costs associated with urination in corners, and against trees and walls.
- Remove Art in the Arches work stream from project (£80k). Whilst this is achievable, it will undermine the project's clear aim to enliven spaces in the Aldgate project. However, it is possible that this activity could be addressed through the Arts, Events and Play workstream, thereby delivering this activity using third party funding.

23. Thus, by removing the two items above from the project scope, a saving of £170k could be made, which would more than cover the abortive costs associated with the subway filling material failure. It is proposed to defer a decision on these items until the full costs of the unforeseen items above are known.

Overall Financial Position

24. An update of the overall financial position, incorporating the two highlighted risks and potential savings from scope changes, will be prepared for consideration under delegated authority. This will include funding proposals to address any shortfall.

Recommendations

25. It is recommended that Members note the following risk items and associated cost implications:

- A potential £0.5M increase in construction costs of the Pavilion;
- A further £0.5M which may be required to cover costs of removal of failed material associated with sealing and filling the pedestrian subway exits.

26. It is also recommended that Members note that there will be further cost penalties incurred, should Kier be delayed in procuring the Pavilion construction. As a result, it is further recommended that Members delegate authority to authorise a project budget increase to Town Clerk, in conjunction with the Chairmen and Deputy Chairmen of the Streets and Walkways and Projects Sub-Committees respectively. The combined worst-case costs of each of the risk items detailed in this report comes to £1M. The Town Clerk would further review the impact on the project construction budget and agree funding proposals to address any shortfall.

Contact

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