

## WMCA Board

<b>Date</b>	17 November 2023
<b>Report title</b>	New Stations Package 1: Project Cost Update
<b>Portfolio Lead</b>	Transport - Councillor Mike Bird
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<b>Report has been considered by</b>	WMCA Executive Board – 8 November 2023 Mayor and Portfolio Leaders Liaison Committee

### Recommendation(s) for action or decision:

#### The WMCA Board is recommended to:

- (1) Note the cost pressures associated with the New Stations Package 1 project.
- (2) Approve the proposed funding solution to extend the over programming of CRSTS1.
- (3) Delegate to the WMCA Section 151 Officer the ability to amend the project budget by up to £15.43m subject to satisfactory assurances being received by the Executive Director for Transport with respect to the anticipated final cost.

### 1. Purpose

- 1.1 To update the Board on the cost and programme implications of the novation of the West Midlands Rail Programme (New Stations Package 1 Project) to Kier Integrated Services Limited, following the administration of Buckingham Group Contracting Limited in September 2023 due to financial insolvency.

## 2. Update

- 2.1 A New Stations Package 1 Project Update paper was noted by the Board on 13<sup>th</sup> October 2023. This provided details of the decision to novate the New Stations Package 1 Project to Kier Integrated Services Limited (“Kier”), following the placing into administration of Buckingham Group Contracting Limited (BGCL).
- 2.2 Following rigorous review, it was determined that novating the contract to Kier would minimise disruption to the programme, maintain the current integrated delivery strategy, and retain many of the same resources. It also protected WMCA from negotiations from the administrators on the BGCL account.
- 2.3 Although novating the contract from BGCL to Kier was deemed more cost effective and allowed for more efficient delivery than re-procuring the works, the following outstanding issues remain:
  - Impact to the overall project schedule as a result of a revised contractual delivery programme agreed with Kier.
  - A revised Target Cost for the contract with Kier, negotiated as part of the novation agreement, with cost increases arising from project downtime and re-mobilisation costs, and incorporating scope changes.
  - The residual cost risk to the project associated with the extent of land remediation.
- 2.4 The schedule impact of the administration of BGCL and novation to Kier means that the new stations are likely to be operational in winter 2025 / 2026. This is currently subject to a full assurance exercise however this forecast date is based on an initial contractual programme submission from Kier. Programme mitigations are under investigation to understand how this date can be bettered.
- 2.5 WMCA Board were notified in June 2023 through the transport capital pressure paper of a cost pressure on the project. This has primarily been driven by extensive land remediation requirements and changes to industry requirements for fire safety. The approach to land remediation previously agreed with Network Rail has been reopened with additional remediation works mandated. The fire strategy, also previously agreed, has had to be amended following changes to national standards leading to the requirement for additional infrastructure to provide a secondary means of escape.
- 2.6 The CRSTS Rebase approved by WMCA Board in September 2023 included the proposal to meet the cost challenge through that exercise and ultimately the over programming of the CRSTS fund. This gave a locally approved revised budget for this scheme of £69.84m.
- 2.7 It is important to note that DfT apply specific delegations to the CRSTS programme including the requirement for full approval of changes in excess of £20m and importing new projects into the programme, regardless of value. As such, the locally agreed budget of £69.84m above includes £14m of funding which WMCA are awaiting approval on from DfT. This issue requires WMCA to carefully manage the commitments made against the available funding until full approval is obtained as there is a risk the proposed change could be rejected.

- 2.8 The cost impact of the novation and programme prolongation result in additional cost pressure with anticipated project costs to further increase to a total ranging from £81.27m to £85.27m, £11.43m to £15.43m over and above the pressure notified in June.
- 2.9 If funding cannot be found to cover this shortfall, the Deed of Novation for transfer of the contract with WMCA from BGCL to Kier provides flexibility for an affordable project to be defined, without contractual financial penalties. This provides the ability to phase the works as necessary to remain within the existing funding envelope however this report seeks the approval of additional funding from the overprogramming of CRSTS following further funding being allocated on the back of HS2 announcements to WMCA. It should be noted however that this is still dependant on the CRSTS rebase line exercise which was the subject of a board report in October and the change control to bring Package 1 rail schemes into the CRSTS programme. An initial assessment shows that the full scope at Willenhall station and land remediation at Darlaston can be delivered within the £69m approved as part of the CRSTS rebase. Financial monitoring is in place with Kier to ensure forward visibility of cost liability. Until additional funding is approved only project works within budget will be undertaken.
- 2.10 As an interim funding position, WMCA Board are asked to approve the over programming of CRSTS (subject to the above) to cover the additional cost pressure to a value of £85.27m while additional funding is sought.
- 2.11 Subject to WMCA Board approval, WMCA have the ability to over-programme against the CRSTS1 resources available to the region. However, it is recommended that funding opportunities are also pursued with the Coal Authority, Network Rail, and DHLUC who will be approached for funding contributions to support with costs associated with extensive land remediation and which will result in wider community regeneration benefits from the opening of the two new stations in economically deprived areas. Within the WMCA, use of brownfield regeneration funding will be investigated. Should any of these options be successful, they will reduce or negate the need to over-programme against the CRSTS1 allocation.
- 2.12 Subject to DfT providing consent to bring this project into the CRSTS programme as part of the rebase (thereby approving the initial £14.0m budget uplift request), the value of the change subject to this report is in line with delegations provided by DfT to WMCA (i.e. sub £20m). As such, WMCA should be able to make this change through delegated decision route, but WMCA will need to consult DfT on the change.

### **3. Strategic Aims and Objectives**

- 3.1 The Package 1 scheme will support the delivery of the vision set out in the WMCA Aims and Objectives to “*connect our communities by delivering transport and unlocking housing and regeneration schemes*” and will “*build and develop transport infrastructure that is sustainable, active, low congestion*”.

### **4. Financial Implications**

- 4.1 The Full Business Case for New Stations Package 1 was approved by WMCA Board on 15<sup>th</sup> January 2021 with a budget of £55.84m.

- 4.2 Following this approval, the position on Rail Package 1 experienced further challenges in relation to land remediation and fire strategy as noted above. The CRSTS report at WMCA Board on 9<sup>th</sup> June 2023 noted an application of £14.0m from CRSTS1 had been made to DfT to bring Rail Package 1 into the main programme to support those cost pressures. This was built into the CRSTS rebase proposal approved by Board on 15<sup>th</sup> September 2023. The CRSTS rebase has been submitted to DfT with WMCA now awaiting a decision which is expected imminently. The current locally approved budget is £69.84m although, as noted in the report, the contractual exposure requires careful management whilst the £14.0m budget increase awaits DfT approval.
- 4.3 As flagged in section 2, there will be an impact on the total project cost as a result of novation and consequent delays. The estimated cost to complete the full scheme ranges from £81.27m to £85.27m. This is an additional cost pressure of £11.43m to £15.43m over and above the pressure notified in June. This further increase is primarily a result of programme prolongation and more significant land remediation than previously anticipated. An extensive review of costs was undertaken during the novation process and further cost and schedule assurance work are underway are part of the rebase exercise.
- 4.4 It is noted that the funding package as per the approved FBC includes £31.65m DfT RNEP funding. This funding allocation, as part of the £59m award to both Rail Package 1 and 2 is subject to potential proportional clawback risk should the stations not be constructed. The quantification of the risk exposure is dependent on discussions with DfT and which option is taken if the full funding solution cannot be identified however it could be in the range of £7m to £16m. It is expected that further work is carried out to identify this risk with DfT.

### **CRSTS Over Programming**

- 4.5 As detailed within this report, unless alternative funding options can be identified, the additional cost of the works would need to be met by over programming against the CRSTS1 allocation and rebalancing the CRSTS programme post 2027 using CRSTS2.
- 4.6 The principle of over programming the CRSTS1 allocation was accepted by WMCA Board in June 2023 when cost pressures against the full transport portfolio to the of £160.2m were approved. The value was subsequently verified by the recent re-base exercise in October 2023.
- 4.7 Should the full increased cost (£15.43m) detailed within this report require funding via further over programming, this would take the total overprogrammed value from £160.2m to £175.63m. Furthermore, the Birmingham Eastside Metro report to this Board is also seeking to extend the over programming further and would bring the overall total to £192.7m.
- 4.8 The risk associated with over programming is considered to be low following the recent announcements around CRSTS2 and additional transport capital funding being made available to the region. Whilst the over programming arrangements will result in reduced levels of capital resources in future years, there remains a significant uncommitted resource from 2027 to assist in the delivery of regional plans.

## **5. Legal Implications**

- 5.1 The deed of novation has been drafted to preserve the terms of the existing construction contract, save for any unavoidable changes caused by the administration. The deed of novation provides for the building contract to remain substantially unmodified.
- 5.2 Any required reduction in the Scope of the Works to bring the project within required affordability criteria would be compliant with the PCR 2015 regulations and the terms of the contract itself.
- 5.3 The implications on any grant funding conditions must be fully understood prior to decisions on phasing of the works.

## **6. Single Assurance Framework Implications**

- 6.1 The full business case was approved in January 2021, with funding secured from WMCA, Walsall Council and DfT via the Rail Network Enhancement Pipeline.
- 6.2 While a full update to the business case will be developed in line with the cost and schedule assurance for project rebaseline, an initial review shows that the benefit cost ratio is 'very high' demonstrating that there are significant benefits from delivering the scheme even at a higher cost. An additional assessment was undertaken to assess the impact of completing the project in phases if required due to funding constraints, and this also gave a positive benefit cost ratio.

## **7. Equalities Implications**

- 7.1 Diversity Impact Assessments have been undertaken by the project which identify and address key equality issues and their mitigating measures. This project provides two stations designed to the current standards, with all areas fully accessible. Platforms are accessed by footbridges and lifts. Car parking will be designed to WMCA car park standards featuring the appropriate number of accessible parking spaces.

## **8. Inclusive Growth Implications**

- 8.1 The board considered in January 2021 the wider inclusive growth implications of the Package 1 scheme and noted that the proposed scheme will benefit areas of the West Midlands with particularly high levels of deprivation. Improving connectivity to education and employment opportunities in Walsall, Wolverhampton and Birmingham will therefore contribute to supporting the Combined Authority's growth aspirations.

## **9. Geographical Area of Report's Implications**

- 9.1 This report relates to two new stations in Walsall, at Willenhall and Darlaston.

## **10. Other Implications**

- 10.1 n/a

## **11. Schedule of Background Papers**

- 11.1 Full Business Case