

From: [DfT]
Sent: 24 September 2015 10:00
To: [HMT]
Cc: [HMT]; [DfT]; [DfT]; [DfT]
Subject: RE: Norwich Northern Distributor Road - Final Approval

Categories: Egress Switch: Unencrypted

The differences on costs is due to their fact that the scheme on which we are seeking Ministerial approval is only part of the full NNDR scheme. The full scheme includes the A47 Postwick Junction which has already been approved and which is close to opening for which we are providing £19m; the section of road between Postwick and the A140 which is the section on which approval is being sought (because of the decision originally reached at initial approval in 2011 to support only part of the full scheme for cost saving reasons); and an extension from the A140 to the A1067 which Norfolk are funding in its entirety. The full cost the full scheme is now £178.45m which includes the £29.9m cost increase. The full cost of the scheme on which we are seeking approval is now £105.89m with the full cost of the scheme including the extension but minus Postwick is now £151.147m

The original cost of the scheme on which we are seeking approval (excluding Postwick and the A1067 extension) was £86.74m of which DfT had agreed to provide £67m. The revised cost of £105.89m is an increase in cost of £19.15m. Norfolk asked DfT to fund a pro-rata increase based on the percentage of their and our contributions to the original cost which worked out at £15m. Our Ministers did not want to provide all of that but suggested £10m.

As background the funding for the full scheme is coming from the following sources:

£19m	DfT Postwick allocation (already drawn down)
£67.5m	Original DfT NNDR allocation (Postwick to A140)
£1.71m	Growth Point Funding
£60.34	Local Authority (Norfolk CC supported by up to £40m CIL funding from Norwich, Broadland, S.Norfolk DC's)

Total - £148.55 (to meet 2013 estimated cost, leaving £29.9 shortfall.)

£10m	DfT additional allocation
£10m	New Anglia LEP allocation (to be funded from the proposed 2016/17 Future Growth Fund so Norfolk are underwriting)
£10m	Norfolk County Council additional funding.

Total - £178.45

As to the points you set out it would be difficult to row back on the cost increase which our Minister has already approved in principle, and which is public knowledge.

Would you also be able to provide a bit of info on what will happen if additional funding is not provided now

– Norfolk would have to re-consider whether it wants to continue with the scheme and if so where it could find the additional £10m. Given the New Anglia LEP have already stated that their £10m will come from the next round of LGF funding, which of course is subject to the Spending Review, Norfolk is already underwriting that

so if they had to fund a further £10m that would mean they would potentially be underwriting all the additional £30m. This would have to be considered and approved by the Council which I expect would take them a few months during which time both we and you would be subject to significant lobbying by local MPs and the cost of the scheme may well rise again if the time taken means the period in which the agreed prices are held is passed.

How much delay would we expect?

– see above (and that is if it is resolved by NCC quickly).

Would they be able to get funding elsewhere eventually?

– There is nowhere else they can find the additional funding (assuming the LEP won't cover it) except from their own internal sources which are already stretched. I don't know whether they would do this but given the long history and background to the scheme I think they would find it hard to drop it at this late stage and if they did our Ministers would face a considerable backlash.

And would we expect the project to go ahead at all if it is delayed?

– Depends on whether they can find the money.

On your further points:

The scheme has overrun on its originally forecast cost by £30m and the government is now stepping in with an extra £10m to help plug the gap, setting an unhelpful precedent for central government help for LAs with cost overruns.

- There are benefits to insisting that LAs need to meet all cost overruns themselves – a position that has been generally taken before in such cases. To do otherwise risks making it harder to refuse similar requests in future and thus reduces pressure on LAs to control costs. The LA could seek other sources of funding e.g. own budgets or LEP allocations (as they will do for the remaining £20m).

- But it is not a principle that we have applied universally – for instance earlier this year we allowed DfT to provide an extra £34m for Croxley rail link (an LA project to extend the Metropolitan line to Watford). This case was arguably different in that the extra funding coincided with the LA handing over responsibility to TfL (providing a bit more assurance about delivery), though in that case the value for money of the project was low (BCR circa 1) whereas in this case the value is very high (BCR circa 6).

This is OK

The increased cost of the project has been attributed to construction cost inflation attributable to a two year delay in approval – but the actual increase in costs (circa 33%) is roughly double the actual rate of construction cost inflation (circa 16% calculated using BIS TPI index). So the project should be re-tendered to get a better price.

- (This seems to relate to addition of two items to the original estimate, for design development and design standards, totalling £10m – actually if these are stripped out the cost increase is nearer to being in line with construction inflation but this still means inflation is only part of the explanation.)

- [Is this a correct account of the increases in price relative to inflation? Are we satisfied that the council has scrutinised the causes of cost increase properly? What do we think is the true cause of increased cost, and is this justified? Is it realistic to re-tender the contract?]

The cost increase is due to both the cost inflation and additional requirements placed on Norfolk following the Public inquiry by Natural England and the Environment Agency. The Council has considered the cost increase and provided the following comments: As part of the target cost process with Balfour Beatty, the Council commissioned a report from Franklin & Andrews [copy attached] to assess the level of construction inflation experienced between 2010 and 2015. This demonstrated that the BB target cost was 'not unreasonable' when compared to other typical schemes as represented by nationally accepted measures of construction inflation. This was then further tested by comparing the NNDR cost per mile with the cost of the recently delivered A11 dualling per mile. As set out in the report to Full Council, this again was 'not unreasonable'. Neither of these comparators impact on the target cost provided by BB, but they have informed the officer view that the BB costs have been tested and are robust.

This led to the officer advice that retendering the contract would lead to delay, the cost associated with this delay, and given our understanding of construction inflation, this was likely to lead to higher tender costs and worse value for the public purse. This obviously differs from Cllr Boswell's view, but Members considered this information and officer advice when coming to their decision.

We have not been able to obtain independent advice on this but it is clear that to retender the contract would add significant delay - many months - after which it is not clear that the cost would be lower and quite possibly could be higher due to further cost inflation caused by the delay.

The council has failed to explore a cheaper, more environmentally friendly scheme properly as an alternative option.

- [Do we know about this alternative option? Is it really cheaper/better? Are we satisfied that the council has appraised all realistic options and made a reasonable judgment about which is this best?]

It is not for this Department to tell LAs what schemes they should submit for funding. The scheme has been through our 2010 Development Pool process following which it was granted initial approval along with all the other such schemes. It was then subject to a Development Control Oder inquiry where alternatives were considered and rejected by the Inspector. Our Secretary of State considered the recommendation of the Inspector and supported his/her view that the legal orders for the scheme as proposed by Norfolk should be approved allowing them to seek funding approval. The main alternatives (as far as I am aware) are to just implement sustainable measures (bus improvements, walking, cycling etc. without small scale road improvements) with a different spatial allocation of housing to fit with this which given the current congestion would be difficult to implement and unlikely to meet the scheme objectives, or to use the individual elements of internal roads to be built by each housing developer to join together to create a developer funded single carriageway inner orbital road link between A47 Postwick Interchange and A1151 Wroxham closer in to the city centre.

The proposal to finance this in part through borrowing serviced by Community Infrastructure Levy is unrealistic because the assumptions on property value underlying this is overstated.

- [Do we know anything about this? Does this actually put the viability of the project at risk or is it just a risk to the LA's own finances? If the latter is it a big enough risk that we should worry about it?]

We have not sought detailed assurance on this. Many schemes we deal with have considerable CIL funding. Norfolk will have agreed this with the local councils in advance of approval being sought. As with all such schemes Norfolk will be underwriting this and its S151 officer has signed the bid document.

Finally I think we'll need to point out to ministers that the government's intention to provide additional funding was in the public domain before HMT ministers had a chance to take a view on this. I understand this project followed an unusual route in that it had previously not been a scheme needing HMT approval – can I suggest we provide a bit of info to our ministers on what process DfT will put in place to ensure that in future, where clearance is needed, HMT ministers are consulted before decisions become public? (They will always be happy to provide a quick informal steer if we get a heads up that an indicative view is needed at an earlier stage than formal approval.)

As you say the previous scheme cost was not high enough to require HMT approval and only the cost increase raised it above the £100m level by just over £5m. We had believed that as we would still need HMT approval to the full cost you would not need to approve the additional funding. It is unlikely that we will face the same issue in future but if we do we will ensure that you are consulted before any decisions and public announcements are made.

Happy to discuss further.

xxxx xxxx | , Local Infrastructure Division, Department for Transport
2/15 GMH | 020 7944 xxxx |

From: [HMT]
Sent: 23 September 2015 15:17
To: [DfT]
Cc: [HMT]; [DfT]; [DfT]
Subject: RE: Norwich Northern Distributor Road - Final Approval

Hi xxxx,

Sorry one more question. The total cost increase in the SoS letter is £19m, but the correspondence we've had and media reports say that the council had a funding shortfall of £30m to be made up with equal contributions from DfT, LA and LGF. Do you know how these figures fit together?

Ta,
xxxx

xxxx xxxx
Policy Adviser | Transport Strategy & Reform
HM Treasury | 1 Horse Guards Road | London SW1A 2HQ | 0207 270 xxxx
xxxx

From: [HMT]
Sent: 23 September 2015 13:00
To: [DfT]

Cc: [HMT]; [DfT]; [DfT]

Subject: RE: Norwich Northern Distributor Road - Final Approval

Hi xxxx,

Thanks for sending this across.

You've already provided the summary business case so we can use that to inform advice. Would you also be able to provide a bit of info on what will happen if additional funding is not provided now. How much delay would we expect? Would they be able to get funding elsewhere eventually? And would we expect the project to go ahead at all if it is delayed?

As discussed previously we've also had several letters from local campaigners, some of which raise what appear to be plausible claims about the process/decision – I think our ministers will want to be sure these have all been checked out before we go ahead. I've set out below the claims and what I think we can say to our ministers about them – I'd be grateful if you could confirm and provide an answer to questions in square brackets.

The scheme has overrun on its originally forecast cost of £30m and the government is now stepping in with an extra £10m to plug the gap, setting an unhelpful precedent for central government help for LAs with cost overruns.

* There are benefits to insisting that LAs need to meet all cost overruns themselves – a position that has been generally taken before in such cases. To do otherwise risks making it harder to refuse similar requests in future and thus reduces pressure on LAs to control costs. The LA could seek other sources of funding e.g. own budgets or LEP allocations (as they will do for the remaining £20m).

* But it is not a principle that we have applied universally – for instance earlier this year we allowed DfT to provide an extra £34m for Croyley rail link (an LA project to extend the Metropolitan line to Watford). This case was arguably different in that the extra funding coincided with the LA handing over responsibility to TfL (providing a bit more assurance about delivery), though in that case the value for money of the project was low (BCR circa 1) whereas in this case the value is very high (BCR circa 6).

The increased cost of the project has been attributed to construction cost inflation attributable to a two year delay in approval – but the actual increase in costs (circa 33%) is roughly double the actual rate of construction cost inflation (circa 16% calculated using BIS TPI index). So the project should be re-tendered to get a better price.

* (This seems to relate to addition of two items to the original estimate, for design development and design standards, totalling £10m – actually if these are stripped out the cost increase is nearer to being in line with construction inflation but this still means inflation is only part of the explanation.)

* [Is this a correct account of the increases in price relative to inflation? Are we satisfied that the council has scrutinised the causes of cost increase properly? What do we think is the true cause of increased cost, and is this justified? Is it realistic to re-tender the contract?]

The council has failed to explore a cheaper, more environmentally friendly scheme properly as an alternative option.

* [Do we know about this alternative option? Is it really cheaper/better? Are we satisfied that the council has appraised all realistic options and made a reasonable judgment about which is this best?]

The proposal to finance this in part through borrowing serviced by Community Infrastructure Levy is unrealistic because the assumptions on property value underlying this is overstated.

* [Do we know anything about this? Does this actually put the viability of the project at risk or is it just a risk to the LA's own finances? If the latter is it a big enough risk that we should worry about it?

Overall I will make the point that these comments all came from groups opposed to the scheme or favouring another option – but nonetheless we want to be sure they've been checked out before we put advice to ministers.

If you haven't seen any of these before and want a copy of the correspondence let me know and I can dig them out.

Finally I think we'll need to point out to ministers that the government's intention to provide additional funding was in the public domain before HMT ministers had a chance to take a view on this. I understand this project followed an unusual route in that it had previously not been a scheme needing HMT approval – can I suggest we provide a bit of info to our ministers on what process DfT will put in place to ensure that in future, where clearance is needed, HMT ministers are consulted before decisions become public? (They will always be happy to provide a quick informal steer if we get a heads up that an indicative view is needed at an earlier stage than formal approval.)

Many thanks,
xxxx

xxxx xxxx
Policy Adviser | Transport Strategy & Reform
HM Treasury | 1 Horse Guards Road | London SW1A 2HQ | 0207 270 xxxx
xxxx

From: [DfT]
Sent: 16 September 2015 07:56
To: [HMT]
Cc: [HMT]; [DfT]; [DfT]
Subject: RE: Norwich Northern Distributor Road - Final Approval

Please find attached a copy of the signed letter from my Minister to the Chief Secretary seeking HMT approval to the NNDR scheme. Happy to provide any additional information.

xxxx xxxx | , Local Infrastructure Division, Department for Transport
2/15 GMH | 020 7944 xxxx |

From: [DfT]
Sent: 07 September 2015 10:03
To: [HMT]
Cc: [HMT]; [DfT]; [DfT]
Subject: RE: Norwich Northern Distributor Road - Final Approval

Thanks. The group (or groups) and Councillors raising these concerns have been opposed to the scheme since it started. We had thought they would seek judicial review of the legal orders recently approved but we understand they decided not to do that.

I attach the summary table templates which we have produced which our Minister will consider should the scheme be approved the Investment Board. It gives more detail on the scheme.

As to the recent decision by our Minister to approve an additional £10m we did not put a particular recommendation but set out the pros and cons as follows:

- a) Stick to the long standing policy of not providing additional funding leaving Norfolk to find the additional funding through:
 - i. additional local contributions;
 - ii. advising Norfolk to seek the additional funding from the New Anglia Local Enterprise Partnership; or
 - iii. offering to provide advance payment of the various agreed formulaic funding to be provided to Norfolk for maintenance and general transport (IT Block and maintenance block);
- b) Provide the extra funding or negotiate a smaller DfT contribution than £15.8 million - say £10 million.

The Minister considered the advice and, to prevent further delay to scheme, said that in this instance we should make an exception to our policy of not providing additional funding and said we should not agree the full £15m request but a smaller amount (we had suggested £10 million which he felt was sensible).

Let me know if you require any further information.

xxxx xxxx | , Local Infrastructure Division, Department for Transport
2/15 GMH | 020 7944 xxxx |

From: [HMT]
Sent: 07 September 2015 09:52
To: [DfT]
Cc: [HMT]; [DfT]; [DfT]
Subject: RE: Norwich Northern Distributor Road - Final Approval

Thanks for this.

If possible it would be really helpful if we could see the assessment and more detail of the reasoning put to your ministers for the additional funding – this will help us turn around the formal approval more quickly when it comes, especially since the local concerns mean we'll need to look at this carefully.

Do you know – are the groups raising concerns also against the project in principle? Or are the concerns they have mentioned their only problem with the decision?

Thanks,
xxxx

xxxx xxxx

Policy Adviser | Transport Strategy & Reform

HM Treasury | 1 Horse Guards Road | London SW1A 2HQ | 0207 270 xxxx

xxxx

From: [DfT]

Sent: 04 September 2015 07:57

To: [HMT]

Cc: [HMT]; [DfT]; [DfT]

Subject: RE: Norwich Northern Distributor Road - Final Approval

Assessment has been done (vfm very high). Scheme will be considered for approval by the local investment board next Wednesday following which a submission will be sent to the Minister. Assuming he approves the scheme a letter should be with you probably in the week of 14th September. It would be good if a response could be received as soon as possible so that we can make the announcement and Norfolk can sign the contracts and get on with the scheme.

As to the e-mails we sought Ministers views on whether or not to provide additional funding. He agreed to provide an additional £10m on an exceptional basis even though this does set a precedent.

Let me know if you want any additional information.

xxxx xxxx | , Local Infrastructure Division, Department for Transport

2/15 GMH | 020 7944 xxxx |

From: [HMT]

Sent: 03 September 2015 17:39

To: [DfT]

Cc: [HMT]; [DfT]; [DfT]; [DfT]; [DfT]

Subject: RE: Norwich Northern Distributor Road - Final Approval

Hi xxxx,

What's the latest on this approval – are we still expecting it to come to HMT?

We've had emails from the Campaign for Better Transport and from the leader of the opposition on Norwich Council, both expressing concerns about a decision to give more DfT funding to the project. I think you may have had the same emails. Do we have a view on whether their concerns are justified?

Thanks,

xxxx

xxxx xxxx

Policy Adviser | Transport Strategy & Reform

HM Treasury | 1 Horse Guards Road | London SW1A 2HQ | 0207 270 xxxx

From: [dft]
Sent: 10 August 2015 15:53
To: [HMT]
Cc: [HMT]; [DfT]; [DfT]; [DfT]
Subject: Norwich Northern Distributor Road - Final Approval

I thought I would give you early warning that the Norwich Northern Distributor Road's final approval bid has just arrived with us. Details of the scheme are below but I am providing early warning as the total cost of the scheme has increased to over £100m - £106m to be precise – so I am assuming if our Ministers make a decision to fund the scheme they will need to seek the Chief Secretary's agreement to the funding. Norfolk CC has asked for additional funding (£15m) about which we are currently seeking our Minister's views. If agreed this would bring the Department's total contribution to £83.3m from the current £67.5m with the total cost increasing from £87m to £106m. We are on a tight timetable to agree the scheme so that work can start in October otherwise there could be delays caused by winter and other issues. I would hope that our Ministers would consider the scheme around 11th September following which a letter would be sent to the CST. I understand Andrew Jones, the relevant Minister, may be visiting Norfolk around this time so it would be good if he could announce the decision if it were possible assuming it is positive during his visit. I am assuming that we can continue to seek approval whilst the SR process is on otherwise we would have to wait until after the SR announcement which would significantly delay the scheme and cause a considerable political problem given the high profile nature of the scheme.

I would be happy to discuss further.

Details

1. Norwich Northern Distributor Route (NNDR) is a 20km dual carriageway road planned to run from the A47 at Postwick, round Norwich, to the A1067. Previously the Government gave initial approval, on cost grounds, for a shorter 14km section of the full route - from Postwick to A140 – which is the scheme on which we will seek approval from Ministers. Norfolk plan to pay for the scheme to be extended to the A1067.
2. The current transport network is claimed to inhibit current and future housing and employment growth in Norwich. Norfolk estimate that up to 8,000 houses and 95ha of employment land (largely for office employment) leading to some 12,200 jobs will be unlikely to proceed without improved transport provision for which NNDR (including the Postwick Junction) is deemed the best solution. In addition current peak hour congestion on radial routes and the Norwich Outer Ring Road leads to congestion and rat-running on inappropriate routes to the north of Norwich causing environmental problems. Norfolk state that its ability to provide further sustainable transport measures in the City, as set out in the wider Norwich Area Transportation Strategy (NATS), is inhibited without the reduction in traffic the road would bring about.
3. When last assessed the scheme had a very high vfm with a BCR of 5.4. Programme Entry was re-confirmed in November 2011 at total cost of £111m of which DfT would provide £86m subject to satisfactory completion of the remaining statutory procedures and procurement. The Postwick Junction element was subsequently separated out and approved as a stand-alone scheme given the wider employment

benefits it will bring even if the NNDR is not built. It is currently under construction at a total cost of £24m with a DfT contribution of £19m and is expected to open in October.

4. The Secretary of State approved the legal orders for the NNDR on 2 June and they are now free of any objection period.

xxxx xxxx
, Local Transport Funding Growth & Delivery Division
2/15 GMH, Great Minster House
33 Horseferry Road, London, SW1P 4DR
020 7944 xxxx

Follow us on twitter @transportgovuk