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		Date:	5 August 2015
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## **Norwich Northern Distributor Road – Cost Increase**

### **Issue**

1. Whether to agree to provide additional funding (up to £15.8m) to Norfolk C.C. to cover the increased cost of the Norwich Northern Distributor Road.

### **Recommendation**

2. That you note the options at paragraph 7 and provide a steer on your preferred option

### **Timing**

3. Routine - however Norfolk cannot submit the final approval bid for the scheme until they can confirm that all the funding is available and have asked for an early response so as to keep up the momentum.

### **Clearance**

4. This submission has been cleared by Finance and Press Office.

### **Background**

5. Norwich Northern Distributor Route (NNDR) is a 20km dual carriageway road planned to run from the A47 at Postwick, round Norwich, to the A1067 (see Annex A for further background and also the attached map). Norfolk is now ready to submit a final business case for approval but has asked for an additional government contribution of £15.8m towards a £30m cost increase caused by construction inflation and additional requirements placed on the scheme by Natural England and the Environment Agency.
6. This would bring the Department's total contribution (excluding Postwick Junction) to £83.3m from the current £67.5m and the total cost from £87m to £106m. Norfolk would pay half of the additional cost, increasing their contribution to £35m. The remaining funding (£40m) is coming from district councils through the Community Infrastructure Levy.

## Consideration

### Options

7. There are two main options for dealing with this request.
  - 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.

### Cons

8. The Government's policy has for many years been that it will not provide additional funding for such schemes from that agreed at programme entry. This puts the emphasis on scheme promoters to manage their costs efficiently, to reassign funds from local schemes to deal with cost increases, or to seek additional funding from the Local Enterprise Partnership.
9. A change in policy would set a precedent which we would find difficult to argue against in future. Scheme promoters for large schemes in the pipeline such as the Leeds NGT (£250m) and the Lincoln Eastern Bypass (£89m) have factored in the current policy to their funding profiles, but will almost certainly argue that they should also benefit from any changes.
10. We have rejected similar claims for additional funding in the past. Examples include E Sussex asking for an additional £30m for the Bexhill-Hastings scheme and S. Yorkshire asking for c£6m for the Bus Rapid Transit scheme. The only time this policy was relaxed was prior to the General Election when additional funding was provided for the Croxley Rail Link scheme in Hertfordshire. This was though a very exceptional scheme where costs rose by c£170m. The Government agreed to pay an additional £34m from 2014/15 underspend but even then the relevant Local Enterprise Partnership put in a considerable amount of extra funding (£88m) by descopeing some of their other schemes and Transport for London agreed to provide £46m.
11. The Local Growth Fund system involves the devolution of funding and approval for all but the few schemes which we have retained on the Department's budget. A core principle of the LGF system is that the consequences of cost increases or delays to schemes should be dealt with by the LEP. Whilst Norfolk have argued that their (the New Anglia) LEP will say this is a legacy scheme, it is still a fundamental part of the region's Strategic Economic Plan so the LEP should be

the first port of call for additional funding.

12. Norfolk has claimed that the costs are in part caused by delays, some of which could be laid at Government's door such as review of programmes following elections (although this affected all schemes in the programme) as well as changes to the planning system which changed the process by which schemes such as this are dealt with. However, Norfolk signed up to this condition at programme entry as did all other schemes.
13. Sticking to this policy may mean the scheme is not progressed, and we anticipate concerted interest and correspondence from local MPs, but we would be surprised if Norfolk did not find the necessary funding. They have options to approach the LEP, make use of road maintenance funding, or to alter the scope of the existing NNDR slightly by deferring the upgrade of a section to the west of Norwich to a future scheme.

### Pros

14. The scheme is high profile although there is significant local opposition. It is a fundamental element of the local infrastructure needed to allow the significant levels of housing and growth planned for the area. Norfolk is confident that the project will remain within the 'very high' value for money category even with the cost increase although we have not been able to verify this claim.

### Funding

15. If you were to decide that we should provide additional funding we could seek to reduce the amount provided by negotiating a smaller DfT contribution than £15.8 million - say £10 million. Although the LA majors funding has been allocated over the next few years it is likely that we could find some or all of the required additional funding from delays to other schemes. This would still leave a small funding pressure for future years but one that is likely to be manageable.
16. The recent first quarter forecasting exercise undertaken by the Department has also identified some emerging budget underspends and the balance to make up to £10m could be found from these (with little or no impact into future years).
17. Alternatively, we have in the past dealt with similar funding problems by advancing to an LA the funding they receive through the Integrated Transport (ITB) and/or Maintenance Block allocations to cover the increased cost of schemes. They would of course no longer have this funding to use for the purposes it is provided - smaller improvements and highways maintenance. We are currently paying Norfolk £4.141m annually over the next five years on ITB and on maintenance we are paying the following amounts over the next three years - £28.637m, £26.253m, and £25.459m. This would effectively be cost neutral in the longer term as an advanced payment will be clawed back over the next few years.

## **Presentation and Handling**

18. Knowledge of the additional cost of the scheme is likely to become public in the next week or two. Given the significant opposition to the scheme the Department is likely to face calls to reject the additional cost with the hope that this will mean the scheme does not continue. There will be claims that Norfolk is spending more on roads at the same time as cutting expenditure on other areas such as social services. There is a risk that the Government could be dragged into this argument.
19. If we receive media queries in advance of any decision on the scheme itself we would propose to say:

“We are currently considering an application from Norfolk County Council for an increased DfT contribution towards the new Northern Distributor Road and a decision will be made in due course.”

## **Analytical Assurance Statement**

20. No new analysis has been carried out for this submission so it has not been subject to analytical assurance. The scheme will be subject to detailed analysis if and when the final bid is received.

## **Charlie Sunderland**

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## 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. 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.
5. This scheme has been unfortunate given that its long development has meant it has been caught by delays caused by reviews of policy on major schemes following elections as well as changes to the planning system. Norfolk is arguing that these policy changes were caused by Government so it should help cover the additional cost. The project was originally given initial funding approval in 2009 but progress was delayed by the spending review announced in May 2010. With conditional approval being re-confirmed in late 2011, this has added a 2 year project delay. Norfolk say that much of the additional cost is as a consequence of significant construction inflation in the last 2 years, since they re-set the scheme budget in 2013. They have sought independent advice on construction inflation, and the increase is in line with that advice although it does seem to be rather high.
6. The further work required by the Environment Agency and Natural England has included archaeological investigation, environmental supervision, additional

fencing and access tracks, signing and lighting details as well as considering higher specification bat gantry proposals increased landscaping provision, additional construction constraints (more night working provision), changes to the bridge structures and significant changes to the drainage design.