

Report to Accountability Board	Forward Plan reference number: FP/AB/157
Date of Accountability Board Meeting:	15/06/18
Date of report:	12/06/18
Title of report:	Sandwich Rail Infrastructure Project
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<p>Confidential Appendix</p> <p>This report has a confidential appendix which is not for publication as it includes exempt information falling within paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.</p>	

1. Purpose of report

- 1.1 The purpose of this report is to provide the Accountability Board (the Board) with an update on detailed developments of the Sandwich Rail Infrastructure Project (the Project) since the South East Local Enterprise Partnership (SELEP) approved the inclusion of the Project in the Local Growth Fund (LGF) programme and approved the award of £1,025,745 to the Project in November 2017.
- 1.2 Furthermore, a decision is sought from the Board to re-allocate a further £877,425 LGF from under spends accruing on the Ashford International Rail Connectivity Project (Ashford Spurs) to the Project.

2. Recommendations

- 2.1 The Board is asked to:
 - 2.1.1 **Note** the updated position concerning the Open Golf Championship – Sandwich Rail Infrastructure Project.

2.1.2 **Approve** the re-allocation of £877,425 from Ashford Spurs under spend to the Project, subject to:

- 2.1.2.1 The underspend from the Ashford Spurs project being confirmed by Kent County Council (KCC);
- 2.1.2.2 Confirmation from The R&A that the Open Golf Championship will be hosted at Royal St George's on at least two further occasions by 2036, on a 7-8 year cycle;
- 2.1.2.3 Written confirmation from the Department for Transport, The R&A and Network Rail that their funding contributions have been committed.

3. Background

- 3.1 The Open is a prestigious sporting event that independent research demonstrates brings significant economic benefits to the area in which the event is held, due to the global profile it provides the area and the resulting interest from international business and spectators.
- 3.2 The last time Kent hosted The Open in 2011, 180,000 spectators attended, and the event generated a £77m benefit to the Kent economy, of which £24.14m was direct additional spend. In 2020, the economic impact is forecast to be in excess of £85m, of which at least £26.8m is forecast to be direct additional spend. However, critical transport improvements are required at Sandwich Station to enable the expected number of spectators to access the Royal St George's Golf Course when The Open is underway.
- 3.3 The Project will deliver platform extensions and a second station footbridge at Sandwich Railway Station. These improvements will enable longer trains to stop at Sandwich Railway Station during the event without blocking the level crossing, which will improve the capacity for rail borne passengers and not obstruct spectators arriving via other modes of travel, particularly via the Park and Ride. The proposed improvements will improve the safety of spectators, and critically, for an international sporting event, provide an excellent spectator experience.
- 3.4 KCC is required to contract with Network Rail on 15th June 2018 in order to deliver the infrastructure in time for The Open 2020.
- 3.5 The infrastructure delivered through the Project will be permanently in situ but will only be operational whilst the Championship is being held in Sandwich, as the infrastructure will not be accessible at other times.

4. Decision by the Board in November 2017

- 4.1 On 17th November 2017 the Board agreed to the inclusion of the Project in the Growth Deal programme and the award of £1,025,745 LGF to the project, subject to the following conditions being met:
- 4.1.1 The under spend from the Ashford Spurs project being confirmed; and
 - 4.1.2 Confirmation from The R&A that the event will be hosted at Royal St George's on at least two further occasions on a 7-8 year cycle; and
 - 4.1.3 Written confirmation from the Department for Transport and The R&A that their funding contributions have been committed
- 4.2 The report presented to the Board on 17th November 2017 stated:
"The total cost of the Project is estimated at £4,299,200, with funding contributions from Kent County Council and from a collection of five local authorities in East Kent. The remaining funding contribution is expected from The R&A and the Department for Transport, although to date the exact amount is unknown, and there is no formally [sic] confirmation from either party that they will be contributing to the overall costs of this Project. Accordingly without their contributions there is a gap of £2,923,455 in funding. This is equivalent to 68% of the total funding required."
- 4.3 The November Board report also stated that further value engineering work would be undertaken by Network Rail, and that once the value engineering exercise had been completed, the exact share of the outstanding contribution would be determined between KCC, Network Rail and R&A.
- 4.4 Since the November meeting, further work has been undertaken to develop the Project, with Network Rail providing a value engineering report at the end of April 2018.
- 4.5 Following this further value engineering work, the total cost of delivering the Project previously considered by the Board has reduced from £4,299,761 to £3,020,965.
- 4.6 Negotiations have subsequently taken place with The R&A and the Department for Transport (DfT) to confirm their financial contributions to the Project. In addition, KCC has increased its commitment to the project to underwrite 28% of the contingency and a funding contribution has been sought from Network Rail. Confidential Appendix A shows these updated financial commitments.

- 4.7 The outstanding funding gap for this Project since the previous November Board report has reduced from £2,923,455 to £877,425.
- 4.8 This report seeks a decision from the Board to approve the allocation of £877,425 of LGF funding, which is in addition to the £1,025,745 of LGF previously agreed in November 2017, to deliver the enhancements to Sandwich Station to support the Open Golf Championship at Sandwich in July 2020, and two subsequent Championships events up until 2036.
- 4.9 The Kent and Medway Economic Partnership (KMEP) Federated Board is in support of the proposed increase in LGF allocation to the Project, having been considered by KMEP at its meeting on the 21st May 2018.
- 4.10 This further funding virement would come from further Kent LGF under spend resulting from the Ashford Spurs project.

5 Ashford Spurs Project

- 5.1 Ashford Spurs has been awarded a total of £9.800m LGF through two decisions from the Board, on the 16th September 2016 and the 26th May 2017.
- 5.2 In November 2017, the Board agreed to re-allocate £1,025,745 LGF from Ashford Spurs to this Project.
- 5.3 The original scope of the Ashford Spurs project has now been completed, with a total LGF expenditure to date of £4.340m. However, some technical issues have been identified following the delivery of Ashford Spurs and further expenditure will be required to resolve the current technical issues.
- 5.4 After the estimated cost of the solution to the technical issues for Ashford Spurs has been taken into consideration, KCC is confident there will be sufficient under spend available from Ashford Spurs to support KCC's proposal to seek to re-allocate £877,425 from Ashford Spurs to the Project.
- 5.5 If the total cost of the Ashford Spurs project, including the cost of resolving the outstanding technical issues, exceeds the remaining £7,896,830 allocation to Ashford Spurs (once the re-allocation of £1,903,170 LGF to the Project has been accounted for), these costs will be met locally by KCC.

6 Project funding profile

- 6.1 Table 1 below sets out the proposed new profile of the LGF contribution to the Project.

Table 1 Proposed LGF spend profile

	2018/19	2019/20	2020/1	Total
Proposed LGF allocation to the Project	£503,170*	£1,400,000**	£0	£1,903,170

* Estimated spend in 2018/19 on design costs + contingency + NR fees

** Estimated spend in 2019/20 on delivery costs + contingency + NR fees

- 6.2 Drawdown of LGF funding will have priority, to ensure full LGF allocation is spent well before the end of the Growth Deal period (31st March 2021).
- 6.3 The remaining funding required for the Project will be provided by The R&A, KCC, the five East Kent District Councils, and the Department for Transport (to be confirmed), as shown in confidential **Appendix A**.

As the total funding required to deliver the Project is less than the original figure set out in the business case which was approved in November 2017 by the Board, a further business case revision is not required as the most recent overall Project cost is below the original value presented.

7 Timescales

- 7.1 The delivery of the proposed improvements is achievable by Spring 2020, provided that a decision is made now by all the funding partners and the milestones outlined below are achieved:
- Network Rail to present programme for design and delivery to meeting with all partners – 14th June 2018
 - SELEP Accountability Board endorsement of proposal – 15th June 2018 (decision will be subject to call in until the 20th June 2018)
 - KCC instructs Network Rail to progress project (Grip 3) – 15th June 2018
 - KCC and Network Rail to enter Implementation Agreement for Grip 4 to Grip 8 (project design and delivery) – 15th July 2018
 - Network Rail to begin outline design – September 2018
 - Network Rail to begin site mobilisation and delivery – July 2019
 - **Project completion - February 2020**
 - Standard build contingency – March to June 2020
 - **The Open Championship: 12 – 19 July 2020**

8 Conditions for Approval

- 8.1 KCC will not contract with Network Rail to deliver this Project utilising SELEP's original contribution or this further contribution, if agreed, until all three conditions outlined in 2.1.2 have been met.

9 SELEP Secretariat Comments

Outcome of ITE review

- 9.1 The SELEP Independent Technical Evaluator (ITE) assessed the Project Business Case through the Gate 1 and Gate 2 process in advance of the funding decision to award £1,025,745 to the Project. The recommendation was that the Project achieves high value for money with a medium certainty of achieving this.
- 9.2 The economic appraisal has indicated a Benefit Cost Ratio (BCR) of 3.92:1, which is categorised as high value for money. This BCR has been calculated based on the GVA benefits to the local economy, which have also been converted into welfare benefits. The Project benefits have been assessed on an assumption that the event will be held on at least a further two occasions.

Conditions of funding

- 9.3 In addition to the condition for The R&A to confirm that the event will be hosted at Royal St George's on at least two further occasions on a 7-8 year cycle, the funding award is subject to:
- 9.3.1 The under spend from the Ashford Spurs project being confirmed by Kent County Council; and
 - 9.3.2 Written confirmation from the Department for Transport, Network Rail and The R&A that their funding contributions have been committed.
- 9.4 At the meeting on the 11th November 2017 verbal confirmation was provided that an LGF under spend is available from Ashford Spurs. However, in light of the potential additional costs which may be incurred in resolving the outstanding technical issues in relation to Ashford Spurs, written confirmation was sought and has been received that £1,913,170 LGF is available from Ashford Spurs to enable the delivery of the Sandwich Rail Infrastructure Project, although the final spend requirement on Ashford Spurs has yet to be confirmed by KCC.
- 9.5 The position in relation to the funding contributions from the DfT and The R&A are set out in Appendix A.
- 9.6 Written confirmation has been provided to SELEP to confirm The R&A's commitment to stage The Open as Royal St George's in 2020 and on two further occasions through to 2036.

Use of LGF underspends

- 9.7 The feedback from SELEP's recent Deep Dive with officers from Central Government included the following recommendation:

“SELEP should take steps to satisfy themselves that any underspend at a federated level is reallocated to the most promising and best value for money projects. As outlined in the Annual Conversation letter, the Investment Panel’ should prioritise pipeline projects to ensure that underspends are redistributed in the most effective way possible”.

- 9.8 In light of this requirement from Central Government for SELEP to develop and maintain a single pipeline of LGF projects to help inform decision making around the use of any LGF underspends, a proposed approach will be considered at the next Strategic Board on the 29th June 2018 to develop a single pipeline of LGF projects. Once this pipeline of projects has been agreed it will be used to inform decision making by the Board around the use of LGF under spends.
- 9.9 However, it is unlikely that the single pipeline of LGF projects will be agreed until the latter part of 2018/19. In the meantime, there is a very time-sensitive and pressing need for the funding package for the Project to be agreed to enable contracts to be entered into with Network Rail for the completion of the Project in advance of The Open Championship being hosted in Sandwich in 2020.

10 Financial Implications (Accountable Body Comments)

- 10.1 When the Board considered the decision for LGF support to the Project in November 2017, the funding gap of £2.9m was highlighted, with an expectation that this gap would be met through contributions from partners, including the DfT. Since November, the review of the business case has indicated that the costs for the solution have reduced through the value engineering experience, however, KCC have been unsuccessful in securing contributions at the level originally anticipated. This has resulted in an additional request for LGF Funding.
- 10.2 In considering this request for additional LGF, it is advised that the board are mindful of the following:
- 10.2.1 The recommendation is made with three conditions attached which must be met in order to secure the funding available; this is to ensure the funding is identified to meet the full costs of the Project in advance of any LGF being committed and also to ensure that the Project meets the requirement for high value for money. At the time of writing this report, the following conditions are still outstanding:
- 10.2.1.1 Written confirmation from Network Rail that they will be awarding a grant contribution to the Project.
- 10.2.1.2 The final under spend from the Ashford Spurs Project has yet to be confirmed, although it is noted that KCC have indicated that there will be sufficient funding available.

- 10.2.2 Should funding be diverted from Ashford Spurs which is then subsequently required by that project, KCC will be expected to identify the funding to meet the additional costs.
 - 10.2.3 It is advised that the Board should seek further clarification from KCC with regard to the level of under spend arising from the Ashford Spurs Project; to date, less than 50% of the total £9.8m allocation has been spent, with a significant under spend expected. In any update provided, any lessons learnt that could also be applied to other Projects should be identified.
 - 10.2.4 A contingency of 35% has been built into the Project costs; given the high percentage, consideration by the Board should be given to ensuring that where not all of this contingency is required, the contribution from partners as well as LGF is considered in determining how costs for the Project are allocated.
 - 10.2.5 Should the total Project costs exceed the expected costs, including the contingency, then KCC would again be responsible for identifying the additional funding to meet the additional costs.
 - 10.2.6 The Board are advised to seek confirmation of these arrangements and are reminded that as the LGF is awarded to meet Capital expenditure only, the maintenance costs would not be eligible to be met from the grant.
- 10.3 The Board are reminded that any funding agreed by the Board is dependent on the Accountable Body receiving sufficient funding from HM Government. Funding allocations for 2018/19 have been confirmed, however, funding for this Project for future years is only indicative. As such, in considering allocating funding to this project, the Board should also take into account the following risks:
- 10.3.1 The high level of slippage within the overall programme which totalled £37.8m by the end of 2017/18; this presents a programme delivery risk due to the increased proportion of projects now due to be delivered in the final years of the programme; and it presents a reputational risk for SELEP regarding securing future funding from Government where demonstrable delivery of the LGF Programme is not aligned to the funding profile. This risk, however, is offset in part by the recognition that the profile of the LGF allocations did not consider the required spend profile when determined by HM Government.
 - 10.3.2 This misalignment of the funding profile has created a further risk, however, in 2019/20, when the majority of the LGF funding requested for the Project is required; whilst there is sufficient funding for all LGF projects across the duration of the programme, in 2019/20 there is currently a funding gap of £35.9m (including the

requirements of this project); This risk is being managed in part through a planned slippage of £24.3m into 2019/20 from the current year, leaving a remaining funding gap of £11.6m.

- 10.3.3 It is noted that this risk is being carefully monitored by the SELEP Capital Programme Manager with potential options for mitigation being considered with partners. Potential options include: reviewing options to advance alternative funding sources ahead of LGF spend; and delaying delivery of projects into 2020/21 where the funding is available. In reviewing the options across the whole programme, minimising the risk to delivery and assuring value for money should be key considerations
- 10.4 There are SLAs in place with the sponsoring authority which makes clear that future years funding can only be made available when HM Government has transferred LGF to the Accountable Body.

11. Legal Implications (Accountable Body Comments)

- 11.1 The approvals provided by the Board relating to this Project have been caveated. It is essential that these conditions are satisfied in full before the LGF funding is released. KCC will need to have this in mind in their future considerations and ensure that any subsequent agreements reflect these conditions, or alternatively, KCC need to be prepared to underwrite the allocations in the event that the conditions cannot be satisfied.

12. Equality and Diversity implications (Accountable Body Comments)

- 12.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when a public sector body makes decisions it must have regard to the need to:
 - 12.1.1 Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - 12.1.2 Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - 12.1.3 Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 12.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation.
- 12.3 In the course of the development of the project business case, the delivery of the Project and their ongoing commitment to equality and diversity, the promoting local authority will ensure that any equality implications are considered as part of their decision making process and where possible identify mitigating factors where an impact against any of the protected characteristics has been identified.

- 12.4 An equality impact assessment will be undertaken once a decision is taken on the infrastructure

13. List of Appendices

- 13.1 Confidential Appendix A – Total Project Cost & Financial Contribution from Partners – Exempt by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972

14. List of Background Papers

- 14.1 Sandwich Rail Infrastructure Project Business Case

- 14.2 Accountability Board Agenda Pack 17th November 2017

(Any request for any background papers listed here should be made to the person named at the front of the report who will be able to help with any enquiries)

Role	Date
Accountable Body sign off Stephanie Mitchener (On behalf of Margaret Lee)	12.06.2018