

A6 to Manchester Airport Relief Road

Project Board Paper 7th November 2013

Financial Delegation

1 Introduction

The Early Contractor Involvement (ECI) Contract for the delivery of the A6 to Manchester Airport Relief Road (A6 – MARR) will be awarded, subject to formal approvals, in early November 2013.

This paper set out proposals for the financial delegation to allow the efficient management of contract payments and authorisation of changes to scope, with appropriate financial governance.

Discussions have taken place with Stockport MBC Finance and Internal Audit and have raised no objections to the content of this paper.

2 The ECI Contract

The ECI Contract is made up of three phases:-

- Design Development
- Key Stage 4 Statutory Process
- Key Stage 6 Detailed Design and Construction

Design development will commence at contract award and is scheduled to last for 26 weeks. Key Stage 4 (KS4) will only be activated if following the consideration of the planning application a Public Inquiry is to be held and Stockport require assistance from the ECI contractor.

Key Stage 6 will only commence on the successful completion of the statutory process and Full Approval being received from the Department for Transport to proceed. The current scheduled date for commencement is early 2015 with duration of 140 weeks for main construction followed by a further 260 weeks for landscape aftercare.

3.0 Contractual Payments

3.1 Design Development and KS4

Services provided by the ECI contractor are procured using the New Engineering Contract, Professional Services Contract. Stockport's contract administrator is called the Employer's Agent (EA).

3.1.1 Payment

Each month the Contractor will submit an invoice setting out in terms of man hours and rates, the value of work undertaken in the period. The EA will validate the content of the invoice by reference to timesheets and knowledge of the work undertaken (The EA is co-located in the offices of the Contractor).

The EA shall prepare within seven days of receipt of the Contractor's invoice a payment recommendation certificate which will be passed to the Project Director (PD) for countersigning prior to payment by Stockport MBC Finance. The indicative maximum monthly value of these payments will be of the order of £300,000.

A6 to Manchester Airport Relief Road

3.1.2 Management and Forecasting of spend

It is proposed that all services in Design Development will be undertaken on a task order basis agreed between the EA and the Contractor. This will facilitate tracking of spend on a weekly basis.

The Contractor will prepare a forecast of expenditure for the duration of the phase which is updated on a monthly basis.

3.2 KS 6 Detailed Design & Construction

The construction works provided by the ECI contractor are procured using the New Engineering Contract, Engineering Construction Contract. The contract is a target cost contract where the ECI contractor is paid his actual cost. At completion of the works the total actual cost is compared to the target and the difference is shared between the ECI and Stockport using a pre-agreed mechanism.

Stockport's contract administrator is called the ECC Project Manager (ECC PM).

3.2.1 Payment

Each month the Contractor will submit his application to the ECC PM for his assessment. The application will be a statement of his costs broken down into:-

- People costs
- Equipment costs
- Plant and Materials
- Subcontractor costs
- Fee

The ECC PM will audit the accuracy of the assessment by checking the accuracy of invoices etc. using the Contractor's own cost capture databases to which the ECC PM and his staff have unfettered access.

The ECC PM shall prepare within fourteen days of receipt of the Contractor's application a payment recommendation certificate which will be passed to the PD for countersigning prior to payment by Stockport MBC Finance. The indicative maximum monthly value of these payments will be of the order of £7,000,000.

3.2.2 Management and Forecasting of spend

In Key Stage 6 there are two elements of cost to be tracked. These are the movement in the target and the forecast out-turn of actual cost.

The Contractor will prepare a forecast of expenditure of his actual cost for the duration of the works which is updated on a monthly basis. The ECC PM shall review and validate these forecasts. He shall also formally adjust the target for any agreed changes (see below).

4.0 Adjustments to the Contract Price

4.1 Design Development

4.1.1 Introduction

In this phase the contract price can only be adjusted by the issue of Compensation Events (CE). In the PSC there are 12 allowable reasons to issue a Compensation

A6 to Manchester Airport Relief Road

Event. However the most common CE is because Stockport MBC, as Employer under the contract, wishes to change the scope of the services.

If a CE is issued the Contractor will prepare a quotation on the impact of the CE on cost and time. The Contractor has two weeks to prepare the quotation and the EA has two weeks to accept or reject the quotation. If the EA rejects the quotation he will value it independently of the Contractor. This should only occur in rare circumstances

4.1.2 Authority to issue and agree Compensation Events

It is proposed that prior to the issue of any CE a briefing paper on the background and need for a CE is prepared by the EA for sign off by the PD.

On receipt of the quotation the EA shall have the delegated authority to accept any quotation up to a maximum value of £25,000. For quotations more than £25,000 but less than £250,000 the EA shall make a recommendation for the PD for acceptance.

For quotations greater than £250,000 the Senior Responsible Owner SRO shall approve based on the recommendation of the EA and PD.

In addition to the delegated authority for individual CEs the EA's accumulative maximum limit will be set at £80,000. The PD's accumulative maximum limit will be set at £600,000 the Project Board will determine any adjustment to these limits if they are reached.

The EA shall maintain a log of all CEs and their status, this will be reported to the PD each month.

4.1.3 Adjustment of the KS6 Construction Target

During design development changes may be required to the design of the scheme. This may be due to the requirement of third parties, e.g Network Rail or outcome from the Planning process. As part of the tender the Contractor submitted an Initial Target Cost (ITC) based on defined project requirements. If there is a change which requires an adjustment to the ITC it can only be carried out by the issue of Evaluation Event (EE) by the EA.

If an EE is issued the Contractor will prepare a quotation on the impact of the EE on the ITC in terms of cost and time. The Contractor has three weeks to prepare the quotation and the EA has two weeks to accept or reject the quotation. If the EA rejects the quotation he will value it independently of the Contractor. This should only occur in rare circumstances

4.1.4 Authority to issue and agree Evaluation Events

It is proposed that prior to the issue of any EE a briefing paper on the background and need for a EE is prepared by the EA for sign off by the PD.

On receipt of the quotation the EA shall have the delegated authority to accept any quotation up to a maximum value of £50,000. For quotations more than £50,000 but less than £500,000 the EA shall make a recommendation for the PD for acceptance.

For quotations greater than £500,000 the Senior Responsible Owner SRO shall approve based on the recommendation of the EA and PD.

A6 to Manchester Airport Relief Road

In addition to the delegated authority for individual EEs the EA's accumulative maximum limit will be set at £500,000. The Project Director accumulative maximum limit will be set at £3,000,000. The project board will determine any adjustment to these limits if they are reached.

The EA shall maintain a log of all EEs and their status, this will be reported to the PD each month.

4.2 KS 6 Detailed Design & Construction

4.2.1 Introduction

As stated in paragraph 4.1.3 the Target Cost can be adjusted during Design Development and becomes the Adjusted Target Cost (ATC). Prior to the commencement of Key Stage 6 the Contractor confirms that the ATC becomes the Target Cost for Key Stage 6.

Once in Key Stage 6 the target can only be adjusted by the issue of Compensation Events. In the ECC there are 19 allowable reasons to issue a Compensation Event, however this has been amended in this contract and CEs for:

- Unforeseen ground conditions
- Severe weather conditions and
- Prevention

have been deleted.

If a CE is issued the Contractor will prepare a quotation on the impact of the CE on cost and time. The Contractor has three weeks to prepare the quotation and the ECC PM has two weeks to accept or reject the quotation. If the ECC PM rejects the quotation he will value it independently of the Contractor. This should only occur in rare circumstances.

4.2.2 Authority to issue and agree Compensation Events

It is proposed that prior to the issue of any CE a briefing paper on the background and need for a CE is prepared by the ECC PM for sign off by the PD.

On receipt of the quotation the ECC PM shall have the delegated authority to accept any quotation up to a maximum value of £50,000. For quotations more than £50,000 but less than £500,000 the ECC PM shall make a recommendation for the PD for acceptance.

For quotations greater than £500,000 the Senior Responsible Owner SRO shall approve based on the recommendation of the EA and PD.

In addition to the delegated authority for individual CEs the EA's accumulative maximum limit will be set at £500,000. The PD accumulative maximum limit will be set at £3,000,000. The project board will determine any adjustment to these limits if they are reached.

The ECC PM shall maintain a log of all CEs and their status, this will be reported to the PD each month.

A6 to Manchester Airport Relief Road

5.0 Drawdown from the Project Risk Pot.

5.1 Introduction

The current project budget includes allowances for the three phases of the ECI contract. These will be reviewed and adjusted to reflect the financial tender received from the Contractor.

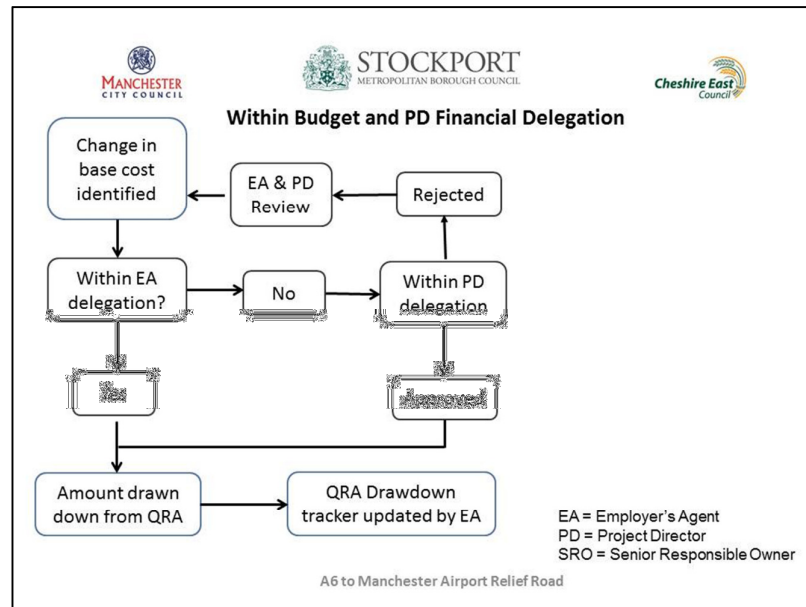
It is proposed that the Project Board agree a revised budget for each of these phases based on the tendered price plus 10%. The PD is given the authority to drawdown from this revised budget, provided the drawdown is within the PD financial delegation.

5.2 Drawdown from the Risk Pot

There will be three types of situation where a drawdown from the risk pot will be necessary, these are:-

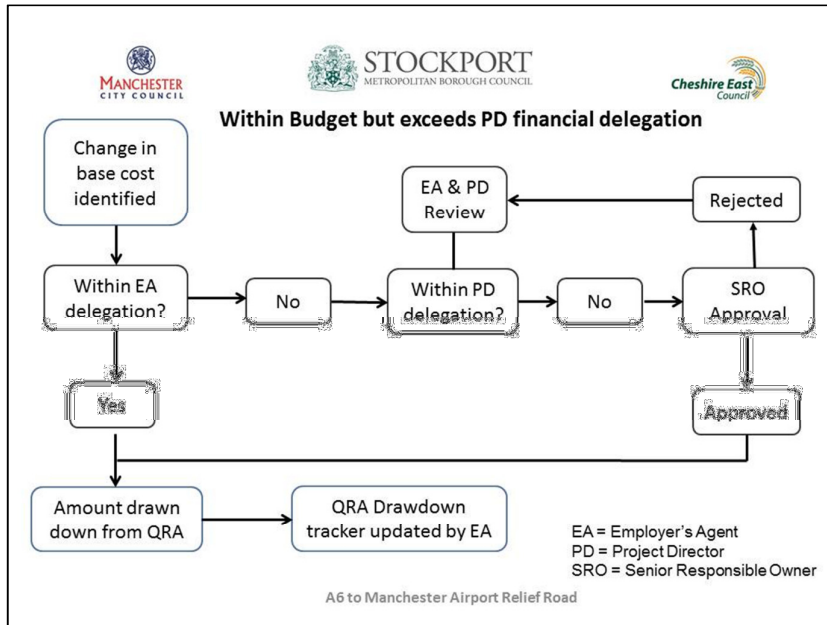
- Events within budget and within the PD delegation.
- Events which exceed the PD financial delegation.
- Events which will exceed the approved budget.

5.2.1 Events within the PD delegation. The process map is shown below



A6 to Manchester Airport Relief Road

5.2.2 Events within budget but exceeds the PD financial delegation. The process map is shown below



5.2.3 Events which will exceed the approved budget. The process map is shown below

