

LFAS2 – Injection of Additional Funds & Authority to Spend

Date: 18/03/2022

Report of: Engineering Projects

Report to: Director of City Development

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

What is this report about?

Including how it contributes to the city's and council's ambitions

- Leeds Flood Alleviation Scheme Phase 2 (LFAS2), which is being delivered by Leeds City Council through the Environment Agency's (EA) WEM Framework, has been impacted by unprecedented levels of material price inflation, primarily due to the COVID 19 pandemic. As a result of this, the EA have relaxed the contract provisions under the WEM Framework to allow contractors to claim additional costs as compensation events.
- With assistance from the EA, additional funds to cover the cost of inflation have now been allocated to the scheme from Other Government Department (OGD) funding. The purpose of this report is therefore to authorise the injection and give authority to spend a further £1.2m into the LFAS2 capital budget.
- This scheme embodies many of the priorities and outcomes sought in the Best Council Plan (BCP) as outlined below:
 - Inclusive Growth – the scheme will seek to support the sustainable growth of the Leeds economy through safeguarding jobs in the area protected by flood defences. The progression of measures to reduce flood risk with regard to opportunities presented by the South Bank Master Plan (Europe's largest regeneration area with the potential to create 35,000 new jobs and 4000 new homes), HS2, the A65 Kirkstall corridor and its interface with wider existing Network Rail infrastructure will directly support the BCP ambition for a strong economy.
 - Safe, strong Communities – adopting a catchment-based approach to flood defence offers a high level of community confidence against future flood events, enhances public citizen and stewardship involvement, and helps with the moving toward a more holistic solution to a flood defence initiative to vanguard community ownership and their association to local flood protection measures. This will support the BCP outcome for people to be safe and feel safe. It will also directly support the BCP ambition for a more engaged public.

- Sustainable Infrastructure – the scheme seeks to enable the growth of the city whilst protecting its distinctive green character; it will enhance the waterfront areas through new or improved public spaces to support leisure and amenity uses, in keeping with the urban context, sense of place and identity. This will support the BCP outcome for people to live in clean and well cared for places and for people to enjoy greater access to green spaces, leisure and the arts.
- The scheme will better protect road, rail and pedestrian/cycle accessibility to the city centre from the west, safeguarding local multi-modal commuting routes and city regional transport links and through the protection afforded to the South Bank and Leeds Station area, it helps the city become ready for HS2, Northern Powerhouse Rail and the interchange facilities to be provided at the remodelled ‘Yorkshire Hub’. This will support the BCP outcome of moving around a well-planned city easily.

Recommendations

The Director of City Development is requested to:

- a) authorise an injection and give authority to spend £1.2m from Other Government Department (OGD) funding for works on the LFAS2 capital programme.

Why is the proposal being put forward?

- 1 LFAS2, which is being delivered by Leeds City Council through the EA’s WEM Framework, has been impacted by unprecedented levels of material price inflation, primarily due to the COVID 19 pandemic. Products such as steel reinforcement, steel sheet piles and other construction materials containing wood and cement content are those most affected, with increases becoming considerably higher than any allocated risk provision.
- 2 The contract is set up so the risk of inflation is held by the contractor. The contractor’s current estimate of material price increases on the scheme is £1.7m and the form of contract means the city council would be exposed to half of this through the contractual pain share mechanism. This would amount to £850k.
- 3 However as a result of these inflationary pressures, the EA have relaxed the contract provisions under the WEM Framework to allow contractors to claim additional costs as compensation events. The EA’s relaxation of the Framework provisions came in the form of a “Heads-UP Paper Nr 221” which introduced bespoke contract drafting to change what was previously a contractor risk to an employer’s risk.
- 4 Following on from this, the EA have introduced a mechanism to evaluate the cost of change using a Consumer Price Index (CPI) model to assess the additional impact. This assessment has been calculated at £1.2m for LFAS2 and the EA have facilitated additional funds from OGD to cover this amount. This extra funding means the city council would not be exposed to financing the £850k pain share contribution.
- 5 Authorisation is requested to inject the additional funding from OGD and increase the LFAS2 capital budget by £1.2m and give the authority to spend for works on the LFSA2 scheme. It is not proposed to alter the current contract provisions and therefore any further inflation costs will remain the contractor’s risk, with the city council remaining exposed to half of any pain share of these.

What impact will this proposal have?

Wards Affected:

Have ward members been consulted? Yes No

What consultation and engagement has taken place?

- 6 Consultation has taken place with the Executive Member for Infrastructure and Climate. This decision has also been included on the list of forthcoming key decisions.

What are the resource implications?

- 7 By progressing the recommendation to inject £1.2m into the scheme, the city council's exposure to the contractor's current £1.7m estimate of inflation costs is removed, with the £500k difference being financed by the contractor through their risk provision and therefore included in their tender price.

What are the legal implications?

- 8 It is not intended to alter the current contract so there are no legal implications associated with this recommendation.

What are the key risks and how are they being managed?

- 9 As this is a target cost contract as opposed to fixed cost, the key risk is the volatility of material prices (particularly steel and concrete) and the city council's exposure to these actual costs. To provide as much certainty as possible, the costs contained within this report have been provided by the contractor's commercial team and are based on current prices.
- 10 Whilst there is potential for costs to increase beyond those included in this report, it is not proposed to alter the provisions of the contract meaning the city council would continue to be exposed to half of any extra inflation costs through the pain share mechanism. It is worth noting though that the contractor has now purchased 52% of materials for the scheme and has included reasonable allowances for remaining procurements.
- 11 Injecting the additional funds on offer provides significant mitigation to the city council's exposure to costs.

Does this proposal support the council's 3 Key Pillars?

Inclusive Growth Health and Wellbeing Climate Emergency

Options, timescales and measuring success

a) What other options were considered?

- 12 The alternative is to not accept the £1.2m of ODG funding being facilitated by the EA. This would however expose the city council to £850k (half of the contractor's £1.7m estimate for additional costs) which would need to be funded from the scheme's current funding

provision. Subsequently, by accepting the additional £1.2m funding on offer, the city council would not be required to finance the anticipated costs contained in this report.

b) How will success be measured?

13 Delivering LFAS2 on time and on budget.

c) What is the timetable for implementation?

14 Funding from OGD has now been allocated to the scheme and is available to accept.

Appendices

15 None.

Background papers

16 None.