

Oxford Flood Alleviation Scheme

Reducing flood risk - enabling a thriving economy - connecting people and the environment

Oxford Flood Alleviation Scheme Funding Contingency Plan

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1 Document History

1.1 Location

This document is stored in the following location:

Filename	Oxford FAS Funding Contingency Plan
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1.2 Revision History

This document has been through the following revisions:

Version No.	Revision Date	Filename/Location stored:	Brief Summary of Changes
V1.0	05/10/2016	Oxford FAS Funding Contingency Plan	First draft for internal comments
V1.A	06/10/2016	Oxford FAS Funding Contingency Plan	Draft issued to Programme Board for comment
V2.0	28/10/2016	Oxford FAS Funding Contingency Plan	Draft issued to Sponsoring Group for comment
V3.0	30/11/2016	Oxford FAS Funding Contingency Plan	Final version to support OBC

1.3 Authorisation

This document requires the following approvals:

AUTHORISATION	Name	Signature	Date
Project Director	Joanna Larmour		

1.4 Distribution

This document has been distributed to:

Name	Title	Version Issued	Date of Issue
Programme Board	Funding Contingency Plan	V1.A	6 October 2016
Sponsoring Group	Funding Contingency Plan	V2.0	28 October 2016

1.5 Related Documents

Summary of filenames and locations of related documents:

Document Type	Filename/Location stored:
IPA Project Initiation Routemap Enhancement Plan	Held by Environment Agency Oxford FAS Project Team
Funding Strategy	Held by Environment Agency Oxford FAS Project Team
Negotiation Summary Table	Held by Environment Agency Oxford FAS Project Team

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3 Introduction

3.1 Background

This scheme is subject to the UK government Partnership Funding policy, introduced in 2010. Under this policy, the central government contribution is based on the Outcome Measures (e.g. the number of properties that move from one flood risk band to a lower one) the scheme delivers. This provides a percentage of the total funds needed to construct and maintain a scheme. The remainder is to be found by partners from a variety of beneficiaries both in the public and private sector.

The Oxford Flood Alleviation Scheme Project Initiation Routemap Review, run by the Infrastructure and Projects Authority (IPA) in February and March 2016, highlighted the task ahead:

Partnership funding on this scale is new to the Environment Agency and partners, and it is going to be a challenge to close the gap.

The Oxford FAS (Flood Alleviation Scheme) is following the five case Business Case model for business case approval. The business case has the issue of funding embedded throughout but it is specifically detailed in the Financial case (refer to the Environment Agency (EA) Business Case template for the five case model for more detailed information). Defra has advised that the project must provide a high level of confidence that funding will be secured, in the Outline Business Case (OBC) to be submitted spring 2017. Following this, all full collaborative agreements should be signed before we register the resolution to make Compulsory Purchase Order (CPO) in September 2017 and by Full Business Case (FBC) in summer 2018.

Driven by the Funding Strategy, our current focus for negotiations is with organisations who are direct and indirect beneficiaries of the scheme. The funding sub-group have produced a negotiation summary table to track progress against reducing the funding gap. The table details all potential investors of the scheme including actions, data and progress made. Reviewed regularly, the team analyse progress and update estimates, data requirements and actions for each investor, as required.

All potential local investors have been prioritised and work is ongoing towards having a Heads of Terms Agreement or Letter of Intent in place for each priority 'A' investor for the OBC Final Draft due on the 14 December 2016 (refer to main Funding Strategy for more detail regarding the negotiation process).

Alongside this, work is ongoing to reduce overall costs where possible but there needs to be a plan in place to outline what measures the project will take if an affordable case cannot be proven at certain milestones (see Table 1). Without funding secured the project will not pass through the required approval gateways.

This Funding Contingency Plan identifies the options that will be considered if the funding gap cannot be closed. Several key decision points have been identified in Table 1. At each of these points the forecast funding gap will be reviewed and an assessment made using the flow chart described in Figure 1, as to the appropriate course of action. This will be discussed with the Programme Board and Sponsoring Group as required.

The IPA Project Initiation Routemap Review Enhancement Plan for the Oxford Flood Alleviation Scheme, July 2016, also sets out the establishment of the Funding Contingency Plan as one of its actions.

No.	Decision Point	Date	Reason for review
1	Finalised Costs / Assessment of estimated contributions	October 2016	To provide project governance with clear position on affordability and identify actions needed prior to next milestone
2	OBC Final Draft	14 December 2016	To assess whether scheme is affordable and OBC submission can proceed as planned
3	OBC Submission to LPRG	22 February 2017	The commencement of formal OBC review process
4	CPO Submission	27 September 2017	To ensure that all Heads of Terms outlined at OBC case have resulted in full legal agreements
5	FBC Submission to LPRG	July 2018	To ensure that the final contract price is deliverable with the funding already secured

Table 1: Key Decision Points

4 Process for enacting contingency

The following flow chart should be used to determine whether any of the contingency options should be undertaken. The funding position should be formally reviewed at the milestone points in Table 1 starting with the Contributions needed box. The actions outlined here within contingency phases are in addition to the ongoing cost reduction work as part of the Funding Strategy.

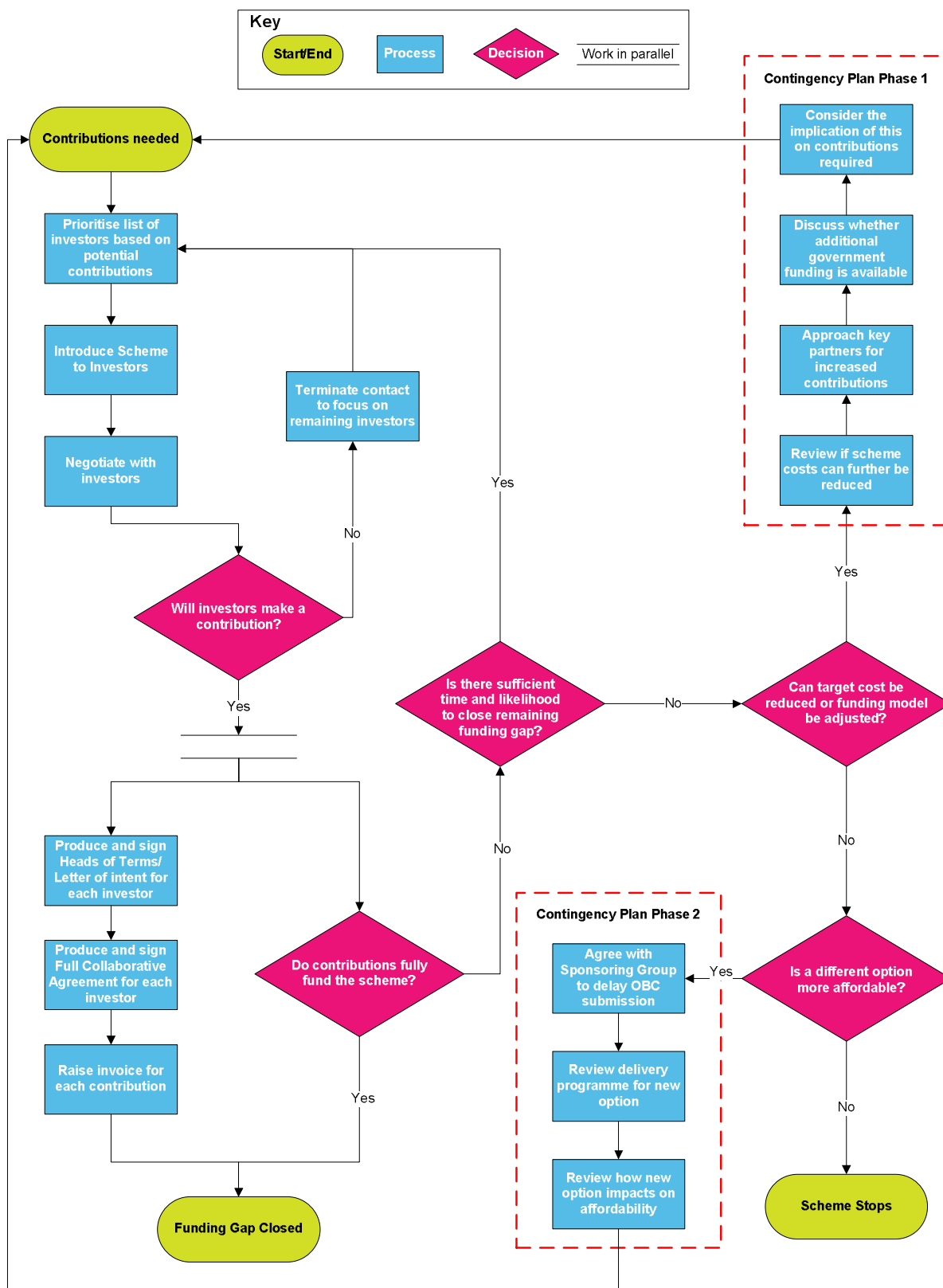


Figure 1: Contingency Plan decision making flowchart

At each decision point, the funding team will assess the status of the financial position primarily based on the following questions:

1. Do contributions secured provide full funding for the scheme?
2. Is there sufficient time and likelihood to close the remaining gap?

If, the answer to question 2 is “No” then the Contingency Phases should be followed with support of the wider project team, including partner organisations, and the approval of Environment Agency senior management. Undertaking these phases will either lead to the Funding Gap Closed or Scheme Stops.

5 Contingency Options

5.1 Contingency Plan Phase 1: Can the existing scheme be made more affordable?

5.1.1 *Review if scheme costs can further be reduced*

The scheme has been designed using best practice and following an agreed framework. However it is also one of the first of its kind on such a large scale. The costs have been developed through an iterative design process and are robustly reviewed but assumptions will always be based on the best evidence available at that time. For a large project such as this, changes in policy or process can have a significant impact on the overall cost over the whole life.

If full funding for the scheme is not secured, and there are no further investment opportunities, then the first step will be to revisit the decisions made when finalising the costs to identify if a more substantial cost saving can be made. This will challenge the project team in all areas to try and fit the scheme to the total funding secured.

This review could look at factors such as:

- Are the construction costs appropriate, can they be challenged further to be cheaper?

This is not a recommendation to re-design the scheme but to review decisions we have made in the course of designing the scheme. Revisit quotes from suppliers, materials used, transport costs, etc to understand if there are any more areas where we can make small but significant savings that would mean the Oxford FAS could go ahead. This could also include consideration of how commercial approaches can deliver cost savings.

- Are the maintenance costs appropriate, can they be challenged further to be cheaper?

The current policy is to consider the costs of maintaining the new asset along with any other existing assets that need to be in good working order ensure the Oxford FAS continues to deliver benefits over its whole life when assessed against a “do nothing “ scenario. For Oxford this includes a number of Thames Weirs which could cause increased flood risk if they were to fail but if operated and maintained properly will enable the Oxford FAS to perform as it should. Current prices include consideration for 100% of the capital cost of these assets but this is an assumption that could be challenged.

- Have we assessed risk appropriately?

Target funding costs include an appropriate risk allowance. As we move through appraisal then we will either pass the point at which some of these risks can no longer be realised, or they will have occurred and therefore be included as part of updated baseline costs. Regular reviews of the risk register could lead to a reduction in the overall cost.

- Consider whether delivery could be phased to achieve a more affordable funding position?

Review whether this would achieve a more affordable position and increase the ability to draw in contributions.

5.1.2 Approach Key Partners for increase in contributions

Key partners already form part of the identified priority 'A' investors. It is assumed that partners will already have maximised their contributions to the scheme based on the benefits to their organisations. However, as members of the Sponsoring Group, they are supportive of scheme delivery and so options will need to be explored as to whether there are any additional funds available to bridge the gap. This could be in the form of an upfront capital contribution or as a guarantee in future to underwrite any shortfall should risks be realised.

5.1.3 Discuss whether additional government funding is available

As stated in section 3.1 central government provide a percentage of the funding for any flood alleviation scheme. The remaining gap is sought through partnership funding from other public and private investors. If, after engagement with investors, there is still a shortfall which cannot be met by option 5.1.1, 5.1.2, or 5.1.3 the funding team will approach central government to investigate securing additional funding. A good case can be made by demonstrating that all opportunities have been exhausted by providing supporting evidence and through following the activities defined in Figure 1. It will prove that partnership funding does work but there simply isn't the capacity with this scheme for the gap to be filled without additional government support.

Before making this ask it must be demonstrated that the funding team have:

- Approached both direct and indirect beneficiaries in and around the scheme area of interest
- Exercised a commercial mind set
- Requested support from Director level and above when needed
- Obtained input from external suppliers who are experts in their field.

5.2 Contingency Plan Phase 2: Is a different scheme is more affordable?

The current Oxford FAS design was one of many considered in the preliminary design stage. It was chosen based on its cost:benefit ratio and Outcome Measures which are key factors in securing FCRMGiA from central government. This was reiterated in the Economic Assessment, September 2016, which considered other factors such as maintenance period and climate change to support the decision making.

The only economically viable "fall-back option" is to consider a smaller channel and defences scheme. On the face of it there might be a reduction in construction cost but the overall impact on benefits and scheme cash profiling need to form part of the affordability assessment.

Following this option does have risk, for example to change design would mean a significant amount of rework to design, modelling and benefits realisation. An increase in time will have a potential impact on the availability of time bound contributions, such as Local Growth Fund contribution. It could also mean that the benefits change and some existing contributions might need to be renegotiated.

If after considering the above contingency actions, the scheme cannot be fully funded then the decision whether to STOP the project will be escalated to the Sponsoring Group.