

Supply

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Brenda Burke
Department of Regional Development

Date: 10 October 2011
Ref: DF1/11/443436

DRD – Coleraine to Londonderry Track Renewals Project Addendum

Dear Brenda

I refer to the above business case which was submitted to DFP on 27 September 2011, seeking approval for expenditure of **£77,743,178** for Coleraine to Londonderry track renewals. I am content that a reasonable case has been made; you can therefore take this letter as Supply approval.

In considering this letter, it should be noted that any DFP Supply approval is granted subject to the strict adherence of the following three conditions:

- that the project is commenced within 24 months of the date of this letter;
- that there are no substantial changes to the project as described in the business case;
- that costs or assumptions vary by no more than 10% from the value stated;

Requests for revised approval will take account of factors such as:

- where Supply is approached on the earliest indication that compliance with one or more of the above conditions is under question.
- adherence to correct appraisal procedure;

Should the request for DFP Supply approval be declined, these factors, along with any other mitigating circumstances will be taken into account when determining the extent of the irregular spend.

DFP does require a PPE to be submitted for this project; by 30 September 2013.

It should be noted that this approval relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure controls.

Ian Fleming
DFP Supply
Tel 68193

CC List

**John McKibbin
Richard Carson**

STANDARD CONDITIONS OF DFP APPROVAL

1. Approval is always given on the basis that projects will be implemented as described and costed in the business case upon which the approval is based. If a Department wishes to implement a project on a basis other than that approved by DFP, it should consult DFP again to ensure that any proposed changes to the original business case do not alter DFP's view of the project.
2. Tolerance levels on cost are 10%. If it becomes apparent that the total capital expenditure or total revenue expenditure indicated in the business case will be exceeded by more than 10%, Supply should be notified as soon as possible and appropriate further action agreed between the Department and Supply.
3. The same applies where project implementation is expected to be delayed by more than 24 months by comparison to the timescale indicated in the approved business case.
4. Supply should be informed as soon as possible of any substantial changes to the project which occur at any time after DFP approval is granted. This applies to both substantial changes to the project and to actual substantial differences in outturns compared to the assumptions in the business case. In this regard, a substantial change may be broadly defined as a variance of 10% or more from the assumptions in the approved business case.
5. In such circumstances, Supply will consider the specifics of the case and decide what additional submissions are required e.g. a letter or addendum covering specific issues that require further consideration, or a more substantial revision of the business case.
6. If there is any doubt as to whether any of these conditions has been triggered, Supply should be consulted. In exceptional cases, Supply may stipulate or agree to different conditions.
7. With specific regard to capital works projects, client changes – particularly changes in design or specification after the contract has been awarded – have been shown to be a very significant element in cost overruns on major projects. In order to seek to minimise cost overruns, Supply will require projects to be re-submitted if –
 - the cumulative cost of client changes exceed 5% of the approved budget (unless some other limit has been agreed with Supply to reflect particular circumstances); or
 - the trend of drawing on the contingency margin is more rapid than in the expenditure profile established when the project was approved; or
 - more than 50% of the original contingency provision has been used for client changes; or
 - a significant new risk has been identified in the risk assessment on which the last approval was based.
8. DFP approval of a particular project relates solely to agreement to proceed with the project. It does not imply approval for expenditure to be incurred beyond existing agreed public expenditure (PE) or budgetary provision.
9. DFP approval of all projects above delegated limits will still be conditional upon satisfactory arrangements for PPEs in all cases. When a project which requires DFP approval is part of a continuing programme, DFP may take the submission of a PPE a condition of proceeding with subsequent projects. DFP monitoring of PPEs will be conducted in accordance with section 11.3 of the Northern Ireland Guide on Expenditure Appraisal and Evaluation (NIGEAE).
10. In this case a PPE should be completed by **30/09/13**. Supply may request sight of this as part of normal test drilling exercises.