

6

The Financial Case

Scheme cost, financial risk and
funding sources



West of England Partnership

Bath & North East
Somerset Council



North
Somerset
Council

South Gloucestershire
Council



South West RDA

6.1 Introduction

This Section sets out how the council proposes to finance the Weston Package. It includes:

- **Detailed Cost Breakdown:** – cost estimate including quantified risk assessment and inflation costs
- **Funding Package:** – how the scheme would be funded
- **Revenue Funds:** – ongoing cost and revenue implications of the Weston Package
- **Section 151 Sign-off**

6.2 Detailed Cost Breakdown

A cost estimate has been prepared based on the preliminary scheme designs for WP1. The DfT guidance for local authorities seeking funding for major schemes and the WebTAG Unit 3.5.9 (The Estimation and Treatment of Scheme Costs) has been used in the preparation of the scheme cost estimates.

In accordance with this guidance, the cost breakdown provided below will include a consideration of investment costs including an allowance for risk and an allowance for inflation.

6.2.1 Base Costs at Current Prices

The base costs comprise the capital investment costs for the scheme, as identified in WebTAG 3.5.9. These consist of preparation costs, construction costs and land costs. These are summarised in Table 6.1 (Preferred Scheme), Table 6.2 (Low Cost Option) and are discussed below.

A more detailed breakdown of the 2008 price base costs is included in Appendix 6.1.

Table 6.1: Summary of Preferred Scheme Quantified Cost Estimate

Cost heading	Cost Estimate (£m)
2008 Preparation Cost	6.09
2008 Construction Cost	29.63
2008 Land Cost	4.02
2008 Quantified Risk Assessment	6.17
2008 After Monitoring	0.03
Inflation	12.99
Total	58.92

Table 6.2: Summary of Low Cost Option Quantified Cost Estimate

Cost heading	Cost Estimate (£m)
2008 Preparation Cost	1.79
2008 Construction Cost	8.27
2008 Land Cost	1.78
2008 Quantified Risk Assessment	1.12
2008 After Monitoring	0.02
Inflation	3.02
Total	15.99

Preparation costs

Eligible preparation costs are associated with the detailed design and procurement and the preparation of business case submissions for Conditional and Full Approval. Eligible preparatory costs include:

Project Management;

- Detailed design and procurement;
- Preparation of the business case for submission of Conditional and Full Approval; and
- The additional costs incurred in the preparation of PFI schemes (e.g. additional legal and financial advice).

The DfT guidance also indicates that some preparation costs will not be considered to be eligible for DfT contribution. These non-eligible costs are:

- Early-stage option appraisal and feasibility studies – e.g. determining the preferred route for a road;

- Publication of draft orders and the submission of and publicity for applications;
- The preparation of cases for, and attendance at, public inquiries; and
- Costs that relate of the main scheme e.g. purchase of land etc.

The total preparation costs (excluding land) at 2008 prices are estimated to be £6.09m for the Preferred Scheme and £1.79m for the Low Cost Option.

Construction Costs

The majority of the prices of engineering construction work have been taken from Spon's Civil Engineering and Highway Works Price Book 2009, where the rates are based on 2008 prices.

Some costs such as specialised material for the geotechnical improvements and structural elements of the Airfield Bridge Link are based on current 2008 prices following discussions with leading specialist contractors in the field of ground improvement.

The quantities of measured work items have been determined by measurements extracted from the scheme drawings and items valued by applying appropriate unit cost rates to produce a scheme construction cost. The construction cost of each individual scheme element has been calculated.

The total construction costs at 2008 prices, excluding the QRA are estimated to be £29.63m for the Preferred Scheme and £8.27m for the Low Cost Option.

The 2008–base construction cost estimates for each scheme element are shown in Appendix 6.1.

Land costs

Land costs include both the cost of third party land required by the scheme and the value of land required by the scheme that is already in ownership of North Somerset Council.

All land cost estimates have been produced by North Somerset Council's Property & Asset Management team at 2008 prices. The Low Cost Option would involve acquiring land from three landowners who have each been approached to open negotiations so that discussions could help to inform the valuation process.

The costs of land at 2008 prices are estimated to be a total of £4.02m for the Preferred Scheme and £1.78m for the Low Cost Option. The majority of both of these costs are gifted land, rather than land requiring direct payment.

The Preferred Scheme would involve acquiring land from three further landowners, the two most significant also being the owners of land located on the sites identified as regeneration areas. Whilst these landowners have not been formally approached, they have been kept regularly up to date with the scheme plans and positive discussions have taken place.

Additional costs associated with acquiring land including legal, transaction and negotiation costs have been included in the preparation costs and a breakdown of the land costs for the scheme elements is shown Appendix 6.1.

6.2.2 Independent Surveyors Report

In accordance with the DfT's requirements, an independent surveyor (Cyril Sweett) has been commissioned to verify the construction cost estimates. Cyril Sweett initially reviewed the construction cost estimates for each scheme element and provided a number of recommendations and observations regarding the quantities, rates and level of construction preliminaries assumed. These recommendations have been reviewed and where appropriate accommodated within the final construction costs. Cyril Sweett has verified the final construction cost estimates referenced in this document and their report is provided in Appendix 6.2.

On the whole the majority of the cost estimates were agreed quickly by Cyril Sweett, but the costings for the CAL were discussed in more detail. There was potentially a large additional cost if the existing land material had to be taken off site, but by working together, it is considered that the majority of the excavated material can be reused on site. However, an additional element has been added to the risk register for all affected schemes to allow for the risk of additional cost from the use, treatment, or disposal off site of contaminated land.

6.2.3 Quantified Risk Assessment

A QRA has been undertaken for each of the Preferred Scheme and Low Cost Option to support this bid for Programme Entry and additional costs have been applied to mitigate risks. This allowance for risk has been added to the base cost as part of the Quantified Cost Estimate for the scheme. More detail on the process and the key costs was given in Section 4.4.

Each risk was assessed in terms of the potential delay cost, cost of additional project management, and cost of mitigating measures. Not all risks have all these three elements, and the risk register describes which do and which do not. The delay costs are based on either the cost of the delay to the scheme as a whole, or the cost of the delay to part of the scheme element as appropriate. These delay costs are based on the 6.0% construction inflation cost used in calculating the outturn costs, as described below.

Each identified risk referred to in the register has also been evaluated in terms of a number of potential risk cost outcomes should the risk materialise. These options are 'least cost', 'most likely cost' and 'maximum cost', combined with a value for the probability of the risk occurring.

The assessment has resulted in quantified estimates of the potential risks associated with both the Preferred Scheme and the Low Cost Option. A confidence level of 50% has been taken.

The QRA has resulted in the following risk allowance for each option:

- £6.17m for the Preferred Scheme; and
- £1.12m for the Low Cost Option.

Both of these are at the 50% confidence level. The risk exposure has been included in the economic analysis to determine an appropriate BCR. These allowances for risk have been added to the base costs as part of the Quantified Cost Estimate [QCE] for each option.

6.2.4 Inflation Costs

An allowance for the scheme costs increasing at a greater rate than the general rate of inflation across the economy has been included as recommended in WebTAG Unit 3.5.9.

It has been assumed that construction cost inflation rates would be 6.0% throughout the duration of the project compared with 3.0% for other costs such as preparation costs. Due to the current economic situation regarding land values, land is assumed to have 0% inflation. The QRA is also increased at the 6% construction inflation, given the majority of the risks and the associated costs are based on construction issues.

6.2.5 Quantified Cost Estimate

The QCE for both the Preferred Scheme and Low Cost Option includes preparation costs, construction costs, lands costs, risk allowance and inflation. These are summarised in Tables 6.1 and 6.2 and a further breakdown provided in Appendix 6.1.

6.3 Funding Package

The funding package proposed for the scheme showing the preparation costs for each approval stages along with the construction spend profile are given in Table 6.3 and 6.4. This assumes local contributions (made up from earmarked funding from the council's capital programme, third party contributions (£106 + land) and land already in the council's ownership) plus contributions from DfT towards preparatory costs (the working assumption is

that 50% of eligible preparation costs equates to approximately 40% of total preparation costs) and to scheme construction.

The tables below differs slightly from the funding profile in the Regional Funding Allocation spend profile as indicated in letter of 2 April 2009 and as submitted on the scheme quarterly monitoring forms. The total funding sought for the decoupled Low Cost Option remains similar, whilst the profile has been slightly modified as shown below; the SWRA officers are aware of this and have indicated that this should not be a problem.

Table 6.3: Preferred Scheme Funding Package – Outturn Costs

£m	Prep costs between PE and CA 09/10/11	Prep costs between CA and FA 11/12	Costs after FA				Total
			11/12	12/13	13/14	14/15	
Total Scheme Cost (QCE) Including inflation and risk but excluding OB	3.992	2.496	0.000	13.168	21.145	18.123	58.924
DfT requested contribution	1.597	0.998	0.000	3.847	6.857	6.021	19.32
LA contribution	0.704	0.440	0.000	1.380 [†]	0.000	0.000	2.524
Third Party contribution (inc S106)	1.691	1.058	0.000	7.941	14.288	12.102	37.08

[†] Value of land already in council ownership

Table 6.4: Low Cost Option Funding Package – Outturn Costs

£m	Prep costs between PE and CA 09/10/11	Prep costs between CA and FA 11/12	Costs after FA				Total
			11/12	12/13	13/14	14/15	
Total Scheme Cost (QCE) Including inflation and risk but excluding OB	1.173	0.733	2.416	5.720	3.411	2.539	15.992
DfT requested contribution	0.469	0.293	1.036	5.170	2.861	2.539	12.368
LA contribution	0.704	0.440	1.380‡	0.000	0.000	0.000	2.524
Third Party contribution (inc S106)	0.000	0.000	0.000	0.550	0.550	0.000	1.100

6.3.1 Local Contributions

Council Capital

The council has identified a funding requirement of 1.91m for preparation costs (out-turn); this would be underwritten by the council and should be sufficient to fund the preparation of the Low Cost Option and is gross of any reimbursements from DfT for eligible costs. Claims for 50% of eligible preparation costs would be made with the bids for Conditional and Final Approval (the working assumption is that these would amount to 40% of the total scheme preparation costs). The local capital contribution will come from secured Section 106 and gifted land, described next.

The council has not allocated any additional capital funding to meet the costs of the Preferred Scheme; this would be reliant on currently unsecured developer contributions (see below).

Secured Section 106

The secured developer contributions comprise £1.08m at March 2009, of which the council has received £0.49m and a further £0.30m could now be called for with the remainder anticipated as consents are built out. Clearly, the recession has reduced the rate of development and, hence, Section 106 receipts; however, it is considered that the remaining amount would be received by the end of the WP1 programme. This, plus the council's

‡ Value of land already in council ownership

contribution to the preparation costs and the value of land, would provide a 23% local contribution to WP1 Low Cost option.

Unsecured Section 106

The additional costs associated with the preparation of the Preferred Scheme would require significant developer contributions, which are not secured at the time of writing. The Preferred Scheme would also require the development to gift the land required to build the ABL with a current value of £2.2m.

The local capital funding requirement for the Preferred Scheme would be significantly higher than that for the Low Cost and would need to be secured from development. Whilst the CAL and associated employment development has planning consent, this is subject to a Section 106 agreement which has been delayed because of the recession, hence, the local contribution for the Preferred Scheme is mostly unsecured at the time of writing.

Summary of Local Contribution

The total local contribution to the Low Cost Option would be £3.62m, comprising £1.14m net preparation costs, £1.1m secured Section 106 and £1.38m gifted land; this amounts to 23% of the QCE.

The total local contribution to the Preferred Scheme would be £39.60, comprising £3.89m preparation costs (of which £1.14m from the council), £1.1m secured Section 106, £1.38m gifted land and the remaining £33.23m unsecured third party funding; this amounts to 67% of the QCE.

6.4 Revenue Funds

6.4.1 Bus Services

The Package proposes continued development of the bus network through both enhancements to existing services and the introduction of new services. The Package has been designed with the principle that enhancements to existing bus services and the provision of new bus services will be provided on a commercial basis but with pump priming subsidy in the short term through developer contributions where appropriate. The assumption is that all new bus services will be commercially viable within 5 years of introduction. The council's role is to focus on providing new infrastructure to facilitate the efficient expansion and operation of bus services and marketing of the improved public transport network.

The Preferred Scheme assumes the following increases to bus service provision:

- The existing 'showcase' service 7 (every 10 minutes) would be extended into Worle station north bus interchange via the WP1 Queen's Way bus link;
- The existing (currently developer funded) service 16 (hourly) would use the WP1 bus lanes on Elmham Way;
- The anticipated (pump-primed with developer funding) showcase bus service (every 15 minutes) between the town centre – Gateway – Weston Airfield – Locking Parklands area would utilise the WP1 schemes in the Gateway, the ABL and the CAL; and
- The anticipated (pump-primed with developer funding) bus service (half-hourly) between Locking Parklands area – Weston Airfield – Worle would utilise the CAL, Elmham Way bus lanes and Worle station south bus interchange.

The Low Cost Option bus services comprises all of the Preferred Option schemes described above except the frequency of the new bus route between the town centre – Weston Airfield – Locking Parklands area would be reduced from every 15 minutes to every 30 minutes because its route would be lengthened without the CAL/ABL.

Assumed bus operating cost increases are £300k per annum (2008 prices) for the Preferred Scheme and £150k per annum (2008 prices) for the Low Cost Option.

Estimated bus service revenue from the modelling is £203k per annum for the Preferred Scheme and £53k per annum for the Low Cost Option, both figures based on the opening year (discounted to 2002 prices).

It has been assumed that any shortfall would be made up from developer contributions at least in the short term. At present the availability of such a revenue stream is uncertain. However, bus operators are strongly supportive of the objectives of the WP1 and have provided support on the development of the bid throughout (see letters of support in Appendix 4.6). Given the scale of the proposed developments, these proposed services should be commercially viable after the initial developer funding. The journey time savings delivered by the Preferred Scheme would significantly strengthen the potential for ongoing commercial viability.

Once agreement on the final proposals has been reached with the DfT, the council intend to enter into negotiations with bus operators with regard to forming a quality partnership for the operation of the services affected. It is hoped this will cover service frequency, quality and the infrastructure provision associated with this bid.

6.4.2 Commitment to Ongoing Maintenance

For the highway elements of WP1, routine highway maintenance would be required to maintain the carriageway in a suitable condition. Maintenance costs over a 60 year period have been included in the economic assessment including traffic related costs (reconstruction, resurfacing etc) and non-traffic related costs (drainage, street lighting, traffic signals etc). The cost is £107,000 per year for the Preferred Scheme and £57,000 per year for the Low Cost Option, all at 2008 prices.

The maintenance commitments for the highway will be accounted for in the local authority's highway maintenance budgets as part of the annual settlement from central Government, but no specific additional commitment will be required.

6.5 Section 151 Sign-off

In accordance with the guidance for local authorities, the cost estimates for the scheme have been considered by the authority's Section 151 Officer. The cost estimates for the scheme and the capacity of the authority to meet its potential financial liabilities for the scheme have been confirmed. The signed declaration to this effect is included as Appendix 6.3. The required level of funding for the Council contribution was approved for inclusion in the Council's Capital Programme.

Chapter 6 – APPENDICES

- 6.1 Scheme Cost Estimates
- 6.2 Independent Cost Verification Report
- 6.3 S151 Declaration