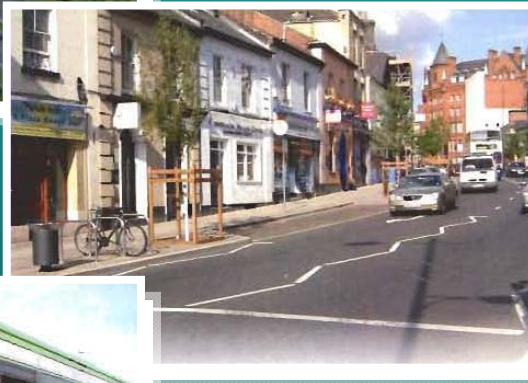


Major Scheme Business Case

Norwich Northern Distributor Route

Financial Case



Major Scheme Business Case

Norwich Northern Distributor Route

Financial Case

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6 Financial Case

The proposed NDR scheme comprises a new road around the north and east of Norwich and significant traffic management in the city centre, plus the northern and western suburbs.

This Financial Case addresses cost issues related to the NDR (road only). The complementary measures which are an integral part of the NDR scheme are funded through the LTP and developer contributions.

6.1 Base Cost

The NDR design as approved by the Norfolk County Council's Cabinet in November 2006 has formed the basis for the derivation of the base cost. The design represented therein is developed to a relatively detailed level and has subsequently been further fine-tuned. We are satisfied that the design has been developed to a fully sufficient level for the purpose of the business case.

The estimates comply with WebTAG Unit 3.5.9 requirements.

The base cost estimates have been produced by the County Council in conjunction with May Gurney and reflect Quarter 3 of 2007 prices. The summary of the base cost for the NDR is shown in Table 6.1.

Table 6.1: Base Cost Summary

Base Costs	Value [£m]
Construction Cost	74.3
Land cost	10.9
Preparation Cost	3.3
Supervision	1.7
Base Cost Total	90.2

6.1.1 Detailed cost breakdown

A summary of the detailed cost breakdown is shown in Table 6.2 below.

Table 6.2: Construction Cost Breakdown

Element of construction cost	Value [£m]
Preliminaries	14.2
Site Clearance	0.3
Fencing	1.2
Safety Fencing	0.6
Drainage	3.4
Earthworks	4.4
Pavements	21.1
Kerbs and Footways	0.5
Traffic Signs and Road Markings	1.8
Lighting	0.6
Structures	16.4
Landscaping	0.6
Accommodation Works	1.9
Statutory Services	7.3
Construction Costs Total	74.3

6.1.2 Independent Surveyor's report verifying cost estimates

In accordance with good practice and the DfT guidance an independent quantity surveyor has been commissioned to undertake a review of the cost estimate produced by the County Council with cost rate build up provided by May Gurney. The independent quantity surveyor's report is included in Appendix 6.A.

6.1.3 Eligible preparatory costs

Preparation costs are being currently funded from the County Council's own resources and it is understood will not be recoverable retrospectively from government funding for the scheme. The County Council estimates that the eligible preparatory costs will total £3.3m between the Programme Entry and Final Approval.

6.2 Inflation

Early forecast of outturn costs for the NDR were based on an annual inflation rate of 2.5%. This was consistent with assumptions made in the East of England's submission to Government on the Regional Funding Allocation (RFA) in 2006.

Two reports published early in 2007 suggested this was likely to give an underestimate of inflation over the next few years. In particular, the report by the National Audit Commission (dated March 2007) on estimating and monitoring the costs of building roads in England indicated that the Highways Agency (HA) had revised its forecast inflation rates to reflect the higher inflationary pressures.

The National Audit Commission's report indicated that the HA were now using an inflation rate of 5% up to 2009 and 3.8% in 2010 and beyond, although more recent information suggests factors currently in use are 5.2% up to 2009 reducing to 4.0% in 2010 and beyond. This equates to an average inflation rate of 4.5% per annum.

Taking the 2007 information into account we decided to use the inflation rate of **4.5%** per annum which has been used to inflate costs on the NDR from the base estimate of Q3-2007.

An average inflation rate of 4.5% per annum is also consistent with forecasts being given by a number of leading cost consultants.

6.3 Quantified Risk Assessment

A comprehensive Risk Register has been produced with quantified risk costs and is enclosed in Appendix 6.B. Norfolk County Council has well developed procedures for risk assessment which have been followed and have included thorough consultation with the Strategic Partnership experts.

The risk assessment principles are described in the Delivery Case.

From the Quantified Risk Assessment, a Monte Carlo simulation has been undertaken to optimise the risk assessment and analyse the sensitivities surrounding the risk allocations used.

The optimised quantified value of risk for the NDR Preferred Option is: £9.0m¹.

6.4 Optimism Bias

In accordance with the Green Book Guidance, the base level of Optimism Bias during the Construction Stage was set initially at 44% i.e. the level for a standard construction contract. However the level of optimism bias is based on a set of contributory factors from the robustness of the Business Case through to the level of confidence in the cost of the scheme. We have analysed the contributory factors and the work they have done in developing the project to date as well as the mitigation factors and consider appropriate to reduce the level of Optimism Bias to 25% applied to the Quantified Cost Estimate at this Programme Entry Application.

¹ Monte Carlo run on risk register updated in November 2007.

6.5 Quantified Cost Estimate

The build-up of the Quantified Cost Estimate for the NDR Preferred Option is shown in Table 6.3 below.

Table 6.3: Quantified Cost Estimate

Quantified Cost Estimate	Value [£m]
Eligible Preparatory Costs	3.3
Base costs (excl. Eligible Preparation Costs)	86.9
Quantified Risk Assessment	9.0
Inflation at 4.5%	17.4
Total	116.6

6.6 Funding

6.6.1 Funding Sources

Scheme preparation costs are being funded from Norfolk County Council's own resources and we will not be applying to recover those costs as part of the Business Case.

This business case presents a case for funding application for 60% of the scheme cost of approximately £116.6m, i.e. £69m. This amount, which has increased from £61m on original Regional Funding Allocation application, has been discussed with the Regional Transport Forum (RTF). The RTF were happy to revise the amount in view of our justifications (see Appendix 6.C). The support letter from EERA was received in March 2008 (see Appendix 4.E).

In summary, due to increase in inflation predictions the scheme cost is now £116.6 million. Therefore, The County Council is applying for 60% of the revised scheme estimate, which is £69 million.

The remaining 40% of the scheme cost (£47.5 million) will be sought from these principal sources.

- Norwich Growth Point (NGP).
- Community Infrastructure Fund
- Developer Contributions
- County Council Capital Borrowing contribution
- Prudential Borrowing

The County Council has recently submitted a bid for funding from the Community Infrastructure Fund (CIF). The Government is currently consulting on how it allocates the remaining Growth Funds and it may be that additional funds for the NDR could be secured from that source.

Regardless of our success with Government funding, we will be seeking to maximise developer contributions, whether through s106, the proposed standard transport charge or community infrastructure levy.

Any unsecured funding at the time of submitting the Business Case is underwritten by the County Council. The County Council will cover any shortfall through Prudential Borrowing until such time as contributions could be recouped.

Given the scale of development proposed for Norwich, our recent success in securing developer contributions to fund highway improvements in Cringleford and the initial advice to the GNDP on market capacity suggests that we should be able to secure the bulk of any funding shortfall from developers. However, this may take 10-15 years to fully recover and the County Council recognises the need to cover the costs of any borrowing in the meantime.

(i) Other sources of funding

Developing a Private Finance Initiative was considered for this scheme but has been rejected for the following reasons;

- PFI as a source of funding for the remaining cost of the NDR would not give good value for money, bearing in mind the cost of a PFI procurement process.
- Full commitment on funding through PFI would not be granted until all statutory processes were complete and this could add 2-3 years to the programme.
- The option of adding the NDR as a contingent scheme to a highways maintenance PFI is a possibility should the scheme be delayed. However, it is likely to be up to 2 years before we have sufficient data on the network condition in order to submit a bid for PFI funding.

The PFI scoping study is included in 0 6.D.

6.7 Funding Package

The breakdown showing anticipated funding sources is shown in Table 6.4 below. The requirement for the scheme promoter to find a minimum of 10% of the Quantified Cost Estimate (QCE) will be met from County Council sources but also through locally generated funding such as developer contributions.

On the basis of a QCE of £116.6 million, this equates to a local contribution of £11.66 million. This will be achievable through committed funding in the forward capital programme and developer contributions.

Our economic appraisal assumes the local contribution to be at least 10%.

Table 6.4:- Funding sources for the NDR

Funding sources	Value [£m]
RFA	69.0
Growth Point / CIF ²	38.9
County Council (in current Capital programme)	7.1 ³
Developer contributions (balance)	1.6
Total	116.6

Source: Based on January 2008 Cabinet Paper.

Any unsecured funding at the time of submitting the Business Case is underwritten by the County Council.

6.8 Revenue Funding

The increased revenue obligations are estimated at approximately £193,500 per year for operations and maintenance costs. The County Council intends to meet this obligation through its revenue budgets. It is not considered that the NDR will on its own adversely impact the maintenance budgets, as it will constitute a minimal proportion of the Norfolk County Council's road asset.

Furthermore, the Council assessed the impact of funding gap on its revenue accounts. By way of exemplification, for each £10m of funding shortfall which the County Council is required to meet there would be an annual revenue cost of £895,000 (based on a loan of £10m at an assumed interest rate of 4.95% repayable over 25 years). The Council recognises that the borrowing costs on any loans undertaken to bridge the funding shortfall on the NDR are a revenue cost which have to be met by the Council and cannot be capitalised. Until such time as developer contributions and other funding flows in, any borrowing cost will be met from within the Council's overall revenue budget. This will be assessed alongside the cost of other capital schemes and service requirements at the point of making the final decision.

² Assumes that funding is secured through unallocated Growth Point money held back by government, or from the Community Infrastructure Fund (CIF). If unsuccessful, any balance will be funded from County Council resources initially with recovery over time from developer contributions.

³ The County Council's contribution in 07/08 of £1.9m, giving a grand total of £116.6m

This funding requirement has been considered in the context of the proposed development and developer contributions, and other funding flows as development takes place. That funding will be used to repay debt or could be used to fund new capital spending (thus avoiding the need for new borrowing). The Council recognises that the sooner that funding from developers and any others is received, the sooner the benefit will be reflected in the Council's revenue budget.

6.9 Section 151 Officer Sign-Off

The Cabinet at its meeting in July has given an executive power to the Section 151 Officer for the purpose of signing-off of the scheme estimates and to confirm the Council's agreement to underwrite any funding shortfall by Prudential Borrowing until such time that these monies are recouped through developer contributions. The Section 151 Officer letter is included in Appendix 6.E.

Schedule of Appendices to Section 6

- 6.A Independent Quantity Surveyor's Report
- 6.B Quantified Risk Register
- 6.C RFA Increase Justification Note to EERA
- 6.D PFI Scoping Study
- 6.E Section 151 Officer Letter