

## 5 Affordability

### 5.1 Introduction

5.1.1 The purpose of this chapter is to define the current progress on the Affordability of the project.

5.1.2 The affordability chapter of this Outline Business Case provides a mechanism to ensure that the projects objectives and outcomes can be delivered within the funding envelope that is affordable over the life of the contract.

5.1.3 Other areas this chapter considers include:

- ∴ Financial implications
- ∴ Asset Management – Current position and future requirements
- ∴ Set-up costs
- ∴ Sensitivity testing

5.1.4 It is acknowledged that there are considerable impacts and considerations for staff in considering the decision. However, the project must act in the best interests of the City Council as a whole, ensuring value for money and find an appropriate balance between staff and community considerations.

5.1.5 This project is not financially free standing; therefore there will be a cost to the Council. It is essential that the Project is affordable to the Local Authority, and the assessment of the affordability of the project to the Local Authority (over the whole life of the project) is an essential element. It is important that an assessment of this cost is made as early in the process as possible for approval of the procurement by members and other stakeholders.

5.1.6 The fundamental aim of the partnership is not to bridge the gap between the investment requirement and the funding available. It will look to utilise the available resources more effectively and efficiently and improve the service. Therefore, the key question is can bidders maintain or improve the service, while still delivering efficiencies?

### 5.2 Financial Implications

#### Level of infrastructure spending

5.2.1 Tables 21 and 22 below detail the Revenue and Capital funding available for the in-scope Highways services based on the budget 2008/2009 and what has been currently defined as “in scope” for the project.

5.2.2 The Economic Benefits modelling undertaken in section 3.9 and Appendix F utilises the below budgetary information

#### Revenue spending

**Table 21: Revenue Highways Budget 2008/2009**

Type	Description	Value (£)
<b>Revenue Highways</b>	Subway Maintenance	25,500
	Winter Maintenance	88,500
	Street Maintenance	4,565,200
	Service Futures	100,000
	Transportation	285,600
	City Centre & Major Projects	373,300
	Engineering Implementation	311,600
	Network Management	400,000
	Business Support	544,000
<b>Total</b>		<b>£6,693,700</b>

5.2.3 Further services may be included, or services excluded, as a result of the independent review currently being undertaken. The following points are notes applicable to the revenue budget detailed above in Table 12:

- ⋮ Dependent on final scope of services included within the partnership
- ⋮ Network Management pro rata total based on fact that service will split
- ⋮ Services Future Cost pro rata based on fact service will split
- ⋮ Head of Service Costs excluded
- ⋮ Highways Options excluded
- ⋮ Off-street parking is excluded
- ⋮ Romanse is excluded
- ⋮ Bridge Maintenance is excluded
- ⋮ Highways Capital Asset is excluded
- ⋮ Street lighting PFI is excluded
- ⋮ Itchen Bridge is excluded
  
- ⋮ Abandoned vehicles are excluded
- ⋮ Highways insurance is excluded
- ⋮ No non-highways services (e.g. gully emptying) included at present

## Capital spending

- 5.2.4 Table 22 illustrates that the Council currently spends approximately £7.5 million each year on Capital Highways maintenance

**Table 21: Capital Highways Budget 2008/2009**

Type	Description	Value (£)
<b>Capital Highways</b>	Active Travel	457,000
	Improved Safety	256,000
	Public Transport	40,000
	City & District Centres	100,000
	Accessibility	70,000
	Highways Other	279,000
	Street Furniture	210,000
	Roads	6,100,000
<b>Total</b>		<b>7,512,000</b>

- 5.2.5 Further services may be included, or services may be excluded, as a result of the independent review currently being undertaken. The following points are notes applicable to the capital budget detailed above in Table 11:

5.3 Above figures are extrapolated from Environment and Transport Directorate Capital Programme

5.4 Bridges are excluded as now part of Capita partnership

5.5 Street Lighting is excluded as this service will be under a Street Lighting PFI by time of Highways Partnership

5.6 Funding allocated for North/South Spine is excluded as this project will not be delivered by Highways Partnership.

5.7 No amounts for city centre/major schemes are included as funding for these (e.g. N/S Spine) is time-limited and uncertain.

5.8 All parking is excluded as this will not be part of the Highways Partnership Scope

5.9 No non-highways services have been included

5.10 Total may increase due to any city centre/major projects which would be delivered through the Highways Partnership

## Contract Value

- 5.2.6 Capital (08/09) = £ 7,512k
- 5.2.7 Revenue (08/09) = £6,693k
- 5.2.8 Total (08/09) = £14, 205k
- 5.2.9 This gives a total contract value over 10 years of £14,2050k.

## Future Funding

### Prudential Borrowing

5.2.10 The Council is using Prudential Borrowing to increase the investment in roads from 2008/09 to £6m per annum. This has been budgeted for three years and is expected to continue on an on-going basis.

**PFI Credits**

5.2.11 In September 2006 the Council sought central government financial support towards the costs of the project in the form of a Stage 1 PFI credit submission. The Council were informed that they had been unsuccessful in their bid in December 2007.

5.2.12 The next window of opportunity to bid for credits is unlikely to be before 2009, therefore any PFI type investment is unlikely to come on line before the year 2014. However, as the procurement process progresses, the Council needs to consider its desire to apply for further PFI credits again and how enough flexibility would be built into the partnership to enable it to do so.

**Congestion and Workplace Charging**

5.2.13 Congestion and workplace charging are not options which are being actively developed currently and are not part of this project but they would have a major impact influence it introduced throughout the life of the project. Therefore, these initiatives must be recognised and the implications considered further as this project progresses.

**Alternative funding arrangements**

5.2.14 The options available to the Council to increase funding are limited, however the following are some options available that if required could be explored further. Some of these have already been utilised by the Council, but for completeness they have been included:

- ∣ Increase Council Tax
- ∣ Additional Prudential Borrowing
- ∣ Further transfer of LTP funds
- ∣ Redirect from other services
- ∣ Reduced Specification and service levels

**5.3 Budget based on whole life costs**

5.3.1 Currently it is not possible to produce a fully whole life costed or a detailed financial plan as part of the Outline Business Case due to:

- ∣ Precise costings will only emerge when potential suppliers begin to set out what can be provided, and how they intend to provide it
- ∣ Other relevant information is currently unavailable
- ∣ It is not possible at this current stage of the project to second guess what our emerging customer access strategy is likely to cost.

5.3.2 Whole life costing will be considered when bidders are putting forward their proposal for delivering the service. Through the procurement there will be a consideration of up front capital against ongoing revenue. There will also be a consideration of how bidders take whole life costing into account when designing and building capital projects.

## 5.4 Investment Requirement and Strategy Transport Asset Management Plan (TAMP)

5.4.1 Final member approval for the Council's TAMP is scheduled for June 2008.

5.4.2 To date the following has been carried out in respect to this work:

- ∴ A draft TAMP is available
- ∴ Independent consultants for the Council have produced a 10 year forward works plan based on £ 3.6 million annual budget for the; principal, classified and unclassified network. DfT changes in the interpretation of the condition data collected means that the forward works programme will need to be reviewed
- ∴ Some preliminary Levels of Service work has been undertaken, with regard to identifying general condition of the network and what constitutes; poor, fair and good levels of service. Further development in this area is identified as a key element of the TAMP improvement plan.

5.4.3 Both the Strategic Business Case and this document provide initial data on likely investment requirements and potential service levels, based on information that is currently available.

### Local Public Service Agreements (LPSAs)

5.4.4 PSAs were first introduced to modernise and improve the Government's performance on the issues that matter most to the public (including health, crime, education and the environment)

5.4.5 The first round of LPSAs was rolled out in 2001 and the last of these agreements ended in March 2007. Due to the popularity of the first round of Local PSAs the 'Second Generation' Local PSA scheme was announced in late 2003. These agreements allowed local authorities and their partners to tackle the priorities for improvement locally and provide a renewed focus on improving final outcomes for local people.

5.4.6 Although in general the outcomes of these LPSA's would not directly have an input to the project, we would recommend that further investigation takes place to clarify the situation as there could well be an indirect influence .

## 5.5 Set-up costs for partnership

5.5.1 Set-up costs for the approved partnership can vary depending on the preferred option. However, a considerable amount of these are generic to the set-up. Listed below are examples of costs the Council will need to consider as they progress through the procurement process into the detailed business case:

- ∴ Procurement process costs, including project team costs
- ∴ Personnel issues
- ∴ Facilities
- ∴ ICT and management
- ∴ Legal and financial
- ∴ Branding and marketing
- ∴ Consultancy

- ‡ Contingency
  - ‡ Miscellaneous
- 5.5.2 Once costs have been considered, for the detailed business case and as of part of the on-going procurement process they will have to be categorised into:
- ‡ Fixed costs e.g. buildings
  - ‡ Variable costs e.g. training
  - ‡ Semi-variable costs (components of fixed and variable e.g. maintenance program)
  - ‡ Semi fixed or stepped costs
  - ‡ Transaction costs e.g. the move, the set-up
- 5.5.3 Following engagement with the market, the Council can then ascertain what costs the authority is going to have to carry and what can be transferred to the partner.
- 5.5.4 Other considerations with respect to cost include:
- ‡ The Councils financial and procurement regulations
  - ‡ When will the costs occur
  - ‡ How will they be monitored
  - ‡ Any risk allowance needed in the event that something goes wrong
- 5.5.5 Following approval to progress through the procurement process to the detailed business case, the following finance issues are some examples of what will need to be produced:
- ‡ Budget statement – Resource cost over the lifetime of the project
  - ‡ Funding statement – shows which external departments, partners and external organisations would provide the resources
  - ‡ Income and Expenditure account
  - ‡ Balance Sheet - An itemised statement that lists the total assets and total liabilities of a given business to portray its net worth at a given moment in time.
  - ‡ Cash Flow statement – Additional cash that will be spent
- 5.6.4 The Achievability chapter provides further clarification and information on set-up costs of this project, together with other relevant information. base interest rate for calculation of base interest rate of debt repayments, which is considered as prudent.
- 5.6.5 In capital costs, the Council should seek to ensure that sufficient allocations have been made for inflation to the project start date. This may include a contingency.

