

# Chapter 7 – Finance Dimension



# A38 Bromsgrove Route Enhancement Programme

March 2023

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## 7. Financial Dimension

### 7.1 Background

The A38 in Bromsgrove is an important corridor on the Major Road Network (MRN). It acts as a key strategic link, providing access to the Strategic Road Network (SRN), as well as offering an important local function as an eastern bypass to Bromsgrove town centre and providing access to housing, services and employment frontages.

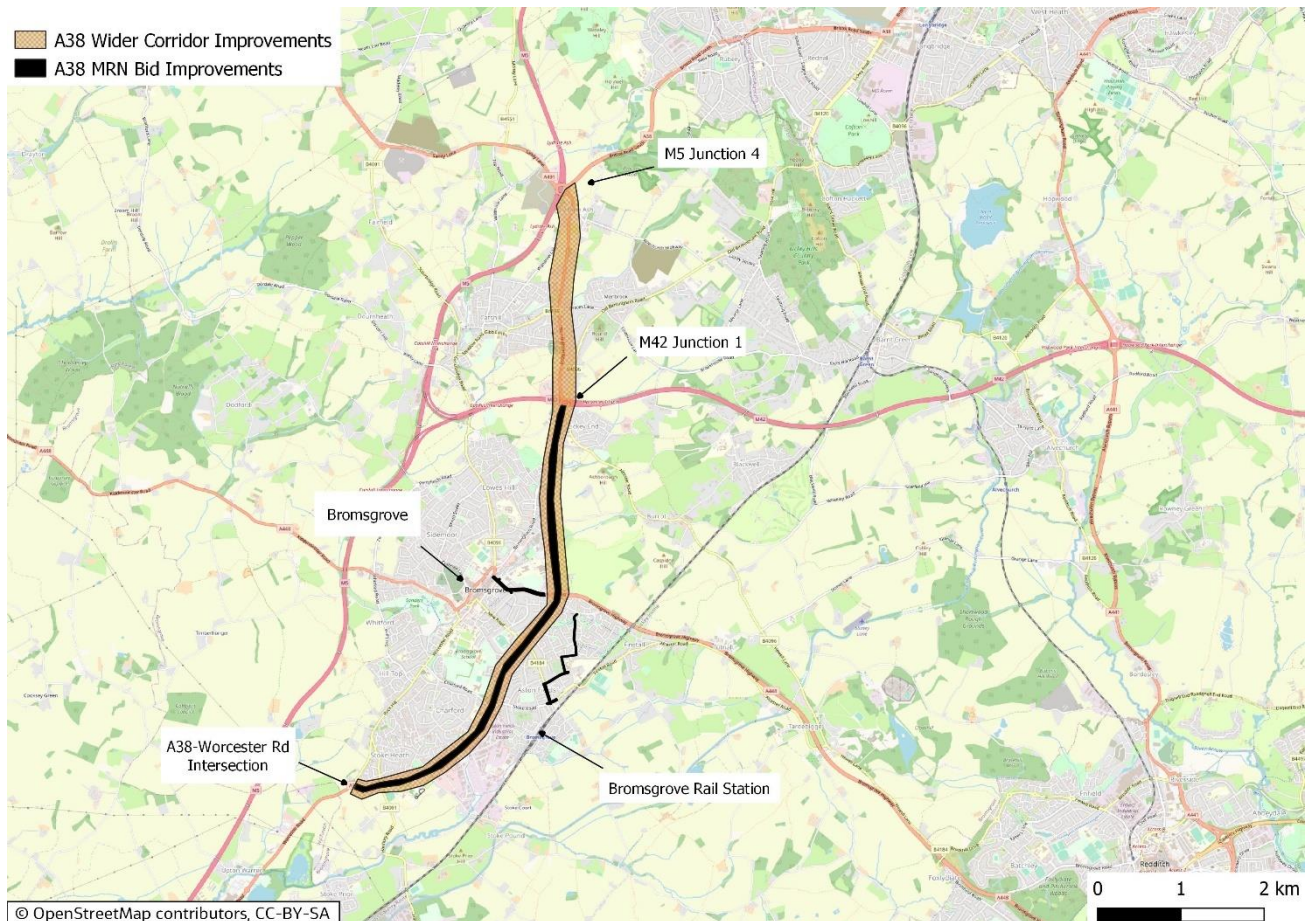
WCC is delivering a major upgrade of the A38 corridor between M5 Junction 4 to the north and the junction of A38 with B4094 Worcester Road to the south, which is approximately 7.5 miles (12 km) long. This Full Business Case (FBC) seeks funding to deliver Phase 3 of the major upgrade of the A38 corridor between M42 Junction 1 to the north and the junction of A38 with B4094 Worcester Road to the south, which is approximately 3.8 miles (6.1 km) long. This corridor forms part of the strategic north south spine through Worcestershire, connecting Worcester, Droitwich, Bromsgrove to Birmingham to the North and Gloucester and Bristol to the south as an alternative to the M5 route. The study area is shown in Figure 7.1.

The A38 corridor is a multi-functional route serving a range of users which contributes to the problems and issues. The key characteristics are:

- The route performs a range of different functions, including as a link to the SRN, a corridor to bypass Bromsgrove town centre, a distributor road for journeys that have an origin and/or destination in Bromsgrove and a local access route for residents and businesses that have direct frontages on to the corridor.
- The corridor comprises sections with differing speed limits, levels of frontage and access points in addition to varying levels of pedestrian and cyclist provision. In addition, the driving experience along the route varies due to the differing land uses along sections of the A38 from residential, open field to employment and retail.
- The two features of the A38 corridor outlined above, combined with high levels of car dependency across Bromsgrove, result in substantial congestion.

The A38 BREP comprises a package of schemes delivering targeted improvements to junctions and significant enhancement of facilities for active modes.

Figure 7.1 – Scheme location



This situation is projected to worsen in the future as new housing and employment planned for the local area are delivered. The planned growth in housing will increase the demand for travel. The following points summarise the planned developments in the area:

- The Bromsgrove District Plan (adopted in 2017) includes major residential development sites around the edge of Bromsgrove, with Perryfields Road and Whitford Road being particularly relevant to the A38. Smaller residential allocations are also found in surrounding areas. In total the Local Plan identifies a need for 7,000 dwellings and 28 Hectares of employment land in the period 2011-2030. However, the adopted Local Plan only allocated land for 4,700 dwellings to 2023, noting that allocating land for the remaining 2,300 homes would be subject to a Green Belt review as part of a Local Plan Review. Subject to the ongoing Local Plan review, the scheme may further support delivery of additional homes and employment land.
- The Local Plan Review will also identify development allocations for growth beyond 2030 and in its Issues and Options consultation put forward various scenarios. The consultation documents published in September 2019 proposed that the new Plan will have a likely start date of 2023 and an end date of 2040. Over this period the Plan will be required to provide for at least 6,443 dwellings and up to 90 Hectares of employment land.
- Within close proximity of the A38 corridor area there are significant cross-boundary allocations within the adopted Local Plan for Redditch. This includes an additional 3,400 dwellings (and 5.5 hectares of employment land) on the border with Redditch but located within Bromsgrove District, to meet Redditch's housing need, as identified in their own Local Plan. The allocation at Foxlydiate is particularly relevant to the A38.

- In addition, there are further allocations within the Redditch Local Plan (and sited within Redditch itself). Around 3,000 dwellings and 27.5 hectares of employment land are to be accommodated within Redditch Borough.

Table 3.34 of the Strategic Dimension shows key development sites in the vicinity of the A38 identified within the adopted Local Plans. The quantum of proposed development (housing and employment) within the adopted Local Plans requires enhancements to transport infrastructure, including the A38. Whilst no individual development site currently has planning conditions that restrict development in advance of delivery of the A38 schemes, there are planning linkages between the A38 BREP and the delivery of allocations identified in adopted Local Plans, and this is reflected in the requirement for S106 contributions to the BREP scheme. The A38 in its current form is a key constraint to additional future development allocations through the Local Plan review process. Therefore, in summary, the A38 BREP supports the delivery of 5310 homes and 13.45 Hectares of employment land based on the current plan. Subject to the ongoing Local Plan review, the scheme may further support delivery of additional homes.

To effectively support the future development of Bromsgrove and to deliver economic growth, significant improvements are required to the corridor itself, supported by targeted improvements for other modes.

The scheme for which funding is sought through this MRN bid is an important part of the overall approach to transport in Bromsgrove. It will support ongoing work that is aiming to enhance both the major and local road network, as well as encouraging walking, cycling and the use of public transport.

## 7.2 Introduction

The wider A38 BREP corridor enhancement is being delivered in four phases, these phases are presented in Figure 7.2 and described below:

- Phase 1 (funded by Worcestershire Local Enterprise Partnership (WLEP), Greater Birmingham and Solihull Local Enterprise Partnership (GBSLEP) and National Highways' Growth and Housing Fund (GHF)), provided for capacity upgrades at M5 Junction 4, M42 Junction 1 (completed in 2020/21) and the Barley Mow Lane junction with the A38 (completed in 2019). The works are included in the Do Minimum scenario for the A38 BREP Phase 3, as these have now been completed on site.
- Phase 2 comprised of the early delivery elements (also referred to as Schemes 2a, 2b and 4) of the BREP package presented at both the Strategic Outline Case (SOC) and Outline Business Case (OBC) stages. The early delivery schemes have been delivered early using WLEP local contribution funding to take advantage of the local funding availability. These works are an important part of the overall BREP scheme, contributing to the improvement of active mode facilities on the corridor.
  - Scheme 2a: An active travel corridor on the A38 between Charford Road and Harvington Road that includes a 3m wide cycleway and 2m wide segregated pedestrian / cycle facility provision of connection to Harvington Road.
  - Scheme 2b: An active travel corridor providing connection between the A38 and Scheme 2A to South Bromsgrove High School, it includes the provision of a 3m wide shared cycle path and footpath.
  - Scheme 4 is a signal toucan crossing of A448 to east of Fordhouse Road, to provide connectivity between Blackwood Road (Heart of Worcestershire College) and Regents Park Road and Fordhouse Road, and tie into Scheme E, Scheme 3 and Scheme 9.

Phase 2 schemes have been developed as part of the overall strategic active mode upgrade as part of the A38 BREP package. The FBC will continue adopting the same approach presented in the OBC submission in relation to these schemes: they form part of Phase 3

Do Minimum scenario, and their economic and financial impacts are reported as a sensitivity test in the Economic Dimension. It should be noted that the Phase 2 package offered a High Value for Money to taxpayers.

- Phase 3 includes three active mode, two local public transport and six hybrid highway capacity and active travel improvement schemes which were included in the OBC submission:
  - Three active mode improvement schemes, namely Schemes 3, 6 and 9.
  - Two local public transport improvement schemes which have not changed compared to the OBC stage. Local public transport improvements, notated as Scheme 7 (provision of upgrades to 9 bus stops including provision of physical infrastructure/shelters and wind turbines/solar panels powered Real Time Information (RTI) screens; and Scheme 8 which includes the provision of select vehicle detection at New Road and Charford Road junctions to support buses in crossing the A38 corridor, on the primary routes between the Town Centre and Bromsgrove Rail Station (Scheme 8 will be delivered at the same time as Schemes C and D).
  - Six hybrid schemes containing highways capacity and active travel improvements which were included in the OBC submission. These are Schemes: C to F and parts of Schemes A and B (only limited elements of the latter two schemes have been moved to Phase 4).
- Phase 4 includes schemes that were originally included in the OBC stage but have now been moved to Phase 4. This was due to increased inflation experienced in 2022, resulting in increased scheme costs. Phase 4 includes the following schemes:
  - Three highways improvement schemes: Scheme G and the complementary remaining parts of Schemes A and B that have been removed from OBC stage.
  - Two active mode improvement schemes, namely Schemes 1 and 5.

Phase 4 schemes (See Figure 7.2) have been removed from all aspects of this bid, and will be progressed once alternative funding sources are secured hence will be subject to a separate business case.

Figure 7.2 presents the phasing of the A38 corridor improvements, while Figure 7.3 provides an overview of the highway, active mode and public transport elements of the A38 BREP Phase3 scheme, and Figure 7.4 presents the locations of the new Shelters and RTI interventions included in Scheme 7.



Figure 7.2 – A38 corridor improvement phasing

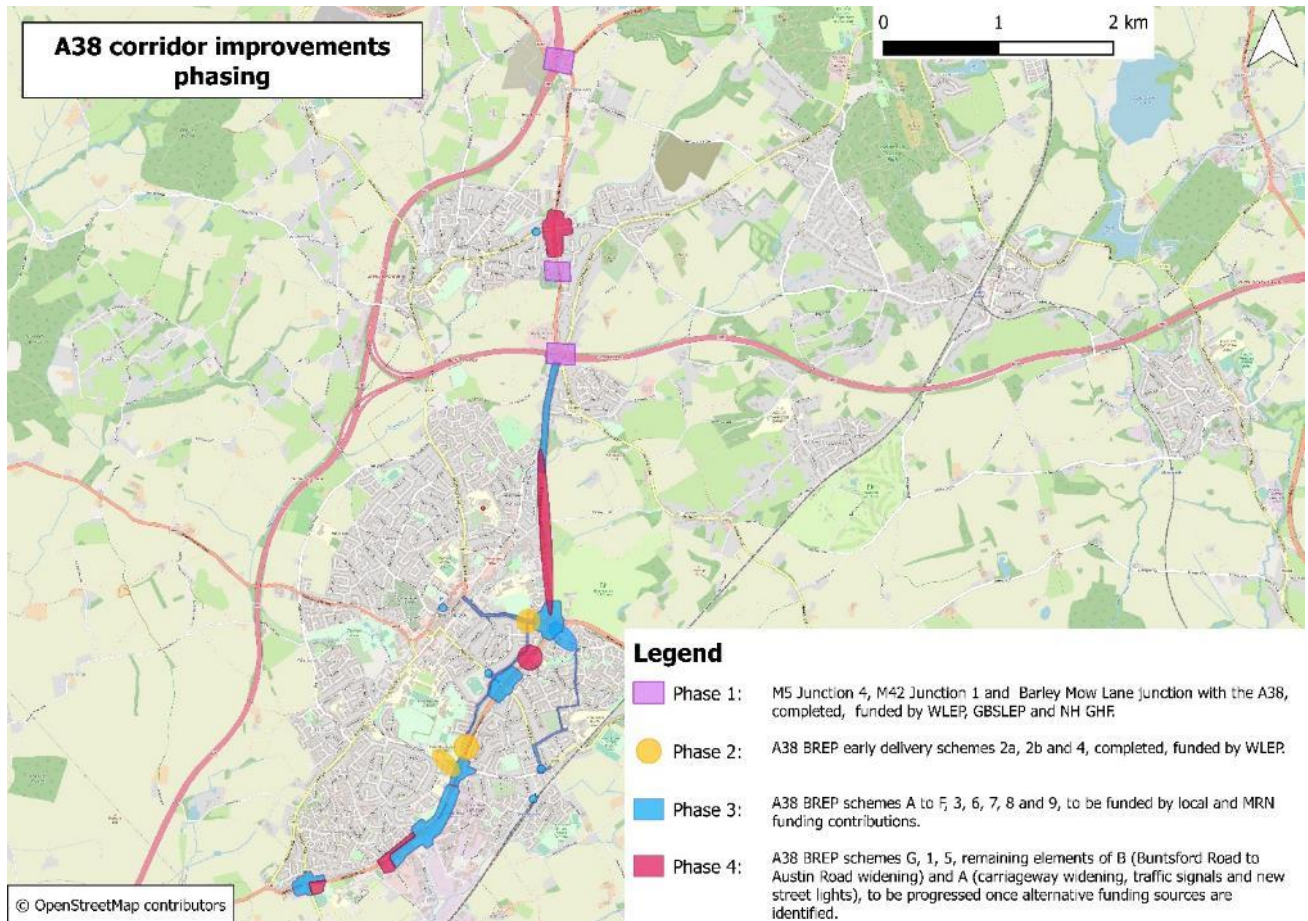


Figure 7.3 – Highway, sustainable transport and public transport schemes included in the FBC stage – (Phases 2 and 3)

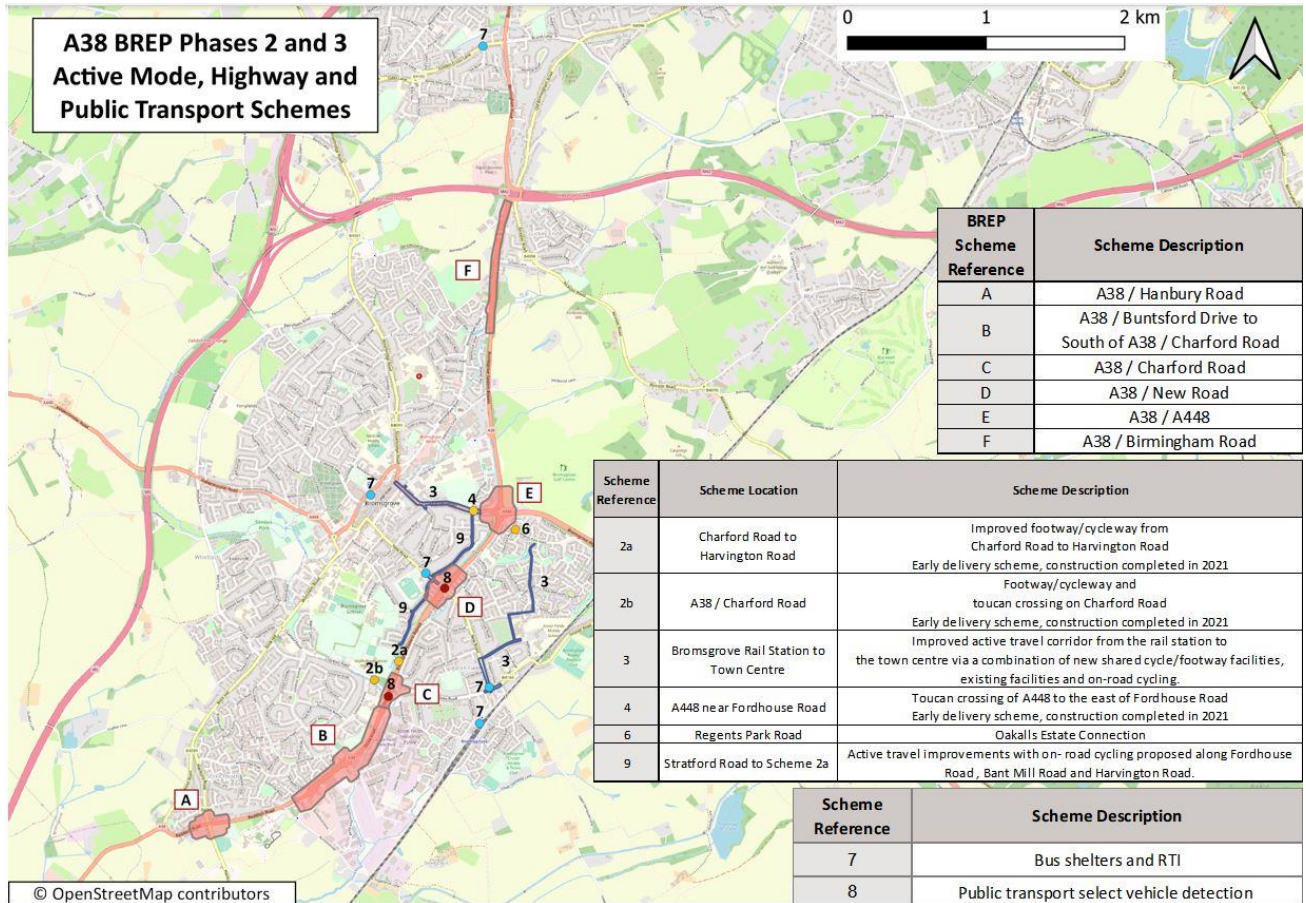
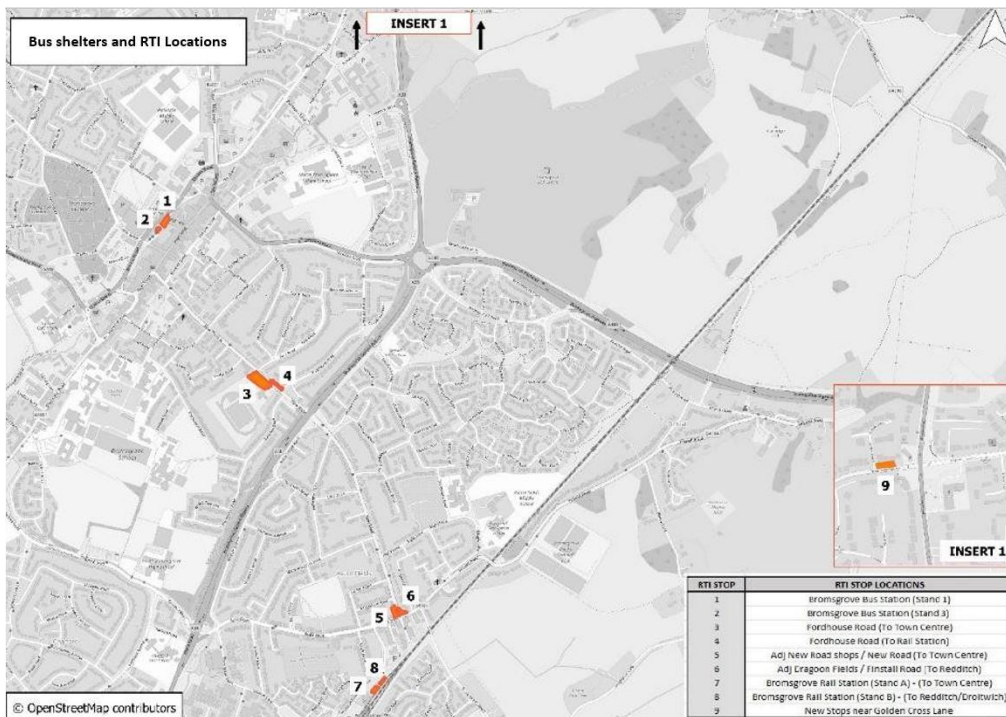


Figure 7.4 – Scheme 7/ Shelters and RTI stop locations





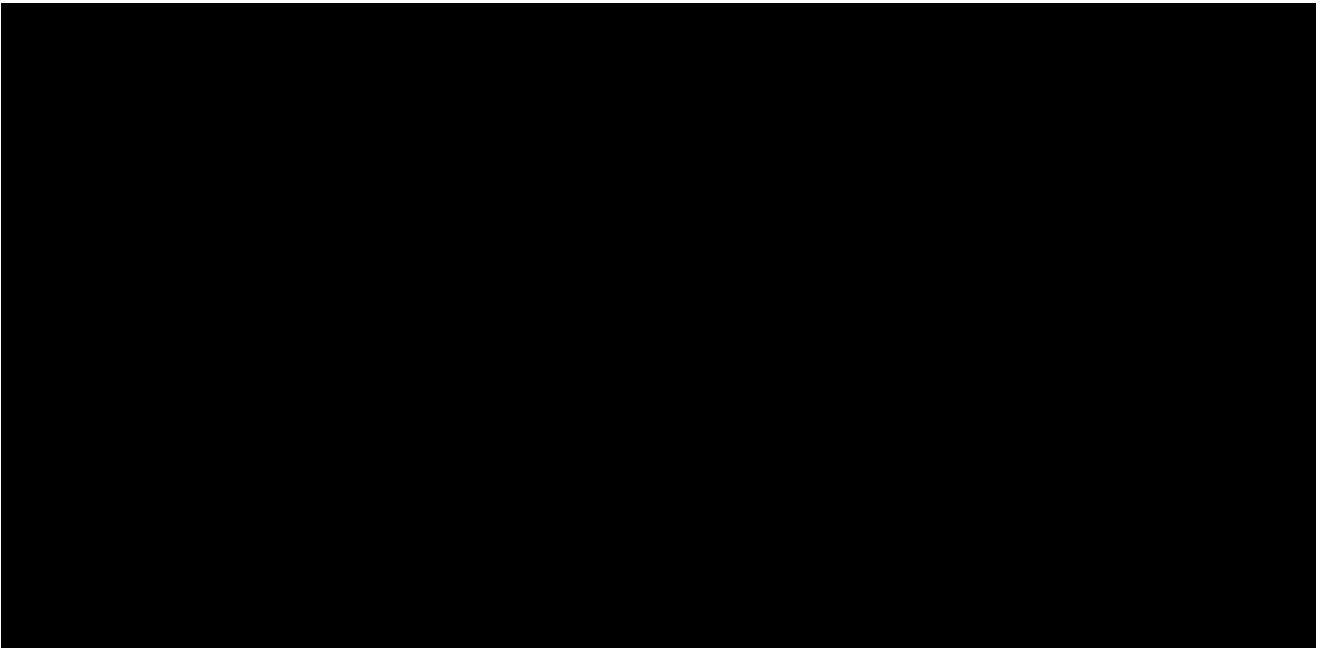
## 7.3 Purpose

The delivery of the scheme entails a three-stage cost lifecycle, as follows:

- Preparation costs from Programme Entry to Full Approval.
- Construction Costs.
- On-going liabilities including highways and bridge maintenance costs, scheme monitoring and evaluation.

The estimated total outturn cost of the scheme is [REDACTED]. This figure reflects base costs as outlined in Table 7.1, with inflation applied to initially convert to a consistent Q1 2023 price base prior to further inflation adjustments across the scheme's respective construction programmes. This total excludes Part 1 Claims and Monitoring and Evaluation Costs. These calculation stages are presented in the Section 7.4.

*Table 7.1- Base Costs by Scheme Component\**



\*Costs should not be added together as they are in different price bases

Separate to the above core Phase 3 scheme costs, a local contribution allowance is made for Part 1 Claims and Monitoring and Evaluation (M&E) Costs. This is in line with the DfT advice. In general, the DfT do not fund these costs and requires that these should be part of the local contribution. Part 1 claims is estimated at circa [REDACTED] (October 2022 prices), which is subject to potential claims in the future. M&E costs are estimated at [REDACTED] in February 2023 prices.

## 7.4 Budget Profile

### 7.4.1 Approach to Scheme Costs

The key costs of the project are:

- Construction Costs – These are the contractors' construction costs adjusted to allow for inflation up to the start of and during construction. Traffic Management costs are included within the scheme costs.

- Project Preparation Costs – These costs include project management, design and associated elements, environment, planning and legal costs.
- Land Costs – Based upon estimated costs to acquire the necessary land volume.
- Site Supervision & Contract Management Costs – These are costs to oversee the construction phase.
- Risk – Undertaken via the Quantified Risk Assessment Process as defined in TAG.
- Monitoring and evaluation costs – As defined in the Monitoring and Evaluation Plan appended as Appendix M.6 to the Management Dimension.
- Whole life costs – Defined in Appendix F.3, for use within the economic case only.
- Part 1 Claims – An estimate of the part 1 claims that could arise as a result of the proposed scheme, subject to an acceptable claim being submitted in accordance with legislation.

#### 7.4.1.1 Construction Costs

The construction costs used as the basis of this Financial Dimension can be sub-divided into two distinct packages of works for core activities covering highway, geotechnical and structure costs, as well as traffic management and site preliminaries:

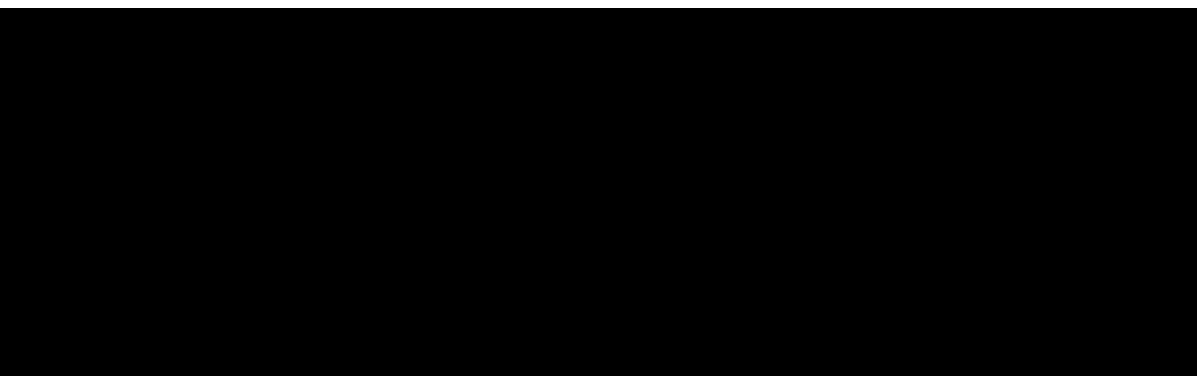
- Schemes A to F and Scheme 6: based on the most economically advantageous tender prices provided through the formal tender process documented in the Commercial Dimension. Provided in Q1 2023 and inclusive of the contractors' own allowance for:
  - minor utilities work to support the more substantial activities undertaken by statutory undertakers (captured below).
  - risk allocated to the contractor, inclusive of an inflationary risk allowance of [REDACTED].
- Schemes 3, 7 and 9: Costs obtained via the contractors appointed to WCC's Infrastructure Engineering Term Contract (IETC) and Transport Operations' supply chain, based on Q3 2022 prices. The costs are inclusive of risk allocated to the contractor.

In addition to the prices obtained for the core construction works, the overall construction costs are inclusive of the following activities:

- Statutory Undertaker diversions: based on C3/C4 estimates provided in Q3 2022 for all schemes except Scheme 9 (Q1 2023 prices);
- Lighting and Signals: based on prices provided by WCC's term contractors for these activities provided in Q3 2022.

The base costs adopted for the main construction works are summarised in Table 7.2 A full composite costing is outlined in Appendix F.1.

*Table 7.2- Base Costs for Construction Activities*



#### 7.4.1.2 Preparation costs

Preparation Costs include project management, detailed design, development of the Full Business Case, environmental design works, planning and legal costs. These costs total [REDACTED] and reflect costs already incurred from programme entry through to full approval (i.e. 2020/21 to 2022/23).

#### 7.4.1.3 Land costs

Land costs reflect WCC's estimates of land value for small parcels of land required to deliver the works. They also include third party surveyor and legal fees, as well as WCC property and legal fees. They are estimated at [REDACTED] (Q3 2022 price base).

#### 7.4.1.4 Site supervision

Site supervision and contract management costs are included to cover costs required to oversee the construction phase. These costs have been based on WCC's previous experience of overseeing similar contracts and amount to [REDACTED] (Q1 2023 price base).

#### 7.4.1.5 Risk cost

As noted in the Management Dimension, a Quantified Risk Assessment (QRA) has been undertaken and a QRA value is included within the Financial Dimension. The QRA estimate reaches [REDACTED] (Q1 2023 price base). Appendix F.2 provides full details of the QRA process and value.

#### 7.4.1.6 Monitoring and evaluation costs

Monitoring activities to understand the baseline position (i.e. -1 year prior to scheme construction starting) and scheme impacts (+1 and +5 years after scheme opening) is specified in the Monitoring and Evaluation Plan which is appended to the Management Dimension as Appendix M.6. The Plan costs each monitoring requirement and the overall cost of [REDACTED] (Q1 2023 price base) is used to inform the Financial Dimension.

#### 7.4.1.7 Whole life costs

Maintenance and whole life costs associated with the structure, carriageway and footway/cycleway elements of the proposed scheme have been estimated at [REDACTED] (December 2022 base prices). Assumptions have been made based on the frequency of required maintenance for each element and a base cost per cycle. Appendix F.3 sets out the basis of the whole life costs used in the economic appraisal.

#### 7.4.1.8 Inflation

##### 7.4.1.8.1 Inflation Factors to Generate Consistent Price Base – February 2023 Prices

The base costs presented in Table 7.1 have been converted to a consistent February 2023 price base to support economic and financial appraisal. In particular, the following scheme cost components provided in Q3 2022 price base have been converted to Q1 2023 prices:

- Contractors' Costs – Schemes 3, 7 and 9.

- Utilities – All Schemes Except Scheme 9.
- Signals and Lighting.
- Land.

For the first three items, inflation between Q3 2022 and Q1 2023 was informed by the BCIS Tender Price Index. The inflation factors listed in Table 7.3 were adopted.

*Table 7.3- Inflation Factors to Q1 2023 for Construction Activities Provided in Q3 2022 Prices*

<b>Period</b>	<b>Inflation Factor for Period</b>
Q4 2022 (October 2022-December 2022)	0.60%
January 2023	0.43%
February 2023	0.43%
<b>Total Inflation</b>	<b>1.47%</b>

For land, inflation between Q3 2022 and Q1 2023 was informed by the Bank of England's Consumer Price Index (CPI) forecasts. The inflation factors listed in Table 7.4 were adopted.

*Table 7.4- Inflation Factors to Q1 2023 for Land Costs Provided in Q3 2022 Prices*

<b>Period</b>	<b>Inflation Factor for Period</b>
Q4 2022 (October 2022-December 2022)	2.59%
January 2023	0.78%
February 2023	0.78%
<b>Total Inflation</b>	<b>4.19%</b>

Based on this approach, Table 7.5 presents the scheme costs for A38 BREP Phase 3, split by scheme. Note that land, preparation and supervision/management costs are distributed across schemes on a pro-rata basis according to the value of works costs. The scheme specific risk values are adopted from the QRA.

*Table 7.5- Scheme Costs by Component (Q1 2023 Prices)*





#### 7.4.1.8.2 Inflation Factors to Forecast Outturn Costs

Outturn costs from Q1 2023 to the relevant construction completion dates for each scheme component have been developed using inflation metrics as defined in Table 7.5.

The metrics have been applied as follows:

- BCIS Tender Price Index: applied to forecast outturn costs associated with all works costs and QRA. Works costs were inflated according to the specific construction programme in place for each scheme. QRA was inflated according to the distribution of all other costs across the programme's entire construction period.
- CPI: information from the Bank of England's latest Monetary Policy Report (February 2023) was used to source the CPI forecasts, which were provided from Q1 2023 until Q1 2026. These were applied to land costs and supervision/management costs as follows:
  - Directly applied to land costs up to December 2023, when land transactions are expected to take place.
  - Used to forecast a rate of change for Average Weekly Earnings data from ONS, and applied to supervision and management costs. These costs were profiled equally across the construction programme.

Note that preparation costs have not been inflated, as for the most part these represent historic costs already incurred to develop the FBC from programme entry (2020/21) to submission (2022/23).

Based on this approach to inflation, Table 7.6 presents the inflation factors adopted in the financial analysis.

*Table 7.6- Annual Inflation Forecast Q1 2023 to Q1 2026*

Year	Works Cost and Risk	Land	Supervision/ Management
Q1 2023 – Q1 2024	3.0%	6.0%	3.68%
Q1 2024 – Q1 2025	3.4%	2.2%	1.34%
Q1 2025 – Q1 2026	4.1%	1.4%	0.84%

*(NB: the inflation factors are not compounded)*

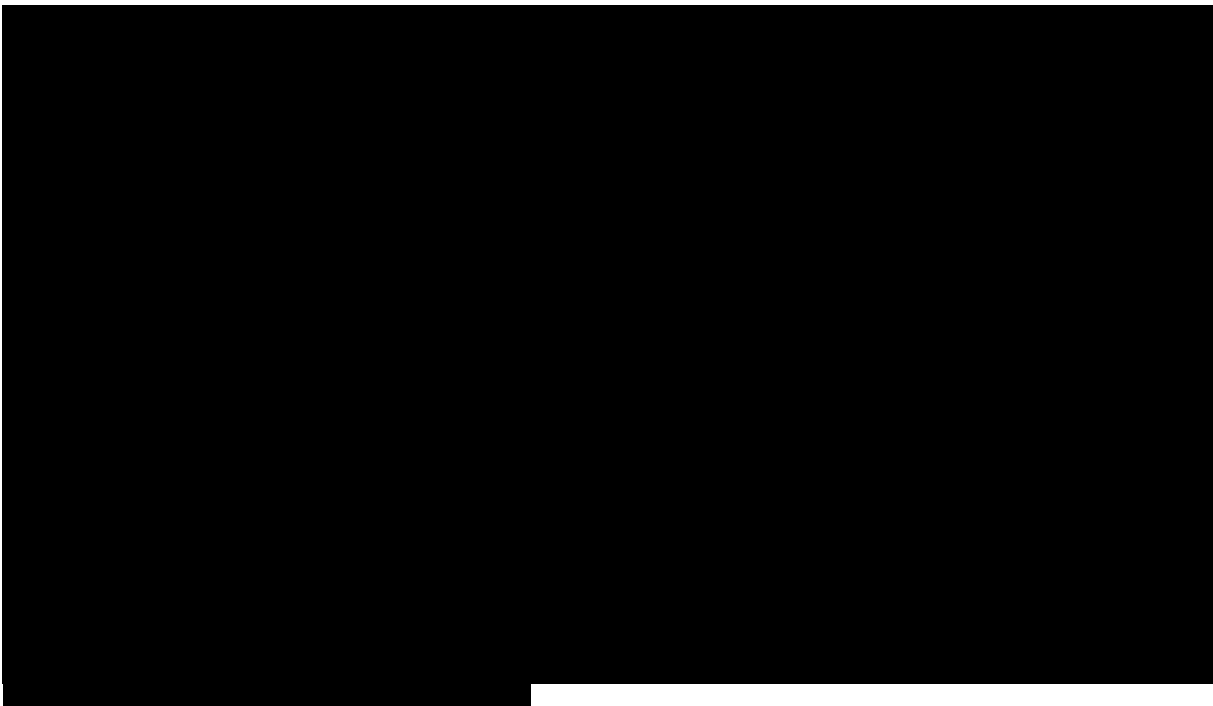
#### 7.4.1.9 Optimism bias

Optimism Bias has not been included in the costs reported in this Financial Dimension, optimism bias is accounted for in the Economic Dimension only, in line with TAG.

#### 7.4.2 Scheme Outturn Cost

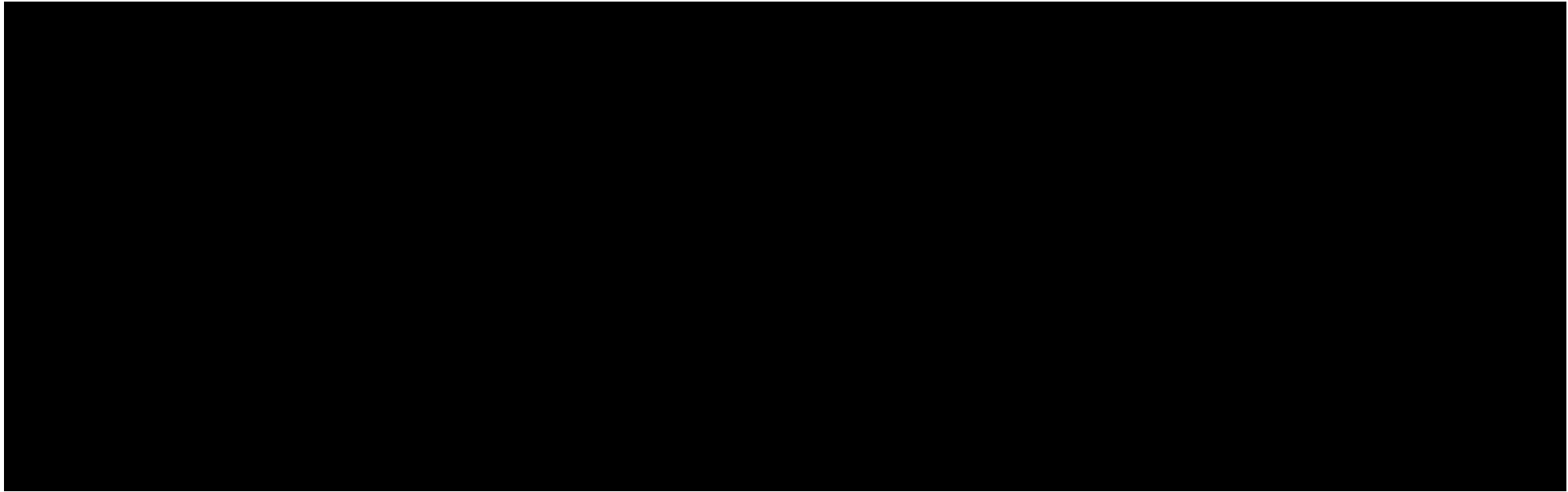
The inflation rates set out in Table 7.6 have been applied to the various elements of the scheme costs presented in Table 7.5. the resulting outturn cost for the scheme is [REDACTED] as set out in Table 7.7. Further detail is provided in Appendix F.1.

Table 7.7- Scheme Outturn Costs by Component (Q1 2023 Prices)



Additional to the above core A38 BREP Phase 3 scheme costs, a local contribution allowance is made for Part 1 Claims and M&E Costs. Part 1 claims is estimated at circa [REDACTED] (October 2022 prices), which is subject to potential claims in the future. M&E costs are estimated at [REDACTED] in February 2023 prices.

Table 7.8- Scheme Outturn Costs by Component (Q1 2023 Prices)



## 7.5 Budget Arrangements

This FBC is seeking to secure DfT approval for allocation of budget to this programme. Local match funding contributions are already budgeted for, via historic expenditure by WLEP or through S106 agreements in place with developers. Further details are provided in Section 7.6.

## 7.6 Funding Arrangements

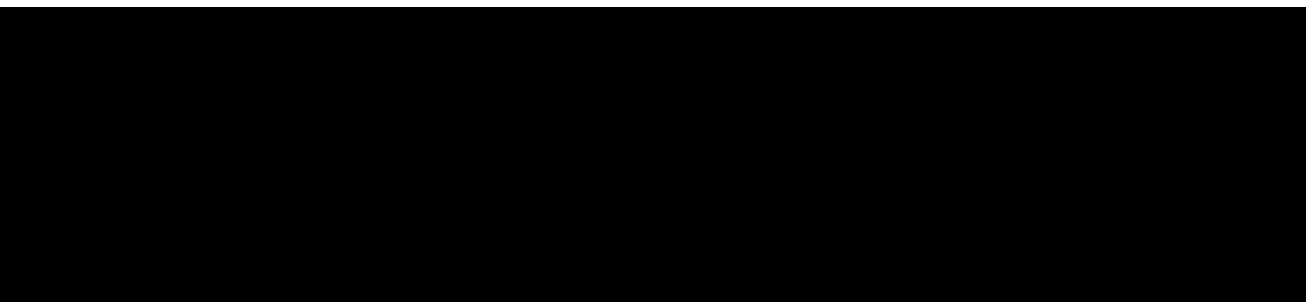
The scheme's outturn costs will be funded by a combination of Central Government (DfT) and local match contributions (WLEP and S106 contributions) as detailed below:

- Through Programme Entry in August 2022, DfT has confirmed a funding contribution of [REDACTED]. This includes reimbursement to cover costs already incurred by WCC as part of the Forward Fund, utilised to expedite preparation of the FBC.
- Funding from WLEP of [REDACTED] was secured and utilised in 2020/21 for preparation (specifically FBC development).
- Funding from S106 of [REDACTED] will bridge the residual funding gap. As noted in Section 7.6.2, this has been secured.

It should also be noted that an additional [REDACTED] of local contribution (WLEP) was used to deliver Phase 2 "Early Delivery Schemes" of the A38 BREP. This was done because the time period for using the grant funding from the Local Growth Fund Deal 3 was ending in March 2021. WCC made the DfT aware of this outcome in November 2020. The DfT's preferred option was that the local contribution spent to deliver Phase 2 schemes is taken out of the A38 BREP scheme and the remaining scheme is submitted with a 15% local contribution. However, if that was not possible, then DfT requested that the OBC (and subsequently the FBC) should present the full scheme (including Phase 2 elements) and explain the process for delivering the early works. DfT also requested that the Value for Money (VfM) should be presented separately for Phase 3 schemes (Phase 2 included in the Do Minimum scenario), Phase 2 schemes and finally for the combined Phases 2 and 3 schemes, the latter two as sensitivity tests. Thus, in total this means that a local contribution total of [REDACTED] has been secured for A38 BREP Phase 3 scheme amounting to circa [REDACTED]. Further local match funding will also be provided by WCC to cover Part 1 Claims ([REDACTED]) and M&E Costs ([REDACTED]).

In terms of timing of expenditure, it is assumed that DfT funding will be front-loaded within the programme. It will be used to reimburse WCC's expenditure as part of the Forward Fund, cover all costs in 2023/24 and the majority of costs incurred in 2024/25. The residual expenditure falling into 2024/25 and all costs in 2025/26 will be met by S106 contributions.

*Table 7.9- Scheme Outturn Costs by Component (Q1 2023 Prices)*





From a whole-life cost perspective, future maintenance costs will be funded through WCC's existing and ongoing highway maintenance arrangements.

### 7.6.1 Financial Risks

As noted in Section 7.4.1.5, the outturn cost estimate for the project includes an estimated risk value underpinned by a formal QRA exercise. Complementary to the quantified and monetised risks captured within the QRA, a qualitative review of the key financial risks, potential impacts and mitigations relating to the project is summarised in Table 7.10.

Table 7.10- Main Financial Risk

Risk Theme	Specific Risk	Impact	Mitigation
Costing	Project costs are underestimated.	Costs overrun.	Main cost components are tender prices received from contractors, underpinned by detailed design and robust costing. Risk transferred to contractors. Provision of QRA.
Operational Risk	Operating costs vary from whole life cost allowance.	Additional revenue would be required in the longer term.	Detailed operational schedules developed.
Inflation Risk	Actual inflation differs from assumed inflation rates.	Additional costs required to deliver completed programme.	Robust financial forecasts developed. Adjust forecasts to account for any predicted rate change over time. Explicit allowance in QRA.
Contributions	Failure to secure necessary contributions from partners.	Lower than expected funding, with further importance placed upon the DfT funding.	Developer contributions are secured through S106 agreements already in place.
Contract Risk	As part of the NEC4 option C works contract, a pain / gain mechanism is in place to incentivise the contractor to deliver the scheme on time and on budget.	The worst-case impact this can have is that WCC would have to pay an additional 5% of the contract value.	Strict financial control in terms of budget and programme through the contract process and delivery. Explicit allowance in QRA.

### 7.6.2 Contributions strategy

Worcestershire County Council's adopted local policy provides for a transport contributions strategy - effectively a framework for the calculation of contributions from development to transport schemes. Similarly Policy BDP6 Infrastructure Contributions within the Bromsgrove District Plan and Policy 20 - Transport Requirements for New Development within the Redditch Borough Local Plan contain the appropriate mechanisms for seeking contributions from development proposals to mitigate their impact on the transport network.

Worcestershire County Council have requested local contributions from developers allocated to the A38 Bromsgrove Route Enhancement Programme as follows:

[REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]  
 [REDACTED]

Of the above figures this can be set out as:

- S106 Already Received [REDACTED]
- S106 Secured via signed legal agreement [REDACTED]

Where S106 has not been received, Worcestershire County Council Cabinet have agreed to forward fund this expenditure, as set out in the cabinet reports appended to Appendix F.4. The forward funding of developer contributions was agreed at the WCC [Cabinet meeting on Thursday 22nd October 2020](#). However, please note that the financial analysis presented within the Finance Dimension assumes that S106 contributions will be received in a timely manner, meaning no allowance for forward funding (and associated borrowing by WCC) is provided.

## 7.7 Section 151 officer sign off

WCC's Section 151 Officer's signed declaration regarding the scheme cost estimates quoted in this business case can be found attached in the Appendix F.5. In summary, the S151 officer's declaration sets out that the scheme cost estimates quoted in this bid are accurate to the best of her knowledge and that **Worcestershire County Council:**

- has allocated sufficient budget to deliver the scheme on the basis of its proposed funding contribution.
- accepts responsibility for meeting any costs of delivering the scheme over and above the DfT contribution requested, including potential cost overruns, and the underwriting of any third party contributions.
- accepts that no further increase in DfT funding will be considered beyond the maximum contribution requested.

## 7.8 Summary of Financial Dimension

The Financial Dimension set out the project's financial position. It demonstrates that the scheme will require investment of [REDACTED]. The bulk of investment relates to work costs, for which tender prices exist for the main activities (i.e. all elements except utilities). All costs are forecast forward from a February 2023 price base using appropriate inflation indices, including BCIS Tender Price Index for works costs and QRA and CPI-related metrics for other cost items.

It is expected that the majority of the project's costs are funded by DfT ([REDACTED]). This funding benefits from utilised local match funding WLEP ([REDACTED]) and secured S106 contributions ([REDACTED]). Further, local match funding will be provided to cover Part 1 Claims ([REDACTED]) and M&E Costs ([REDACTED]), separate from and additional to the core cost estimate of [REDACTED].