

Appendix B – Financial Comparison

A lifecycle costing has been prepared for each option for a contract term of 7 years. The costing are shown below with a corresponding narrative explaining the core assumptions:

Option A – Single Provider

Option A - Single Provider	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	TOTAL	Baseline	Difference
Revenue expenditure	2,532,054	2,532,054	2,532,054	2,532,054	2,532,054	2,532,054	2,532,054	17,724,380	15,860,740	1,863,640
Revenue cost of capital	195,000	390,000	585,000	780,000	975,000	1,170,000	1,365,000	5,460,000	5,460,000	-
Depot costs	54,700	54,700	54,700	54,700	54,700	54,700	54,700	382,900	382,900	-
Additional staffing costs	-	-	-	-	-	-	-	-	-	-
NSC Legal Support for Mobilisation	10,000							10,000	-	10,000
Total Revenue	2,791,754	2,976,754	3,171,754	3,366,754	3,561,754	3,756,754	3,951,754	23,577,280	21,703,640	1,873,640
Capital Expenditure - NSC capital borrowing	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	2,500,000	17,500,000	17,500,000	-
Capital Expenditure - LTP Maintenance & Pothole Fund	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	35,077,000	35,077,000	-
Capital Expenditure - LTP ITS	980,000	980,000	980,000	980,000	980,000	980,000	980,000	6,860,000	6,860,000	-
Total Capital	8,491,000	8,491,000	8,491,000	8,491,000	8,491,000	8,491,000	8,491,000	59,437,000	59,437,000	-
Overall	11,282,754	11,467,754	11,662,754	11,857,754	12,052,754	12,247,754	12,442,754	83,014,280	81,140,640	1,873,640

In order for this option to be viable it is assumed that the Council would need to commit to a minimum level of capital expenditure, this has been assumed to be £8.5m per annum as per the current capital programme. It should be noted that this would not all be directly spent with the provider as some of the funding will be needed for internal costs and some schemes are delivered outside of the highways contract.

It is estimated under this model that North Somerset Council would need to fund £2.5m of it's own capital resources per annum and this would be funded through borrowing.

The costs associated with this level of borrowing have been included in the revenue section of the table and total £5.4m over the 7 year period, this is based on MRP at 4% and an interest rate of 3.8%.

This option would require revenue growth of £1.9m over the contract period since the estimated revenue expenditure exceeds the current revenue base budget for Highways which is £2.2m per annum.

Option B – NSEC plus Frameworks & DPS

Option B - NSEC plus Frameworks/DPS	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	TOTAL	Baseline	Difference
Revenue expenditure	2,335,367	2,335,367	2,335,367	2,335,367	2,335,367	2,335,367	2,335,367	16,347,572	15,860,740	486,832
Revenue cost of capital	124,800	249,600	374,400	499,200	624,000	748,800	873,600	3,494,400	5,460,000	- 1,965,600
Depot costs	54,700	54,700	54,700	54,700	54,700	54,700	54,700	382,900	382,900	-
Additional staffing costs	302,000	302,000	302,000	302,000	302,000	302,000	302,000	2,114,000	-	2,114,000
NSC Legal & HR Support for Mobilisation	25,000							25,000	-	25,000
Total Revenue	2,841,867	2,941,667	3,066,467	3,191,267	3,316,067	3,440,867	3,565,667	22,363,872	21,703,640	660,232
Capital Expenditure - NSC capital borrowing	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	11,200,000	17,500,000	- 6,300,000
Capital Expenditure - LTP Maintenance & Pothole Fund	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	5,011,000	35,077,000	35,077,000	-
Capital Expenditure - LTP ITS	980,000	980,000	980,000	980,000	980,000	980,000	980,000	6,860,000	6,860,000	-
Total Capital	7,591,000	7,591,000	7,591,000	7,591,000	7,591,000	7,591,000	7,591,000	53,137,000	59,437,000	- 6,300,000
Overall	10,432,867	10,532,667	10,657,467	10,782,267	10,907,067	11,031,867	11,156,667	75,500,872	81,140,640	- 5,639,768

The lifecycle costing for option B showed the annual amount of capital investment required is £900k less than option A, giving a total benefit above option A of £5.6m over the duration. This is due to the Council commissioning directly with tier two contractors through frameworks and a DPS driving the best possible price and removing the need to pay a tier one contractor a profit margin and overheads. This means more capital works are completed for less money.

The costs associated with this level of borrowing are therefore reduced and total £3.5m over the 7 year period compared to £5.4m in option A.

The direct revenue expenditure is also less than option A due to the competitive rates provided by NSEC, it should however be noted that these are still more than the current revenue base budget for Highways which is £2.2m per annum.

There are additional revenue costs associated with this option since additional staff will be required to deliver this model however these are partially offset by the revenue savings associated with borrowing less capital.

Over the 7 year contract period revenue growth of £660k will be required.

Overall Option B is significantly less than Option A and is therefore the preferred option and provides the best value for money.

Recommended Option MTFP Impacts

Recommended Option - MTFP Impact	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	TOTAL
Option B - NSEC plus Frameworks/DPS	2,841,867	2,941,667	3,066,467	3,191,267	3,316,067	3,440,867	3,565,667	22,363,872
Baseline	2,515,520	2,710,520	2,905,520	3,100,520	3,295,520	3,490,520	3,685,520	21,703,640
M TFP Impacts	326,347	231,147	160,947	90,747	20,547	- 49,653	- 119,853	660,232