
The Cambridge South East Transport Order

Transport And Works Act 1992

Transport And Works (Applications And Objections Procedure) (England And Wales) Rules 2006

Financial Dimension Addendum

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Contents

Chapter	Page
1. Financial Dimension Addendum	4
1.1. Introduction	4
1.2. Scheme Costs	4
1.3. Accounting Implications	6
1.4. Inflation Risk	7
1.5. Summary	7

Tables

Table 1-1 - Updated Annual Spend Profile – Preferred Option	4
Table 1-2 – Outturn Costs (inclusive of risk)	6
Table 1-3 – Inflation Uplifts from 2022 to 2028	7

1. Financial Dimension Addendum

1.1. Introduction

1.1.1. Approach to the Development of the Financial Dimension

The role of this Financial Dimension Addendum is to complement the existing Financial Dimension that was published on the 4th August 2021. This document will assess changes in the design of the CSET2 scheme, in terms of their impact on the affordability of the scheme. This Addendum to the Financial Dimension therefore presents the financial analysis of the impact of changes to the CSET2 scheme design.

1.2. Scheme Costs

Scheme costs for the preferred option were presented in the Financial Case of the OBC 2020 (CSET-20-00) and have been continually developed for this Financial Dimension Addendum. These will be presented in this Addendum based upon the design changes driven by changes in the following:

- Inflation;
- Landfill tax;
- Earthworks and pavement costs;
- Costs of drainage works;
- Costs of topsoil disposal; and
- Costs of value engineering options.

The detailed breakdown of costs for the preferred option is included in the Scheme Cost Review (CSET-21-14). Land cost estimates have been included within overall CSET2 scheme costs. The updated costs include preparation and design, project management and planning, construction, land acquisition, inflation, and other costs.

The estimated total cost of the CSET2 scheme, inclusive of risk, is **£160,989,017** as shown in Table 1-2.

1.2.1. Spend Profile

The total risk adjusted CSET2 scheme cost for the preferred scheme option is £160,989,017. This includes costs spent to date of £8,000,000. Table 1-1 below shows the expected (2025-2027) annual spend profile for the project. The spend profile assumed is based on the following assumptions:

- 2025: 25% of the construction will take place but will incur 33% of total cost, including early material purchase
- 2026: 50% of total build Cost
- 2027: Remaining 17% of Build Cost

Table 1-1 - Updated Annual Spend Profile – Preferred Option

Costs (£)	2025	2026	2027
Proportion of scheme cost	33%	50%	17%
Annual Costs	£53,126,376	£80,494,508	£27,368,133
Cumulative TOTAL	£53,126,376	£133,620,884	£160,989,017

1.2.2. Costs

Base capital costs for the infrastructure needed to deliver the preferred option were produced by cost estimators from Faithful + Gould. The estimates include the following items:

- **Project Costs to Date:** This considers all historic project costs (inc. design, project management etc.) from 2015 to 2022 spent by WSP and Mott MacDonald. These are considered as 'sunk' costs which cannot be

retrieved. This has been within this report and included as part of the outturn costs due to the historic development of this project and the previous involvement of other consultants.

- **Construction costs:** These consist of:
 - Main works contract (including structures, such as bridges, the travel hub facility, road works, general works, site clearance and earthworks and contractors' preliminaries);
 - Traffic Management during construction;
 - Ancillary works contracts (including maintenance compounds, lighting, landscaping and environmental mitigation); and
 - Environmental Mitigation: Allowance for costs and fees to provide mitigation and commuted payments for future maintenance of environmental mitigation measures.
- **Overheads & Profits:** Costs associated with contractors' workforce.
- **Design costs:** This accounts for design fees of scheme elements prior to scheme opening.
- **Project Management costs:** This consists of all costs for project management, public consultation, public inquiry, and the costs of obtaining statutory orders.
- **Statutory Undertakings:** Costs to divert or protect existing statutory undertakers' equipment affected by the works.
- **Land costs:** This includes the acquisition and legal transaction costs for all the required private and commercial land, and additionally accounts for property management costs and compensation. *Risk Associated with land acquisition has been added independently of project risk*
- **Landfill Tax:** Landfill tax will be payable on excess material. It is assumed to apply to topsoil and subsoil disposal as per the environmental assessment and landscape mitigation plans.
- **Future GCP/Consultant Costs:** Other costs incurred on GCP regarding the CSET2 scheme such as additional consultation and project management.
- **Risks:** Project risk associated with the CSET2 scheme (this does not include any risk associated with land acquisition)

As the CSET2 scheme design for the preferred option is at an early stage of progression, there is still significant development work required to be undertaken to progress the design to the point where the scheme can be constructed. It is therefore important to recognise that there is uncertainty in the design and assumptions upon which the costs are based and to reflect this an uplift has been applied to the base costs.

At this current stage of development (the refreshed Outline Business Case (OBC)), a confidence level of P80 risk has been applied to calculate the overall project cost estimate (this is the base costs plus the risk value). Variable risk percentage has been applied to each item depending on the risk level assessed in the risk register. To do so, a Quantitative Cost Risk Assessment (QCRA) process has been followed. QCRA outputs have been generated using AtkinsRéalis PPS's (formerly known as Faithful+Gould) EZ risk QCRA model¹. This uses the latest project cost estimates to determine the contingency allowance included in the risk-adjusted project cost estimate.

At the next stage of development (the Full Business Case (FBC)), the designs and details of the preferred CSET2 scheme option will be at a higher level of maturity, with unspecified uncertainties reduced to a minimum. All known areas of uncertainty are documented on the project risk register (CSET-21-15). As the CSET2 scheme is developed the risk register will continue to be used to identify, quantify, and value the known uncertainties of the project and maintained as a live document. It will identify who owns each item, provide an assessment of the likelihood of occurrence and an estimate of the impact of occurrence on project outcomes (cost and duration).

- **Inflation costs:** This accounts for inflation above the base cost estimates in accordance with Tender Price Index (TPI).

Key assumptions made to derive robust estimated scheme costs included:

- The project commencing in 2025 with an expected completion by 2027;

¹ A QCRA is a formal and systematic risk analysis approach to quantifying the risks associated with the project based on realistic and measurable data to calculate the impact values that the risk.

- An opening year of 2027;
- The scheme will use guided system technology;
- Scheme costs are prepared in Q4 2022 prices; and
- Inflation has been applied to Q4 2022 costs as per BCIS TPI indices.

The outturn cost of the preferred option after adjustment for risk is therefore £160,989,017 (P80).

Table 1-2 shows the breakdown of costs for the preferred scheme option, inclusive of risk allowance.

Table 1-2 – Outturn Costs (inclusive of risk)

Attribute	Cost
Project Costs to Date	£8,000,000
Construction (inc. Prelims & Traffic Management Costs)	£74,666,623
Overheads & Profit	£7,466,662
Design	£8,213,328
Project Management	£2,710,398
Statutory Undertakings	£6,133,237
Land Cost	£11,900,000
Land Cost Risk	£2,975,000
Landfill Tax	£8,035,000
Future GCP / Consultant Costs	£1,642,666
Inflation	£9,758,032
Project Risk (P80)	£19,488,071
TOTAL	£160,989,017

Faithful+Gould (Q4 2022)

1.3. Accounting Implications

The total risk adjusted outturn cost for the CSET2 scheme to the point of completion of construction amounts to **£160,989,017** at this OBC Phase.

As shown above, Local Government have so far spent £8m on “project costs to date”.

In March 2024, the then Secretary of State for Levelling Up, Housing and Communities granted £7.2m in funds expressly for the purposes of progressing the CSET2 Order. This funding is intended to be directed towards early works on Francis Crick Avenue to facilitate the implementation of the Guided Busway. Following a recent series of further discussions with the Ministry of Housing, Communities and Local Government, the GCP are confident that the full costs of delivering CSET2 will be met by Central Government funding.

At the time of writing, it has not been determined that any of the expected costs will be recovered from 3rd party sources within the private sector, including from developers and landowners through existing S106 agreements. The GCP will continue to explore opportunities for the benefit of the scheme and to complement growth in the South East of Cambridge.

If costs increase further or funding from identified sources is not secured, then the GCP as scheme promoters will explore other options through the GCP Future Investment Strategy to underwrite these costs. This may involve funding directly or by sourcing additional third-party funding. In any event, as the CSET2 scheme proceeds, value engineering exercises will be undertaken to review the costs and reduce these where possible. Should a financial shortfall be identified, there may be a need to revisit the CSET2 scheme with a further robust value engineering process to reduce costs whilst minimising any reduction to the quality of the final outputted scheme and its ability to achieve its objectives and realise intended benefits.

The proposed CSET2 scheme will also incur an increase in revenue costs to maintain the new assets. Arrangements for meeting these costs are being explored as part of the CSET2 scheme’s Commercial

Dimension, including consideration of the alternative operating and maintenance options. The preferred option will be finalised at the next phase of scheme development and reported in the FBC, with any financial implications reflected within the Financial Dimension.

Options to fund any revenue cost shortfalls required to operate the new system will be explored and reported in the FBC by the GCP as CSET2 scheme promoters, although it is anticipated that the operating model for the CSET2 scheme will not result in a need for any revenue costs to be funded directly by the GCP.

1.4. Inflation Risk

Following the completion of the cost estimate, the project was paused at the end of 2023. In March 2024, all actions were resumed, however this has resulted in a delay to the implementation of the project. This has shifted the programme from a 2027 opening date to the end of 2028 and therefore it is likely the impacts of inflation will see the outturn cost of the project rise at the scheme's completion. Pushing back the programme reduces spending power as products are forecast to be at cost around 4-5% more, should they be purchased later than originally proposed.

Table 1-3 – Inflation Uplifts from 2022 to 2028

Year	2023	2024	2025	2026	2027	2028
Inflation Uplift (BCIS TPI)	1.0204	1.0389	1.0732	1.1148	1.1570	1.1939

These inflationary risks can be mitigated through actions such as purchasing materials at the outset of the project construction and completing major activities at the earliest stage possible which will help by using more funds before prices increase.

This risk has been recorded by GCP; it will continue to be monitored as the programme matures. Scheme costs will be revisited at FBC when a detailed construction programme will have been drawn up, and inflation can be re-assessed to the new opening year with greater confidence.

1.5. Summary

- The Financial Dimension outlines the affordability of the CSET2 preferred option, the funding arrangements and technical accounting issues. This dimension has presented the expected spending profile of the preferred scheme option and an overview of how the CSET2 scheme will be funded.
- Scheme costs for the preferred option have been developed based upon the designs set out in the Options Appraisal Report (OAR)² published on 4 August 2021 and the Strategic Dimension and have been estimated at 4Q2022 prices.
- The total risk adjusted outturn cost for the scheme is **£160,989,017** from the project commencement through to completion in 2027. Due to the project pause and proceeding resumption, the construction period and opening date were pushed back to the end of 2028, which may impact the base prices due to inflation. This could add in the region of £8m to the project outturn costs although these impacts will be further explored at FBC stage or with an updated cost assurance estimate once a detailed construction programme has been developed. This risk to the scheme has been recorded by GCP and will continue to be monitored.
- In March 2024, the then Secretary of State for Levelling Up, Housing and Communities granted £7.2m in funds expressly for the purposes of progressing the CSET2 Order in March 2024. This funding is intended be directed towards early works on Francis Crick Avenue to facilitate the implementation of the Guided Busway. GCP are now in discussions with the Ministry of Housing, Communities and Local Government to seek funding opportunities from Central Government outside the existing City Deal.
- GCP will continue in seeking opportunities to recover an appropriate proportion of the scheme cost from sources including local developer contributions, secured through the planning process, although as it stands, no immediate opportunities have been identified.

² [CSET2 - OBC 2020 | Appendix A: Options Appraisal Report](#)

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