



Revenue Consequences of Major Capital Programme Investments Full and Updated Version

**Appendix 1
Corporate Resources Overview and
Scrutiny Committee
15 July 2018**

Purpose

- » At the special meeting on 15 February a request was made for a report on the future financial impact of the capital programme on revenue budget
- » A presentation was made to the Committee in May which (a) set out a definition for the potential revenue impacts of major capital schemes and (b) modelled the impacts for two major schemes currently in development and included within the approved Capital Programme
- » The presentation was well received and it was agreed to extend the work to all major capital investment schemes in the 2018/19 capital programme



Impacts of Capital Spend on Revenue

- » **Direct costs**
- » Borrowing costs: interest payable and an increase to the Minimum Revenue Provision, held centrally.
- » Capital spend may be funded by a direct charge to revenue
- » Revenue running costs: an increase in costs of service delivery
- » **Direct benefits**
- » Revenue running costs: a reduction in costs of service delivery
- » Income generation: a scheme may result in increased income



Impacts of Capital Spend on Revenue

- » **Indirect impacts**
- » Cost avoidance of increased revenue expenditure
- » Facilitation of broader cost saving as one part of bigger change project

Scheme 1 –Marleyfield Care Home





Marleyfield Revenue Impacts

Direct Costs

- » The direct additional cost pressure from additional employees, premises and running costs will be around £150k per year
- » No borrowing costs as this will not be funded from prudential borrowing (with an ICF capital investment of £1,209k)

Direct Benefits

- » One site provision will reduce the need for additional management saving £60k per year
- » Attraction of an ICF revenue subsidy of £373k per year
- » Economies of scale in other running costs from the provision of additional placements on one site (to be estimated)
- » Potential increase in availability of self funding placements (financial benefit to be based on demand)

Marleyfield Revenue Impacts

Indirect Benefits

- » Supports a direct provision model which (a) offers a sustainable service in a fragile market (b) offers quality provision to modern care standards and (c) helps suppress cost of placement rates in the independent sector through a presence in a competitive market of care provision
- » In-house provision is now estimated to be cheaper than external provision by around £5k per resident per year = £160k of cost avoidance per year
- » The scope for a greater number of effective re-ablements leading to significant reductions in long-term packages of care – early estimate of £57k per year on a sample of eight current cases

Scheme 2 – Glanrafon Day Care Centre





Glanrafon Revenue Impacts

Direct Costs

- » No borrowing costs as this scheme will not be funded from Prudential Borrowing

Direct Benefits

- » Maintenance and energy costs reduction compared to the existing and dated facility (to be estimated)
- » Avoidance of the cost of a backlog of essential repairs on the existing facility of £280k

Glanrafon Revenue Impacts

Indirect Benefits

- » This facility will support the Alternative Development Model with HFT projected to save over £1.1m over 5 years against budget (with a full saving of £1.5m once an underlying annual overspend is factored in)
- » HFT as the provider will purchase/replace over time 'state of the art' specialist equipment thereby avoiding future costs of depreciation/replacement
- » Cost avoidance of 3 x potential Out of County Placements saving £54k per year
- » A reduction of 5 potential service users placed elsewhere saving £50k per year
- » Avoidance of high cost home care/respite packages which would be required in the absence of a day care facility (not estimated)

Scheme 3 – Theatr Clwyd



Theatr Clwyd Revenue Impacts

Direct Costs

- » £1m minimum capital programme contribution to the refurbishment programme cost
- » In-year contribution of £330k to the feasibility study second phase costs as 25% of the total cost with the other 75% being funded by the Arts Council of Wales
- » There will be borrowing costs if Prudential Borrowing is drawn upon as a co-funding option
- » Possible need for enhanced annual revenue subsidy during the construction period as income targets will be affected by disruptions to business continuity

Theatr Clwyd Revenue Impacts

Direct Benefits

- » Leverage of capital grant of £5m from the Arts Council of Wales and potentially £20m+ from Welsh Government
- » Leverage of up to £2m of contributions from local, regional and national (trusts/foundations) fundraising

Indirect benefits

- » A sustainable and suitable facility to support the Theatr Clwyd business model and plan enabling achievement of financial and commercial targets
- » The potential of further reductions in the annual revenue subsidy of the Council based on the success of the business model and less reliance on subsidy

Scheme 4 – NWRWTP



NWRWTP (*Parc Adfer*) Revenue Impacts

Direct Costs

- » Up to £0.5m of capital will be allocated to cross-fund a regional network of waste transfer stations for 'bulking up' waste ready for transportation to site. There are no borrowing costs as this is not funded from Prudential Borrowing.
- » The five-Council consortium have a service contract for the disposal of waste at site and have no capital responsibilities/liabilities for the facility construction
- » The consortium has had to meet the revenue costs of a long and complex procurement exercise. These have been subsidised by Welsh Government. As the lead authority Flintshire recharges its administrative costs



NWRWTP (*Parc Adfer*) Revenue Impacts

Direct Benefits

- » Reducing 'present net value' of 'gate fee' costs, year on year, through price indexation/inflation protection
- » Welsh Government annual 'gate fee' subsidy of £5.6M
- » Share of potential energy income (electricity and heat)

Indirect benefits

- » Certainty of 'gate fee' costs in a volatile market
- » Contribution to recycling targets and supporting avoidance of Landfill Tax charges and potential Government penalties for failing to achieve targets
- » A Community Benefit Fund (£230k per annum)
- » Return of a valuable asset at contract close

Scheme 5 - Re-location to Ewloe



Relocation to Ewloe Revenue Impacts

Direct Costs

- » No direct costs for moving to Unity House as costs are being found from dilapidation costs and existing budgets
- » Cost of demolishing County Hall phases 3-4 (£1.900m)
- » There will be borrowing costs if Prudential Borrowing is necessary

Direct Benefits

- » Reduction in costs from paying for Phases 1-4 of County Hall and an empty Unity House and replacing and paying for Phases 1-2 of County Hall and an occupied Unity House
- » The costs of paying for an empty Unity House are £0.770m p.a.
- » Estimated one off efficiency in 2018/19 of £0.300m
- » Estimated £0.090m ongoing revenue efficiency

Relocation to Ewloe Revenue Impacts

Indirect Benefits

- » Utilising an empty building at Unity House that has been boarded up and is in a prominent location
- » Providing a refurbished and modern office environment for approximately 500 staff
- » Enabling development of the Mold County Hall campus site in the longer term

Scheme 6 - School Investment Programme

Ysgol Penyffordd



Scheme 6 - School Investment Programme

Connah's Quay High School





School Extension and Remodelling Direct Costs

Direct Costs

- » Approved schemes at Ysgol Glan Aber, Bagillt (£0.997m) and Ysgol Castell Alun (£4.807m)
- » There will be borrowing costs if Prudential Borrowing is necessary



21st Century Schools Programme

Direct Costs

- » Approved schemes at Connah's Quay High School (£13.247m) and Ysgol Pennyford (£6.717m)
- » 21st Century Schools programme 50% funded by WG
- » There will be borrowing costs if Prudential Borrowing is necessary
- » Part of bigger development programme in two bands, Band A £64.2m Band B Programme £85.4m
- » Band B programme will be funded using new funding model 75% WG / 25% LA (through revenue budgets of both organisations)

Schools Investment Programme

Direct Benefits

- » Enabling 50%-75% external investment in Schools Investment Programme (21st Century Programme element)
- » Reduction in backlog maintenance costs (£0.283m Ysgol Pennyfford, £1.321m Connah's Quay High School)
- » Reduction in fixed costs associated with buildings and leadership focuses investment on learners
- » Reduction in split site arrangements

Schools Investment Programme

Indirect Benefits

- » Improving learner outcomes by ensuring that school buildings are effective in creating the conditions for learners to succeed.
- » Alignment with the Council's School Modernisation Strategy to ensure schools are fit for purpose
- » A more secure school estate
- » A school estate with reduced vandalism
- » Upgrading ICT provision and enabling new methods of curriculum delivery
- » Provision of appropriate capacity of school network