

## **Item: 14**

**Policy and Resources Committee: 1 March 2022.**

**Proposed New Nursery at Orkney College.**

**Stage 2 Capital Project Appraisal.**

**Report by Corporate Director for Education, Leisure and Housing.**

### **1. Purpose of Report**

To consider a Stage 2 Capital Project Appraisal in respect of the proposed new nursery at Orkney College.

### **2. Recommendations**

The Committee is invited to note:

#### **2.1.**

That, on 30 June 2020, when considering six options for the provision of early learning and childcare in Orkney, the Council resolved that Option 6, being a hybrid option including elements of Options 2 and 5, in order to meet the short and long term needs for early learning and childcare, be adopted, which incorporated the following:

- Temporary provision of a 0-5 year olds and out of school care service.
- Building suitable accommodation for a new provision adjacent to Orkney College.
- Undertaking a tender exercise for a commercial operator to run a service for 0-5 year olds.
- Formally requesting financial support, including capital contributions, from partners within the Orkney Community Planning Partnership.

#### **2.2.**

That the design service for a new Kirkwall nursery was the subject of a procurement process, with the contract awarded to Robert Potter and Partners LLP.

#### **2.3.**

That the proposed new nursery at Orkney College appears to be a good fit with the target outcomes and impacts of the Islands Infrastructure Fund, which will be a bidding fund from 2022/23 onwards.

**It is recommended:**

**2.4.**

That the Stage 2 Capital Project Appraisal in respect of the proposed new nursery at Orkney College, attached as Appendix 1 to this report, be approved.

**2.5.**

That the Corporate Director for Education, Leisure and Housing should submit an application to the Islands Infrastructure Fund for 2023/24 in respect of the proposed new nursery at Orkney College, which maximises the level of grant funding within the Fund guidelines once established.

**2.6.**

That, as an exception to the Capital Project Appraisal process and conditional upon success of the application to the Islands Infrastructure Fund, the proposed new nursery at Orkney College be added to the capital programme for 2022/23 onwards, at a gross cost of £2.52 million.

### **3. Introduction**

At the Special General Meeting held on 30 June 2020, when considering six options for the provision of early learning and childcare in Orkney, the Council resolved that Option 6, being a hybrid option including elements of Options 2 and 5, in order to meet the short and long term needs for early learning and childcare, be adopted, which incorporated the following:

- Temporary provision of a 0-5 year olds and out of school care service.
- Building suitable accommodation for a new provision adjacent to Orkney College.
- Undertaking a tender exercise for a commercial operator to run a service for 0-5 year olds.
- Formally requesting financial support, including capital contributions, from partners within the Orkney Community Planning Partnership.

### **4. Design Development and Project Cost**

**4.1.**

With respect to progressing suitable accommodation for a new provision adjacent to Orkney College, design services for a New Kirkwall Nursery was the subject of a procurement process. The contract was awarded to Robert Potter and Partners LLP.

**4.2.**

While the focus has remained on the Orkney College site, in accordance with the Council's decision of June 2020, there have been opportunistic explorations of other possibilities. This includes the refurbishment of property along with the relocation of existing services to make property available. To date, these have proven to be non-viable in terms of either cost or ownership.

#### **4.3.**

The Orkney College site continues to offer a unique opportunity for synergy between the service provider and service users. An 'onsite' nursery will be an advantage to some prospective students (irrespective of the area of study) while students studying, or with an interest in, early learning and childcare will have onsite practice, learning and development opportunities.

#### **4.4.**

There have been challenges within the construction sector caused by COVID-19, however a site analysis was received in August 2021, with initial drawings following in October 2021.

#### **4.5.**

The initial scoping of the land around Orkney College identified a number of possible sites that could be developed. However when the physical constraints as well as medium to long term needs of the College were factored in, only one viable location on the campus has been explore in any detail.

#### **4.6.**

The preferred location means that the new provision is independently accessed and sits slightly away from the College, leaving room for the expansion if desirable of the main building. However, the new nursery is close enough, and includes a pathway infrastructure, so as to feel 'part' of the campus.

#### **4.7.**

With a design brief for a 51-place nursery able to accommodate babies up to 2 years, toddlers up to 3 years and funded 3 – 5-year placements, the design meets the expectations set out in the Care Inspectorate's design guidance for early learning and childcare settings - Space to Grow. In briefing the architect, account has been taken of the additional requirements (particularly with respect to hand washing) that have become part of everyday provision since the start of the pandemic.

#### **4.8.**

A Stage 2 Capital Project Appraisal in respect of the provision of a new nursery at Orkney College is attached at Appendix 1.

### **5. Corporate Governance**

This report relates to the Council complying with its financial processes and procedures and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

### **6.1.**

The estimated gross cost of the project has increased on account of the general rapid rise in construction costs that has occurred during the pandemic, with an estimated capital cost of £2.52 million. The possible loans charges costs are included in the Stage 2 Capital Project Appraisal, attached as Appendix 1.

### **6.2.**

The new nursery provision would appear to be a good fit with the target outcomes and impacts of the Islands Infrastructure Fund which will be a bidding fund from 2022/23 onwards.

### **6.3.**

The Islands Infrastructure Fund will not fund projects that have funding already agreed. It is therefore recommended in this report that the Council approves the submission of an application to the Islands Infrastructure Fund for 2023/24 and, conditional upon success of the application to the Islands Infrastructure Fund, approves the project for inclusion in the capital programme.

### **6.4.**

The parameters for the Islands Infrastructure Fund as a bidding fund have yet to be fully defined. It is therefore proposed that the final detail of the application to the Islands Infrastructure Fund for 2023/24 is delegated to the Executive Director of Education, Leisure and Housing to maximise the level of grant funding within the established fund guidelines.

## **7. Legal Aspects**

### **7.1.**

Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of its financial affairs. As part of that, the Council is expected to have regard to economy, efficiency and effectiveness in its use of resources.

### **7.2.**

In terms of Section 35 of the Local Government in Scotland Act 2003 the Council must determine and keep under review the maximum amount which it can afford to allocate to capital expenditure. In so doing, the Council must comply with regulations made by Scottish Ministers.

## **8. Contact Officers**

James Wylie, Corporate Director for Education, Leisure and Housing, extension 2436, Email [james.wylie@orkney.gov.uk](mailto:james.wylie@orkney.gov.uk)

Peter Diamond, Head of Education, extension 2401, Email [peter.diamond@orkney.gov.uk](mailto:peter.diamond@orkney.gov.uk)

## **9. Appendix**

Appendix 1: Stage 2 Capital Project Appraisal.

# Capital Project Appraisal – Stage 2

**Capital Programme: General Fund.**

**Client Service: Education.**

**Project Name: Proposed New Nursery at Orkney College.**

## 1. Background

1.1. At the Special General Meeting held on 30 June 2020, the Council considered a range of issues in relation to the provision of early learning and childcare in Orkney. The outcome was that, in order to meet the short and long term needs for early learning and childcare, the following steps be taken:

- Provide a temporary 0-5 year old and out of school care service.
- Build suitable accommodation for a new provision adjacent to Orkney College.
- Undertaking a tender exercise for a commercial operator to run a service for 0-5 year olds.
- Formally requesting financial support, including capital contributions, from partners within the Orkney Community Planning Partnership.

1.2. Against the backdrop of the ongoing challenges presented by COVID-19, work to progress the development of suitable accommodation at Orkney College has been undertaken.

## 2. Options Available

2.1. A detailed site appraisal was undertaken by Robert Potter & Partners Ltd, who have been appointed to develop design solutions for the project.

Five possible locations around Orkney College were explored. Each was considered in terms of:

- The potential challenge (in terms of ground works etc) associate with the location.
- The potential impact on current Orkney College activity.
- The potential impact on future Orkney College activity (including expanding the College building itself).
- Access (to the nursery and the College itself).

2.2. On this basis Robert Potter & Partners Ltd were asked to produce detailed plans for the preferred location, which in fact was a hybrid of two of the locations surveyed during the scoping exercise.

2.3. Alongside pursuing the project as co-located with Orkney College, other options have been considered. However, in each case so far either the site was not in Council ownership or the cost of refurbishment and/or displacement of an existing service exceeded the outline budget proposed.

2.4. The proposal solution developed by Robert Potter & Partners Ltd can be seen in Annex 1, attached.

### 3. Land Purchase Requirement

3.1. The preferred site is already owned by Orkney Islands Council, but there would be a requirement to carry out an internal transfer of the site from the Strategic Reserve Fund to the General Fund at an estimated cost of £120,000.

### 4. Project Appraisal

	Criteria	Response
1.	Protects Existing Statutory Provision	The new provision will be registered for 51 children, and this could include approximately 24 3-5 year olds. This number will allow the authority to purchase places to increase their capacity to provide the statutory provision of 1140 hours.  In August 2023 legislation for discretionary deferrals changes, children who have not reached their fifth birthday on the day schools return in August will be entitled to an additional year of funded early learning and childcare. This is expected to impact significantly on numbers and will put pressure on places, in particular, in Kirkwall.
2.	Meets Corporate Priority / Community Planning Goal	While not specifically outlined within the Community Planning Partnership's strategic framework, provision of childcare is regarded by many as part of a community's infrastructure that supports a vibrant and successful economy.
3.	Protects Existing Assets	Not applicable.
4.	Minimises Capital Cost	The project will provide a new nursery in one phase thereby minimising construction costs compared to a two-stage project.
5.	Maximises Investment from External Sources	It is proposed that an application for funding is submitted to the Islands Infrastructure Fund. The level of funding awards that may be made from this fund is not yet clear, but an illustrative award of £1.5 million has been included in the Financial Assessment of Capital Expenditure attached as Annex 2.

	<b>Criteria</b>	<b>Response</b>
		It is also proposed to follow up on an earlier call for funding contributions from the Community Planning Partners and to seek Partnership support for the application to the Islands Infrastructure Fund.
6.	Beneficial Impact on Revenue Expenditure	The intention is to seek an external and independent partner to operate the provision. While the exact nature of the arrangements has yet to be determined, a rental charge that offsets in part or in full any loan charges incurred will be sought.
7.	Linked to Other Council Provision	
(a)	Enhances Statutory Provision	As detailed above, the new provision will future proof the available capacity of places available for 3-5 year olds in the Kirkwall area. It will also increase capacity for placing requests to be approved providing parents outwith Kirkwall access to wrap around early learning and childcare in Kirkwall.
(b)	Protects or Enhances Discretionary Provision	As detailed above, in August 2023 legislation for discretionary deferrals changes, children who have not reached their fifth birthday on the day schools return in August will be entitled to an additional year of funded early learning and childcare which is expected to impact significantly increasing numbers and put pressure on places, in particular, in Kirkwall.
8.	Re-use of Derelict Land or Building	Not applicable.
9.	Promote or Enhance Orkney's Environment	The proposed design is sensitive to its location and environs. It seeks to ensure the visual amenity is not diminished. The building itself will need to meet the required standard to help ensure the Council meets its net zero target.
10.	Promote or Enhance Orkney's Heritage	Not applicable.
11.	Economic Prosperity or Sustainable Communities	The closure of the Peedie Breeks nursery (Orkney's only day care nursery) in June 2020 had a significant impact on families, businesses and public services, leaving a number of workers without any childcare.



	Criteria	Response
		<p>It is proposed that the new nursery be located within the college campus. This will enable students to access onsite childcare and will provide a training base for childcare students at the college.</p> <p>The provision will also offer places for under 3s' There is a shortage of eligible two year old provision in the Papdale catchment and this setting could provide some of these. In addition, it would also be possible for Social Work to fund some baby/toddler places, to support children who might be 'on the edge of care'.</p> <p>The provision will provide jobs for a number of childcare workers at all levels, including practitioners and more senior staff.</p> <p>Lack of childcare could make it difficult to attract workers from outwith Orkney to difficult to fill essential posts.</p>
12.	Enhances Council operations or Improves Health and Safety	<p>The project will enhance the existing provision of early learning and childcare in Kirkwall, it will provide increased capacity for the statutory 3 – 5 years provision. As detailed in 7a above It will also increase capacity for placing requests to be approved providing parents outwith Kirkwall access to early learning and childcare in Kirkwall.</p> <p>The nursery will provide childcare for workers, including council employees, which is key in enabling people to return to work after having a baby.</p> <p>It will provide an essential service to the community. A newly built nursery will be fit for purpose for the 21st Century and enable recent Care Inspectorate guidance on physical environments to be put in place.</p>

## 5. Financial Implications

5.1. The full Financial Assessment of Capital and Revenue Expenditure is attached at Annexes 2 and 3.

5.2. The estimated cost of the project has increased on account of the general rapid rise in construction costs that has occurred during the pandemic, with an estimated capital cost of £2.52 million.

5.3. On 30 June 2020, the Council agreed to conduct a tender exercise for a commercial operator to run a service for 0–5-year-olds from the new facility once built. The running costs of the building would become the responsibility of the commercial operator under such an arrangement.

5.4. The average loan charges that would be payable over the 40-year borrowing period for a £2.52 million project would be £98,038 per annum on the assumption that there is no external funding contribution to the project. The Council Leader wrote to the members of the Community Planning Partnership seeking contributions towards the capital costs but, to date, no confirmed contributions have been received.

5.5. During February 2022, the Council has been advised of proposals for the allocation of the Islands Infrastructure Fund during 2022/23 as a bidding fund, for which local authorities will be able to put forward applications in a similar fashion to the Regeneration Capital Grant Fund, which has previously provided funding for the Orkney Research Campus Stage 1 and a recent award to The Pund – Trebb Community Resource Hub.

5.6. The Islands Infrastructure Fund allocation for 2022/23 will be a total of £4 million into which six local authorities will be able to submit bids (Argyll and Bute, Highland, Comhairle nan Eilean Siar, North Ayrshire, Orkney and Shetland). The draft guidance on the application process is limited but what has been shared suggests there will be no restrictions on geography or type of project that would be eligible. It is considered that the new nursery provision would be a good fit with the target outcomes and impacts for the Islands Infrastructure Fund.

5.7. The Islands Infrastructure Fund will not fund projects that have funding already agreed. It is therefore recommended that the Council approves the submission of an application to the Islands Infrastructure fund for 2023/24 and, conditional upon success of the application, approves the project for inclusion in the capital programme. An illustrative award of £1.5 million has been included in the capital appraisal, which would reduce the loans charges from £98,038 to £39,669 per annum.

5.8. It is further recommended that the support of the Community Planning Partnership is sought for the application to the Islands Infrastructure Fund together with a further call for funding support for the project.

## **6. Risk Assessment**

### **6.1. Risk of not proceeding:**

- Child care will not be available for 0-5 years olds thereby affecting parents' choices.
- Existing facility will have to remain open to provide the child care needs.

## 6.2. Risk of proceeding:

- The costs of running facility exceeds budgets.
- Cost of project exceed budget.
- Planning and statutory approvals are not made timeously.
- Project creep jeopardises progress and affordability of projects.
- Limited market interest affects project value for money.
- Global Pandemic affects progress on site.

## 7. Conclusion

7.1. The proposed new provision will be registered for 51 children. This number will allow the authority to purchase places to increase their capacity to provide the statutory provision of 1140 hours as well as meet the need for child care for younger children, not yet entitled to statutory provision.

7.2. The sector is one which may yet grow and develop as there are plans to extend entitlement. While initially principally conceived as a facility which could generate an income and possibly break even, it may be that over time it is an essential part of new forms of statutory provision. Where statutory provision is extended there is an expectation that there will also be additional funding as we have seen with the 1140 hours extension.

7.3. When first proposed a possible sum of £1.5m was indicated as the potential cost for the new nursery. The figure of £2.5m represents the current understanding of how costs in the construction sector have changed. The basic principle established at the Council meeting of 30 June 2020 is that a 51-place nursery is a proportionate response to both contemporary need and to some degree, future proofing. Caution is required however as once further detail about changes to entitlement is known, it may be that a further expansion of the estate needs to be considered.

## 8. Recommendations

8.1. It is recommended that the Stage 2 Capital Project Appraisal in respect of a new Kirkwall Nursery, at a capital cost of £2,520,000, be approved as a project to be included in an application to be submitted to the Islands Infrastructure Fund for funding in 2023/24, and subject to success of the funding application, the project be included in the Capital Programme for 2022/23 onwards.

## 9. Accountable Officers

9.1. James Wylie, Corporate Director for Education, Leisure and Housing, extension 2436, Email [james.wylie@orkney.gov.uk](mailto:james.wylie@orkney.gov.uk)

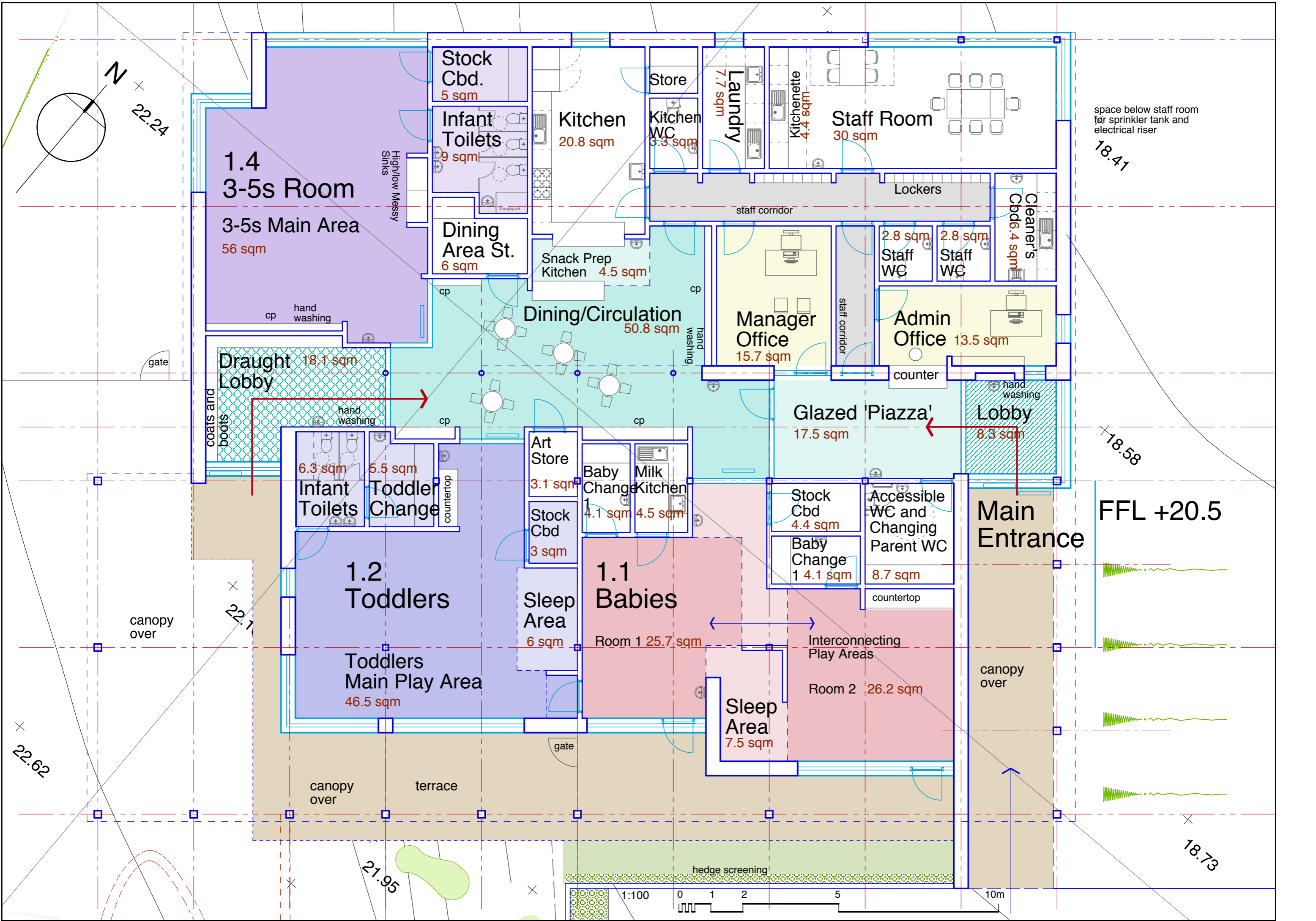
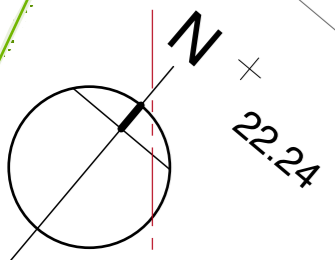
9.2. Peter Diamond, Head of Education, extension 2401, Email [peter.diamond@orkney.gov.uk](mailto:peter.diamond@orkney.gov.uk)

## **10. Annexes**

10.1. Annex 1 – Proposed Solution developed by Robert Potter & Partners Ltd.

10.2. Annex 2 – Financial Assessment of Capital Expenditure.

10.3. Annex 3 – Financial Assessment of Revenue Expenditure.



space below staff room for sprinkler tank and electrical riser

18.41

18.58

FFL +20.5



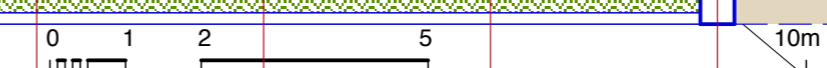
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gate

canopy over

coats and boots

Highflow Messy Sinks

canopy over

terrace

gate

hedge screening

canopy over

FFL +20.5



18.73



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20m

0 5 10 20m

20 car-parking spaces inc 2 disabled spaces

Enclosed Garden (south facing)

Post & Wire Fence  
Fence Height 1.3m

FL 23.49

Bins

Burnett Brae

Main Entrance

Staff Room

1.2 Toddlers

1.1 Babies

1.4 3-5s Room

Stock Cbd

Kitchen

Laundry

Admin Office

Manager Office

Glazed Piazza

Interconnecting Play Areas

Sleep Area

20 car-parking spaces inc 2 disabled spaces

new boundary fence to pavement

new boundary fence following contour

Post & Wire Fence

Fence Height 1.2m

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STAGE 2 - CAPITAL PROJECT APPRAISAL  
FINANCIAL ASSESSMENT OF ASSOCIATED CAPITAL EXPENDITURE IMPLICATIONS

<b>Capital Programme:</b>	<b>General Fund</b>
<b>Client Service:</b>	<b>Education</b>
<b>Project Name:</b>	<b>Proposed New Nursery at Orkney College</b>

		1	2	3	4	5		
<b>CAPITAL COSTS</b>	<b>Total £ 000</b>	<b>2022/23 £ 000</b>	<b>2023/24 £ 000</b>	<b>2024/25 £ 000</b>	<b>2025/26 £ 000</b>	<b>2026/27 £ 000</b>	<b>Onwards £ 000</b>	<b>Notes</b>
<b>1. Initial Costs (at inflated prices)</b>								
Land or Property Purchase	120.0	120.0	-	-	-	-	-	
Other Site Costs (including Fees)	-	-	-	-	-	-	-	
Construction or Improvements	2,097.0	100.0	1,686.0	311.0	-	-	-	
Information Technology Costs	20.0	-	20.0	-	-	-	-	
Plant, Vehicles & Equipment	-	-	-	-	-	-	-	
Professional Fees - Consultant	95.5	34.0	50.0	11.5	-	-	-	
- In-house	187.5	35.0	125.0	27.5	-	-	-	
<b>Gross Capital Expenditure</b>	<b>2,520.0</b>	<b>289.0</b>	<b>1,881.0</b>	<b>350.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>2. Initial Funding (at inflated prices)</b>								
Government Grants	1,500.0	-	1,500.0	-	-	-	-	
Other Grants	-	-	-	-	-	-	-	
Other Financial Assistance	-	-	-	-	-	-	-	
<b>Total Grants Recievable, etc.</b>	<b>1,500.0</b>	<b>-</b>	<b>1,500.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net Capital Cost of Project</b>	<b>1,020.0</b>	<b>289.0</b>	<b>381.0</b>	<b>350.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net Council Capital Expenditure</b>	<b>1,020.0</b>	<b>289.0</b>	<b>381.0</b>	<b>350.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>Net Present Value</b>	<b>969.3</b>	<b>289.0</b>	<b>362.9</b>	<b>317.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Cost of Capital		5%	5%	5%	5%	5%	5%	
Year		0	1	2	3	4	5	

**Notes** - Additional narrative on main assumptions and support working papers

1 Please confirm status of site?

2

3

4

etc.

STAGE 2 - CAPITAL PROJECT APPRAISAL  
FINANCIAL ASSESSMENT OF ASSOCIATED REVENUE BUDGET IMPLICATIONS

<b>Capital Programme:</b>	<b>General Fund</b>
<b>Client Service:</b>	<b>Education</b>
<b>Project Name:</b>	<b>Proposed New Nursery at Orkney College</b>

		1	2	3	4	5		
REVENUE COSTS / (SAVINGS)	Total £ 000	2022/23 £ 000	2023/24 £ 000	2024/25 £ 000	2025/26 £ 000	2026/27 £ 000	Onwards £ 000	Notes
<b>1. Full Year Operating Costs (at inflated prices)</b>								
Staff Costs	-	-	-	-	-	-	-	1
Other Staff Costs (incl. recruitment, etc.)	-	-	-	-	-	-	-	
Property Costs	-	-	-	-	-	-	-	
Supplies and Services	-	-	-	-	-	-	-	
Transport, Vessel and Plant Costs	-	-	-	-	-	-	-	
Administration Costs	-	-	-	-	-	-	-	
Apportioned Costs	-	-	-	-	-	-	-	
Third Party Payments	-	-	-	-	-	-	-	
Finance and Loan Charges	251	12	31	50	54	53	52	
Miscellaneous Expenditure	-	-	-	-	-	-	-	
<b>Gross Revenue Expenditure / (Saving)</b>	251	12	31	50	54	53	52	
<b>2. Operating Income (at inflated prices)</b>								
Government Grants	-	-	-	-	-	-	-	
Other Grants	-	-	-	-	-	-	-	
Rents and Lettings	100	-	-	25	25	25	25	
Sales	-	-	-	-	-	-	-	
Fees and Charges	-	-	-	-	-	-	-	
Miscellaneous Income	-	-	-	-	-	-	-	
<b>Gross Revenue Income</b>	100	-	-	25	25	25	25	
<b>Net Revenue Expenditure / (Saving) of Project</b>	151	12	31	25	29	28	27	
Increase / (Reduction) in Revenue Costs	151	12	31	25	29	28	27	
Net Present Value	<b>65</b>	12	30	23	26	25	24	
Cost of Revenue		3%	3%	3%	3%	3%	3%	
Year		0	1	2	3	4	5	

**Notes** - Additional narrative on main assumptions and support working papers

1 Staf, utilities costs and supplies and services will be funded by commercial operator

2 Average loan charges over 40 years of £39,669 with IIF award of £1.5M

3

4