Annex 4

Capital Borrowing

Further detailed modelling of the variables in capital costs, time periods, repayment schedules and comparisons between options will be required in the January 2012 report to Cabinet subject to the outcome of the six-week consultation on the closures and the possible programme of transformation.

The following is general information to assist the Cabinet and the proposed six-week consultation in understanding this aspect of the possible transformation programme.

The interest cost of CYC borrowing is based on 4.75% per annum and has been calculated over a 10, 20 and 30 year period.

In the partnership model the interest cost for an independent sector operator has been calculated at 6% per annum over the same period. However, the actual capital cost would be determined by how the partnership contract was constructed. It is assumed that in any partnership contract the site is offered to the partnership for a peppercorn rent and that the building and site transfer back to CYC at the end of the contract or leasing term.

No allowance has been made for the sale of redundant care homes to offset the total amount borrowed in either option.

The valuation of the nine EPH sites is between £5.7m and £6.1m in total. The value of the seven possible surplus sites (excluding the Fordlands and Haxby Hall sites) would be from £3.9m to £4.25m.

Table 1 below shows indicative capital borrowing cost for a 55 bed residential care home, and in brackets how this cost equates to a cost per bed per week.

Table 1

£3.7m build cost	10 years	20 years	30 years
CYC at 4.75% per annum	£480k (£168)	£297k (£104)	£241k (£84)
Partner at 6% per annum	£503k (£176)	£323k (£113)	£269k (£94)

Table 2 below shows the capital borrowing cost of the 90 (2 x 45 bed homes) beds proposed on the Lowfield site and in brackets are how this cost equates to a cost per bed per week.

Table 2

£6m build cost	10 years	20 years	30 years
CYC at 4.75% per annum	£777k (£168)	£482k (£104)	£391k (£84)
Partner at 6% per annum	£815k (£176)	£523k (£113)	£436k (£94)

These tables show that the cost of borrowing in partnership with an independent developer is higher than the cost of the council borrowing to build. The repayment of capital to a developer in Option E could be repaid in the price per bed in revenue payments to the provider for a term.

Depending on how a contract is constructed in Option E the first capital repayments or rent may not start until the building is ready for use by the council. In Option D, if the council fund and build, it is likely that the contract with the builder would incorporate staged payments which would be paid subject to satisfactory sign off in build quality and a possible delivery schedule time as shown in Table 3 below. To fund this capital expenditure, borrowing would be taken at each stage payment with the interest being paid in line with the stage payment but the debt would start to be repaid when the build was complete.

Table 3

	Jan 2013	July 2013	Jan 2014	July 2014	Jan 2015
Option D					
Fordlands	1st stage payment £1.2m	2nd stage payment £1.2m	3rd stage payment £1.3m		
Haxby			1st stage payment £1.2m	2nd stage payment £1.2m	3rd stage payment £1.3m
Lowfield	1st stage payment £2m	2nd stage payment £2m	3rd stage payment £2m		
Option E					
Fordlands			£3.7m		
Haxby					£3.7m
Lowfield			£6m		