

INDICATIVE OPTIONS FOR DISCUSSION

Appendix D – Subsidy Reduction Estimate

Example 1 – Capital Purchase of New Equipment

Existing annual subsidy = £357,000

Investment Required:

Capital Costs:

Staffing Structure = £40,000 (Reasonable allowance)

Capital Investment, including equipment = £860,000

Total = £900,000

Revenue Costs (Annual):

Staffing Structure = £4,000

Borrowing Cost (40yrs) = £45,000

Total = £50,000

Return on Investment:

Increased Income = £175,000

Increased Expenditure = £49,000

Net Improvement = £126,000

Projected subsidy (Yr 3) = £231,000

INDICATIVE OPTIONS FOR DISCUSSION

Example 2 – Lease of New Equipment

Existing annual subsidy = £357,000

Investment Required:

Capital Costs:

Staffing Structure = £40,000 (Reasonable allowance)

Capital Investment, excluding equipment = £610,000

Total = £650,000

Revenue Costs (Annual):

Staffing Structure = £4,000

Leased Equipment = £54,000

Borrowing Cost (40yrs) = £30,500

Total = £88,500

Return on Investment:

Increased Income = £175,000

Increased Expenditure = £88,500

Net Improvement = £86,500

Projected subsidy (Yr 3) = £270,500