

**WRITTEN QUESTION TO THE MINISTER FOR INFRASTRUCTURE
BY THE DEPUTY OF ST. JOHN
ANSWER TO BE TABLED ON TUESDAY 28TH JUNE 2016**

Question

Notwithstanding the capital programme agreed by the States Assembly, could the Minister advise, as at 2016 and taking account of the current condition of property and infrastructure within public ownership and under his remit, what the actual cost would be to maintain (a) this property, and (b) this infrastructure, in terms of revenue and capital expenditure and state whether sufficient funds are being allocated to meet the standards expected by the public?

Answer

The Department for Infrastructure has a large and wide ranging portfolio of property and infrastructure assets that it is responsible for the maintenance and safe stewardship of. These assets have very differing needs in terms of serviceable life, cyclical investment requirement and replacement cost. The investment needs of a highway or seawall, vary significantly from that of a Green Waste facility, sewage treatment works or Energy from Waste Plant.

Likewise the investment needs of these are often not directly comparable, thus the response has been broken down by area and caveated as appropriate to the specific asset class.

(A) PROPERTY

The Department has an allocated property maintenance budget of £7.45 million in 2016 that is specifically allocated between Mandatory, Cyclical and Reactive Maintenance Works and Small Works Projects.

Maintenance funding is targeted to the operational property estate in a priority order to address Health and Safety matters, maintenance of structure and services, operational continuity and improvement works.

Funding of £750,000 is directed to ensure buildings meet all necessary statutory compliance requirements and to address any works identified.

Funding of £1.3 million is directed to cyclical maintenance works that seek to preserve the existing structure and services to avoid deterioration that would lead to extensive refurbishment or capital investment.

Funding of £1.3 million is directed to general reactive maintenance works that seek to preserve the existing structure and services by addressing general property reactive requirements.

The balance of funding is of £4.1 million is directed to the undertaking and approval of Small Works Maintenance Projects to maintain and improve the property condition to benefit service delivery by occupiers going forward.

These maintenance works will preserve the integrity of building fabric and services during the useful life of a building, but inevitably buildings become functionally and physically obsolete and will require more extensive remodelling or redevelopment.

Extensive refurbishment works identified through the small works investigation is predominantly channelled into the future capital investment requirement and bids into the capital programme are made in the name of the occupying department with input from the Department.

In recent years, capital bids have consistently exceeded capital funds available and programmes have had to be tailored to meet funding availability. Unsatisfied property related bids into the MTFP capital programme for 2016 – 2019 total some £30 million, which will need to be rebid for the next MTFP period along with other identified property investment requirements, such as funding to deliver renewal of much of the Mental Health estate and significant investment into the Highlands College campus. This provides another indication of the pent up demand for capital funding for the operational property estate.

A further indicator of investment requirement is the level of annual depreciation of £18.5 million in 2016. This is a crude measure of the erosion of value of built assets but gives a reasonable indication of the level of investment funding required to maintain the existing portfolio.

The majority of operational buildings are valued on a ‘depreciated replacement cost’ basis, which is a cost-based method of arriving at a value for assets which are normally never exposed to the open market. This methodology recognises the modern equivalent value of the asset to be replaced but does not incorporate any increases in service demand or other cost drivers, such as technological changes, building bye-law requirements or other legislative changes and other factors that could lead to a replacement building being more costly than its predecessor.

(B) INFRASTRUCTURE

Determining the level of investment required to both maintain and replace large infrastructure assets with long serviceable lives is a complex process that is difficult to forecast with accuracy, particularly the further one looks into the future.

Developing a maintenance programme for networks, such as roads and sewer systems, requires detailed analysis of current condition, an estimate of future usage and assumptions as to costs going forwards based on local and international inflation factors, such as costs of labour and materials, emergent technologies, changes in regulatory requirements, potential impacts of climate change and the demand for services.

In addition, some the assets generate revenue in their own right through user charges and this revenue is subject to normal market forces, such as demand associated with the buoyancy of the economy, costs of consumables and energy etc.

One approach to considering investment requirements is to take the current value of these network assets and divide by their useful life to produce an approximate proxy sum for annual investment. The following table provides an approximate assessment of the various infrastructure asset classes to demonstrate the requirement, projecting 2016 base budgets forward and ignoring inflation.

| | | | | |
|---|------|------|--------------------|-----------|
| Infrastructure Asset Class | | | | |
| (approx current value) | £m | | expected life (yr) | |
| Highways | 480 | | 30 - 50+ | |
| Drainage Network and Pumping Stations | 196 | | 50 - 100+ | |
| Sea Defences | 242 | | 100+ | |
| Other Major Assets | | | | |
| (approx replacement costs) | £m | | expected life (yr) | |
| Sewage Treatment Works & Sludge Treatment | 75 | | 25 - 50 | |
| Energy From Waste plant | 120 | | 25 - 35 | |
| Green Waste process and Incinerators | 5 | | 5 - 15 | |
| Annual Funding | | | | |
| | 2016 | 2017 | 2018 | 2019 + |
| Capital | £m | £m | £m | £m |
| Infrastructure Allocation | 3.9 | 4.2 | 6.1 | 12 - 14 |
| plus STW Replacement allocation from Infrastructure | 4.5 | 4.5 | 8 | |
| Replacement Assets (non-Infrastructure) | 1.6 | 1.6 | 4 | 4.0 - 5.0 |
| Annual Revenue Maintenance Budgets | £m | | | |
| Solid and Liquid Waste * | 2.7 | | | |
| Highways | 0.5 | | | |
| Sea Defences | 0.35 | | | |

* excluding routine maintenance undertaken by operational staff in EFW and STW for example

Given the many assumptions contained within these calculations, the absolute value of the figures should not be relied upon per se but rather considered as indicative of the scale of maintenance challenge to be addressed by the States and the funding models it adopts, if it is to continue to provide good stewardship of this important public infrastructure.