

Addendum tabled at Executive 25 January 2011

2010/2011 Budget Monitoring Report (Appendix A.1)

A) Financing of Capital Programme

Background

In December 2009, the Council approved the new Godalming leisure centre and the revised funding for the total leisure strategy spending of £11.6m. The net revenue impact of the strategy after borrowing costs was estimated to be £110,000pa. Members approved borrowing of up to £7m but were advised that officers would endeavour to identify alternative sources of funding to minimise the borrowing requirement.

In October 2010, Members approved the award of the contract for the Godalming centre and utilised unspent contingencies on the Farnham and Cranleigh contract to achieve a reduced overall capital spend of £11.3m and a reduced net revenue impact of £46,000pa.

At the Finance Seminar in September 2010 Members were advised that additional revenue reserve fund contributions could be used to offset part of the borrowing requirement.

Members may be aware of the £3.2million that the HRA borrowed internally from General Fund capital resources pre-2000. The Star Chamber proposed that, as the Council has agreed to have external debt, this amount could be converted to real borrowing. This would have no impact on the HRA but would bring these funds back into use for General Fund capital schemes and would generate investment interest.

Proposed alternative financing

This report outlines the proposed alternative financing proposal for the leisure strategy that has been developed following a review of the latest position of Waverley's capital resources after taking into account:

- impact of the decision to borrow to repay internal HRA debt; and,
- the revenue impact of borrowing compared to investing Waverley's resources; and,
- the pressures on Waverley's budget following the grant settlement.

Capital Spend

Table 1

Approved estimate	£000
Farnham	3,615
Cranleigh	1,578
Godalming	6,130
Godalming green energy	147
Total	11,470

Financing

Table 2

Source of finance for leisure centre capital spend 2010/11 to 2012/13	Approved funding estimates £000	Revised funding proposal £000	Change £000
Revenue Reserve Fund	4,157	5,357	+1,200
Capital fund		455	+455
Grants/S106	598	508	-90
Capital receipts		1,912	+1,912
Repayment of capital receipts borrowed by the HRA		3,238	+3,238
External borrowing	6,715	0	-6,715
Total	11,470	11,470	0

Revenue Impact

The net revenue position is the sum of the savings in management fees paid to the leisure centre operator arising from additional income and reduced running costs, less the cost of borrowing for the capital works and the loss of investment interest on Waverley's own resources used. Any decision to use more of Waverley's capital resources in place of borrowing will generate a net saving as the loss of investment interest is significantly less than the cost of repaying principal and interest on external debt.

As investment returns are currently low relative to borrowing rates the indicative saving is greater than it would be if investment rates were higher, or indeed as rates increase in the future. As the borrowing rate would be at a fixed rate, investment rates would need to reach 7% to offset this advantage. Therefore, there is a very strong case for this approach, which will give the Council certainty in the future.

The overall full-year revenue impact of the leisure strategy which will take effect from 2013/14 when all centres are complete, is set out below.

Table 3

	Estimate £000	Proposed £000	Proposed with a 1% increase in interest rate £000
Reduced management fee	-458	-458	-458
Estimated borrowing cost	504	0	
Loss of interest on investments		80	148
Total	46	-378	-310

The draft 2011/12 budget includes borrowing costs of £200,000 based on the estimated capital cash flow in 2010/11 and 2011/12. The revised financing proposals would save this cost but would be offset by £40,000 lost interest on the additional internal resources used leaving a net saving of £160,000.

Revenue Reserve and Capital receipts

Annexe 8 to the budget report sets out the projections for Waverley's main funds and balances. The proposals set out above reduce the available balance in the Revenue Reserve Fund to £2.253m by 2012/13. The Capital Fund and General Fund Capital Receipts figures reduce to zero.

The proposed financing arrangement is possible because the Council has kept tight control of its capital programme in recent years keeping spending in line with the revenue contribution, this avoiding the use of capital receipts on the General Fund.

The balance of £2.253million on the Revenue Reserve Fund is available for invest to save projects in the future.

B) Allocating the Emergency Capital Schemes Budget 2010/11

The capital monitoring statement at Annexe 3 shows an unspent balance on the provision for emergency schemes of £135,000. Approval of £42,000 has been given by the Executive for the accelerated rollout of IGEL computers in 2010/11 leaving a balance of £93,000. It is proposed that the £50,000 needed to enable the Microsoft Office Upgrade project to be completed this year, referred to in paragraph 17 of the report, is allocated from the emergency provision rather than from an additional revenue contribution.

The Capital Programme currently includes a provision of £75,000 for improvements to the Hale Institute Pavilion. This is a partnership project that is at an advanced stage, however, contract prices are now significantly higher than the original budget. An additional contribution of £15,000 would enable this project to continue. It is considered appropriate to allocate this sum from the emergency fund to increase the budget for this scheme to the required amount.

If any urgent schemes arise before the end of the financial year it is important that officers can react quickly to ensure that they can be delivered. Members are requested to approve a delegation to enable the Deputy Chief Executive, in conjunction with the Finance and other Portfolio Holders as appropriate, to approve minor schemes to be funded from the balance of £28,000.