WILTSHIRE COUNCIL **AGENDA ITEM NO. 11**

IMPLEMENTATION EXECUTIVE
13 MAY 2009

FUNDING OF THE INCREASED COSTS OF BOURNE HILL OFFICE PROJECT

Executive Summary

The increased costs of Bourne Hill Office Project were reported previously to the Implementation Executive. This paper recommends the method of funding the increased costs.

It is recommended that the increase of £3.684 million in capital expenditure is funded through unsupported borrowing. The increase of £0.751 million in revenue expenditure will affect general funds and will have to be funded through savings.

Funding these increases will put further pressure on the resource of the Council, and may impact on the affordability of future schemes.

Proposal

That the Implementation Executive approves the funding of the cost increases through unsupported borrowing and revenue savings that are yet to be identified.

Reason for Proposal

The Bourne Hill Office Project is currently under construction. Significant cost increases have been identified, and this report recommends the method of funding the increase.

MARTIN DONOVAN
Chief Finance Officer

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FUNDING THE INCREASES COSTS OF BOURNE HILL OFFICE PROJECT

Purpose of Report

1. To seek the approval for the method of funding the increased capital and revenue cost of the Bourne Hill Office Project which was previously reported to the Implementation Executive.

Background

2. An audit carried out as part of the transfer of management of the scheme to Wiltshire Council, identified considerable increases in costs. This was reported to the Implementation Executive, which resolved to receive a further report on how these costs can be funded.

3. Table 1 summarises the project cost increases reported previously:

Year	2009/10	2010/11	Total
Capital	3.896	-0.212	3.684
Revenue	0.357	0.394	0.751

Table 1

Risk Assessment

4. Although the recent audit has considered all risks associated with project costs, programme and management, other unforeseen risks may materialise in future. The Council is ensuring that there is suitable and sufficient capacity within the project management team to manage all risks. Further significant financial or other risks will be reported to Members if they are encountered.

5. The funding gap has been calculated utilising the disposal of certain assets and current valuation has been used in the report. However there is still a possibility that the capital receipts will fall short for one reason or another e.g. local opposition for the disposal of the old swimming pool site. If capital receipts are not realised, further borrowing or redirection of funding from elsewhere in the capital programme will be required. The current assumption for this project is that £2.300 million of capital receipts will be realised in 2010/11.

Financial Implications

6. The funding of the affordability gap created by the increase in the build costs and the reduction in capital receipts will be met by increasing the level of unsupported borrowings of the Council by £3.684 million.

7. The unsupported borrowing will increase the debt position of the Council. Although remaining within the limits all borrowing takes the Council closer to the prudential indices limit and will have a revenue charge which will affect the general fund i.e. council tax. The total borrowing for the capital programme over the next three years will increase to £77.293 million.

8. It is estimated that the increased revenue charge will be £0.357 million in 2009/10 which includes the capital interest on unsupported borrowings and revenue costs; this increases to £0.394 million in 2010/11; and thereafter the annual cost will be £0.206 million as the additional cost related to the minimum revenue provision (MRP) will become chargeable. Capital financing costs will increase to £22.483 million in 2010/11. It should be noted as with all borrowing this further increases revenue costs and will restrict future flexibility in the revenue budget as the costs become fixed for the period of the loan which is 25 years.

9. In terms of the 2009/10 revenue costs, efforts are in hand to identify means to pay these e.g. reduced external audit fees, otherwise these will need to be funded by Council reserves. With regards to the 2010/11 costs these will need to be addressed or included and future revenue budgets or capital programme.

Options Considered

10. The possibility of funding the increases through disposal of more assets have been considered. However, no assets have been identified at the moment with receipts that can be used for this scheme.

Conclusion

11. Much of the capital funding required needs to be met through unsupported borrowing. The increase in revenue expenditure will affect general funds and ability to meet other revenue expenditure.

MARTIN DONOVAN
Chief Finance Officer

Report Author
Stephen Putnam
Principal Accountant
Tel: (01225) 716187

The following unpublished documents have been relied on in the preparation of this Report:

Appendices: None.