Financial implications

The Options – Combined System and Electric Only System

There were two alternative systems that were evaluated:

- A fully electric heating system.
- A hybrid gas and electric system (the current option included in the leisure centre design specification).

The Council's Quantity Surveyor for the project carried out an assessment based on:

- The additional cost to include the fully electric option is **£545,310**.
- The evaluation period is **15 years**.
- The average annual utility cost for the fully electric option is **£55,576**.
- The average annual utility cost for the hybrid gas and electric system is **£123,793**.
- The lower average annual utility cost of **(£68,217)** for the fully electric option would mean it would take **8 years** to pay back the capital cost:

	Fully Electric Option	**Combined Gas and Electricity Option**	**Difference**
A) Capital Cost	£545,310	£0	£545,310
B) Average Annual Running Cost (15 years)	£55,576	£123,793	(£68,217)
Payback period in Years (A divided by B)			**8**

- However, from a sustainability perspective, both options would need to be replaced at year 16.
- The plan would be to transfer an element of the annual saving each year into a sinking fund to fund the replacement.
- Taking account of the sinking fund transfer, the lower average annual utility cost would reduce to **(£27,837)** for the fully electric option and would mean it would take **20 years** to pay back the capital cost:

	Fully Electric Option	**Combined Gas and Electricity Option**	**Difference**
C) Replacement Cost (year 16 average annual inflation 1.6%)	£700,000	£94,300	£605,700
D) Average annual Sinking Fund (C divided by 15)	£46,667	£6,287	£40,380
E) Total Annual Cost (15 Years) (B+D)	**£102,243**	**£130,080**	**(£27,837)**
Payback period in Years (A divided by E)			**20**

The Impact on the Medium Term Financial Strategy

Although the additional cost of the fully electric option is **£545,310**, the use of budget 'headroom' of **£207,310** (difference between the current projected cost and Approved Budget) means the shortfall in the budget is **£338,000**.

Should Council approve this motion, then to be compliant with the Constitution's Approved Budget Framework, funding for the shortfall of **£338,000** in the budget would need to be identified.

The funding options available would be:

- From within the Approved Capital Programme, through prioritising existing projects to remove or reduce sufficient project budgets to identify the necessary funding.
- From any 'windfall' sources of income or savings.
- From external funding, such as Section 106, Community Infrastructure Levy or other grants and contributions.
- From borrowing, either externally from the Public Works Loans Board or Internal Borrowing (reduction in investments therefore investment income is foregone) with repayment over an estimated 15 year period. The annual and full cost over the 15 years (Minimum Revenue Provision (MRP) and cost of finance) of these two sources of borrowing is shown by year below:

Internal Borrowing @ 3.50%				External Borrowing @ 5.38% (excluding discounts)		
Year	Interest foregone	MRP	Total	Interest paid	MRP	Total
£	£	£	£	£	£	£
Year 1	11,633	22,533	**34,166**	17,881	22,533	**40,415**
Year 2	10,844	22,533	**33,378**	16,669	22,533	**39,202**
Year 3	10,056	22,533	**32,589**	15,457	22,533	**37,990**
Year 4	9,267	22,533	**31,800**	14,244	22,533	**36,778**
Year 5	8,478	22,533	**31,012**	13,032	22,533	**35,565**
Year 6	7,690	22,533	**30,223**	11,820	22,533	**34,353**
Year 7	6,901	22,533	**29,434**	10,608	22,533	**33,141**
Year 8	6,112	22,533	**28,646**	9,395	22,533	**31,929**
Year 9	5,324	22,533	**27,857**	8,183	22,533	**30,716**
Year 10	4,535	22,533	**27,068**	6,971	22,533	**29,504**
Year 11	3,746	22,533	**26,280**	5,758	22,533	**28,292**
Year 12	2,958	22,533	**25,491**	4,546	22,533	**27,079**
Year 13	2,169	22,533	**24,702**	3,334	22,533	**25,867**
Year 14	1,380	22,533	**23,914**	2,122	22,533	**24,655**
Year 15	591	22,533	**23,125**	909	22,533	**23,443**
Total	**91,683**	**338,000**	**429,683**	**140,929**	**338,000**	**478,929**

- If existing funding cannot be reprioritised, or 'windfall' income or savings cannot be identified or external funding cannot be secured, then borrowing would be required to enable the motion to be implemented.
- At present, the Council as identified in the Liability Benchmark, has sufficient resources to fund the borrowing through internal borrowing.
- However, the cost of borrowing is not included in the Approved Medium Term Financial Strategy.

	• Therefore, the only budget that could be repurposed would be an element of the corporate inflation budget that averages **£250,000** per annum (c1.5% corporate risk allowance) set aside to manage the risk of higher inflation than has been included in service budgets. It is important to highlight financial risks to this proposal: • The additional budget of **£338,000** assumes, budget 'headroom' is allocated to this proposal. However, the leisure centre is a significant project and although the project budget includes an element of contingency, this 'headroom' would provide additional budget for necessary and approved changes. In the event, changes to the project lead to additional costs that exceed the budget contingency, then the project would potentially need to stop until Council approval is obtained for additional budget. • If the budget 'headroom' is not used, then the additional budget shortfall would be **£545,310**. At this level, the year 1 annual cost of cost of internal borrowing would be **£55,122** and the total cost would be **£693,225** (£34,166 and £429,683) and the year 1 external borrowing would be **£65,203** and the total cost would be **£772,677** (£40,415 and £478,929). • Any further project (assuming **£207,310** as a proxy value) would result in the budget shortfall and level of internal borrowing increasing to **£752,620** (£545,310 and £207,310). At this level, the year 1 annual cost of internal borrowing would be **£76,077** and the total cost would be **£956,768** (£34,166 and £429,683) and the year 1 external borrowing would be **£89,991** and the total cost would be **£1,066,425** (£40,415 and £478,929). • Internal Borrowing is currently the favoured option however should interest rates reduce, then external borrowing may become more advantageous. • The use of Internal Borrowing will reduce the 'headroom' for any future use to fund capital expenditure. This is because the ability to fund Internal Borrowing is based on Balance Sheet resources assessed through the Liability Benchmark. • The use of the Corporate Inflation Budget to fund the cost of borrowing, will mean there is less available to fund in year and future inflation pressures. The current UK and world economic environment are resulting in higher levels of inflation and greater levels of volatility and risk. • The recent Local Government Policy Statement has confirmed that Local Government Finance will be reviewed for implementation in 2026/27. This is likely to result in a greater emphasis on funding being directed based on relative levels of need (using deprivation as a proxy) and Taxbase. Lichfield DC as a relatively low need, high Taxbase authority and is unlikely to benefit from either of these proposals. Therefore, although the MTFS assumes an element of funding redirection, this is currently based on the previous Government's policy announcements. It would be advisable until we have clarity on the impact of the new Government's proposals, to where possible, minimise growth in the revenue budget.