



BORROWING FOR CAPITAL PURPOSES - INTEREST FREE

Les Jukes, Secretary of Leasowe Golf Club, writes about the golf club's experience of establishing a Renewal Fund.

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Leasowe Golf Club Solution

Leasowe Golf Club is in one way ideally situated beside the Irish Sea, with views across the estuary to the hills of Snowdonia. Conversely, the strong salt air coming in across the sea brings with it corrosive elements that mean buildings and machinery need extra protection and more frequent major refurbishment than would otherwise be necessary. The sandy topsoil on the course means excellent drainage so the course is never closed but wear and tear is higher than normal.

Consequently, there is a need for more constant capital investment for major renewal projects. Borrowing can be very expensive and is a drag on finances. Leasowe's solution to meeting the problem may be of interest to Clubs facing similar situations and is explained in this article.

Renewals Fund – It's Purpose and Use

The establishment of a Renewals Fund is to provide an internal source of borrowing for more expensive renewal projects – interest free! Loans are made over a period equal to the estimated life of the asset created or improved. Repayments of the loan are paid into the Fund and are so made available for re-lending. On the advice of the Honorary Auditor, a Renewals Fund was established at Leasowe Golf Club in 1998.

Establishing the Fund

Normally the Fund would be built up gradually by transfer from Revenue of a percentage of the surplus of income over expenditure when that occurs. When the creation of a Renewals Fund is thought to be of a long term benefit, then an Annual provision in the Budget for a fixed amount to be transferred should be considered.

In Leasowe's case, we were fortunate in that the Inland Revenue refunded the VAT paid by Membership subscriptions, when there was a surplus unclaimed by ex-Members. That, together with a healthy revenue reserve enabled the Fund to be launched with a transfer of £35,000. This included income of £6,396 from the sale of a surplus asset against which there was no book value.

When a Fund is established, any unused balance can be put on deposit and the interest earned added to it.

A target of the Fund maximum should be set. In Leasowe's case a maximum of £50,000 has been agreed which is currently thought to be sufficient to finance normal capital projects interest free.

In summary, where the establishment of a Renewals Fund is beneficial it can be built up by :-

- ⌘ Transfer from Revenue surplus (budgeted for or otherwise).
- ⌘ Sale of surplus assets after writing off any book value.
- ⌘ Interest on unused balance.
- ⌘ Any other windfall.

Controlling the Fund

Management of the Fund is delegated to the Club's Finance Committee. The control of the Fund by the Committee is exercised in the following way :-

Applications for Loans

The spending Committee is expected to notify the Finance Committee when preparing the following year's budget of capital schemes which will qualify for a loan, giving details of the scheme and estimated cost plus the commencement date.

The Finance Committee indicates those schemes which have priority.

The spending Committee can then prepare detail plans and obtain competitive quotes. Final approval will be given with a commencement date agreed and the period of the loan determined.

The loan may be made in stages as the work progresses.

Repayment of the loan is charged against the spending Committee budget by equal annual instalments which are paid into the Fund.

The Benefits Derived

Since the Fund was established in 1998 it has grown from £35,000 to £120,000, ensuring the normal renewals and capital outlay in future will be undertaken without the need for external borrowing.

External borrowing over the same period has been reduced from £165,794 to £50,489, and will ultimately be down to Nil.

Interest savings over the same period have been approximately £12,000 and when the Fund is utilised up to 80% of its ultimate potential, savings will be approximately £15,000 a year.

Loans advanced from the Fund to date have been for the following purposes:-

Locker Room refurbishment	£80,040
Course landscaping	£10,000
Car Park resurfacing & lining	£45,052
Clubhouse refurbishment (2004 provision)	£37,000

A table of the Fund transactions since 1998 is set out below.

Leasowe GC Renewals Fund

Cash Summary	1998 £	1999 £	2000 £	2001 £	2002 £	2003 £
Balance B/F	NIL	35,000	61,960	90,320	85,183	45,540
Transfer From Revenue	28,604	35,000	25,000	NIL	NIL	25,000
Sale Or Surplus Assets	6,396	NIL	NIL	NIL	NIL	NIL
Loan Repayments	NIL	NIL	3,360	4,863	5,409	7,008
	35,000	70,000	90,320	95,183	90,592	77,548
Loans Advanced	NIL	8,040	NIL	10,000	45,052	NIL
Balance Available	35,000	61,960	90,320	85,183	45,540	77,548

Fund Value

Balance Available	35,000	61,960	90,320	85,183	45,540	77,548
Loans Outstanding	NIL	8,040	4,680	9,817	49,460	42,452
	35,000	70,000	95,000	95,000	95,000	120,000

External Borrowings

Outstanding	165,794	148,350	131,071	111,940	66,077	50,489
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Conclusion

The establishment of a Renewals Fund will give long term financial benefits whilst at the same time those having the benefit of a new or improved facilities will be paying capital cost, deferred over an appropriate period, interest free!!

Article prepared by Albert Johnson, Honorary Auditor, and submitted by Les Jukes, Secretary of Leasowe GC.

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