

Working for you

REPORT TO: Cabinet

DATE: **20 September 2006**

DEPARTMENT: Department of Resources

REPORTING OFFICER: Head of Financial Management
(*Gillian Morland, Accountancy Support Manager*)

SUBJECT: **ANNUAL REVIEW OF RESERVES**

WARDS AFFECTED: *All*

FORWARD PLAN REF: N/A

1.0

PURPOSE OF REPORT

- 1.1 The purpose of the report is to provide an annual review of reserves.
- 1.2 The report provides details of the uses to which reserves have been put in 2005/06, together with proposed uses in 2006/07 and beyond.
- 1.3 The Corporate Management Team considered this report on 7 September 2006. The recommendations below were endorsed.

2.0 RECOMMENDATIONS

Business Unit Reserves

- 2.1 That the proposed uses of **Business Unit Reserves** in 2006/07 totalling £634,712, which individually exceed £10,000 (as included in Column 9 of **Appendix 1a** and detailed in paragraph 5.14) be reviewed and recommendations made as to whether or not they are considered to be of sufficiently high priority, when judged against the Council's Corporate Priorities and Objectives.

2.2 That the following be noted:

- The use of **Business Unit Reserves** in 2005/06 totalling £1,606,282 (as summarised in Column 3 of **Appendix 1a**).
- The transfer of funds between **Business Unit Reserves** and to/from **Other Earmarked Reserves** following the corporate restructuring (as summarised in Column 6 of **Appendix 1a**).
- The planned uses of **Business Unit Reserves** in 2006/07 totalling £507,831, which individually total £10,000 or less and the committed uses of **Business Unit Reserves** in 2006/07 totalling £2,421,112, which individually exceed £10,000 (as summarised in Column 8 and included in Column 9 respectively of **Appendix 1a**). The committed uses which individually exceed £10,000 are detailed in paragraph 5.13.

Other Earmarked Revenue Reserves

2.3 That the information in relation to **Other Earmarked Revenue Reserves** as summarised in **Appendix 1b** be noted.

3.0 RECOMMENDED REASON FOR DECISION

3.1 In accordance with good practice, it is important that the Council continues to ensure that all spending is in accordance with its Corporate Priorities as set out in the Strategic Plan and the Corporate Improvement Plan.

4.0 ALTERNATIVE OPTION CONSIDERED AND RECOMMENDED FOR REJECTION

4.1 Not to review the use of reserves and risk that spending could occur which is not in accordance with the Council's Corporate priorities.

5.0 THE REPORT

Background

5.1 The arrangements for Business Unit and Cost Centre management of the Council's business were introduced on 1 April 1994.

5.2 In accordance with Business Rules, Business Units are permitted to carry forward to reserves 50% of any savings on net controllable expenditure. The amount that can be carried forward is now capped at a maximum of 1% of the Business Unit's actual turnover (controllable expenditure plus external income). Prior to 2005/06 Final Accounts this was capped at a maximum of 2% of turnover. In the case of Leisure (bottom line budget) and the Building Management Account, Council has agreed to allow 100% carry forward.

- 5.3 The requirement to deliver services within approved resources represents a fundamental principle of the Business Unit approach to devolved financial management. Business Unit Managers are encouraged to be prudent in the knowledge that a proportion of any underspending will be made available for reinvestment in their business.
- 5.4 Business Unit Reserves and carry forwards have proved an essential element of effective financial management of the Council over many years, allowing an element of flexibility, relatively small in relation to the Council's gross expenditure of £100m. It has allowed essential investment in the Council's infrastructure, especially in IT, which could not have been accommodated within base budgets.

Current Arrangements

- 5.5 Notwithstanding the above, the Authority is under increasing pressure to demonstrate that it is reallocating resources to address corporate priorities
- 5.6 An Annual Review of Business Unit reserves takes place in August/September each year to enable Chief Officers and Members to question Business Unit Managers on how their proposed use of reserves links to the Authority's corporate objectives. Chief Officers and Cabinet have the power to intervene in those proposals where the corporate priority is considered too low but this intervention is limited to those proposals where the value exceeded £10,000, with freedom to spend up to £10,000 being retained by the Business Unit Manager and the Chief Officer.
- 5.7 In 2004/2005 a review of the use of business unit reserves took place. The review was specifically concerned with the arrangements in place to ensure that monies are spent in accordance with Council policies and priorities and that the various authorities are obtained and conditions met as set out in Financial Procedure Rule 4.1.11. The review concluded that there was generally strong compliance with the Council's rules. The review also addressed a number of issues in relation to Business Unit Reserves such as their rules and parameters, their links with revenue underspends and their absolute and relative size. The conclusion, in relation to this report, was to reduce the cap to 1% of turnover from 1 April 2005, on the level of any savings on net controllable expenditure that Business Units are permitted to carry forward to Reserves.
- 5.8 Internal Audit carried out a further review in 2005/06. The conclusion was that the level of compliance had improved on the already high level found a year earlier. There was some evidence that Cabinet Members were being asked to approve items where the rules provide for authorisation by Chief Officers or Heads of Service. (See report to CMT on 8th February 2006.)

Annual Review of Reserves

Business Unit Reserves

- 5.9 **Appendix 1a** to the report sets out a summary by portfolio of the actual and proposed uses of **Business Unit Reserves**.
- 5.10 Column 3 of **Appendix 1a** shows that a total of **£1,606,282** was spent from **Business Unit Reserves** in 2005/06. This included **£69,815** drawn down to meet overspends, which occurred during the year.
- 5.11 Column 6 of **Appendix 1a** shows the transfer of funds between **Business Unit Reserves** and to/from **Other Earmarked Reserves**, following the corporate restructuring.
- 5.12 Columns 8 and 9 of **Appendix 1a** show that Business Unit Managers plan to spend a total of **£3,563,655** from **Business Unit Reserves** during 2006/07. Of this **£507,831** relates to items with an individual value of £10,000 or less. The balance of **£3,055,824** relates to items with an individual value of more than £10,000. These items are summarised in the following paragraphs.
- 5.13 The following table sets out planned uses of **Business Unit Reserves** previously agreed by Portfolio Holders for 2006/07 totalling **£2,421,112**, where the funds have already been committed. For the annual review, a commitment is defined as expenditure which is either contractually committed, unavoidable as it relates to health and safety issues or contributions promised as match funding.

Detail	£
Corporate Policy & Improvement	14,670
Economic Development	18,240
Building Management Operational Reserve	37,570
Property Management	13,000
Public Toilets	83,153
Financial Management	10,770

Replace FMS – Honoraria/Temporary Staff	16,670
Replace Payroll/HR system – Honoraria/Temporary Staff	
Information Technology & Development	50,000
SAN/Virtualisation	18,000
Security Policies	20,000
Back up server room	70,000
Back up SAN & VM server	30,000
Data back up facilities	
Revenues and Benefits	15,000
<i>Benefits overtime to maintain performance standards</i>	
Environment	25,700
<i>Match Funding for Energy & Waste in Schools and Communities Project</i>	15,000
	21,000
Kerbside Recycling – Customer Surveys	
Recycling – Evaluation Consultancy	
Transport	100,000
Contribution to Victoria MSCP Lifts	15,000
Bus Pass Issuing Equipment	18,286
Traffic Management Clerk	12,554
Departmental Training	
Planning	33,000
Culture	11,095
HIC Board	560,000
Total	2,421,112

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5.14 The following table sets out proposed uses of **Business Unit Reserves** for 2006/07 totalling **£634,712**.

Detail	£
Corporate Policy & Improvement SIMALTO Consultation Initiative	20,000
Legal & Democracy <i>Member Training</i>	12,500
Building Management Operational Reserve <i>Asbestos Removal Works</i> Energy Efficiency Disabled Works to Council Premises Corporate Signage Pateley Bridge Council Offices Car Park Resurfacing	55,000 25,000 20,000 20,000 10,800
Revenues and Benefits <i>Improvement of Customer Facilities</i> Investment in technology to improve Customer Service (CRM integration/dual screens)	125,000 93,000
Environment Recycling Storage Recycling – Logistics Consultancy Replace 8 Garage Doors Improvements to Waste Handling to Enable Recycling	17,746 24,000 12,000 20,000
Transport Victoria MSCP Painting West Park MSCP Repairs (including essential painting) Parking Attendants Hand-Held Computers IT Investment	14,290 19,000 30,000 26,000
Planning <i>Council Chamber Public Address System</i> <i>Development Control Archive Scanning</i>	15,000 15,000

Cultural Services	32,780
Jacob Smith Park	15,000
On-line Booking System	12,596
Equipment at Nidderdale Pool	
Total	634,712

- 5.15 Column 10 of **Appendix 1a** shows that the estimated balance of Business Unit Reserves at 31 March 2007 (prior to any 2006/07 carry forwards) is **£834,005**. Of this future commitments and plans total **£312,523** leaving a contingency provision within Business Unit Reserves of **£521,482**.

Other Earmarked Revenue Reserves

- 5.16 In order to provide a more complete picture, it is considered appropriate to include in the review information relating to the use of Other Earmarked Revenue Reserves. These reserves contain funds, which have been set-aside for a specific purpose. The circumstances in which each reserve can be used is clearly defined and is not subject to the same approval processes that apply to the use of Business Unit reserves.
- 5.17 **Appendix 1b** to the report sets out a summary by portfolio of the actual and proposed uses of **Other Earmarked Revenue Reserves**.
- 5.18 A key feature of these reserves is the creation of the new **Environment Initiatives Fund** from 2005/06 underspends. This fund will be used to assist the Council in meeting its corporate objectives. As it is a new reserve, there are currently no proposed uses to reflect in this report, but as proposals are developed these will be reported on in future years.

General

- 5.19 Further detailed analysis of the actual and proposed use of reserves, together with links to the Strategic Plan and the Corporate Improvement Plan, where relevant, are available on request from the officer contact.

6.0

CONCLUSIONS

- 6.1 Arrangements are in place to allow Chief Officers and Members to carry out an annual overall review of reserves.
- 6.2 This will provide the necessary assurance that major spending from Business Unit Reserves is in accordance with corporate priorities, whilst at the same time allowing Managers to continue to have full freedom in relation to expenditure of

£10,000 or less.

- 6.3 The Corporate Framework Project reviewed the use of business unit reserves. It looked at the existing processes, rules, and parameters and how these are operated, resulting in a reduction in the cap on permitted Business Unit carry forwards.

Background Papers: None.

OFFICER CONTACT: Please contact Gillian Morland (Accountancy Support Manager) if you require any further information on the contents of this report. The officer can be contacted at the Department of Resources, Crescent Gardens, Harrogate HG1 2SG, by telephone on (01423) 556105 or by Email – gillian.morland@harrogate.gov.uk

SUSTAINABILITY ASSESSMENT/POLICY CONSIDERATIONS

		Implications are		
		Positive	Neutral	Negative
A	Economy		✓	
B	Environment		✓	
C	Social Equity		✓	
(i)	General			
(ii)	Customer Care/People with Disabilities			
(iii)	Health Implications		✓	
D	Crime and Disorder Implications		✓	

If all comments lie within the shaded areas, the proposal is sustainable.