

Executive

29 July 2008

Report of the Head of Finance

Update on Carry Forward Issues and Key Considerations in the Allocation of Surplus Resources

1. **Purpose:** The purpose of the report is to update the Executive on carry forward issues that were deferred by the Executive at its meeting on 30th June 2008. The other purpose is to provide the Executive with information on the levels of the Council's reserves over the next three years including the underspend from 2007/08 in order to consider if any of these reserves should be used for specific purposes in 2008/09.

Background

2. It was agreed by the Executive on 30th June that with the exception of 3 items the net underspend of £4,807k, after carry forwards, be transferred to the Council's General Reserve. Three items were requested to be brought back to the Executive with additional information and justification, an update on these items is considered below.

Update on deferred carry forward items

3. The Executive requested a report on unexpected social care costs of £275k. Further work is still on-going in this area to establish the council's legal position and therefore a report will be brought back to the Executive in September 2008.
4. Further information on compensation payment requests to the Guildhall Orchestra and 2 other users of the Barbican Centre is attached at Annex 1.
5. An amount of £38k was set aside in contingency for 2008/09 to include further schemes in the IT Development Plan that were on a reserve list. The business cases for these bids has been updated and re-considered by the Corporate IT Strategy Group. Summaries of the business cases are included at Annex 2. The in year costs of progressing these bids is £18.8k which is asked to be released from the 2008/09 contingency. The future year costs are £47.9k per annum

from 2009/10 and these will be funded by the annual IT Development Plan.

Update on the current reserves position

6. Attached at Annex 3 to this report is a forecast position on the level of the Council's reserves for the current financial year through to 2010/11, a summary of this is shown in the table below.

	2007/8 £000	2008/9 £000	2009/10 £000	2010/11 £000
General Reserve	11,878	6,787	5,749	5,521
Neighbourhood Services Trading Reserve	439	300	300	300
Venture Fund	2,729	3,065	2,932	1,802
Total	15,046	10,152	8,981	7,623
Minimum Reserve Threshold	5,201	5,361	5,521	5,686
Headroom in Reserves	9,845	4,791	3,460	1,937

7. It is important to understand the assumptions that have been made in preparing this forecast;
- a. No under or overspends in the next 3 financial years
 - b. That the loan to York City Football Club of £2.1m be made
 - c. That £200k from the LAGBI grant is used for project management costs of the Community Stadium
 - d. That the council's bid for capitalisation of equal pay payments is either unsuccessful or only partially successful and that the £550k approved by Urgency committee for these payments is used.
 - e. That the minimum level of reserves policy that combines a risk assessment of key areas of spend along with a trend analysis of spending patterns is retained throughout the period.
8. The analysis shows that although there is headroom above the minimum level of reserves in each of the three years this is a declining figure that starts at the end of 2007/08 with headroom of £9,845k and predicts that the headroom will fall to £1,937k by the end of 2010/11 which is a reduction in cash reserves of just under £8m over the period. This due to the following reasons;
- Commitments already approved to support the annual budget in each year
 - Potential funding of one-off items, mainly community stadium, equal pay and pay and grading (please refer to confidential Annex 4)

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- Reduction in the balance of the venture fund as it is used to fund part of the Admin Accom Project

Options

9. The option to consider is whether to have a separate funding allocation process outside of the main annual budget process that will consider spending one off resources from the underspend in 2007/08.

Analysis

10. The question of whether the council decides to use some of this headroom to fund specific items outside of overall consideration of the annual budget process is a difficult one to answer.
11. The first question is how much of these resources are 'spare'. The council has a high number of key projects that come with elements of risk, is the minimum level of reserves adequate to cover the risks associated with these projects?. In addition the council has moved its Belwin reserve (£300k) to the general reserve which is the amount the council has to meet to deal with any unpredicted emergency, such as floods, prior to the Belwin funding coming from Government.
12. The key projects being;
 - **Administrative Accommodation Project**
 - **Waste PFI**
 - **Job Evaluation implementation, appeals and further equal pay claims**
 - **The largest capital programme the council has ever had**
 - **Easy at York**
13. An assumption in the reserves forecast is that there will be no under or overspends on the annual budget over the next three years, as yet it is unclear how robust this assumption is. There has not been a financial monitor yet during 2008/09 and there are too many variables to consider that will suggest whether the 2007/08 outturn was a one-off or whether there is an inherent problem in the base budget.
14. Therefore, in conclusion, it is not considered prudent to organise a separate allocation process to spend an amount of one-off reserves at this stage in the year. A further consideration of this issue could be made after the following actions have taken place;
 - a through review of the adequacy of the minimum level of reserves
 - the amount of headroom in the venture fund after Admin Accom Project commitments
 - adequacy of the amounts set-aside for equal pay and job evaluation

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- the loan to York City Football Club is approved
 - after the first financial monitoring report with a focus on the main areas of underspend in 2007/08

Invest to Save Fund

15. What is possible is the creation of separate fund for 'invest to save' schemes that will contribute to the council meeting is efficiency target. This would have to be on the basis that repayments to the fund from efficiencies are such that the long term levels of reserves stay within acceptable limits. This option has the advantage of utilising the high levels reserves early in the period on the basis that they are repaid from efficiencies made as the levels of reserves start to fall. An initial amount of £1m could be set-aside for this purpose to progress schemes that are in the current approved efficiency and strategic procurement programmes that have either not yet started or are making slow progress due to capacity issues. Additionally part of this amount could be used to fund an initial piece of work from a performance partner to identify further areas where efficiencies are possible.
16. This suggestion is being put to the Executive for an 'in principle' approval and then a system designed around a bidding/prioritisation process will be put forward along with the creation of an efficiency/value for money board that drives the agenda and ensures progress.

Financial, Equalities, Legal and Risk Management implications

17. Financial, Equalities, Legal and Risk Management implications are included in the main body of the report or in the Annex's as appropriate

Risk Management

18. The current policy of keeping a minimum level of reserves was introduced by the Council's Chief Financial Officer (section 151) in the light of the recommendations within the Comprehensive Performance Assessment (CPA) process. The level of reserves is calculated using a combination of a risk analysis of key areas of spend and the trend in spending patterns over the recent past. Until this policy is reviewed the Council should intend to keep the minimum level of reserves calculated on this basis.

19. Recommendations

- a. That the Executive agree the payment of compensation to the Guildhall Orchestra of £26k and other users of the Barbican, £2k as highlighted in Annex 1.

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- b. That the Executive agree to release £18.8k from the 2008/09 contingency to fund the four schemes proposed to commence through the IT development plan and that the ongoing costs of £47.9k per annum be funded through the IT development plan from 2009/10 onwards. (para 5)
 - c. That the Executive recommend to Full Council the establishment of an 'invest to save' fund of £1m from the General Reserve to build capacity in the council to deliver the increased efficiency target.
 - d. Consider the issues raised in confidential annex 4 in relation to updated financial information on pay and grading costs and recommend to Full Council an amount to be met from the General Reserve to assist in the implementation of the project.

Author

Chief Officer Responsible

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9 July 08

Annexes

- 1 Update on Compensation for Barbican users**
- 2 Update on IT development plan schemes**
- 3 Analysis of the reserves position**
- 4 CONFIDENTIAL pay and grading costs**