

 Executive 14th September 2011		Agenda Item No. <h1>10</h1>
Title	Equipment Renewal Reserve	
For further information about this report please contact	Jenny Clayton jenny.clayton@warwickdc.gov.uk 01926 456013	
Wards of the District directly affected		
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	February 2011 - Executive (9 th) and Full Council (23 rd minute 88A)	
Background Papers	Appendix 6 of Budget Report	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	Yes
Equality & Sustainability Impact Assessment Undertaken	No
This report looks at the processes behind one of the Council's Financial Reserves, it does not directly impact on Service provision	

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Andy Jones
Head of Service		Mike Snow
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		
Finance		Report from Finance
Portfolio Holder(s)		Cllr Andrew Mobbs
Consultation & Community Engagement		
Insert details of any consultation undertaken or proposed to be undertaken with regard to this report.		
Final Decision?		Yes/No
Suggested next steps (if not final decision please set out below)		

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1. **SUMMARY**

- 1.1 This report considers further the items on the Equipment Renewal Reserve last presented to members in February of this year and updates them on the latest position.
- 1.2 Members are updated upon the sustainability of the Reserve and are asked to agree changes to the funding sources of some of these items alongside budget virements which would have significant financial implications on future revenue budgets.
- 1.3 The report includes within the appendices, the Business Case template for future use for the drawing of monies down to enhance the current approval process.
- 1.4 Monies are required from the Gym Equipment Reserve this year to replace such equipment. Whilst this is a completely different Reserve, rather than members receiving a second report seeking approval to draw monies down, these proposals have been included here.

2. **RECOMMENDATION**

- 2.1 Members note the latest schedule at Appendix 3 which incorporates the recommendations in 2.1, 2.3 and 2.5 above.
- 2.2 Since the Housing Surveys detailed in section 7.6 are not renewals of items of equipment and do not produce fixed assets, it is recommended that these (2015-16) be factored into the Medium Term Financial Strategy and duly considered within the Service Planning Process which underpins the Budget Setting Cycle.
- 2.3 It is recommended that the Equipment Renewal Reserve Schedule be specifically for larger value items in excess of £5,000 with a life span of some years. This would reflect the Council's practice for accounting for other long-term assets, with smaller items being accommodated within Revenue Budgets.
- 2.4 It is proposed that the items currently contained in the Equipment Renewal Schedule totalling £80,000, relating to Play Equipment, be removed from this schedule and contained within the Play Equipment Reserve, with the corresponding £80,000 being vired to the Play Equipment Reserve, from the Equipment Renewal Reserve.
- 2.5 Members approve the virements between the Equipment Renewal Reserve, Corporate Property Programme Reserve, and the Assembly Rooms Repairs and Renewals Reserve, as outlined in Section 7.10., the Corporate Property Programme Reserve, and the Assembly Rooms Repairs and Renewals Reserve becoming obsolete and being closed.
- 2.6 It is recommended that where practicable and appropriate, the timing of the reports to SMT and the actual procurement of the item be flexible enough to allow sufficient time to enable any significant revenue implications to be accommodated within the Budget Setting Cycle.
- 2.7 The Executive approve the drawing down of £66,000 from the Gym Equipment Reserve.

- 2.8 It is recommended that future requests from the Gym Equipment Reserve be approved under delegated powers by the Head of Cultural Services Section in consultation with the 151 Officer and Cultural Services Portfolio Holder.
- 2.9 It is recommended that the Portfolio Holders and Heads of Service review the items on a quarterly basis to identify those which are no longer required and the robustness of the latest projections.

3. **REASONS FOR THE RECOMMENDATION**

- 3.1 The Council faces significant Financial Challenges in the forthcoming years. The measures proposed will help ensure that monies are spent most wisely.
- 3.2 The proposals will streamline the existing Reserves and provide a consistent approach for the approval process.

4. **POLICY FRAMEWORK**

- 4.1 **Policy Framework** – This report does not bring forward changes to the policies listed below, Development Plan Documents
- Fit for the Future
 - Food Law Enforcement Service Plan
 - The plan and strategy which comprise the Housing Investment Programme
- 4.2 **Fit for the Future** – This report does not directly impact on Fit for the Future. However, items included on the schedule may underpin one of the projects within in.

5. **BUDGETARY FRAMEWORK**

- 5.1 The Council needs to achieve and maintain revenue savings in excess of £2.6 million over the next 5 years. This leaves little scope for the Council to replenish its Reserves (including the Capital Investment Reserve) or fund larger items of Equipment from Revenue over this period.
- 5.2 Before taking into account further requests for monies from this Reserve during 2011-12, it is projected that the Balance on the Reserve would be £1.4 million upon closing the accounts on 31st March 2011. As members will see at Appendix 1, the items scheduled for replacement total £3.5 million before taking into account the recommendations in this report.
- 5.3 Having approved the changes recommended in this report, should all of these residual items be requested in line with the estimated time and costs, there would be monies in this Reserve until 2016-17. But, Members' attention is drawn to the fact that at the time of writing this report it is not possible to incorporate the resources required for all of these items (timing and indicative costs). This will bring forward the point at which the Reserve is fully depleted, unless additional monies can be identified for this Reserve or items can be removed from the schedule.

The table below summarises the impact of the proposed changes

	Reserve Balance	Schedule
31-Mar-11	1,400	3,515
Housing Surveys		-135
Play Equipment	-81	-81
Corporate Property Programme Reserve	167	
Assembly Rooms Reserve	75	
Proposed changes	1,561	3,299

5.4 In light of the fact that the potential calls on this Reserve still far outweigh the resources available it is essential these are monitored on a regular basis to ensure their robustness and to look for areas where items can be removed or alternative sources of funding can be explored. It is therefore recommended that Portfolio Holders and Heads of Service undertake such a review on a quarterly basis, seeking to make reductions where possible.

5.5 Members attention is drawn to the fact that these proposals would place additional £235,000 non –recurrent pressures on the current forecast deficit in excess of £2.6 million. Members are asked to note the latest schedule at Appendix 3 which takes account of these changes.

5.5 The outline Business Case template in this report would enhance the existing approval process, ensuring that the monies are spent most efficiently and effectively, and enable SMT and the relevant Portfolio Holders to consider all of the financial implications associated with each of the requests to draw down monies, in a consistent manor.

6. **ALTERNATIVE OPTION(S) CONSIDERED**

6.1 Do nothing. However the recommendations would enhance existing arrangements. The Executive had approved reviewing this Reserve during the Summer/Autumn.

7. **BACKGROUND**

7.1 In February of this year, members recommended that in view of the future demands on the Equipment Renewal Reserve being well in excess of the available funding, a future report is brought to the Executive for consideration during the year. This report updates the Executive.

7.2 The schedules at Appendix 1 summarises the potential calls on this Reserve at this point in time. However, at the time of writing this report, there is an exercise underway to firm up some of the costs for items on the schedule. Since these costs are likely to vary quite significantly dependant on the scale of the works involved, it is not possible to include indicative figures. Members attention is drawn to this fact and that the potential demands on this reserve will be somewhat higher. It is intended that these figures will be available when the schedule is next presented to the Executive in February 2012. During discussions with managers, it has emerged that there are clear distinctions between equipment essential to maintain the core functions of the Council, for instance the I.C.T. infrastructure and the Pest Control Service with

the discretionary services which members might choose to cease (e.g. the Air and Weather Monitoring station at Hamilton Terrace). In light of the substantial demands on this Reserve in future years and the other budgetary pressures on this Council, in future, when a request is made to draw the monies down, due consideration is to be given to the distinctions between Core and Discretionary Functions and the impact on Council Services.

- 7.3 The schedule contains many items which will be influenced by other factors, for instance there is a provision towards the CCTV Equipment and Control Room which is dependent upon consideration of the joint Business Case with Stratford. The replacement of the Ticketing System at Riverside House is dependent upon the outcome of the Asset Feasibility Study. Clearly, the phasing and the values of items such as these items will not be definitive until the point at which they need to be replaced. The current practice of presenting the schedules to members in February as part of the Budget Setting Report informs them of the most likely position for the forthcoming years alongside the Capital Programme and the Medium Term Financial Strategy, with the forecast budget deficit for the next 5 financial years. Therefore the current practice, whereby members approve the indicative summary schedule at a point in time and when the monies are then needed, SMT receive a detailed report, considering each request when definitive costs are known will continue. This procedure also requires approval of the Portfolio Holder and Leader, so members are still involved in the final decision without needing to see a subsequent report for each individual item.
- 7.4 The reports that have gone to SMT previously have varied in content and detail. Future requests should be in line with the draft Business Case template at Appendix 2, this would ensure consistency and enable SMT to evaluate the benefits, implications and consequences of approving or refusing the request. This would include any associated on-going revenue costs and benefits and the implications, both financial and non-monetary of not replacing the item. It is likely that many of the items requested will be significant in value. The template offers an opportunity to remind managers to follow the Code of Procurement Practice.
- 7.5 When drawing up the latest schedule presented to members at Appendix 3, which reflects the changes proposed in this report, endeavours have been made to verify that the estimated replacement costs are as accurate as possible. However, the later the expected replacement, the more difficult this becomes. Managers will be asked again during the Autumn, to confirm that the items they have on the schedule are still required and that the estimates are robust. Members would not want to approve these, the following February, only to find that the eventual costs significantly differ from those they approved. It is suggested that where the figures vary by more than 10% either way from that originally approved the SMT report includes an explanation for the variation.
- 7.6 It is debatable whether all of the items on the Schedule should be included and funded from a Reserve which was specifically set up to finance a rolling programme of equipment replacement and renewal and refurbishments. The Private Sector Stock Condition Survey and Housing Market Assessment for 2011 were recently approved from this Reserve. There is no long-term tangible fixed asset arising from this expenditure which contravenes the Reserve's purpose. It is therefore recommended that these surveys (2015-16), are considered alongside other demands upon the Revenue Budget. It is

recommended that the potential budget pressure be factored into the Medium Term Financial Strategy and duly considered within the Service Planning Process which underpins the Budget Setting Cycle.

- 7.7 During the review, other smaller value items have been raised and asked to be considered for the schedule. However, smaller items with a limited life span such as tables and chairs should be accommodated within Revenue Budgets whenever possible. (As part of a separate exercise, Finance are looking at the ways smaller items of equipment are purchased and procured with a view to delivering savings and efficiencies.) It is recommended that the Equipment Renewal Reserve be specific for larger value items in excess of £5,000 with a life span of some years. The contingency budget is available should an unexpected revenue pressure arise for a major replacement programme for such items.
- 7.8 In February of this year, Members approved the setting up of a Play Equipment Reserve to provide finance for future replacement/maintenance of play equipment. This currently stands at £200,000. There is also £80,000 on the Equipment Renewal Reserve. It would be appropriate to merge these 2 sources of funding, and it is therefore proposed that this £80,000 be vired to the Play Equipment Reserve, with the items on the ERR schedule being removed accordingly.
- 7.9 The ICT manager has expressed concerns that when setting the Revenue Budgets in the Autumn of the previous year, he would need certainty that the Network Devices, Servers, PC's etc currently on the schedule with known expiry dates for the following year will be approved by SMT, the relevant Portfolio Holder and Leader. Should the request be turned down, the Revenue Budget would need to have been increased at Budget Setting time to fund the increased maintenance charges on the old equipment. It is therefore recommended that, where appropriate, the timing of the reports to SMT and the actual procurement of the item be flexible enough to allow sufficient time to enable any significant revenue implications to be accommodated within the Budget Setting Cycle. Clearly in cases where equipment fails and needs urgent replacement this is different and the timing of report would be imminent to the actual purchase.
- 7.10 Appendix 5b of the Budget Report presented to Members in February included 2 other Reserves whose purposes were broadly in line with that of the Equipment Renewal Reserve, namely the Corporate Property Programme Reserve (£167,000 estimated balance 1st April 2011) and the Assembly Rooms Repairs and Renewals Reserve (£7,500). The existing Equipment Renewal Schedule includes some items at the Royal Pump Rooms and since there are no commitments against the Assembly Room Reserve it would be appropriate to transfer these monies to the ERR. Members are asked to approve this virement. There is a separate Revenue Budget managed by Housing and Property Services which oversees the annual programme of corporate property refurbishments. The only potential call on this Reserve (Corporate Property Programme Reserve) was removed from the Capital Programme as approved by the Executive in August. It is recommended that the balance (£167,000) also be transferred to the ERR, with any future refurbishments being included on the ERR schedule which is presented to Members and subject to the same approval process in line with other similar refurbishments already on this schedule.

- 7.11 As well as the Equipment Renewal Reserve, the Council also has a specific Reserve, Gym equipment Reserve, approved by members in 2006-07 to allow for replacement of gym equipment at an appropriate time and continue to provide gyms of the quality and value that our customers demand. As part of the Budget Setting Process, this Reserve is increased by £30,000 annually. This is built into the Medium Term Financial Strategy.
- 7.12 Following an open tendering exercise in 2009 the Council appointed Pulse Fitness as the successful company to supply replacement Gym Equipment for the next 5 years, with an option to extend for a further 5 years upon satisfactory performance. The first renewal of equipment was undertaken in December 2010 when all Cardio equipment at Newbold Comyn Leisure Centre was successfully replaced. This has been appreciated by customers and gym attendance has increased over the past 2 years. The planned programme of renewal identifies Castle Farm Sports Centre and St Nicholas Park Leisure Centre for replacement Cardio equipment in December 2011 as detailed within the tender documentation and it is therefore necessary to agree the release of the reserve funds necessary to cover this work.
- 7.13 The items to be replaced at both centres include treadmills, cross trainers, upright and recumbent exercise cycles and independent steppers. All items will benefit from the product facelift which Pulse Fitness have introduced which includes improved Audio & Visual features and improved accessibility for users with disabilities whilst adhering to the pricing agreed to via the procurement exercise. This is enabling the council to support the replacement of these items at a significantly discounted rate per item. St Nicholas Park has 12 items of equipment to be replaced requiring £34,700 whilst Castle Farm has 11 items and needs £31,300. This will include connections to enable the full use of the audio / visual features. Members are asked to approve the drawing down from the Gym Equipment Reserve funds of £66,000 to finance this.
- 7.14 The Gym Equipment Reserve currently stands at £94,600 which will leave £32,600 thus with the annual increase of £30,000, as outlined in 7.11 above, there will be sufficient monies available to fund the next scheduled replacement in 2014. This is when Newbold Comyn is scheduled to have all Cardio and Resistance equipment replaced at the same time to support costs in the region of £90,000.
- 7.15 The reserve is currently profiled up to 2025/26 and is based on the need to replace cardio equipment at Newbold every 5 years, the other sites every 7 years. Resistance equipment is scheduled for replacement just once at each site within this timeframe. These frequencies are based on current usage levels and supported by an established maintenance regime. There are no significant impacts of the revenue costs of running these facilities as a result of the replacement programme.
- 7.16 This is the second report to the Executive requesting approval to draw monies down from a Reserve which has a specific purpose with the planned replacement programme having been reported to members in February 2010. It is recommended that future approvals are delegated to the Head of Cultural Services in consultation with the Section 151 Officer and Cultural Services Portfolio Holder.