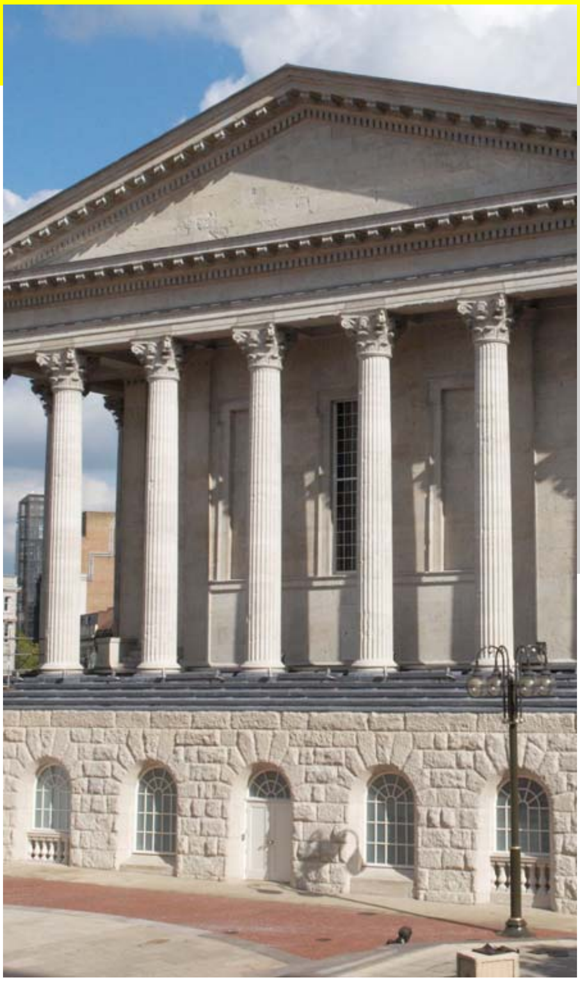
Birmingham City Council

BUDGET 2008/09

Report of the Executive to the City Council



Tuesday 26 February 2008

CONTENTS

FOREWORD

1. This report sets out the budget proposals for the coming financial year, 2008/09, within the context of a medium term financial strategy which allows investment in frontline services for the citizens of Birmingham. It embraces all aspects of the budget (revenue, capital, and treasury management) as these are integrated parts of the overall financial plans of the City Council.

2. As in 2007/08 the budget has been constructed around the Executive's priorities. These are set out in the Council Plan 2008-2013, "*Birmingham: A global city with a local heart*". This sets out the vision for Birmingham to be a city:

    - with an even stronger and more sustainable economy offering benefits to all its citizens
    - where people are safe, well housed and healthy
    - where they enjoy a high quality of life within a thriving, diverse and cohesive community
    - where everyone feels they can play their part to the full
    - where people want to live, work and visit
    - where businesses and government choose to invest

3. The strategic outcomes we seek are for Birmingham people to:

    - succeed economically - benefiting from education, training, jobs and investment
    - stay safe in a clean, green city - living in clean, green and safe communities
    - be healthy - enjoying long and healthy lives
    - enjoy a high quality of life - benefiting from good housing and renowned cultural and leisure opportunities
    - make their contribution - valuing one another and playing an active part in the community

4. In order to achieve this our continued priorities are:

    - protect and support vulnerable people
    - ensure everyone has a decent home
    - make the city cleaner, greener and safer
    - provide excellent services
    - ensure services are connected and customer focused
    - build the city's reputation at home, nationally and internationally
    - maintain a city where communities get on well together
    - develop a globally successful city region

5. The City Council has now been awarded a 3 star CPA rating, and the Audit Commission has confirmed it is "improving well". The Progressive Partnership continues to lead and implement real benefits for the people of Birmingham. Birmingham people are now seeing the benefits, with a significant majority of citizens now satisfied with how we run things. The actions set out in the Council Plan and this budget will enable us to deliver our vision, building on the success we have already achieved. We will continue to raise our game, by:

- transforming the way we manage our business and work with partners
- radically improving our approach to customer service
- achieving excellence within our communities and enabling citizens to play their part
- making more sustainable choices in the way we manage our business and deliver services

6. This budget sets out the financial impact of our plans and priorities. At the same time as delivering improved services, tight financial discipline continues to be a priority. We have promised to deliver value for money. With the combined efforts of Members and managers, we are continuing to achieve efficiency savings. We have done this whilst still improving frontline services.

Councillor Mike Whitby
Leader of the Council

Cllr Paul Tilsley
Deputy Leader of the Council

MOTIONS FOR COUNCIL

Revenue Budget

1. That the following calculations be now made in accordance with Section 32, Local Government Finance Act 1992, for the financial year commencing 1 April 2008:

		£m
a.	aggregate of estimated expenditure, contingencies, and contributions to financial reserves	3,208.714
b.	aggregate of estimated income, and use of financial reserves	2,248.371
c.	budget requirement, being the difference between (a) and (b) above	960.343

That the revenue budget allocations of the various Cabinet Portfolios and Committees of the Council, as set out in Appendix C(iii) to the attached report, be approved.

Council Tax - Basic Amount

2. That the basic amount of Council Tax, for City Council services, for the financial year commencing 1 April 2008 be set at £1,072.53, pursuant to the formula in Section 33, Local Government Finance Act 1992 -

		£m
a.	Budget requirement of	960.343
	LESS	
b.	Redistributed non-domestic rates and Revenue Support Grant of	639.580
	LESS	
c.	Net transfer from the Collection Fund in respect of Council Tax and Community Charge	6.500
		314.263

DIVIDED BY the Council Tax Taxbase of 293,011 Band D properties

MOTIONS FOR COUNCIL

Council Tax - Total

3. That, in accordance with Section 30 of the Local Government Finance Act 1992, the amounts of Council Tax set for the financial year commencing on 1 April 2008 for each category of dwelling listed within a particular valuation band, shall be calculated by adding:

   a. the amount given by multiplying the basic amount of Council Tax by the fraction whose numerator is the proportion applicable to dwellings listed in a particular valuation band, and whose denominator is the proportion applicable to dwellings listed in valuation Band D; to

   b. the amounts which are stated in the final precepts issued by the West Midlands Fire and Rescue Authority and the West Midlands Police Authority; to

   c. the amounts stated in the precept issued by the New Frankley in Birmingham Parish Council

   and shall, for areas without a Parish Council, be:

Band	Council Tax £
A	808.63
B	943.40
C	1,078.17
D	1,212.94
E	1,482.48
F	1,752.02
G	2,021.57
H	2,425.88

and shall in the New Frankley in Birmingham Parish be:

Band	Council Tax £
A	833.98
B	972.98
C	1,111.97
D	1,250.97
E	1,528.96
F	1,806.96
G	2,084.95
H	2,501.94

MOTIONS FOR COUNCIL

Capital Strategy and Budget

4. That the proposals for the capital budget, as set out in Chapters 3 and 4 of this report, be approved, embracing:

   (a) the Capital Strategy as set out in Chapter 3
   (b) the Capital Programme, as set out in Appendix E
   (c) the Prudential Indicators, as set out in Appendix H, including the Authorised Limit for debt of £2,550m.

Treasury Management

5. That the Treasury Management Strategy for 2008/09, as set out in Chapter 5, and the Treasury Management Policy, as set out in Appendix G, be approved.

CHAPTER 1 - REVENUE RESOURCES

1. Summary

1.1 The financial year 2008/09 is the first year of a three-year Government Grant settlement. The City Council will receive general Government Formula Grant of £639.6m in 2008/09 - an increase of 4.6% on a like-for-like basis, which is above the national average of 3.5%. The increase for 2009/10 will be 3.3% and for 2010/11 will be 2.7%, which will be slightly above the national averages of 2.8% and 2.6% respectively.

1.2 This report sets out proposals for a Council Tax increase for next year for City Council services of just 1.9%, which is once again, less than the rate of inflation.[1]

1.3 After taking account of a projected surplus of £6.5m from the Collection Fund, total resources of £960.3m are available to fund City Council services in 2008/09.

1.4 Spending plans for 2008/09 are set in the context of a Medium-Term Financial Strategy, which sets out proposals over a ten year period.

1.5 In addition to these figures, the resources for schools are provided for via the Dedicated Schools Grant (DSG). The total DSG for 2008/09 will be £753.0m, an increase of 4.3%, subject to final pupil numbers.

<u>BACKGROUND</u>

2. Government Grant Settlement

2.1 2008/09 will mark the first year of another multi-year cycle, the first time that this has covered a period of three years.

2.2 The City Council's Formula Grant for 2008/09 will be £639.6m, increasing to £660.1m in 2009/10 and £678.0m in 2010/11. The figures are presented in Table 1 below.

---

1 Based on the Consumer Prices Index of 2.1% for December 2007, released by the Office for National Statistics on 15 January 2008

Table 1: Summary of Government Grant Settlement

	2008/09 £m	2009/10 £m	2010/11 £m
Previous Year	587.4	639.6	660.1
Adjustments	23.9	(0.4)	(0.2)
Re-stated base for previous year	611.3	639.2	659.9
Increase	61.0	46.9	38.8
Formula calculation	672.3	686.1	698.7
Less Damping	(32.7)	(26.0)	(20.7)
Formula Grant	639.6	660.1	678.0
Percentage increase	4.6%	3.3%	2.7%

Grant Transfers

2.3 In a number of instances the Government has consolidated funding which was previously received as a specific grant into Formula Grant, or has adjusted the Formula Grant position to reflect transfers of responsibility into or from the City Council. In those instances, Portfolio budgets have been adjusted to reflect these technical changes.

Table 2 - Transfers into Formula Grant

	Portfolio/Committee	£m
Access & Systems Capacity	Adults & Comm	12.6
Delayed Discharges	Adults & Comm	2.3
Student Finance	Children, YP & F	(0.1)
Children's Services	Children, YP & F	6.4
Waste Performance & Efficiency	Transp & St Serv	0.8
Gower Review of copyright	Public Protn	0.2
Total		**22.2**

Dedicated Schools Grant (DSG)

2.4 The provisional DSG allocation for Birmingham is £753.0m for 2008/09. This represents a £31.2m (or 4.3%) year-on-year increase in the overall amount of DSG. At the time of writing this report, this DSG allocation is provisional and it is subject to change. The final allocation of the 2008/09 DSG will depend on actual pupil numbers as at January 2008 and will be determined by June 2008.

2.5 Provisional DSG figures have also now been announced for the following two financial years, and the three-year position can be summarised as follows:

Table 3 – Three Year Dedicated Schools Grant

	2008/09 £m	2009/10 £m	2010/11 £m
Previous year	721.8	753.0	782.2
Increase	31.2	29.2	37.3
Total DSG	**753.0**	**782.2**	**819.5**
% increase	**4.3%**	**3.9%**	**4.8%**

Area Based Grant (including Working Neighbourhoods Fund)

2.6 A large number of specific grants, which were previously received as individual amounts, have now been consolidated into the new Area-Based Grant. This includes the Working Neighbourhoods Fund (which will replace the Neighbourhood Renewal Fund), the focus of which is addressing worklessness. The use of these resources will be planned and co-ordinated with partner organisations through Be Birmingham, and as part of the Local Area Agreement. A detailed report will be provided for the Cabinet to approve allocations in 2008/09 prior to the start of the financial year, following consultation with partners. However, account will still need to be taken of existing and on-going commitments associated with these funding streams. The total Area-Based Grant figures for the next three years can be summarised as follows:

Table 4 – Area-Based Grant

	2008/09 £m	2009/10 £m	2010/11 £m
Working Neighbourhoods Fund	34.2	39.5	40.8
Other grants	56.5	111.0	109.2
Total Area-Based Grant	**90.7**	**150.5**	**150.0**

Note: The significant increase in 2009/10 reflects the inclusion of Supporting People grant from that year onwards. This will remain a separate grant in 2008/09.

3. Council Tax

3.1 After taking account of Formula Grant as set out in paragraph 2.2 above, the total Council Tax for 2008/09 depends on:

(a) the City Council's "budget requirement";

(b) any estimated Collection Fund surplus or deficit to be brought forward from 2007/08;

(c) the tax base for the setting of the Council Tax

(d) the precepts of the Fire and Rescue Authority and the Police Authority; and

(e) the precept levied by any parish council (the City Council currently has only one parish, that of New Frankley in Birmingham).

City Council Budget Requirement

3.2 The City Council's "budget requirement" for 2008/09 is £960.3m and is set out in further detail in Chapter 2 of this report.

Collection Fund

3.3 It is estimated that the Council's share of the Collection Fund surplus will be £6.5m at the end of 2007/08.

3.4 The Fire and Rescue and Police Authorities have already been advised of the expected Collection Fund position, as required by statute.

Tax base for 2008/2009

3.5 The taxbase to be used for setting the 2008/09 Council Tax was agreed by the Cabinet at its meeting on 28 January 2008. The taxbase consists of 293,011 "Band D equivalent" properties, after allowing for a non-collection rate of 2%. This taxbase is now fixed for the purposes of setting the 2008/09 Council Tax.

Council Tax for City Council Services 2008/09

3.6 The total required from council tax payers in 2008/09 for City Council services (including levies) is summarised as follows:

Table 5 - Council Tax Requirement

	£m
Budget requirement	960.3
Less	
Formula Grant	(639.6)
Collection Fund	(6.5)
Total Call on Council Tax Payers	314.2

3.7 Dividing this by the tax base of 293,011 Band D equivalent properties gives a Band D Council Tax for the City Council of £1,072.53. This figure represents a 1.9% increase in Council Tax for the City Council - a figure which is once again below the rate of inflation[1] and one which is expected to be amongst the lowest in the country.

1 Based on the Consumer Prices Index of 2.1% for December 2007, released by the Office for National Statistics on 15th January 2008

Fire and Rescue Authority and Police Authority Precepts

3.8 The Police Authority met on 14 February 2008, and the Fire and Rescue Authority met on 11 February 2008, to agree the precepts on the City Council.

3.9 The information received in respect of these major precepts is as follows:

Table 6 - Precepts

	£m
Fire and Rescue Authority	13.402
Police Authority	27.739
Total	41.141

3.10 For the Fire and Rescue Authority, the Band D precept is £45.74, and it represents an increase of 2.9% compared to 2007/08.

3.11 For the Policy Authority, the Band D precept is £94.67 and it represents an increase of 3.5% compared to 2007/08.

Total Council Tax 2008/09 (excluding Parish Precept)

3.12 In accordance with the standard multipliers for the different property bands the Council Tax for 2008/09, representing an increase of 2.1% overall, can be summarised as Table 7 below.

Parish Precept - New Frankley in Birmingham

3.13 The New Frankley in Birmingham Parish Council agreed its precept on 19 November 2007. The precept for the parish in 2008/09 is £78,220 (2007/08: £71,679). The tax base for the Frankley area is 2,057. The effect of the parish precept on the level of Council Tax for a Band D property is £38.03.

Table 7 - Detailed Council Tax Figures

					New Frankley in Birmingham Parish	
Band	**City Council**	**Fire and Rescue Authority**	**Police Authority**	**Total**	**Parish Precept**	**Parish Total**
	£	**£**	**£**	**£**	**£**	**£**
A	715.03	30.49	63.11	808.63	25.35	833.98
B	834.19	35.58	73.63	943.40	29.58	972.98
C	953.36	40.66	84.15	1,078.17	33.80	1,111.97
D	1,072.53	45.74	94.67	1,212.94	38.03	1,250.97
E	1,310.87	55.90	115.71	1,482.48	46.48	1,528.96
F	1,549.21	66.07	136.74	1,752.02	54.94	1,806.96
G	1,787.56	76.23	157.78	2,021.57	63.38	2,084.95
H	2,145.06	91.48	189.34	2,425.88	76.06	2,501.94

CHAPTER 2 - REVENUE BUDGET

1. Summary

1.1 The revenue budget for 2008/09 totals £960.3m. After allowing for the effects of inflation, it has been possible to commit £31.6m to addressing key priorities and in funding essential budget pressures. This includes further major investment in children's and adults' care services, further development of waste collection and recycling, supporting major events to promote the city and replacing resources lost due to the ending of the Neighbourhood Renewal Fund grant.

1.2 This investment has been made possible by planned improvements in efficiency, and other savings, together with the use of one-off resources in the short-term. The City Council is transforming the way it undertakes its business, with a view to reducing overhead costs, and re-focusing its service delivery models to make better use of existing assets and to enable it to provide more timely, customer-focused services.

1.3 The Council has relatively modest balances, but a strategy is in place to build these up in the medium term.

1.4 The 2008/09 revenue budget has been developed in the context of a medium-term financial strategy which, for the first time, now covers a period of ten years. From 2010/11 onwards there is expected to be a growing surplus of resources over expenditure as the benefits of the Business Transformation workstreams are realised. It may be necessary to identify temporary internal sources of funding in the interim in order to address shortfalls in the short-term (2009/10).

2. Revenue Budget Strategy

2.1 The budget strategy has been drawn up in the context of the following framework:

- The revised Council Plan – policy priorities have been an important driver of budget allocations.
- Addressing the need for improving performance in key service areas.
- Meeting the cost of pay and price increases.
- Providing funding for the on-going costs of the new pay and grading structure and to meet obligations expected under the Equal Pay Act.
- Recognising the need to meet some pressures in particular services, including areas where there are new legislative or regulatory requirements.

- Meeting the costs of demographic trends, particularly in the likely number of people requiring assistance from our social care services.

- Continuing to rebuild council balances, as part of a medium-term strategy, as a contingency against unforeseen costs.

- Integration of revenue and capital plans.

- Continuing to provide resources for schools at the level included in the Dedicated Schools Grant.

2.2 The City Council's revenue budget is heavily influenced by the level of financial support from Government. Nonetheless, this is only one element of our planning, and this budget includes provision for important service developments which are a local priority. This investment has been made possible by the continuing actions to drive out inefficiencies, together with a programme of business transformation in conjunction with the Council's strategic partner, in order to make significant changes to the Council's administrative processes and to reduce overhead costs.

Estimated 2007/08 Outturn

2.3 Revenue budgets for 2007/08 have been closely monitored and reported to Cabinet, Regulatory, District/Constituency and Scrutiny Committees and Portfolio holders. In a number of instances where difficulties were identified in the earlier part of the year, actions have been taken to deal with the matters concerned.

2.4 The monitoring report for Month 8 in 2007/08 identifies a potential overspending of £5.9m for the City Council as a whole but work continues to identify funding and/or compensating savings to address the remaining issues.

2.5 As a consequence, it is expected that there will not be a deficit for the current year to be carried forward which needs to be taken into account in setting the budget for 2008/09.

3. Revenue Budget Allocations for 2008/09

3.1 The budget for 2008/09 allows for the following items:-

- pay and price inflation
- meeting the Executive's policy priorities
- approved budget pressures
- capital financing costs
- Dedicated Schools Grant budget allocation for schools
- savings determined by Portfolio holders to allow the re-allocation of resources to higher priorities
- continuing efficiency savings

Inflationary Increases

3.2 The provision for the costs of pay and price increases has been as follows:

- for general pay awards at 2.5% (2% allocated to budgets, and 0.5% held centrally)
- for the teachers' pay awards in 2008/09 of 2.5% (the impact on schools is contained within the 4.3% increase in schools' budgets)
- general price increase of 1.8%
- general increase in income of 2%
- price increases for large contracts to reflect indexation provisions where these are applied as a condition of the contract
- increases for grants to organisations in the third sector at 2%

Executive's Priorities and Budget Pressures

3.3 The Executive's priorities are set out in full in the Council Plan 2008-2013 "Birmingham: A global city with a local heart", and these are summarised in the Forward to this report.

Budget Pressures

3.4 The budget allows for new investment in a number of areas, totalling £31.6m, including £21.7m relating to new decisions this year. Full details of these budget pressures are set out in Appendix A. The main elements are:

- Significant investment in adult care services in order to address demographic pressures and to provide resources to fully fund the procurement of quality services (£10.8m).
- Extra funding to meet the needs of looked after children (£5.0m) as part of a three year plan.
- Addressing budget pressures in the services for homeless people (£1.0m)
- Funding for the new Library of Birmingham (an additional £1.0m initially, with further increases in funding in subsequent years).
- Further investment in recycling, refuse collection and street cleaning (£5.8m) together with resources to ensure that new road improvements are adequately maintained (£0.5m, increasing in each subsequent year).
- Meeting budget pressures caused by a loss of income to the Planning service (£1.1m) and car parks to be used as development sites (£0.5m).
- Ensuring that expenditure previously met by Neighbourhood Renewals Fund grant can continue (£0.8m, increasing to £1.9m) in addition to the application of Working Neighbourhoods Fund grant, and making provision for the on-going costs of CCTV facilities following a review of service needs and funding options (£1.0m).
- Funding for major events to promote the city (£2.3m).
- Investment in the Digital Birmingham project team (£0.2m)

Capital Financing Costs

3.5 The revenue effects of capital expenditure have been reviewed in the context of the announcements of Government capital resources, the Capital budget set out in Chapter 4 of the report, and expectations of movements in interest rates . Notwithstanding the significant new investment which is planned (please see Chapters 3 and 4) borrowing costs have been lower than were anticipated, and so it has proved possible to contribute net savings of £4.5m in the revenue budget for 2008/09.

Schools' Budgets

3.6 Since April 2006, funding for the Schools Budget Block has been through the Dedicated Schools Grant (DSG). The total of DSG and Learning and Skills Council Grant for post-16 education determines the size of the Schools Budget Block.

3.7 The provisional DSG figure for 2008/09 is £753.0m, an increase compared with the final 2007/08 figure of 4.3%. Whilst the amount per pupil is now guaranteed, the actual DSG will be based on January 2008 pupil numbers and will not be confirmed by the Department for Children, Schools and Families (DCSF) until June 2008. This means that the final allocation of grant may be higher or lower than currently projected and budgeted for. Adjustments may, therefore, need to be made to the Schools Budget Block during 2008/09 to reflect any amendment.

3.8 Final budgets will be adjusted accordingly and authority to do so has been delegated to the Corporate Director of Resources, in consultation with the Strategic Director and Cabinet Member for Children, Young People and Families.

Efficiencies and other Savings to allow re-allocation to priority areas

3.9 The total efficiencies and other savings within the 2008/09 budget can be summarised as follows:

Table 8 - Savings Summary - Movement from 2007/08

	£m
Business Transformation*	8.2
Portfolio savings	(7.8)
Income generation	(1.0)
Productivity Improvements	(5.0)
Total savings	**(5.6)**

* This is a net figure which is consistent with the invest-to-save principles underpinning business transformation. The long-term benefits of this approach are shown in Table 9.

3.10 The savings comprise the following elements:

(a) Business Transformation

The Business Transformation Programme is the main process through which the Council is delivering efficiencies, in addition to driving step-change in service improvements. Following the implementation of significant changes to finance, business management and procurement processes in 2007/08, under the Corporate Services Transformation programme, the remaining active programmes will be progressing towards implementation during 2008/09.

The planned net savings, over the period of the Medium-Term Financial Strategy, are as follows:

Table 9 – Business Transformation Net Savings

	Net Savings £m
2007/08	(11.0)
2008/09	(2.8)
2009/10	(3.4)
2010/11	(36.8)
2011/12	(44.6)
2012/13	(51.5)
2013/14	(57.4)
2014/15	(70.3)
2015/16	(88.7)
2016/17	(97.0)
2017/18	(112.4)

Some of the savings in 2008/09 have been allocated on a provisional basis, pending approval of initial Full Business Cases (most notably for the People Management and Information Management programmes). There may, therefore, be the need for some re-distribution between portfolios/committees during the year as specific proposals are identified, developed, and approved.

(b) Portfolio Savings

A range of portfolio savings have been identified totalling £7.8m, which are designed to make better use of the Council's resources. The details are set out in Appendix B.

(c) Income Generation

The City Council will continue to increase income from fees and charges. To this end, overall portfolio targets (totalling £1.0m) have been set. However, there is local flexibility to determine how best to achieve this extra income, through a combination of targeted price changes and increases in usage levels and having regard to other existing proposals.

(d) Productivity Improvements

All services will be required to review and improve productivity. There will be local discretion about how this will be achieved through a combination of slimmer, flatter management structures, controlling staff costs more tightly, changing business processes and improving output and efficiency. Increased savings of £5.0m in each of the next 3 years will be achieved in this way.

3.11 Some of the savings targets built into the 2007/08 base budget were to be based upon the implementation of service reviews. Whilst this will become part of our business planning processes in due course, it has not proved necessary to require these savings in 2008/09 and so £8.2m has been added to the base budget accordingly. It has also proved possible to avoid the further planned step-up in these targets in 2008/09.

Contingencies

3.12 The budget contains a Policy Contingency of £10.234m. Specific sums included in this figure are:

Table 10 - Specific Contingencies

	£000
Partnership Priorities	350
Loss of car park income due to major developments	1,255
Centrally held provision for higher pay award	3,100
Provision for Landfill Allowance Trading Scheme (LATS) valuation	3,000
CCTV investment	1,000
	8,705

3.13 In addition, there is a general unallocated contingency of £1.529m. This sum provides some flexibility in the overall management of the budget in 2008/09.

Pay Costs

3.14 Central provision has also been made for the combined costs of implementing a new pay and grading structure and the financing costs of meeting obligations expected under the Equal Pay Act, amounting to a net sum of £30.2m in a full year.

4. Housing Revenue Account

HRA Business Plan - Strategic Objectives

4.1 The Housing Revenue Account (HRA) is a ring-fenced account dealing with the transactions relating to the management of the Council's housing stock, with a requirement to prepare a balanced annual budget.

4.2 The HRA Business Planning framework was introduced to complement the Housing Strategy and was intended to improve the investment/asset management of council housing stock through long term financial planning.

4.3 The investment, income and expenditure cash flows of the HRA Business Plan are based over 30 years. The HRA Business Plan was assessed as 'fit for purpose' by Government Office for West Midlands in November 2007 and is subject to a continuous internal review to ensure robustness of the financial projections and progress on delivering Decent Homes by 2010.

4.4 The strategic objectives and planned investment of the HRA Business Plan to 2016/17 are aligned to the Council Plan 2008-2013 and include:

- Completion of Decent Homes by 2009/10 with a remaining investment of £163m.
- Completion of Decent Homes Plus (kitchens and bathrooms) by 2012/13 with a total investment of £300m.
- Completion of an Estates Renewal Programme beyond 2012/13 to maintain the 'improved condition' of properties with a total investment of £162m.
- Completion of essential/structural/clearance work with a total investment of £300m.
- The continued direct management of stock by the Council and no plans for transfer, development of ALMOs or the use of PFI.

4.5 A further key objective is the provision of 3 Star excellent services by 2009/10 through a Housing Business Transformation Programme (investment of £33m funded by efficiencies of £36m).

4.6 The national rent re-structuring and convergence policy that was introduced in April 2002 is scheduled for completion by the Council by 2012/13 and rents will only increase by 3% (RPI + 0.5%) subsequently.

HRA Business Plan – Financial Targets

4.7 The key performance/financial targets in the HRA Business Plan to 2016/17 include:

- An annual reduction in arrears of £0.5m (5%) per year and a reduction in the number of empty properties from 1.2% to 0.6% of the stock.
- Efficiencies of £27m to fund the financing costs for the Decent Homes Plus programme and to meet the continued expected withdrawal of resources through the subsidy system from the Council (currently 18 pence in every £1 of rent paid by tenants and expected to increase to 22 pence in 2008/09).
- The re-balancing of management/maintenance ratios in line with the sector averages (the current ratio is 36% to 64% and the target that has been set is 40% to 60%).
- Maintaining financial stability by retaining a minimum balance of £3m.

4.8 The HRA Business Plan will continue to be reviewed annually to ensure continued financial stability and management of any potential risks that emerge.

HRA Revenue Budget 2008/09

4.9 The HRA Budget for 2008/09 is based upon the HRA Business Plan and addresses the priorities set out in the Council Plan 2008-2013. The budget is balanced for 2008/09 and the table explains the major variations compared to 2007/08.

Table 11 - HRA: Major Variations from 2007/08

	£m
Reduction in Resources (increase in the 'tax on tenants' through the subsidy system)	**10.0**
Allowances for Costs (pay and prices at 2.5%)	**3.3**
Investment for 3 Star Services (through Housing Business Transformation Programme)	**12.0**
Additional Capital Financing Costs (including prudential borrowing)	**3.6**
TOTAL COSTS/LOSS OF RESOURCES	**28.9**

	£m
Additional Income (rent/service charge increases after stock loss for sales/demolitions)	**(3.4)**
Reducing Costs (reflecting property numbers and other costs)	**(6.6)**
Delivering Efficiencies (through Housing Business Transformation Programme)	**(4.0)**
Additional Efficiencies (repairs contract and management /operational costs of 5%)	**(6.2)**
Improving Performance (empty properties and arrears)	**(0.7)**
Financial Variations (funding of Housing Business Transformation Programme through prudential borrowing)	**(8.0)**
TOTAL INCOME/EFFICIENCIES/COST REDUCTIONS	**(28.9)**

5. The City Council's Net Revenue "Budget Requirement" for 2008/09

5.1 The components of the budget increase from 2007/08 can be summarised as follows:

Table 12 - Movement in Base Budget

	£m	Notes
Base Budget 2007/08	891.4	
Pay & Price inflation (non-schools)	38.2	Ch 2, §3.2
Specific Grant funding transferred into Formula Grant	22.2	Ch 1, §2.3
Meeting budget pressures & policy choices	31.6	Ch 2, §3.4 & App A
Removal of service review targets	8.2	Ch 2, §3.11
LPSA Performance Reward Grant	(16.1)	
Efficiency savings	(5.6)	Ch 2, §3.9/3.11 & App B
Financing costs	(4.5)	Ch 2, §3.5
Fall-out of one-off resources	(1.2)	
Use of corporate reserves	(5.9)	Ch 2, §1.4
Contribution to general balances	2.0	Ch 2, §7.6
City Council Budget Requirement	**960.3**	

5.2 Section 32 of the Local Government Finance Act 1992 specifies the way in which the City Council must calculate its “budget requirement” to be met from Council Tax.

5.3 It is proposed that the City Council budget requirement for 2008/09 will be £960.3m calculated as follows in accordance with Section 32 of the Local Government Finance Act 1992:-

Table 13 - Summary of Budget Requirement

	£m
Gross City Council Expenditure	3,208.7
Less: Estimated City Council Income	(2,248.4)
City Council Budget Requirement	960.3

5.4 The budget requirement includes an allowance of £52.665m (based on a 3.61% increase in the overall levy, with an adjustment for the Council’s relative population share) in respect of the Passenger Transport Authority levy for 2008/09 and £0.305m for the Environment Agency Levy (a 14% decrease).

6. Consultation

6.1 A formal meeting to consult with Business Ratepayers took place on 10 January 2008. A briefing on the budget for third sector organisations was scheduled to be provided on 25 February 2008. Consultation took place with the corporate representatives of Trade Unions on 9 January 2008, and individual issues are being discussed through the normal Directorate consultation processes, as well as there being on-going dialogue about Business Transformation programmes. No specific issues have been raised which need to be taken into account by the City Council in setting the Budget for 2008/09.

7. Budget Risks

7.1 As ever, the City Council has needed to plan its budget amidst a degree of uncertainty, which builds in a certain amount of risk; this is always the case. As well as specific mitigating actions on individual issues, risks have been addressed in a number of different ways:

- The planning of the Budget and Council Plan are integrated activities. These are medium-term processes in order to ensure that account can be taken of the need for proper planning of change and of the financial impact in later years of decisions taken now.

- The process of planning the budget has afforded the opportunity for services to identify emerging budget pressures, including those relating to legislative requirements and demographic changes. This has resulted in a significant level of new investment.

- Account has been taken, in planning the budget for future years, of issues which have emerged as part of the process of monitoring the budget during the 2007/08 financial year.

- The City Council has a rigorous and proactive process of budget monitoring, which ensures that any emerging budgetary issues are identified, and a way forward agreed, at an early stage.

- The process of reporting new developments and projects, including Gateway reviews where appropriate, ensures that they are subject to rigorous scrutiny and evaluation before commitments are entered into.

7.2 The proposed budget for 2008/09 includes resources to fund the impact of a new pay and grading structure which the Council is required to establish to discharge its obligations under the Single Status initiative. The Council - as with other councils nationally - is facing equal pay claims under the provisions of the Equal Pay Act 1970 (as amended). The Council will fund expenditure which may arise as a result of such claims, or which arises from action to settle any entitlement to pay, through borrowing from reserves and seeking capitalisation permissions from the Secretary of State.

7.3 Nonetheless, it is not possible to eliminate all risks. Council officers have, therefore, undertaken a thorough assessment of budget risks, and of the ways in which these will be managed. Further details are set out in Appendix I. However, notwithstanding these issues, **the Corporate Director of Resources (as s151 Officer) is satisfied that the management frameworks and activities which are in place, taken together with the general, unallocated resources (see below), are such that he is able to confirm that the budget proposals are based on robust estimates.**

Reserves & Balances

7.4 The Council achieved a targeted level of general balances of £12.4m by 31 March 2007. The Council's balances are maintained at a relatively low level with regard to the scale and complexity of its business. However, given the level of earmarked reserves, the continued progress in building additional balances in the medium term (see para 7.6), the rigorous arrangements for the prompt and regular monitoring of budgets, and the risk management measures set out above in paras 7.1-7.3 and Appendix I, **the formal view of the Corporate Director of Resources, in accordance with Section 25 (i) (b) of the Local Government Act 2003, is that the general balances are adequate, but that this needs to be kept under periodic review.**

7.5 The following reserves and balances are expected to be available on 1 April 2008:

Table 14 - Reserves available to the Council

	01/4/08 Estimate £m
General unallocated balances	12.9
Portfolio and Committee Carry forward Balances	3.8
Earmarked Reserves (excl Schools)	80.1
Total	**96.8**

In addition school balances at the 31 March 2007 stood at £53.8m.

7.6 The Council's strategy for general balances in the medium-term is to make planned contributions of £2.5m in 2008/09 and £1.5m from 2009/10 onwards.

7.7 The strategy is, therefore, for there to be an increase in general balances to £18.4m by 31 March 2011 (provided there is no need for emergency funding in the meantime) in accordance with the strategy described above.

Budgetary Control Framework

7.8 Other than the resources identified to meet specific areas of spending, Portfolio holders and Committees are required to cover spending pressures, other budget commitments and changed responsibilities within the level of resources summarised in Appendix C.

8. Ten-Year Financial Plan

8.1 The budget for 2008/09, is set in the context of the Medium Term Financial Strategy for the ten year period to 2017/18. The position over that period, as currently estimated, is summarised in Appendix D, with the overall net surplus or deficit in each year in Table 15 below.

Table 15 - Ten Year Financial Projections

	Expenditure £m	Resources £m	(Surplus) / Deficit £m
2008/09	960.3	(960.3)	0.0
2009/10	992.4	(983.5)	8.9
2010/11	1,002.0	(1,010.9)	(8.9)
2011/12	1,021.4	(1,038.4)	(17.0)
2012/13	1,032.5	(1,067.5)	(35.0)
2013/14	1,048.0	(1,097.3)	(49.3)
2014/15	1,062.2	(1,128.0)	(65.8)
2015/16	1,070.9	(1,159.6)	(88.7)
2016/17	1,090.3	(1,192.0)	(101.7)
2017/18	1,103.4	(1,225.4)	(122.0)

8.2 The projections make the following principal assumptions:

- council tax rise of 1.9% in each year and the taxbase to continue to increase at the same rate as in 2008/09. This is only a planning assumption, and the actual level of increase for future years will need to be considered in due course.
- future inflationary pressures broadly in line with those allowed in the 2008/09 budget.
- continued allowance for the on-going effect of items included in the budget and for essential organisational developments.
- provision for employers' increased pension costs following the tri-annual actuarial revaluations.
- extra capital financing costs based on the capital budget with any net revenue costs resulting from further borrowing within the "prudential framework" to be met from within portfolio cash limits.
- other than the above, portfolio budgets continuing at the same level as in 2008/09.

8.3 The figures for future years set out above will be the framework within which medium-term financial planning will be updated in the first half of next financial year and for setting the budget for 2009/10.

8.4 It is particularly important that the use of the City Council's finances continues to reflect its corporate policies and the linkages to continuous improvement and the level of performance improvement to which the Council is committed.

CHAPTER 3 - CAPITAL STRATEGY

1. Summary

1.1 The City Council's strategy for its capital programme is developed in accordance with the priorities set out in the Council Plan and other service-specific policy documents. The main processes which drive the capital strategy are as follows:

- The Asset Management Plan, including the Working for the Future Business Transformation programme,
- The Housing Strategy and HRA Business Plan
- The Local Transport Plan and the Highways PFI proposal
- The Education Asset Management Plan and Building Schools for the Future Programme

1.2 The City Council also has corporate policies for distributing capital receipts and 'Single Capital Pot' resources, and an annual process for prioritising where scarce capital resources are spent.

2. General Strategic Aims

2.1 There are some general strategic aims underlying capital planning for all services. These are:

- to maximise external funding and to supplement this with the City Council's own resources where appropriate, especially where external funding supports the City Council's priorities;

- to procure the use of capital assets by the means which delivers good value for money to the City Council;

- to welcome the increasing use of partnership working whilst retaining clear lines of accountability and responsibility;

- to use 'prudential' borrowing where this is justified, offers good value, is demonstrably affordable, and complies with the CIPFA Code for Capital Finance;

- to keep the City Council's portfolio of capital assets under review and managed according to best practice through the Asset Management Planning process, including the rationalisation of property holdings.

2.2 The following sections of this chapter review key issues from the ongoing AMP process and other key capital strategies in the light of corporate priorities, and relate these to the overall Capital Strategy. The precise approach for any situation will depend on the circumstances such as external funding available.

3. Asset Management Plan (AMP)

3.1 The Council's property portfolio requires modernisation. Most services have property portfolios that are struggling to meet effectively the needs of their services, either at a practical level, or at a legislative level. The AMP 2007 has been approved by the Cabinet Committee (Property). It describes the current position for the management of the property assets, examines influences for change across the Council whether driven by National Government or the Council, and makes recommendations for action.

3.2 The AMP agenda is (alongside the Decent Homes programme in the HRA) the biggest issue facing the Council's capital strategy for the next decade. It is therefore an important priority in the Council Plan, and has key interfaces with the efficiency agenda and the Business Transformation Strategic Partnership. Key projects in the Working for the Future Business Transformation programme include:

- The Central Administrative Buildings project which seeks by 2014 to rationalise and improve the office buildings for Council employees and services.

- The introduction of a Single Property Management Function with aims to revise organisation structures to ensure more efficient management of property assets including the introduction of both corporate and service led performance targets.

- The Cross Portfolio project which is a consideration of the effective location of facilities across the city based on service need, and drawing in partner organisations to seek synergies of co-location, also ensuring co-ordination with the Customer First Business Transformation programme.

- A review of our approach to Facilities Management in order to improve standards and achieve significant savings, co-ordinated with other Business Transformation programmes.

3.3 The property rationalisation programme will be funded from prudential borrowing supported by revenue savings and additional capital receipts in the future (not yet included in the programme).

3.4 A 'Property Fund' of £25.2m (including £8m in 2007/08) has been created for the purpose of facilitating:

(i) property rationalisation (ie property disposal and replacement)
(ii) 'backlog' maintenance (ie major repairs and renewals of those properties which are to be retained in the portfolio)
(iii) 'opportunity' purchases of land (providing funds to buy property coming onto the market which meets key Council priorities).

4. Housing Strategy and HRA Business Plan

4.1 The resources available for housing capital investment are used for the improvement of both council housing and private sector housing in line with the HRA Business Plan and Housing Strategy. These two documents support the objectives identified within the Council Plan for capital investment in both public and private sector housing. They have been approved by both Cabinet and Government Office for the West Midlands. The HRA Business Plan in particular has been subject to a detailed review during 2007 to ensure continuing affordability and to extend detailed investment plans beyond 2010.

4.2 The key priority for council housing is the achievement of the Decent Homes Standard by 2009/10, to be followed by an extensive kitchen and bathroom renewal programme, which is planned to be completed by 2012/13. The current HRA Business Plan has been compiled on the basis that the Decent Homes Standard will be achieved within the available resources including use of land receipts and prudential borrowing. The Business Plan is kept under review to ensure that the long-term planning priorities are delivered.

4.3 There are a number of priorities for private sector housing and these are reflected in the current Housing Strategy. Where possible specific grant funding is sought to help finance these priorities, to supplement general Single Capital Pot resources. The key priorities include the following:

- Achievement of Decent Homes Standard for private sector owner-occupiers, with a particular focus on vulnerable households. The approach to providing this support is increasingly based on an enabling rather than grant support role for the Council.

- The increased provision of affordable housing in conjunction with private sector and Registered Social Landlord partners.

- Ensuring balanced housing market areas for the long term, including provision of mixed tenure housing, homelessness initiatives and adaptations for independent living.

- Renewal initiatives designed to turn around failing housing markets in these areas and produce sustainable communities.

5. Local Transport Plan and Highways PFI

<u>Local Transport Plan</u>

5.1 The Local Transport Plan (LTP) is the key capital planning framework for the service which relies heavily on Single Capital Pot resources. The LTP is an integrated submission by all the West Midlands local authorities and some resources for integrated transport are reallocated between authorities. The latest Local Transport Capital Settlement (unlike in previous years) is for a 3 year period from 2008/09 to 2010/11, which is the end of the current 5 year LTP period and includes additional resources for highway maintenance works.

5.2 The LTP strategy identifies highways and transportation needs and is developed from and supports the key development strategies, in line with government guidance and Council Plan priorities.

5.3 The Transportation and Street Services Portfolio's Capital Budget includes block allocations (particularly related to Integrated Transport schemes) which are allocated to transportation schemes in a way which takes account of local priorities. Work programmes are developed in consultation with local ward councillors and residents to ensure that local priorities are incorporated into scheme proposals.

Highways Maintenance and Management Private Finance Initiative

5.4 The proposed Highways Maintenance and Management PFI contract is key to meeting the investment needs to the service. In September 2007, Government gave 'in principle' approval to the City Council's plans for a PFI with an increased level of PFI credits. This would deliver an investment of £2.7 billion to address the backlog in works and maintain the City Council's highway assets to an acceptable standard over a 25 year contract period. The PFI project is being developed to the Full Business Case stage and is planned to be submitted for final Cabinet and Government consideration in 2008/09, with a view to commencing in October 2009.

6. Education Asset Management Plan and Transformation agenda

6.1 The capital strategy supports the key themes of the Council Plan and the Every Child Matters outcomes by:

- contributing to service delivery through the provision of appropriate, maintained and flexible infrastructure and maximising external funding and grant opportunities;

- establishing and implementing best value property solutions with service and site management teams, property consultants, contractors and other stakeholders;

- providing a safe, secure, accessible and welcoming environment for users and staff.

6.2 As part of the national and local agenda we are seeking to transform education in both secondary and primary phases through a number of programmes including:

- Building Schools for the Future (BSF)/Birmingham Academies: This will involve the replacement and/or major improvement of the secondary school estate and includes secondary age pupils in other settings, eg special schools. Procurement of the Local Education Partnership (the delivery vehicle) should be completed during 2008 with the contract due to start in January 2009.

- PFI: A second PFI package of 12 school rebuilds saw 4 schools move into completely new buildings during 2007/08 with a further 7 to be fully completed and 1 mostly completed during 2008/09 with final completion in June 2009.

- Primary Capital: Additional government investment has been announced to improve primary schools. Birmingham has been identified by DCSF as a pathfinder authority, which will see the rebuild of Lozells JI School as part of the Holte/Mayfield BSF rebuild. The main investment programme will commence in 2009/10 with ambitious targets set by DCSF that will demand joining up of funding streams to deliver effective transformation.

- Children's Centres: With the previous completion of Phases 1 & 2 which saw the establishment of many new centres, Phase 3 of this government funded initiative will commence in 2008/09 and will generally be developed around existing provision.

7. Capital and the Financial Planning Process

7.1 The financial planning process which has developed the 2008/09 Budget considered services' capital needs alongside their revenue pressures and savings. This approach is intended to encourage services' capital and revenue priorities to be better integrated.

7.2 Services keep external funding opportunities under active review, and new projects funded externally are added to the Capital Programme when funding is reasonably secure.

7.3 Corporate capital resources for the 2008/09 capital budget are allocated taking account of the Council's capital receipts policy and Single Capital Pot strategy (see sections 9 and 10 below). Scope has also been left for further resources to be allocated in the 2009/10 capital budget. The aim is to ensure a sustainable capital allocation on an annual basis, to avoid a stop-start approach to capital planning.

7.4 Capital proposals have been assessed against corporate priorities, service priorities and the soundness of the scheme itself (including capital funding requirements, revenue consequences, and value for money). The detailed criteria are likely to change from year to year but for the 2008/09 proposals the criteria were:

Policy criteria

1. How well does the bid contribute to the Council's Corporate priorities and service delivery?
2. Is it consistent with the Asset Management Plan, Capital Strategy and other strategic plans?

Business criteria

3. Is this the optimum way of delivering the service? Does it assist in joining up services and agencies, cross-cutting and partnership working?
4. Does it represent value for money and is it affordable?
5. Is it an efficient use of property? Does it enable property rationalisation? Are there sufficient resources for ongoing maintenance?

7.5 Proposals were initially reviewed by the Business Investment Group of officers, before being considered by members of the Executive Management Team.

8. Prudential Borrowing

8.1 The Prudential Capital system offers local authorities more flexibility in their capital financing and greater ability to borrow for capital providing they can afford the revenue consequences. This enables the Council to fund additional capital investment providing additional income, savings or other revenue resources can be found. The City Council's policy is to enable services to use prudential borrowing where they can meet the revenue consequences providing the business case is sound and the proposal does not conflict with Council policies. The Business Transformation programme is an example of this. The City Council may also provide revenue resources corporately to fund key priorities like the Library of Birmingham.

9. Capital Receipts Policy

9.1 The capital receipts policy approved previously is proposed to remain in place. The policy is as follows (in summary):

- Property rationalisation: service receives 25% (up to £1m)
- For property managed by Constituencies: 25% to the Constituency and 10% to the strategic service involved (within the £1m limit).
- Housing right-to-buy sales: Housing receives 100%
- Other Housing land sales: Housing receives 80% of open market value to fund decent homes, discounts from the sale price, and s.106 requirements
- Disposals at the NEC site: 100% for reinvestment at the NEC
- Some other specific receipts approvals agreed before the above framework was introduced in 2005 remain in place

10. Single Capital Pot Policy

10.1 The Government's Single Capital Pot allocation is announced annually. It is available to spend on any service in line with City Council priorities, but in practice Government Departments expect it to be used largely to achieve their targets and objectives for four major services. The Council's established policy is to allocate the bulk of Single Pot allocations direct to the four services as follows:

Table 16 - Single Capital Pot 2008/09

		Government Announcement £m	Council Allocation £m
Education	75%	23.2	17.5
Housing	100%	26.0*	26.0
Transport	75%	14.7	10.9
Social Services	75%	0.6	0.5
Corporate reallocation			9.6
Total		**64.5**	**64.5**

* estimated figure

10.2 The 'corporate reallocation' is available as part of the annual capital budget process to support corporate priorities and cross-cutting needs.

11. Annual MRP Statement

11.1 The Government is planning to change the calculation of Minimum Revenue Provision (MRP) with effect from the 2008/09 financial year. MRP is an annual revenue charge for the repayment of borrowing and other capital financing liabilities which has previously been calculated as 4% of the outstanding Capital Financing Requirement. Draft Government Guidance provides more flexibility in calculating MRP for "prudential" borrowing in addition to the Government's Single Capital Pot borrowing. The guidance requires authorities to provide an annual MRP Statement explaining which of the new MRP options the authority will use in the coming year. This budget and Medium Term Financial Strategy proposes (subject to any changes in the final guidance) that the Council will normally use the 'annuity' method where Government revenue support is not provided. This method is consistent with the way the Council already recharges prudential borrowing cost to services and ensures that borrowing is fully repaid over the life of the asset concerned. However the other methods permitted by the Government may occasionally be used where justified by the circumstances, at the discretion of the Corporate Director of Resources.

CHAPTER 4 - CAPITAL PROGRAMME

1. Summary

1.1 This Chapter proposes a revised capital programme of £1,175.1m over the Medium Term Plan period. This includes projects in the existing Capital Programme monitoring at December 2007 which will shortly be reported to the Cabinet. Additional resources of £631.3m have been programmed for new projects, including the Library of Birmingham at £193.0m.

1.2 The proposed prudential limits and indicators at Appendix H reflect a balanced and affordable approach to the City Council's capital finance. The Authorised Limit for Debt is set at £2,550m.

2. Capital Resources

2.1 Appendix E summarises the proposed capital programme of £1,175.1m. The resources identified to fund this programme are summarised in Appendix F. This takes account of the following issues:

1. £476.2m of the Capital Programme is funded by 'specific' capital resources (ie funding assigned for a specific purpose).

2. 'Corporate' capital resources are those which the City Council can spend in accordance with its own policy priorities, and these comprise mainly the Single Capital Pot and capital receipts from asset sales.

3. Capital receipts from asset sales are generally available for the Council to spend in accordance with its own priorities. The capital programme includes a prudent forecast as the level and timing of receipts is difficult to predict. The risk of a slow down in the property market in 2008 is not expected to significantly affect the overall level of receipts over the medium term programme.

4. The level of 'Single Capital Pot' funding from the Government is forecast to decline as Government resources are expected to be diverted to support the Building Schools for the Future Programme and the proposed Highways PFI.

5. Planned capital expenditure is liable to 'slip' significantly each year, and £10m of over-programming has been included over the three year period to 2010/11 to take account of likely slippage in corporate capital resources.

6. The medium term planning process has set aside revenue resources to cover the financing costs of prudential borrowing required to support priority projects and programmes, including the Library of Birmingham

and a Materials Recycling Facility. Borrowing for Business Transformation and other service priorities can be funded from projected savings or income. The additional prudential borrowing proposed in this Budget totals £300m over the Medium Term planning period. This has been included in the proposed prudential limits and indicators discussed in paragraph 6 below.

3. Allocation of corporate capital resources

3.1 The Capital Strategy has described the process for developing the proposed Capital Programme (Chapter 3 Section 7). 'Corporate' resources from the Single Capital Pot, Capital Receipts and prudential borrowing have been used to support the Council's strategic priorities following a detailed process of bidding and appraisal.

3.2 Corporate Capital resources of £10m have been allocated to support the City Centre Masterplan. A further £10m has been provided through the Property Fund to support the rationalisation and renewal of service property portfolios arising from whole service reviews including Business Transformation programmes. £3m has been provided over the next three years to fund Constituency minor capital works. All the above resources will need to be allocated based on a considered assessment of needs and priorities. Capital resources have also been allocated towards some specific projects, including a Digital Media and Creative Arts Academy at Eastside (estimated total cost £23.5m) and a new Primary School at Yardley Green (£10m), both of which lever in substantial Government funding.

3.3 Prudential borrowing is also being used to fund major projects and programmes, where the revenue cost of borrowing has been planned into the Medium Term Financial Strategy. This includes the Library of Birmingham (£193m total cost of which £99m is borrowing) and a Materials Recycling Facility (£14m total cost funded from borrowing). The ongoing Business Transformation programme includes £147.5m of additional capital expenditure funded from borrowing which can be funded from revenue savings. The HRA Capital Programme has also been updated in line with the review of the long term HRA Business Plan.

3.4 The revenue consequences of new projects were considered as part of the project assessment process and have been provided for in the proposed Revenue Budget and Medium Term Plan. This includes estimated running costs and income as well as the financing costs of prudential borrowing.

4. Capital Programme

4.1 The proposed Capital Programme is therefore as follows:

Table 17 - Portfolio Capital Programmes

Expenditure	2008/09 £m	2009/10 £m	2010/11 £m	Total £m
Leader's	8.2	0.0	0.0	8.2
Deputy Leader's	125.6	84.1	30.9	240.6
Adults and Communities	1.2	2.3	0.7	4.2
Children Young People & Families	40.2	32.6	35.6	108.4
Equalities and Human Resources	0.0	0.0	0.0	0.0
Housing	169.0	143.0	118.9	430.9
Leisure Sport & Culture	30.8	8.9	180.0	219.7
Regeneration	26.4	12.9	8.0	47.3
Transportation and Street Services	33.9	45.4	12.9	92.2
Planning Committee	0.3	0.0	0.0	0.3
Constituencies	1.0	1.0	1.0	3.0
Corporately held resources	11.2	3.1	6.0	20.3
Total Programme	**447.8**	**333.3**	**394.0**	**1,175.1**

4.2 Appendix E provides a high level summary of the projects in the above Programme.

4.3 The Capital Programme shows only City Council capital expenditure and therefore excludes capital expenditure by contractors under proposed PFI schemes. Over the three year programme PFI capital expenditure is estimated as £163.5m on schools and £51.2m on Special Care Centres.

5. Provisional Capital Allocations and Approved Capital Budget

5.1 The City Council's capital appraisal and approval processes require that projects included in the Capital Programme may not proceed to spend until a Business Case Report has been approved for the project. The improved financial systems introduced by Corporate Services Transformation now enable the status of all projects in the Capital Programme to be identified on the system.

5.2 Additions to the Capital Programme will be shown as 'Provisional Capital Allocations' within the overall programme in para 4.1 above. When a specific Business Case approval to spend the allocation has been obtained, the project resources will be shown as 'Approved Capital Budget' and released for spending.

6. Prudential Code and Indicators

6.1 In determining the Capital Budget, the CIPFA Prudential Code expects local authorities to take account of various matters and to consider and approve a number of 'prudential indicators'. These relate to the capital programme generally as well as borrowing. Appendix H provides the Prudential Indicators which result from the above capital budget and considers other matters which the Code requires authorities to take into account.

6.2 The Authorised Limit for Debt represents the maximum level of debt which the City council may have during the during year. The Council has no powers to exceed this unless a further report with revised prudential indicators is approved by the full City Council. The Limit needs therefore to make appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, and the ups and downs of short term cashflow. Allowance has also been made for potential funding needs during 2008/09 which are not included in the budget. The proposed limit is built up as follows:

Table 18 - Borrowing Limits

	£m
Forecast borrowing at 31 March 2008	1,957
Capital Expenditure financed from borrowing	209
Less investment and debt repayment provision	(176)
Allowance for cashflow, borrowing in advance, and potential supported borrowing	514
Other long term liabilities	46
Authorised limit for debt	**2,550**

CHAPTER 5 - TREASURY MANAGEMENT STRATEGY

1. Summary

1.1 The Treasury Management Policy at Appendix G sets out the policy and framework for this Treasury Management Strategy. It is recognised that there is a risk for higher long term borrowing rates into future years and therefore an opportunity has been taken in the current year to borrow in advance for the 2008/09 capital spending programme. If higher long term interest rates do occur this may allow the opportunity to restructure the debt portfolio.

2. Purpose

2.1 This chapter sets out the context for the City Council's borrowing, investment and other treasury management activities in the coming financial year and recommends an appropriate strategy to manage the treasury management risks involved.

3. Background

3.1 Before the start of each financial year, the Corporate Director of Resources prepares a Treasury Management Strategy for the forthcoming year as an essential part of managing the Council's loan debt. This report complies with CIPFA's "Code of Practice for Treasury Management in the Public Services" and the "Prudential Code for Capital Finance in Local Authorities".

4. Objectives of Treasury Management

4.1 The Treasury Policy Statement at Appendix G sets the City Council's objectives and provides a management and control framework for its Treasury Management activities. The key objective is:

> to assist the achievement of the City Council's service objectives by obtaining funding and managing the City Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to principal sums invested.

4.2 For the City Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.

4.3 These objectives must be implemented flexibly in the light of changing market circumstances. The Corporate Director of Resources holds regular meetings with senior staff to monitor market conditions and review planned activities and performance. Reports monitoring treasury activities are presented to Cabinet three times each year.

5. The City Council's Debt

5.1 The City Council's debt portfolio at 31st March 2008 is forecast to be as follows:

Table 19 - Summary of Debt Portfolio

		Debt £m	Average Interest Rate %
Short/variable debt		68.8	5.5%
Fixed Rate:	Under 5 years	Nil	
	5-9 years	102.4	9.8%
	10-19 years	277.5	7.9%
	20-39 years	744.3	6.1%
	40+ years	764.2	5.2%
Less short term investments*		(123.0)	(6.1%)
Total Net Debt		1,834.2	

* described in para 6.2 below.

6. City Council Borrowing Requirement

6.1 The City Council's net debt is forecast to increase by £289m over the coming three years as a result of new borrowing to finance the Capital Programme contained in Chapter 4 of this Budget Report. Total debt at the end of 2010/11 is forecast to be £2,123m.

6.2 The borrowing strategy for funding the programme has been under consideration for some months. Given the uncertainty of future interest rates and the present opportunity of fixed rates which are within budget assumptions, a substantial part of this programme has been borrowed in recent months at an interest cost averaging a little under 4.5% (fixed for periods from 20 to 50 years). This borrowing has been temporarily reinvested, until needed to fund capital expenditure during 2008/09 to 2010/11 at rates between 5.5% and 6%.

6.3 Assuming no further long term borrowing during the next three year period, the Council's portfolio of debt and temporary investments is estimated as follows:

Table 20 - Forecast variable rate exposure
(assuming no further fixed rate borrowing)

	2008/09 £m	2009/10 £m	2010/11 £m
Net exposure to variable rates	156.9	260.7	344.8
Closing total net debt	1,965.2	2,039.0	2,123.0
Variable exposure %	8.0%	12.8%	16.2%
% relating to HRA	3.9%	6.1%	7.0%
% relating to General Fund	4.1%	6.7%	9.2%

6.4 The Policy Statement sets a limit for exposure to variable rates of -30% to +35% around a central benchmark of 5%. These figures show that variable rate exposure will be within these limits in 2008/09 and is forecast to remain within them for the following two years, even if no further long term fixed rate borrowing is taken. There is therefore no pressing need to take fixed rate borrowing in the coming financial year unless the interest rates on offer are particularly attractive.

7. Interest Rate Outlook

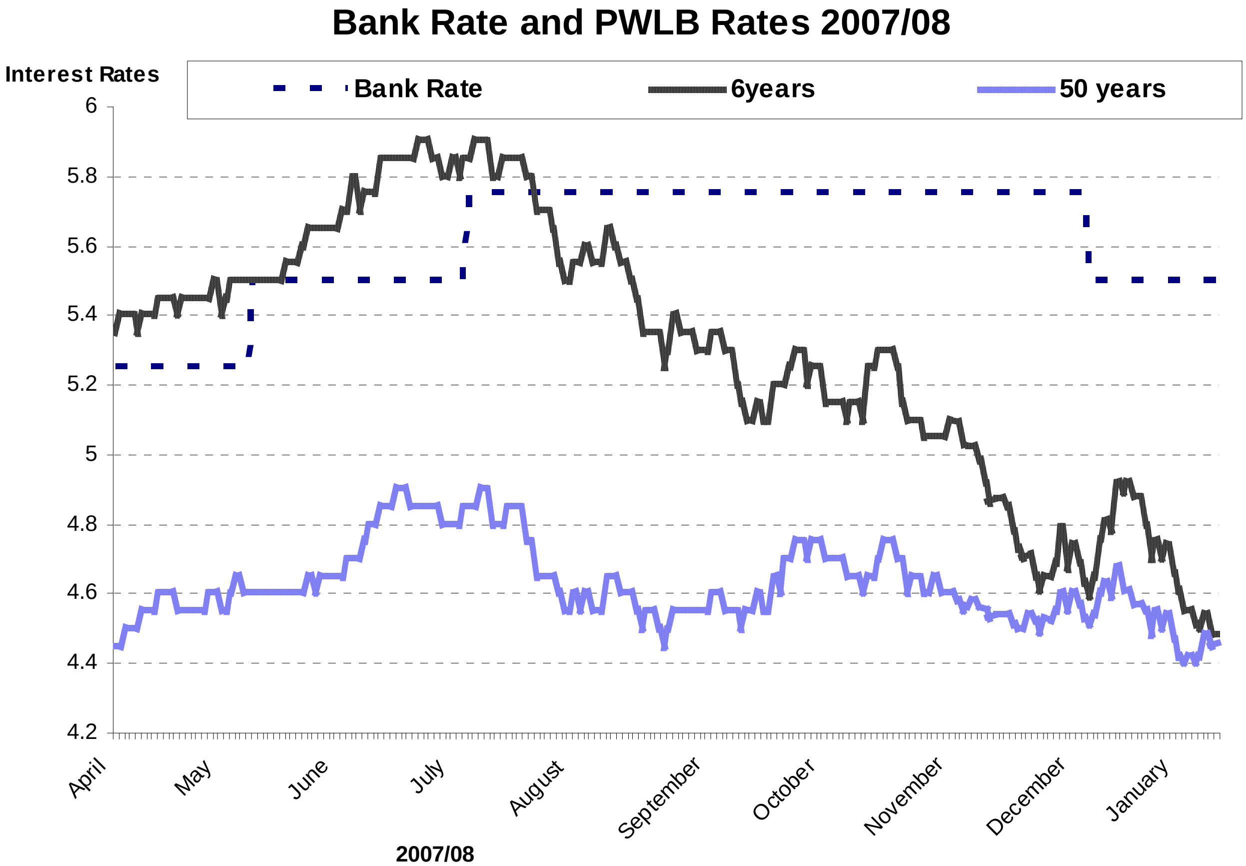
7.1 The tightening of monetary policy in the UK that commenced in 2006 appears only now to be resulting in a slow down of economic activity. Conditions are set to deteriorate in the year ahead as a tightening of domestic credit is expected to affect a wider cross section of the economy. Inflation in the new year is likely to be relatively controlled within the weaker growth environment that is prevailing. However the effect of oil, commodity and world food price pressures suggest that inflation will tend towards the Monetary Policy Committee’s upper target limits and that breaches of the limits will be more frequent.

7.2 The slowdown in the economy is expected to provide scope for reductions in official interest rates. The strength of consumer activity to date has restrained interest rate reductions. However, the collapse in the US sub-prime mortgage market, resulted in a withdrawal of funds from financial markets and increased market interest rates, which has provided significant added pressure for cuts. The extent and frequency of future interest rate reductions will depend on inflation levels.

7.3 Long term interest rates are likely to remain volatile, particularly as concerns remain over the health of the financial markets. These concerns tend to lead investors to invest in very secure government bonds, increasing bond prices and thereby reducing yields. Inflationary pressures will work against and limit the scope for low yields and interest rate levels as investors seek to ensure that real returns are protected. Should the inflation environment deteriorate then higher long term rates will be inevitable.

7.4 Long-term gilt yields determine the borrowing rates available to local authorities from the Public Works Loan Board (PWLB) or elsewhere. Recent PWLB rates are shown in the graph below. PWLB rates have been at high levels through the early part of the 2007/08 financial year but later returned to levels that were considered a good opportunity for long term financing. It is notable from the graph that the difference between long term and medium term rates had also reduced dramatically. This development in PWLB rates, in the context that pressures exist for future rate increases, has provided in recent months opportunity, referred to in paragraph 6.2 above, to borrow in advance of future years’ capital expenditure whilst ensuring that this extensive borrowing has a balanced range of maturities.

Table 21 - Interest Rate Movements



8. 2008/09 Strategy

8.1 A general aim of the Treasury Management Strategy is to find an appropriate balance between short-term and variable rate debt, (with the potential for costs to rise) and long-term fixed rate debt (which has greater budget certainty but may be more expensive than short-term debt, and which may be expensive to repay early).

8.2 The table in paragraph 6.3 shows that, if no long-term borrowing or premature repayment of debt is carried out, the City Council's short and variable rate debt is forecast to reach £156.9m in 2008/09, which represents 8.0% of total borrowing. However, £76.5m (3.9%) is recharged to the HRA at variable rates so the General Fund will have a small exposure of £80.4m (4.1%) to variable rates. Although the variable rate exposure increases in the following two years this is based on cautious assumptions.

8.3 The City Council currently has a high level of investments outstanding due to borrowing in advance of need and short term cashflows. The investment strategy is based on the controls in the Treasury Policy at Appendix G. Given the expected short life of these funds it is unlikely that external investment managers will be used, other than through the use of Money Market Funds.

8.4 In summary the strategy is:

- New borrowing to be within the maturity limits in Appendix G;
- Borrow fixed rate if rates fall or the outlook changes, up to 3 years in advance;
- Restructure fixed rate loans if rates rise to suitable levels;
- Strategy subject to flexibility if circumstances change.

8.5 This strategy is implemented by the Corporate Director of Resources in accordance with delegations. Based on this strategy the proposed budget figures are as follows:

Table 22 - Treasury Management Budget

	2008/09 forecast £m	2009/10 forecast £m	2010/11 forecast £m
Net interest budget	96.708	101.850	102.875
Other costs	2.507	2.580	2.597
Contributions to (from) TM Reserves	3.251	3.022	2.532
Revenue charge for debt repayment	46.260	46.095	50.112
Total budget	148.726	153.547	158.116
Less: charges to HRA etc	(40.574)	(41.926)	(43.747)
Cost for General Fund	108.152	111.621	114.369

8.6 Actual interest costs will be affected not only by future interest rates, but also by the City Council's cashflows, the level of its revenue reserves and provisions, and any debt restructuring.

9. Risks and Alternative Strategies

9.1 Financial market circumstances can change rapidly. Some of the more foreseeable risks to interest rates in 2008/09 include:

Higher interest rates if:
- World economic growth increases
- Internal UK inflationary pressures increase – e.g. increasing wage settlements
- External (to the UK economy) inflationary pressures arise

This risk has been reduced by the borrowing in advance recently undertaken when rates were at low levels.

Lower interest rates if:
- World recession occurs
- Inflationary pressures reduce

- World events threaten growth or markets

10. Sources of Borrowing

10.1 The Public Works Loan Board (PWLB) will probably continue to be the cheapest source of most long-term fixed rate finance during 2008/09. However, the PWLB has recently substantially increased its penalty charges for the early repayment of fixed rate debt. This severely constrains the Council's ability to directly manage its PWLB borrowing in order to control treasury risks and generate revenue savings. Other sources of finance will continue to be evaluated as an alternative to PWLB funding and will be used if appropriate.

10.2 In particular, long-term market loans with a 'lender's option, borrower's option' structure (known as 'LOBOs') have proved attractive over the last two years and a small place for these may continue to be appropriate. The Corporate Director of Resources has limited these to within 15% of gross borrowing and there are no plans currently to increase this level.

10.3 Other bond structures are available from the market, and the Corporate Director of Resources will keep borrowing options under review.

11. Other Treasury Management exposures

11.1 The City Council is guaranteeing the repayment of £73m of NEC (Developments) plc stock, due in 2027. Contributions to a sinking fund for the repayment of this stock are being provided in the Council's revenue budget. The City Council also has some much smaller exposures to the loans and treasury management risks of some other bodies related to the Council, mainly Aston Science Park. These treasury management risks will be kept under review and options for managing these risks are brought forward to the Executive when appropriate.

11.2 The volume of leases outstanding is currently £13.2m. The significance of leasing as a source of finance has declined since the advent of the 'prudential' capital system. The decision whether to finance vehicles or equipment from leasing or borrowing is dependent on an assessment of best value for money.

12. Advisers

12.1 This Strategy has been prepared in discussion with Butlers Treasury Consultancy Services who provide treasury management advice. Butlers were appointed in June 2007, replacing Sector Treasury Services Ltd, following a review of the need for such advice and a competitive appointment process. Advice relating to operating leases is obtained from Unilink Finance Ltd. Both advisers have been a valuable support in view of the size of the transactions involved and the pressures on staff time, which represents good value for money. Their appointments are renewable triennially.

13. Prudential Indicators for Treasury Management

13.1 The City Council is required under the Local Government Act 2003 and the CIPFA Prudential Code for Capital Finance in Local Authorities to set various Prudential Indicators for treasury management. These are contained in the Treasury Management Policy in Appendix G.

APPENDIX A

Budget Pressures & Policy Choices	£000
Leader Resources to make adequate provision for insurance claims.	600
Deputy Leader Resources to support events promoting the City, to meet the Housing Benefit impact of re-housing adults with learning disabilities, and the Digital Birmingham initiative.	2,830
Adults and Communities. Increased provision for learning disabilities residential services and growth in the number of older people discharged from hospital. Additional funding for Older Adults commissioning, Preserved Rights grant fall-out, establishing a Domestic Violence Unit and improved training for Adult Safeguarding.	10,803
Children, Young People and Families Additional funding to meet projected costs of Looked After Children, plus additional focus on preventative and targeted services to ensure future numbers of Looked After Children are kept to the minimum. There will also be additional funding for a Family Intervention Project	5,268
Housing Management of Homeless Service pressures resulting from precedent case law and meeting the costs of the case resolution programme of the Borders & Immigration Agency	1,000
Leisure, Sport & Culture Additional resources to support Birmingham in becoming a major venue for events and sport by attracting International Events to the City, including the Digital Film Event and the Birmingham Half Marathon. In addition resources continue to support development of the new Library of Birmingham initiative.	1,398
Transportation & Street Services Additional resources to promote Recycling including the rollout of the Kerbside Recycling Programme and other initiatives, Waste Management (to address increases in waste arising and the annual increase in Landfill Tax), highway maintenance inventory growth and loss of car parking income due to development works.	6,839
Planning Committee Additional Council resources are being provided to compensate for external funding reductions such as Planning Delivery Grant and Decision Document income and for the overall loss of income resulting from the reduction in fees for Local Land Charge Searches.	1,050
Constituencies Additional funding has been made available to Constituencies to offset the fall out of NRF funding which ceases on 31st March 2008.	1,811
Total	**31,599**

APPENDIX B

Portfolio Efficiency Savings	**£000**
Leader Efficiency savings, reductions in running costs and increased property rental income.	(495)
Deputy Leader Employee & overhead efficiencies, reduced running costs and income generation.	(252)
Adults and Communities Overachievement of income targets, re-provision of older adults residential services, funding of Adult Education ESOL courses from Working Neighbourhoods Fund. Efficiencies in provision of equipment & adaptations.	(3,443)
Children, Young People and Families Savings will be achieved through the implementation of a new Foster Care Contract, efficiency savings on Home to School Transport and increased income generation at Environmental & Outdoor Study Centres	(568)
Housing (General Fund) There will be a slight reduction in savings targets compared to 2007/08	13
Leisure, Sport & Culture The Portfolio is considering a range of measures including overhead efficiencies to achieve its savings target.	(905)
Local Services & Community Safety A range of general efficiency savings, including the reorganisation of resources, will achieve savings for this Portfolio.	(18)
Regeneration Efficiencies identified ranging from staff productivity and general budget reductions.	(8)
Transportation & Street Services Revised methods of working and efficiency savings in relation to overhead costs and additional Cemeteries and Crematoria income.	(110)
Planning Committee A number of efficiency measures principally around staff productivity.	(29)
Public Protection Committee There will be a slight reduction in savings targets compared to 2007/08	11
Constituency Committees The Constituencies are considering a range of general efficiency savings, and a one-off reduction in the provision of Policy Contingency	(2,000)
	(7,804)

APPENDIX C(i)

Revenue Budget - Gross Expenditure

	2007/08 Budget £'000	2008/09 Budget £'000
Portfolios		
Leader's	184,194	193,708
Deputy Leader's	484,334	513,738
Adults & Communities	349,308	366,698
Children, Young People and Families	1,240,787	1,319,365
Equalities & Human Resources	4,686	4,207
Housing General Fund	108,533	101,559
Housing Revenue Account	224,199	218,635
Leisure, Sport & Culture	66,020	63,456
Local Services & Community Safety	54,665	47,808
Regeneration	72,236	70,377
Transportation & Street Services	150,540	157,086
Committees		
Constituencies	112,674	117,700
Council Business Management	9,049	9,356
Licensing	2,609	2,815
Planning	13,575	12,331
Public Protection	16,246	17,064
Total Portfolio/Committee Expenditure	**3,093,655**	**3,215,903**
Capital accounting & financing costs	(10,708)	(50,167)
Contingencies	25,339	40,478
Centrally held savings	(6,581)	0
Total Expenditure on Services	**3,101,705**	**3,206,214**
Contribution to General Balances	500	2,500
Total Gross Expenditure	**3,102,205**	**3,208,714**

APPENDIX C(ii)

Revenue Budget - Gross Income

	2007/08 Budget £'000	2008/09 Budget £'000
Portfolios		
Leader's	(126,617)	(132,634)
Deputy Leader's	(444,464)	(445,299)
Adults & Communities	(101,409)	(93,355)
Children, Young People and Families	(1,003,245)	(1,054,318)
Equalities & Human Resources	(695)	(674)
Housing General Fund	(87,919)	(65,931)
Housing Revenue Account	(224,199)	(218,635)
Leisure, Sport & Culture	(18,736)	(17,065)
Local Services & Community Safety	(45,341)	(40,369)
Regeneration	(53,413)	(56,026)
Transportation & Street Services	(67,881)	(71,556)
Committees		
Constituencies	(17,760)	(17,631)
Council Business Management	(103)	(105)
Licensing	(2,401)	(2,661)
Planning	(9,647)	(8,493)
Public Protection	(3,729)	(3,885)
Total Portfolio/Committee Income	**(2,207,559)**	**(2,228,637)**
Corporate income & contributions from reserves	(3,222)	(19,734)
Total Gross Income	**(2,210,781)**	**(2,248,371)**

APPENDIX C(iii)

Revenue Budget - Net Expenditure

	2007/08 Budget £'000	2008/09 Budget £'000
Portfolios		
Leader's	57,577	61,074
Deputy Leader's	39,870	68,439
Adults & Communities	247,899	273,343
Children, Young People and Families	237,542	265,047
Equalities & Human Resources	3,991	3,533
Housing General Fund	20,614	35,628
Housing Revenue Account	0	0
Leisure, Sport & Culture	47,284	46,391
Local Services & Community Safety	9,324	7,439
Regeneration	18,823	14,351
Transportation & Street Services	82,659	85,530
Committees		
Constituencies	94,914	100,069
Council Business Management	8,946	9,251
Licensing	208	154
Planning	3,928	3,838
Public Protection	12,517	13,179
Total Portfolio/Committee Net Spend	**886,096**	**987,266**
Capital accounting & financing costs	(10,708)	(50,167)
Corporate income & contributions from reserves	(3,222)	(19,734)
Contingencies	25,339	40,478
Centrally held savings	(6,581)	0
Total Net Expenditure on Services	**890,924**	**957,843**
Contribution to General Balances	500	2,500
City Council Budget Requirement	**891,424**	**960,343**

Medium-Term financial Strategy 2008/09 to 2017/18

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Base Budget 2007/08	891.4	891.4	891.4	891.4	891.4	891.4	891.4	891.4	891.4	891.4
Pay & Price Inflation	38.2	68.6	101.0	121.2	148.4	176.1	204.3	233.2	262.6	292.6
Specific Grant funding transferred in Formula Grant	22.2	21.9	21.7	21.7	21.7	21.7	21.7	21.7	21.7	21.7
Meeting Budget pressures and policy choices	31.6	47.4	53.3	61.3	63.0	64.8	66.5	66.8	67.0	67.3
Removal of service review targets	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2	8.2
Efficiency Savings	(5.6)	(22.8)	(61.2)	(74.0)	(85.9)	(91.9)	(104.7)	(123.1)	(131.5)	(146.9)
Financing costs	(4.5)	(0.9)	2.5	(3.4)	(5.9)	(7.4)	(10.3)	(12.4)	(14.2)	(16.0)
Fall out of one-off resources	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Use of corporate reserves	(5.9)	(12.5)	0.0	10.0	6.5	0.0	0.0	0.0	0.0	0.0
Contribution to general balances	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
LPSA Performance Reward Grant	(16.1)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business Planning savings target	0.0	(8.6)	(14.6)	(14.7)	(14.6)	(14.6)	(14.6)	(14.6)	(14.6)	(14.6)
Total Expenditure	**960.3**	**992.4**	**1,002.0**	**1,021.4**	**1,032.5**	**1,048.0**	**1,062.2**	**1,070.9**	**1,090.3**	**1,103.4**
Formula Grant	(639.6)	(660.1)	(678.0)	(695.8)	(714.8)	(734.3)	(754.4)	(775.1)	(796.3)	(818.0)
Council Tax (assumed 1.9% pa increase)	(314.2)	(323.4)	(332.9)	(342.6)	(352.7)	(363.0)	(373.6)	(384.5)	(395.7)	(407.4)
Collection Fund Surplus	(6.5)									
Total Resources	**(960.3)**	**(983.5)**	**(1,010.9)**	**(1,038.4)**	**(1,067.5)**	**(1,097.3)**	**(1,128.0)**	**(1,159.6)**	**(1,192.0)**	**(1,225.4)**
GAP/(SURPLUS)	0.0	8.9	(8.9)	(17.0)	(35.0)	(49.3)	(65.8)	(88.7)	(101.7)	(122.0)

APPENDIX D

APPENDIX E

PROPOSED CAPITAL EXPENDITURE PROGRAMME 2008/09 - 2010/11

	2008/09 £'000's	2009/10 £'000's	2010/11 £'000's	TOTAL £'000's
Leader's Portfolio				
Replacement Integrated Property Management System	136	-	-	136
NEC Electrical Infrastructure	5,200	-	-	5,200
NEC Capital Grant	92	-	-	92
NEC Minor Works	275	-	-	275
NEC Refinancing	2,483	-	-	2,483
Revised Capital Budget	**8,186**	**-**	**-**	**8,186**
Deputy Leader's Portfolio				
Corporate Web Services Data Migration	22	-	-	22
Sutton New Road	5	-	-	5
Server Refresh & Thin Client	-	-	5,613	5,613
Bus Transformation Efficiency	8,578	4,766	2,835	16,179
Bus Transformation Customer Services	21,594	19,809	13,057	54,460
Bus Transformation Working for the Future - Programme Delivery	10,987	11,302	6,597	28,886
Bus Transformation Working for the Future - Lancaster Circus	10,100	10,200	950	21,250
Bus Transformation Working for the Future - Other Land & Property	26,240	17,103	(2,980)	40,363
Bus Transformation Adult Services	9,000	4,500	-	13,500
Bus Transformation People Management	27,680	9,700	1,374	38,754
Bus Transformation Children's	3,641	3,391	1,765	8,797
Bus Transformation Information Management	7,396	3,325	1,674	12,395
Bull Ring Earmarked Receipt	420	-	-	420
Revised Capital Budget	**125,663**	**84,096**	**30,885**	**240,644**
Adult & Communities				
Older Adult Homes - Compliance to Standards	300	1,864	-	2,164
Mental Health Schemes	400	400	-	800
Other Minor Schemes	540	44	622	1,206
Revised Capital Budget	**1,240**	**2,308**	**622**	**4,170**
Children, Young People and Families				
Devolved Capital Allocation to Schools	8,900	-	-	8,900
NDS Modernisation	7,571	8,969	-	16,540
Colebourne Co-location	5,150	452	-	5,602
Coppice/Langley Co-location	3,912	3,227	-	7,139
Building Schools for the Future Resources Plan	706	-	-	706
Children's Homes - New Build	353	-	-	353
Other schemes less than £150k	84	-	-	84
Refurbishment of Residential Establishments	5,257	2,434	-	7,691
New Primary School - Yardley Green	5,500	4,000	500	10,000
Eastside Academy - Creative & Performing Arts	1,000	12,500	10,000	23,500
Building Schools for the Future	1,800	1,000	500	3,300
Single Capital Pot - Unallocated	-	-	24,615	24,615
Revised Capital Budget	**40,233**	**32,582**	**35,615**	**108,430**

	2008/09	**2009/10**	**2010/11**	**TOTAL**

	£'000's	£'000's	£'000's	£'000's
HOUSING				
Council Housing				
Decent Homes (Windows, Heating, Doors, Roofing, Re Wiring)	74,600	15,585	-	90,185
Kitchens & Bathrooms	16,191	66,930	74,377	157,498
Other (Clearance, Lift Refurbishments, Structural, Major Voids)	37,649	30,500	29,254	97,403
Business Transformation	8,100	600	-	8,700
	136,540	**113,615**	**103,631**	**353,786**
Private Sector Housing				
Ind Living, Urban Living, Clearance, Afford Warmth, Develop New Hsg	29,332	28,350	-	57,682
Imps. To Sheltered Housing Schemes for Older People	1,100	-	-	1,100
Provision of Major Adaptations for Children	500	500	-	1,000
Poplars Sheltered Scheme for Older People	-	-	-	-
Improvements and Repairs To City Owned Homeless Centres	1,000	-	-	1,000
Implementation of Affordable Warmth and Fuel Poverty	550	500	-	1,050
SCP - Unallocated Resources	-	-	15,300	15,300
	32,482	**29,350**	**15,300**	**77,132**
Revised Capital Budget	**169,022**	**142,965**	**118,931**	**430,918**

Leisure Sport & Culture				
MAC/SAMPAD- Development	9,146	1,646	-	10,792
Aston Hall & Park	2,569	100	-	2,669
Library of Birmingham	8,115	6,492	178,393	193,000
Museums & Arts Schemes	95	-	-	95
Community Libraries Schemes	900	-	-	900
Wyndley Leisure Centre Refurbishment	2,500	30	-	2,530
Strategic Sport Centre	2,578	20	-	2,598
Community Sports Facilities (Joseph Chamberlain College)	1,828	-	-	1,828
Other Sports Schemes	18	-	53	71
Parks Schemes	1,719	-	1,347	3,066
Old Rep Theatre DDA Refurbishment	75	-	-	75
Hatchford Brook Golf Driving Range	30	-	-	30
Lozells Community Development Initiative	170	-	-	170
Lozells Neighbourhood Investment Plan Infrastructure Fund	240	-	-	240
Alexander Stadium 2012 Olympics Infrastructure	400	400	170	970
Golf Courses	400	250	-	650
Revised Capital Budget	**30,783**	**8,938**	**179,963**	**219,684**

	2008/09	2009/10	2010/11	TOTAL
	£'000's	£'000's	£'000's	£'000's
Regeneration				
Vibrant Urban Villages-Sparkbrook Tornado A41/A34 Corridor	1,000	1,000	-	2,000
Vibrant Urban Villages-Business Employment	365	325	-	690
Vibrant Urban Villages-Frankley Regeneration	1,005	-	-	1,005
Vibrant Urban Villages-Northfield Environmental Improvements	1,844	-	-	1,844
Vibrant Urban Villages-Other	2,881	2,185	-	5,066
City Centre Development (incl. Eastside)-Joint Venture	2,806	650	-	3,456
City Centre Development (incl. Eastside)-Eastside Park	445	-	-	445
City Centre Development (incl. Eastside)-Millennium Point Car Park	9,666	174	-	9,840
City Centre Development (incl. Eastside)-Curzon St Station	2,300	-	-	2,300
City Centre Development (incl. Eastside)-Other	343	223	-	566
Investment Enterprise & Employment	14	16	-	30
Property Related Schemes-Other	405	5	-	410
Conservation - Lozells & Soho Road THI	440	790	-	1,230
Conservation-Other	310	30	-	340
City Wide & Miscellaneous	-	15	-	15
Disability Schemes	11	-	-	11
City Centre Development (incl. Eastside)-Eastside Infrastructure	250	-	-	250
Aston Science Park	500	-	-	500
Jewellery Quarter Conservation Area	124	-	-	124
Heritage Project Evans & Sons Development Costs	100	-	-	100
Building Energy Management System Replacement	184	18	-	202
Rotunda LED Display	431	-	-	431
City Park	-	4,500	2,000	6,500
City Centre Masterplan	1,000	3,000	6,000	10,000
Revised Capital Budget	**26,424**	**12,931**	**8,000**	**47,355**

	2008/09 £'000's	2009/10 £'000's	2010/11 £'000's	TOTAL £'000's
Transportation & Street Services				
Highways Major Schemes				
Northfield Relief Rd	2,652	537	-	3,189
Selly Oak New Road	1,900	1,960	-	3,860
Hagley Road Bus Showcase	3,206	2,440	-	5,646
Other Bus Showcase Schemes	-	1,727	-	1,727
Red Routes Schemes	1,967	-	-	1,967
Other Highways Minor Schemes				
Highways & Bridges Maintenance	8,296	6,937	3,801	19,034
Replacement of Road Tunnel Lighting	564	-	-	564
Other Schemes	6,799	6,884	2,949	16,632
Street Lighting Ward Programme	925	1,017	1,170	3,112
Local Safety Schemes	365	365	65	795
Facilities for the Disabled	200	200	-	400
Subway Replacement	200	200	-	400
Safer Routes to Schools	300	300	-	600
Measures to Encourage Public Transport	200	200	-	400
Improving Local Accessibility	300	300	-	600
Tackling Congestion	300	300	-	600
Improving the Environment	200	200	-	400
Street Lighting	1,200	1,200	1,200	3,600
Highways LTP	-	-	2,900	2,900
Non Highways Schemes				
Car Parks Reinvestment Programme	3,207	-	-	3,207
Birmingham Gateway Project (Stephenson Tower)	-	3,338	-	3,338
Environmental Schemes				
Cemetaries & Crematoria	-	250	-	250
Cemetaries & Crematoria - Emissions	-	2,970	-	2,970
Perry Barr HRC	100	-	-	100
Lifford HRC Depot	1,000	-	900	1,900
Materials Recycling Facility	-	14,000	-	14,000
Revised Capital Budget	**33,881**	**45,325**	**12,985**	**92,191**
Planning Committee				
New Technology	253	-	-	253
Revised Capital Budget	**253**	**-**	**-**	**253**
Constituencies				
Constituency Fund	1,000	1,000	1,000	3,000
Revised Capital Budget	**1,000**	**1,000**	**1,000**	**3,000**
Unallocated Resources				
Property Fund	8,239	3,000	6,000	17,239
Contingency	2,400	-	-	2,400
Iconic Projects	511	150	-	661
Revised Capital Budget	**11,150**	**3,150**	**6,000**	**20,300**
Total Revised Capital Budget	**447,834**	**333,295**	**394,001**	**1,175,130**

APPENDIX F

FINANCING THE CAPITAL PROGRAMME

Specific Resources	**2008/09 £m**	**2009/10 £m**	**2010/11 £m**	**Total £m**
Grants	69.8	67.7	45.5	183.0
Contributions	17.4	3.8	40.4	61.6
Portfolio Revenue Contributions	2.7	4.4	1.4	8.5
Additional Supported Borrowing	5.9	3.7	0.0	9.6
Earmarked Receipts	75.9	43.1	94.5	213.5
Total Specific Resources	**171.7**	**122.7**	**181.8**	**476.2**
Corporate Resources				
Single Capital Pot *	64.5	63.7	54.1	182.3
Capital Receipts	41.6	24.3	10.3	76.2
Prudential Borrowing	167.7	128.8	137.2	433.7
Revenue contributions	11.1	5.1	0.0	16.2
Overprogramming	(8.8)	(11.3)	10.6	(9.5)
Total Corporate Resources	**276.1**	**210.6**	**212.2**	**698.9**
Total Resources	**447.8**	**333.3**	**394.0**	**1,175.1**

*** Assumed Single Capital Pot Resources are Allocated as Follows :**

	2008/09 £m	**2009/10 £m**	**2010/11 £m**	**Total £m**
Children, Young People and Families (Education)	17.5	16.1	7.7	41.3
Children, Young People and Families (Children Soc.Serv.)	0.1	0.1	0.1	0.3
Housing	26.0	26.0	26.0	78.0
Regeneration (Transport)	10.9	11.7	12.9	35.5
Adults & Communities	0.4	0.4	0.4	1.2
Corporate Top Slice	9.6	9.4	7.0	26.0
	64.5	**63.7**	**54.1**	**182.3**
<u>of which :</u>				
Capital Grant	28.9	29.4	28.6	86.9
Supported Borrowing	35.6	34.3	25.5	95.4
	64.5	**63.7**	**54.1**	**182.3**

APPENDIX G

BIRMINGHAM CITY COUNCIL

TREASURY MANAGEMENT POLICY

1. Background

1.1 This Appendix sets out the City Council's policy framework for the conduct of its treasury management. In doing so it addresses the relevant requirements of:

- CIPFA's Code of Practice for Treasury Management in the Public Services;
- CIPFA's Prudential Code for Local Authority Capital Finance; and
- The Government's Guidance on Local Authority Investments.

2. The City Council's Treasury Management Objectives

2.1 The City Council's treasury management objectives and activities are defined as:

The management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

2.2 The successful identification, monitoring and control of risk are the criteria by which the effectiveness of the City Council's treasury management activities will be measured. Accordingly, analysis and reporting of treasury management activities will focus on their risk implications for the organisation.

2.3 Effective treasury management will provide support towards the achievement of the City Council's business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.[2]

2.4 More particularly, the City Council attaches a high priority to a stable and predictable revenue cost from treasury management activities. This reflects the fact that debt charges represent a relatively high proportion of its revenue budget compared with many other authorities, due to the higher level of capital approvals funded by borrowing which the Government has historically issued. The City Council's objectives in relation to debt and investment can accordingly be stated more specifically as follows:

"to assist the achievement of the City Council's service objectives by obtaining funding and managing the City Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to sums invested".

---

2 Paragraphs 2.1 to 2.3 are required by the CIPFA Treasury Management Code

3. Setting limits to manage treasury management risks

Interest rate exposures

3.1 The City Council cannot control interest rates, but a relatively high degree of interest cost stability can be achieved by limiting its exposure to variable rates, and by managing the long-term debt maturity profile so that not too much fixed rate debt will mature in any year. The following limits are proposed (in the format required by the CIPFA Prudential Code):

Prudential indicators - interest rate exposure

	% of borrowing net of investments:		
	2008/09	**2009/10**	**2010/11**
upper limit on fixed rate exposures	130%	130%	130%
upper limit on variable rate exposures	35%	35%	35%

Prudential indicators - maturity structure of fixed rate borrowing

	lower and upper limits:	**Forecast Year end 2007/08**
under 12 months	0% to 30% of gross borrowing	9.0%
12 to 24 months	0% to 30%	1.5%
24 months to 5 years	0% to 30%	0.6%
5 to 10 years	0% to 40%	7.4%
10 to 20 years	5% to 55%	12.5%
20 to 40 years	10% to 60%	38.5%
40 years and above	10% to 60%	30.5%

3.2 This approach is consistent with a ‘benchmark maturity profile’ in which 5% of debt matures in the coming year down to 3% in 25 years’ time. The benchmark provides a framework for performance management against which actual borrowing costs and maturity risks can be monitored.

Investment Strategy for temporarily surplus cash

3.3 The City Council is also at risk when lending temporarily surplus cash. The biggest risk is that the borrower will default. Credit risk will be limited by applying lending limits and high creditworthiness criteria as follows:

3.4

Investments:	**Lending limit**	**FITCH individual and support rating**	**FITCH short term rating**
Banks and Building Societies	£25m	A1, A2, A/B1	F1
Banks and Building Societies	£20m	A/B2, B1	F1
Banks and Building Societies	£15m	A3, B2, B3, B/C1	F1
Money market funds	£40m	The highest possible rating only	
Local Authorities	£25m	N/A	N/A
UK Government	None	N/A	N/A

3.5 Money may also be lent to the City Council's own bank, currently the Co-operative Bank in order to manage the daily bank balances held with that bank, for up to a maximum period of 1 week.

3.6 Credit ratings are monitored on an ongoing basis on information from the Council's Treasury Management advisers, and the Council's lending list is updated accordingly when a rating changes. In addition, the financial markets are actively monitored and the use of some counter parties may be restricted should conditions become uncertain.

3.7 The Council does not currently use investment managers. However, if appointed, their lending of City Council funds would not be subject to the above restrictions, provided that their arrangements for assessing creditworthiness and exposure limits have been agreed by the Corporate Director of Resources.

Investment maturity

3.8 Temporarily surplus cash will be invested having regard to the period of time for which the cash is expected to be surplus. The CIPFA Prudential Code envisages that authorities will not borrow more than three years in advance, so it is unlikely that the City Council will have surplus cash for longer than three years. The Government's category of "specified investments" includes investments which are repayable within 12 months. "Non-specified investments" include investments maturing in excess of 12 months, so it is appropriate to include some non-specified investments within a balanced risk portfolio where surplus cash for over 12 months is envisaged.

3.9 The following categories of non-specified investments may be used:

1. Government stocks (or "Gilts") and other supranational bonds, with a maturity of less than five years, provided that such investments are managed by an investment manager authorised by the Financial Service Authority and in accordance with an investment policy approved by the Corporate Director of Resources.
2. Certificates of Deposit with a maturity of less than five years subject to a long term credit rating of not less than A (in addition to the restrictions in 3.4 above).
3. Callable deposits with a maturity of less than four years subject to a long term credit rating of not less than A (in addition to the restrictions in 3.4 above).

3.10 The upper limits for investing principal sums for periods longer than 364 days are:

1-2 years	£200m
2-3 years	£100m
3-5 years	£ 50m

Any of the categories of non-specified investments (paragraph 3.9) may be utilised up to this limit.

4. <u>Reporting and delegation</u>

4.1 A Treasury Management Strategy report is presented as part of the annual budget to the Cabinet and the Council before the start of each financial year, and an Annual Review report is produced after the year end, in accordance with the CIPFA Treasury Code. The Strategy for 2008/09 forms Chapter 5 of the Budget Report.

4.2 The City Council has delegated responsibility for treasury management decisions to the Corporate Director of Resources as part of its Delegations to Officers. The Director or his deputy reports every half year to the Cabinet on the decisions taken under delegated treasury management powers.

4.3 The Corporate Director of Resources maintains statements of Treasury Management Practices in accordance with the Code. These have previously been agreed with the Cabinet Member responsible for Finance:

TMP1 Treasury risk management

TMP2	Best value and performance measurement
TMP3	Decision-making and analysis
TMP4	Approved instruments, methods and techniques
TMP5	Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements
TMP6	Reporting requirements and management information arrangements
TMP7	Budgeting, accounting and audit arrangements
TMP8	Cash and cash flow management
TMP9	Money laundering
TMP10	Staff training arrangements and qualifications
TMP11	Use of external service providers
TMP12	Corporate governance

APPENDIX H (i)(a)

PRUDENTIAL INDICATORS

		08/09 Indicators	09/10 Indicators	10/11 Indicators
		£m	£m	£m
	AFFORDABILITY			
	Ratio of financing costs to net revenue stream:			
1	General Fund financing costs	158.8	170.9	178.3
2	General Fund net revenue stream	960.3	983.6	1,011.0
3	General Fund ratio	16.5%	17.4%	17.6%
4	HRA financing costs	78.4	79.4	82.8
5	HRA net revenue stream	218.6	222.8	227.5
6	HRA Ratio	35.8%	35.7%	36.4%
	Net revenue effect of capital programme changes:			
7	Effect on Council Tax (Band D equiv)	£1.90	£9.04	£22.07
8	Effect on Housing Rents (ave. weekly rent)	£0.18	£0.95	£2.45
	CAPITAL EXPENDITURE			
	Capital Expenditure			
9	General Fund	311.3	219.7	290.4
10	HRA	136.5	113.6	103.6
11	Total Capital Expenditure	447.8	333.3	394.0
	Capital Financing Requirement (CFR)			
12	General Fund CFR	1,635.7	1,698.8	1,748.5
13	HRA CFR	592.3	617.4	645.8
14	Total Capital Financing Requirement	2,228.0	2,316.2	2,394.3
	PRUDENCE			
	Net borrowing and the capital financing requirement:			
15	forecast maximum net borrowing	1,964.7	2,038.5	2,122.6
16	Capital Financing Requirement in year 3 (as above)	2,394.3	2,394.3	2,394.3
17	does forecast net borrowing exceed year 3 CFR?	No	No	No
	EXTERNAL DEBT		**Forecast**	**Forecast**
	Authorised limit for external debt	**Limit**	**Limit**	**Limit**
18	Authorised limit for borrowing	2,504	2,570	2,654
19	+ authorised limit for other long term liabilities	46	45	45
20	= authorised limit for debt	2,550	2,615	2,698
			Forecast	**Forecast**
	Operational boundary for external debt	**Boundary**	**Boundary**	**Boundary**
21	Operational boundary for borrowing	2,020	2,044	2,123
22	+ Operational boundary for other long term liabilities	36	35	35
23	= Operational boundary for external debt	2,056	2,079	2,158

APPENDIX H (i)(b)

	TREASURY MANAGEMENT		08/09 Indicators	09/10 Indicators	10/11 Indicators
	CIPFA Treasury Management Code				
24	Has the authority adopted the TM Code?		Yes	Yes	Yes
	Interest rate exposures		**Limit**	**Limit**	**Limit**
25	upper limit on fixed rate exposures		130%	130%	130%
26	upper limit on variable rate exposures		35%	35%	35%
		07/08 revised limit *			
	Maturity structure of borrowing				
	(lower limit and upper limit)				
27	under 12 months	0% to 30%	0% to 30%	0% to 30%	0% to 30%
28	12 months to within 24 months	0% to 30%	0% to 30%	0% to 30%	0% to 30%
29	24 months to within 5 years	0% to 30%	0% to 30%	0% to 30%	0% to 30%
30	5 years to within 10years	0% to 40%	0% to 40%	0% to 40%	0% to 40%
31	10 years to within 20years	5% to 55%	5% to 55%	5% to 55%	5% to 55%
32	20 years to within 40years	10% to 60%	10% to 60%	10% to 60%	10% to 60%
33	40 years and above	10% to 60%	10% to 60%	10% to 60%	10% to 60%
	investments longer than 364 days	**Limit**	**Limit**	**Limit**	**Limit**
	upper limit on amounts maturing in:	**£m**	**£m**	**£m**	**£m**
34	1-2 years	200	200	200	200
35	2-3 years	100	100	100	100
36	3-5 years	50	50	50	50
37	later	-	-	-	-

*** Revisions to the indicators for 2007/08 are proposed to take account of borrowing in advance for the 2008/9 to 2010/11 Capital Programme.**

Prudential indicators 2008/09 – interpretation

CIPFA's prudential indicators for capital finance are intended to assist decision-making within an authority. They are not performance indicators or comparative statistics and there is no 'right' figure for particular indicators. Different authorities will have different figures reflecting their particular history and circumstances.

Ratio of financing costs to net revenue stream
The increase in the proportion of General Fund debt financing costs relative to the budget requirement of the City Council is a result of Capital Expenditure Programme.

Effect on Council Tax
This indicator represents the interest and repayment costs arising from programmed prudential borrowing expressed as the impact on Band D Council Tax. This impact has been accommodated within the Medium Term Financial Strategy and assumed Council Tax increases up to 2010/11.

Effect on housing rents
This represents the interest and repayment costs arising from programmed prudential borrowing expressed as the impact on weekly rents.

Capital Expenditure
Programmed expenditure tails off in later years because future grants and other capital resources are not yet known.

The Capital Financing Requirement (CFR)
This represents the underlying level of borrowing needed to finance historic capital expenditure. It would be a cause for concern if net borrowing exceeded the CFR figure, but actual **net borrowing** is lower than this because of strong positive cashflow and balances.

Net Borrowing
This indicator is based on the forecast peak net debt in each year after adjusting for debt on transferred services.

The authorised limit for debt
The City Council may not breach the limit it sets so it is important that this allows prudent room for uncertain cashflow movements and borrowing in advance for future needs.

The 'operational boundary' for debt
This is a better benchmark to monitor actual debt levels against. It represents the forecast peak level of debt for the year although it is not itself a limit. It is increasing over the 3 years as a result of the City Council's spending plans.

APPENDIX H(iii)

Matters Required to be Taken into Account when Setting or Revising Prudential Indicators

The Prudential Code requires local authorities to have regard to a number of factors when setting prudential indicators. These are set out below with a description of how they have been taken into account in the Council's planning process including the preparation of this report.

Affordability, eg Implications for Council Tax

Directorates are required to resource the running costs of most new schemes from within their own budgets. Revenue budgets have been identified to meet all planned borrowing costs. Key prudential indicators identify trends in financing costs especially the revenue stream ratio.

Prudence and Sustainability, eg implications for external borrowing

This asks the question whether borrowing is sustainable in the long term. The trend in unsupported financing costs is a guide to medium-term pressures. Revenue budgets have been provided to repay the proposed unsupported borrowing over time. The City Council continues to strengthen its Medium Term financial planning over the coming years using ten year term financial plans to assess longer term sustainability.

Value for money, eg option appraisal

In the prudential system, unsupported borrowing is an option which can be considered alongside other forms of finance such as joint ventures or operating leases in deciding the best value option. This is evaluated in more detail when individual projects are assessed as part of the Council's "Gateway" process.

Stewardship of assets, eg asset management planning

The Asset Management planning process for 2008/09 and beyond is reported in Chapter 3 of this budget report.

Service objectives, eg strategic planning for the authority

The capital budget has been prepared in the context of the Council Plan and the Council's other major planning processes. The prudential capital system has been integrated into medium-term service planning, including the capital resource allocation process.

Practicality, eg achievement of the forward plan

Quarterly monitoring of progress in achieving the capital budget is reported to Cabinet and Portfolio holders. The Gateway process for capital also requires post-implementation review reports of capital schemes to assess whether stated objectives have been achieved.

APPENDIX I

BUDGET RISK ASSESSMENT

Risk		Impact	Likeli-hood	Management Control
1	Adverse changes in levels of Housing Subsidy	M	H	Position kept under close review and active response to government consultations, including participation in national review.
2	Changes in funding regimes for specific government grants	M	M	Specific changes have been fed into Directorate budgets and will be kept under review. In appropriate cases provision has been included in the MTFS. The management of Area Based Grant is under active discussion with partners.
3	Failure to secure capital receipts to fund investment plans	M	M	Regular monitoring of progress against targets, and plans/financing revised in light of actual position. Marketing of land takes account of market conditions. A medium-term view is taken of resource planning
4	Non-delivery of elements of the Efficiency Programme, including Business Transformation savings	L-M	M	Implementation of savings is subject to rigorous project management and review processes. Business Transformation programmes are making use of significant project management expertise and are subject to strict governance arrangements.
5	Cost of Implementation of Single Status agreement	L-M	M	The programme is being managed and provision has been made for financial implications
6	Changes to proper accounting practice with adverse impact.	L-M	L	Close contact established with national bodies and external advisors.
7	Inflationary and budget pressures exceed amount provided to re-price budget	L	L	Prudent inflation estimates have been based on latest forecasts and known pressures included within budget
8	Managing the implications of large schemes/contracts and other strategies.	L	L	Arrangements made to ensure that decisions based on full and complete information, that risks managed pro-actively and with robust project management controls. Financial costs of several large projects are included in the MTFS.

	Risk	Impact	Likeli-hood	Management Control
9	Clawback of grant following audit work	L-M	M	Careful management of projects in line with grant conditions, including requirement for business cases.
10	Inadequate reserves balances and contingencies	L-M	L-M	Resources have been assigned with the aim of providing adequate cover for such items and this will continue to be addressed in the MTFS, including continuing to rebuild general balances. The budgetary position will be closely monitored in 2008/09.
11	Changes in demography affecting service demands	L-M	L	Budget assumptions based on detailed projections of demographic change. Active budgetary control to keep position under control.
12	Clawback of grant from City Council as Accountable Body	L	M	Projects kept under close review, and corrective actions identified where necessary.
13	Cost increases arising as a result of contractual negotiations	L	M	The Council is strengthening its procurement and commissioning capability, and taking a strategic approach. In individual negotiations the Council will seek to secure the optimum outcome for Birmingham.
14	Impact of actuarial valuation of Pension Fund;	L	L	Impact of recent valuation built into MTFS.
15	Formula Grant less than assumed	L	L	Government has now announced the first three year settlement, covering the period up to 2010/11.
16	Inadequate provision made for new legislative requirements	L	L	Budget includes financial impact of known legislative changes. Any emerging issues will be kept under careful review.
17	Interest Rates change adversely	L	L	Risks managed through robust Treasury Management Strategy. Prudent assumptions made based on external advice. Both high and low rates offer opportunities. Recent long-term borrowing at low rates has already provided some protection against these risks.
18	Delayed delivery of Capital Programme - prejudicing external funding or delaying service changes to deliver efficiencies	L	L	The Council has a structured capital programme with robust management and monitoring arrangements, and this is being further enhanced through the Business Transformation Programme.