

BUDGET 2006/07

Report of the Executive to the City Council



Tuesday , 28 February 2006

BUDGET 2006/07

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FOREWORD

1. This report sets out the budget proposals for the coming financial year, 2006/07 within the context of a medium term financial strategy covering three years. It embraces all aspects of the budget: revenue, capital, and treasury management. This is on the basis that these are integrated parts of the overall financial plans of the City Council. The budget has been constructed around the priorities which are set out in the Council Plan.
2. The new administration set out in its three year Council Plan 2005+ its ambitions to:
 - make effective use of the Council's resources to get greater value from its staff, property and money;
 - strive to provide excellent services, with national and international recognition, and most importantly to improve citizens' rating of our services;
 - create a fair and welcoming international city of vibrant urban villages which celebrates and builds on its strength in diversity; and
 - work with our partners to secure the future prosperity of Birmingham and confirm the city's place in the world economy.
3. The immediate task this year was to restore fiscal discipline and stability, and to make progress around the most pressing service priorities. We have had major success in these objectives:
 - Fiscal discipline has been restored with no repeat of the overspends inherited by the new administration.
 - A major, £50m investment in Social Care & Health which has enabled the service to rise to a One Star assessment with promising prospects.
 - A radical shift in the use of capital receipts which will allow us to meet our commitment to tenants of "Birmingham's fourth option" if they so choose.
 - Improvements in service outcomes for tenants have ensured Housing was awarded a One Star rating with promising prospects for the future.
 - An improvement in the Council's overall rating to two stars despite the harder CPA test, and an acknowledgment from the Audit Commission in its Direction of Travel Statement that the Council is "improving well".

4. The task for the 2006/7 budget and revised Council Plan is to support a “step change” in performance that will put the Council on the path to becoming excellent. We propose to put in place a range of plans, policies and processes which will fundamentally shift the way the Council is run and will deliver excellent services for those that live, work or visit the city. These include:
 - A further significant investment (£38m) in Children’s Services and Adult Services and a set of modern service delivery strategies that together will transform the quality of support we give to vulnerable children and adults.
 - A £5m boost to budgets aimed at making the city cleaner, greener and safer, including improving recycling performance.
 - A refocusing of our service delivery models to make much better use of existing assets to enable us to provide more timely, customer-focused services to all our residents and service users.
 - Continuation of major investment programmes in schools, roads, housing, leisure and other facilities, and most importantly regeneration which will provide the jobs and prosperity on which the city’s future depends, totalling £840m over three years.
 - A commitment to maintain the quality or quantity of services, except where there needs to be improvement to better meet users’ needs and preferences.
 - A range of support mechanisms to enable our staff to adjust to the rapidly changing needs of the Council, including re-training opportunities, proper recognition, rewards and promotion for staff supporting the Council’s objectives, and a commitment to look after staff in return for their support for the change process.
5. As a result of our proposed plans to transform the way the Council does its business we will be able to make our existing resources go much further. We believe our Council Plan and budget proposals put the city on course for achieving excellence in all it does, which is no less than the people of Birmingham deserve.
6. Financial planning is more than just a one year process. Whilst the focus of the revenue budget is, primarily, the 2006/07 financial year, this is set in the context of a medium term financial strategy. This will be subject to periodic review and amendment. The capital budget and treasury management strategy must have a medium-term perspective; schemes and programmes span several financial years.

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 2006:

	£m
a. aggregate of estimated expenditure, contingencies, and contributions to financial reserves	2,861.912
b. aggregate of estimated income, and use of financial reserves	2,003.710
c. budget requirement, being the difference between (a) and (b) above	858.202

That the revenue budget allocations of the various Cabinet Portfolios and Committees of the Council, as set out in Appendix C 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 2006 be set at £1,032.90 pursuant to the formula in Section 33, Local Government Finance Act 1992 -

a. Budget requirement of	858.202
LESS	
b. Redistributed non-domestic rates and Formula Grant of	563.775
PLUS	
c. Net transfer from the Collection Fund in respect of Council Tax deficit and Community Charge surplus	0.626
	295.053

DIVIDED BY the Council Tax Taxbase of 285,655 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 2006 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	775.75
B	905.05
C	1,034.34
D	1,163.63
E	1,422.21
F	1,680.80
G	1,939.38
H	2,327.26

and shall in the New Frankley in Birmingham Parish be:

Band	Council Tax £
A	796.87
B	929.69
C	1,062.50
D	1,195.31
E	1,460.93
F	1,726.56
G	1,992.18
H	2,390.62

MOTIONS FOR COUNCIL

Capital Strategy and Budget

4. That the proposals for the capital budget, as set out in Chapters 3-5 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 F, including the Authorised Limit for debt of £1,799m.

Treasury Management

5. That the Treasury Management Strategy for 2006/07, as set out in Chapter 6, and the Treasury Management Policy as set out in Appendix G, be approved.

CHAPTER 1 - REVENUE RESOURCES

1. Summary

- 1.1 The City Council will receive general Government Formula Grant of £563.8m in 2006/07 – an increase of 2.9% on a like-for-like basis, which is less than the national average of 3.0%. The method of calculating the grant has changed completely for the coming year, and Government assumptions on the increase in Council Tax are no longer stated explicitly. However, an assumed increase in the order of 3.8% is implied by the Formula Grant figure.
- 1.2 This report sets out a Council Tax increase for next year for City Council services of just 1.9%, which is lower than the rate of inflation¹ and much less than the Government's own assumption.
- 1.3 After taking account of a minor deficit in the Collection Fund, total resources of £858.2m are available to fund City Council services in 2006/07.
- 1.4 In addition to these figures, the Government has introduced a new Dedicated Schools Grant (DSG), which will provide the resources for schools. The total DSG for 2006/07 will be £676.4m, an increase of 6.9%, subject to final pupil numbers.

BACKGROUND

2. Government Grant Settlement

- 2.1 The Government conducted a thorough Review of the Formula Grant during Summer 2005. The review resulted in some significant changes to the funding formulae in Personal Social Services for Children, Younger Adults, Elderly People, as well as to introduce a new Formula Grant distribution system called The Four Block model. The new system moves away from the notional spending and council tax elements of the previous formula grant distribution system. Therefore, Formula Spending Shares (FSS) and Assumed National Council Tax (ANCT) do not exist any more. These have added further complication to our comparison with previous years. The following paragraphs explain the main revenue resource issues that affect Birmingham City Council in the forthcoming two years.
- 2.2 *New Formula Grant Distribution Model*

The new grant distribution system comprises the following four cash blocks:

¹ Based on the Consumer Prices Index of 2.0% for December 2005, released by the Office for National Statistics on 17th January 2006.

- Relative needs - this is based on a set of mathematical formulae that include information on the population, social structure and other characteristics of each authority.
- Resources - this takes into account the fact that the Government provides less support to areas that can raise more income locally (from Council Tax) to provide services.
- Central Allocation - an amount per head of population in each local authority area.
- Damping - this ensures that all authorities receive at least the minimum increase set by the government year-on-year, with the grant for other authorities being scaled back to fund this.

Each authority's cash allocation is the total of the above four blocks. The size of the national totals of the first three blocks is set by ministerial judgment.

2.3 *Three-Year Settlements*

2006/07 will also mark the beginning of a move to three year Settlements. The first cycle will be for two years only; we have therefore received two years of Formula Grant information. Although the 2007/08 grant figures are now available, current statutory constraints mean that the settlement for 2007/08 cannot be announced formally until Autumn 2006. The Government stated that there will be a period of formal consultation and separate Parliamentary debate to approve the 2007/08 settlement in due course. The move towards three-year settlement announcements implies the formula will be frozen within a settlement cycle, and projected population and taxbase data have been used. This chapter concentrates on 2006/07 figures, but outline information for the 2007/08 has been included where appropriate.

2.4 *2004/05 and 2005/06 Amending Reports*

The Office for National Statistics (ONS) has revised the mid-2002 population estimates. Therefore, the Government has decided to make Amending Reports for both 2004/05 and 2005/06; this has the effect of retrospectively revising the last two Settlements. Whilst the population figures for Birmingham had not changed significantly, there were more extensive changes in other parts of the country. The reports slightly increased Birmingham's total grant entitlement for both years – an aggregate increase of £0.4m. This will form part of the grant payment to the City Council in 2006/07, although it is required to be shown as an amount of income, ie it reduces the net budget requirement by £0.4m.

2.5 The City Council's Formula Grant for 2006/07 is £563.8m (this excludes the £0.4m gain from the Amending Reports). For 2007/08, the provisional formula grant is £587.4m. The figures are presented in the tables below.

Table 1: Summary of Government Grant Settlement**2006/07**

	2005/06 Actual £m	Gov Adjusts* £m	2005/06 Restated £m	Real Change £m	2006/07 £m
Formula Grant	1,169.2	(617.7)	551.5	39.6	591.1
Less effects of scaling	(3.7)	0.0	(3.7)	(23.6)	(27.3)
Total Formula Grant	1,165.5	(617.7)	547.8	16.0	563.8

* A large proportion of the adjustment is due to the transfer of schools' funding out of Formula Grant into Dedicated Schools Grant – see below.

2007/08

	2006/07 Actual £m	Gov Adjusts* £m	2006/07 Restated £m	Real Change £m	2007/08 £m
Formula Grant	591.1	(2.7)	588.4	23.5	611.9
Less effects of scaling	(27.3)	0.0	(27.3)	2.8	(24.5)
Total Formula Grant	563.8	(2.7)	561.1	26.3	587.4

Dedicated Schools Grant

- 2.6 There are some significant changes in the funding regime for Schools. From 2006/07 onwards, the Schools Budget Block will be funded through a ring-fenced grant from DfES to local authorities (the Dedicated Schools Grant, DSG), rather than through the general local government finance settlement. Under the new arrangements, Birmingham City Council is not required to top-up schools resources. However, the extra resources for the Schools Block provided by the Council in the past has already been built into the DSG baseline, and so has now been consolidated into the DSG figure.
- 2.7 The DSG allocations for Birmingham are £676.4m and £720.9m for 2006/07 and 2007/08 respectively. These represent a £43.6m (or 6.9% over 2005/06's budgeted spend) and £44.5m (or 6.6%) year-on-year increase in the overall amount of DSG. These levels of increase are much higher than the figures announced in the Settlement for non-school services. At the time of writing this report, these DSG allocations are provisional and they are subject to change. Final allocations of the 2006/07 DSG will depend on actual pupil numbers as at January 2006 and will be determined by May 2006.

3. Council Tax

- 3.1 The total Council Tax for 2006/07 depends on:

- (a) the City Council's "budget requirement" less Formula Grant;
- (b) any estimated Collection Fund surplus or deficit to be brought forward from 2005/06;
- (c) the net precepts of Fire and Rescue Authority and Police Authority;
- (d) the precept levied by any parish council (the City Council currently has only one parish, that of New Frankley in Birmingham); and
- (e) the tax base for the setting of the Council Tax.

City Council Budget Requirement

- 3.2 The City Council's "budget requirement" for 2006/07 is £858.2m (non-school expenditure) and is set out in further detail in Chapter 2 of this report. The City Council will receive Formula Grant of £563.8m under the 2006/07 Local Government Finance Report (and a further £0.4m payable to the City Council under the Amending Reports as described in para 2.4 above). Changes to the method of calculating Formula Grant (as set out in paras 2.1 and 2.2 above) mean that Government assumptions about the level of Council Tax increases are no longer made explicit. However, the implied increase can still be derived. The figure for 2006/07 is in the region of 3.8%.

Collection Fund

- 3.3 Any deficit or surplus on the Collection Fund arising from Council Tax is to be shared amongst the precepting authorities, whilst any deficit or surplus from the old Community Charge/Poll Tax is solely the responsibility of the City Council.

(i) Community Charge

- 3.4 Cash collected against outstanding Community Charge accounts will be available as part of the fund surplus. Much of this will come from payment arrangements already made and the scope for future surpluses is limited as this debt is at least thirteen years old.

- 3.5 The total surplus in relation to Community Charge is estimated at £0.009m for 2005/06. This is attributable to the City Council only, and is only available to reduce the Council Tax level in 2006/07.

(ii) Council Tax

- 3.6 It is estimated that the part of the Fund relating to Council Tax will be in deficit at the end of 2005/06. This largely arises because of a higher than anticipated number of discounts and exemptions. The deficit is apportioned as:

Table 2

	£000
City Council	635
Police	66
Fire and Rescue	33
	<u>734</u>

- 3.7 For the City Council the £0.635m deficit is partially off-set by the Community Charge surplus of £0.009m shown above, giving a net deficit of £0.626m.
- 3.8 The Fire and Rescue and Police Authorities have already been advised of the expected Collection Fund deficit, as required by statute.

Tax base for 2006/2007

- 3.9 The tax base for setting the Council Tax next year was set by Cabinet at its meeting on 23 January 2006. The tax base consists of 285,655 "Band D Equivalent" properties, after allowing for a non-collection rate of 2%. This tax base cannot now be changed for the purpose of fixing the 2006/07 Council Tax.

Council Tax for City Council Services 2006/07

- 3.10 The total required from council tax payers in 2006/07 for City Council services (including levies) is summarised as follows:

Table 3

	£m
Budget requirement	858.202
Less	
Formula Grant	(563.775)
Collection Fund Deficit	0.626
Total Call on Council Tax Payers	<u>295.053</u>

Dividing this by the tax base of 285,655 Band D equivalent properties gives a Band D Council Tax for the City Council of £1,032.90. These figures represent a 1.9% increase in Council Tax for the City Council - a figure which is below the rate of inflation², and half the figure implied in the Government's Formula Grant calculation, and one which is expected to be amongst the lowest in the country.

Fire and Rescue Authority and Police Authority Precepts

- 3.11 The Police Authority met on 16 February 2006, and the Fire and Rescue Authority met on 13 February 2006, to agree the precepts on the City Council.

² Based on the Consumer Prices Index of 2.0% for December 2005, released by the Office for National Statistics on 17th January 2006.

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

Table 4

	£m
Fire and Rescue Authority	12.335
Police Authority	25.009
Total	<u>37.344</u>

3.13 For each property, the changes from 2005/06 represent an increase in the Fire and Rescue Authority precept of 4.8% and an increase in the Police Authority precept of 4.6%.

3.14 These represent a Band D precept of £43.18 for the Fire and Rescue Authority and £87.55 for the Police Authority.

Parish Precept - New Frankley in Birmingham

3.15 The New Frankley in Birmingham Parish Council agreed its precept on 21 November 2005. The precept for the parish in 2006/07 is £65,164. 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 in the Frankley area is £31.68.

Total Council Tax 2006/07

3.16 In accordance with the standard multipliers for the different property bands the Council Tax for 2006/07 representing an increase of 2.2% overall, can be summarised as follows:

Table 5

Band	City	Fire and	Police	Total	New Frankley in	
	Council	Rescue	Authority		Parish	Parish
	£	£	£	£	£	£
A	688.59	28.79	58.37	775.75	21.12	796.87
B	803.37	33.59	68.09	905.05	24.64	929.69
C	918.14	38.38	77.82	1,034.34	28.16	1,062.50
D	1,032.90	43.18	87.55	1,163.63	31.68	1,195.31
E	1,262.43	52.78	107.00	1,422.21	38.72	1,460.93
F	1,491.97	62.37	126.46	1,680.80	45.76	1,726.56
G	1,721.49	71.97	145.92	1,939.38	52.80	1,992.18
H	2,065.80	86.36	175.10	2,327.26	63.36	2,390.62

CHAPTER 2 - REVENUE BUDGET

1. Summary

- 1.1 The revenue budget for 2006/07 totals £858.2m. After allowing for the effects of inflation, it has been possible to commit £40.2m to addressing key priorities and in funding essential budget pressures. This includes a further significant investment in social care services, and in ensuring that the city becomes a cleaner, greener, and safer place for the people of Birmingham. Additional resources have also been included for the provision of services for homeless people, and to maximise the benefits for the city arising from the Olympic Games taking place in London in 2012.
- 1.2 This investment has been made possible by planned improvements in efficiency, totalling £28.4m. This includes the effects of transforming the way the Council undertakes its business, with a view to reducing overhead costs, and re-focusing our service delivery models to make better use of existing assets and to enable us 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 2006/07 revenue budget has been developed in the context of a medium-term financial strategy. Additional efficiencies or income of £2.5m will be required in order to balance the budget in 2007/08 whilst a surplus of £2.8m is currently anticipated in 2008/09 – figures for these years will be the subject of further work during the course of the coming year.

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.
 - Our comprehensive listening programme which helps us understand what is important to Birmingham people. We have also talked to partner organisations.
 - Addressing the need for improving performance in key service areas.
 - Meeting the cost of pay and price increases.
 - 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.
- Providing resources for schools at the level included in the new 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 priority locally. 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 2005/06 Outturn

2.3 Revenue budgets for 2005/06 have been closely monitored and reported to Cabinet, Regulatory, District/Constituency and Scrutiny Committees and Portfolio holders. In those services where difficulties were identified in the earlier part of the year, management action has been taken and, in some cases, additional resources identified, to ensure that the budgets are not overspent at the end of the year. It is anticipated that a projected balanced budget will be reported at Month 9.

2.4 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 2006/07.

3. Revenue Budget Allocations for 2006/07

3.1 The budget for 2006/07 allows for the following items:-

- pay and price inflation
- meeting the Executive's policy priorities particularly with respect to a Cleaner, Greener, Safer City
- a sustainable budget for Social Care (within Children, Young People & Families Portfolio and Adults & Communities Portfolio), taking account of expected changes in client numbers
- 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 increasing costs of pay and price increases has been as follows:

- provision for general pay awards at 2.95%
- provision for the teachers' pay awards in 2006/07 of 2.5% (the impact on schools is contained within the 6.9% increase in schools' budgets)
- general price/income increase of 2.0%
- price increases for contracts to reflect indexation provisions where these are applied as a condition of the contract
- increases for grants to organisations in the not-for-profit sector at 2.75% (reflecting the mix of pay and other costs)

Executive's Priorities

3.3 The Council's 2006/07 revenue budget supports the following priorities:

- A further significant investment in Children's Services and Adult Services and a set of modern service delivery strategies that together will transform the quality of support we give to vulnerable children and adults.
- A boost to budgets aimed at making the city cleaner, greener and safer, including improving recycling performance.
- A refocusing of our service delivery models to make much better use of existing assets to enable us to provide more timely, customer-focused services to all our residents and service users.
- A commitment to maintain the quality or quantity of services, except where there needs to be improvement to better meet users' needs and preferences.
- A range of support mechanisms to enable our staff to adjust to the rapidly changing needs of the Council, including re-training opportunities, proper recognition, rewards and promotion for staff supporting the Council's objectives, and a commitment to look after staff in return for their support for the change process.

Budget Pressures

3.4 The budget allows for new increases in a number of areas, totalling £40.2m. Full details of these budget pressures are set out in Appendix A. This includes:

- a substantial investment (£26.7m) in children's and adults' care services in order to reflect demographic pressures, the fall out of grant and important service developments
- an extra £5m in the budgets for investment in making the city a cleaner, greener and safer place

- an additional £1m to meet the costs of providing accommodation for homeless people
- £0.4m to fund a Task Force which will seek to maximise the benefits to the city of the Olympic Games taking place in London in 2012

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 5 of the report, and expectations of movements in interest rates. A general increase of £0.8m rising to £4.9m in 2007/08 and £8.0m in 2008/09 will cover the costs of interest and provide for future loan repayment. Further details are included in Chapter 6.

Schools' Budgets

- 3.6 Education expenditure has, to date, been split - in accordance with national requirements - between a Schools Block and LEA Budget Block. The former contains school delegated budgets and certain prescribed centrally held provision. Funding for both blocks has, in the past, come through general Formula Grant and Council Tax.
- 3.7 From 1 April 2006, funding for the Schools Budget Block will be through a new ring-fenced grant called the Dedicated Schools Grant (DSG). The total of DSG and Learning and Skills Council Grant for post-16 education will determine the size of the Schools Budget Block. There is no expectation that there will be a contribution from the Council Tax payer - although Authorities have a choice as to allocate additional local resources to the Schools Budget Block.
- 3.8 The total DSG in 2006/07 currently stands at £676.4m, an increase compared with 2005/06's budgeted spend of 6.9%. Whilst the amount per pupil is guaranteed, the actual DSG will be based on January 2006 pupil numbers and will not be confirmed by the DfES until May/June 2006. This allows for the possibility of actual grant being higher or lower than currently projected and budgeted for. Adjustments may, therefore, need to be made to the Schools Budget Block during 2006/07 to stay within the grant total.
- 3.9 Final budgets will be adjusted accordingly and authority to do so has been delegated to the Director of Corporate Finance, in consultation with the Strategic Director for Children, Young People and Families and the relevant Cabinet Member.

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

- 3.10 Other than the resources (£40.2m) identified to meet specific areas of spending (please see para 3.4 and Appendix A), 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. The budget strategy also includes efficiency savings shown below.
- 3.11 A range of portfolio savings have been identified, which are designed to make better use of the Council's resources. The details are set out in Appendix B but the summary by Portfolio is:

Table 6: Portfolio Savings

	£m
Leader's	1.8
Deputy Leader's	2.4
Adults & Communities	2.5
Children, Young People & Families	4.4
Equalities and Human Resources	0.5
Housing (General Fund)	1.0
Leisure, Sport & Culture	0.3
Local Services & Community Safety	0.1
Regeneration	1.5
Transportation & Street Services	4.1
District and Constituency Committees	2.2
Regulatory Committees	0.8
	<hr/> 21.6 <hr/>

- 3.12 A number of initiatives are being managed corporately, especially efficiency savings in support services. These have target savings of £2.6m, and will be allocated across portfolios/committees as the work develops. In addition, efficiency savings of £4.2m are also expected in 2006/07 from the business transformation projects, rising to £13.0m by 2008/09, and anticipated to exceed £100m pa within around seven years.

Summary of Efficiencies and Savings

- 3.13 The total efficiencies and other savings within the 2006/07 budget can, therefore, be summarised as follows:

Table 7 - Savings Summary

	£m
Portfolio efficiency savings	21.6
Corporate	2.6
Business Transformation Strategic Partnership	4.2
Total savings	<hr/> 28.4 <hr/>

Budget Risks

- 3.14 Inevitably, 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. Risks have been addressed in a number of different ways:
- 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 2005/06 financial year.
 - The planning of the Budget and Council Plan are integrated activities.
 - 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.
- 3.15 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 H. However, notwithstanding these issues, **the Director of Corporate Finance (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

- 3.16 The Council achieved a targeted level of balances of £10.9m by 31 March 2005. 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, the rigorous arrangements for the prompt and regular monitoring of budgets, and the risk management measures set out above in paras 3.14, 3.15 and Appendix H, **the formal view of the Director of Corporate Finance, 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.**
- 3.17 The following reserves and balances are expected to be available on 1 April 2006:

Table 8 - Reserves available to the Council

	01/4/06 Estimate £m
General unallocated balances	10.9
Portfolio and Committee Carry forward Balances	6.0
Earmarked Reserves (excl Schools)	36.5
Total	<u>53.4</u>

In addition school balances at the 31 March 2005 stood at £40.5m.

3.18 The Council's strategy for general balances in the medium-term is to:

- Consider contributing one-off resources to balances should there be an underspending at outturn 2005/06.
- Contribute £1.5m per annum from 2007/08 onwards.
- Add to balances any increase in income from fees and charges over and above the level budgeted (see below)

3.19 The strategy is, therefore, for there to be an increase in general balances to at least £13.9m by 31 March 2009 (provided there is no need for emergency funding in the meantime) in accordance with the strategy described above.

Fees and Charges

3.20 There will be a comprehensive review of the level of Fees and Charges during the early part of 2006/07. Any extra income above the level budgeted for will provide an added contribution to general balances.

Contingencies

3.21 The budget contains an allowance for contingencies of £6.692m. Specific sums included in this figure are:

Table 9

	£000
Loss of car park income due to major developments	554
Single Status implementation costs	514
Elections service	280
Community Safety	721
Partnership Priorities allocations	1,350
	<u>3,419</u>

3.22 In addition, there is a general unallocated contingency of £3.273m. This sum provides some flexibility in the overall management of the budget in 2006/07.

Staff Support Mechanisms

- 3.23 The Council has a range of initiatives which support staff to carry out their roles more effectively. These include the annual Chamberlain awards which recognise teams and individuals for excellence, leadership and innovation. Also, the recently introduced Performance and Development Review scheme, which requires a twice yearly personal appraisal of all staff, a range of training programmes such as skill gyms, a coaching and mentoring pilot, regular induction events for new staff as well as a new approach for supporting and retraining re-deployees and other staff seeking wider job experience. These initiatives combined together will support staff to contribute positively to the change agenda.

4. Housing Revenue Account

- 4.1 The Housing Revenue Account (HRA) is a 'ringfenced' account, which is self financing and therefore has an overall net expenditure of 'nil'. Income comes, principally, from housing rents and Government Grant (Housing Subsidy), with no contribution from Council Tax. A report on the proposed rent and service charge increases, to be implemented from October 2006, is being considered by the Cabinet on 27 February 2006.

5. The City Council's Net Revenue "Budget Requirement" for 2006/07

- 5.1 The components of the budget increase from 2005/06 can be summarised as follows:

Table 10 - Movement in Base Budget

	£m	Notes
Base Budget 2005/06	1,452.3	
Adjustment for Dedicated Schools Grant **	(631.9)	Para 3.7
Pay & Price inflation (non-schools)	25.6	Para 3.2
Meeting budget pressures & service changes	40.2	Para 3.4 & App A
Treasury Management	0.8	Para 3.5
Efficiency savings	(28.4)	Para 3.11-3.13 App B
Amending Report gain	(0.4)	Para 2.4 in Ch 1
City Council Budget Requirement	858.2	

** School Budget Block will be funded by DSG from 2006/07 onwards

- 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 2006/07 will be £858.2m calculated as follows in accordance with Section 32 of the Local Government Finance Act 1992:-

Table 11 - Summary of Budget Requirement

	£m
Gross City Council Expenditure	2,861.9
Less: Estimated City Council Income	2,003.7
City Council Budget Requirement	858.2

5.4 The budget requirement includes an allowance of £49.292m (2.5% increase overall) in respect of the Passenger Transport Authority levy for 2006/07 and £0.304m for the Environment Agency Levy.

5.5 The budget for each Portfolio/Regulatory Committee is summarised in Appendix C. This takes account of organisational changes as a result of the creation of portfolios for services for Children, Young People and Families and services for Adults and Communities. The main operational budgets reflect the new structure, but it is probable that some further adjustments (within the overall bottom line budget) will be necessary, including the re-apportionment of support service costs. Authority to make these changes has been delegated to the Director of Corporate Finance, in consultation with the Strategic Directors for Children, Young People and Families, and for Adults and Communities, and the relevant Cabinet Members.

6. Consultation

6.1 Consultation with Business Ratepayers took place at a Business Breakfast hosted by Chamber of Commerce & Industry on 19 January 2006 and a meeting with representatives of not-for-profit organisations took place on 10 February 2006. Consultation has taken place with the Trade Unions corporately (25 January 2006), and individual proposals are being discussed through the normal Directorate consultation processes. Whilst some further information has been requested, no issues have been raised which need to be taken into account by the City Council in setting the Budget for 2006/07.

7. Three-Year Financial Plan

7.1 Based upon the decisions for 2006/07, figures have now been developed for the three year period to 2008/09. The position over that period, as currently estimated, is summarised in Table 12 below.

Table 12 - Three Year Financial Projections

	2006/07	2007/08	2008/09
	£m	£m	£m
Base Budget 2005/06	1,452.3	1,452.3	1,452.3
Adjustment for Dedicated Schools Grant	(631.9)	(631.9)	(631.9)
Pay & Price inflation (non-schools)	25.6	52.8	82.8
Meeting budget pressures & service changes	40.2	69.5	73.9
Treasury Management	0.8	4.9	8.0
Efficiency savings	(28.4)	(57.0)	(82.3)
Amending Report gain	(0.4)	0.0	0.0
Contributions to/(from) general balances	0.0	1.5	1.5
Net Spending	858.2	892.1	904.3
Less Resources			
Government Formula Grant	(563.8)	(587.4)	(597.5)
Council Tax	(294.4)	(302.2)	(309.6)
Net	0.0	2.5	(2.8)

7.2 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 2006/07. 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 in line with those allowed in the 2006/07 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 for 2007/08 and 2008/09.

7.3 The figures for 2007/08 and 2008/09 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 2007/08. The medium-term perspective will be maintained by then adding a further Year 3 (2009/10) to maintain a rolling three-year programme.

7.4 It is very important that the City Council continues to take a medium-term view of its finances. It is particularly important that the use of the City Council's finances reflects its corporate policies and the linkages to continuous improvement and the level of performance improvement to which the Council is committed.

8. Monitoring and Control of the Revenue Budget

- 8.1 Portfolio holders and Committees will receive reports on budget allocations for 2006/07 at the start of the financial year. Portfolio Holders and Committee Chairmen will be required, along with the relevant Strategic Director, to sign off these budgets.
- 8.2 It will be essential for budget holders and Cabinet Members/Committee Chairmen to maintain proper fiscal discipline in order to keep within approved budgets. This will be a key component of performance management.
- 8.3 The budget must be managed in accordance with the City Council's Financial Regulations, Standing Orders and Budget and Policy Framework as set out in the Constitution. Cabinet Members/Committees are expected to ensure that budgets are managed within the cash limits set out in this report.
- 8.4 The 2006/07 revenue budget will be monitored closely during the forthcoming financial year. Regular reports approved by the relevant Strategic Director(s) and the Director of Corporate Finance, will be presented to Portfolio holders and Committees, and will also be forwarded to Overview and Scrutiny Committees.
- 8.5 In addition regular reports from the Chief Executive and the Director of Corporate Finance will be presented to Cabinet on the overall Council position. These will report on the following:
- financial position to-date.
 - projected outturn position at the end of the financial year.
 - corrective action required to ensure that the budget remains within the agreed guidelines.
 - service impact of any proposed corrective action.

CHAPTER 3 - CAPITAL STRATEGY

1. Summary

The Capital Strategy provides the framework for capital planning in the context of the Council Plan and other key strategies. The biggest challenge in the next decade is to refocus property to release unsuitable premises and produce a portfolio which enables better value and better service delivery. A challenging Asset Management Planning process is therefore underway and a Property Fund will be created to support delivery. The Decent Homes programme, Building Schools for the Future, Highways maintenance plans and the Elderly Persons Strategy are future key capital programmes. The Capital Receipts policy, Single Capital Pot policy, PFI proposals and the use of prudential borrowing reflect these priorities.

2. Purpose

2.1 The Capital Expenditure Programme 2006/07 to 2008/09 (CEP) proposed in Chapter 5 of this report sets out specific capital expenditure proposals for the next few years. This Capital Strategy chapter sets the framework for the CEP's proposals in the context of the City Council's medium to longer term capital needs and pressures. The strategy should also assist the development of future capital budgets. In particular the following paragraphs consider the capital strategy relating to the following key areas:

- the Asset Management Plan (which covers all service properties outside the Housing Revenue Account)
- Housing Strategy
- Highways and Transportation
- Children, Young People and Families

3. General Strategic Aims

3.1 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 best 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 best 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 (AMP) process; including the rationalisation of property holdings.

3.2 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.

4. Asset Management Plan (AMP)

4.1 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.

4.2 The Government has recognised the need to change the tone of asset management planning from an input based approach to one of outputs. Good practice guidance for Asset Management has been issued by the RICS/ODPM and is embedded in the new CPA key lines of enquiry. These changes are reflected in the authority's current Corporate AMP. The AMP 2005 described the current position for the management of these assets, examined influences for change, and made recommendations for action.

4.3 Significant progress has been made in the last year, in particular:

- the completion of the Overview and Scrutiny review of Operational Property holding and adoption of its recommendations
- the creation of a Property Committee to make and co-ordinate executive decisions about the property estate
- the creation of a non-executive Property Board to provide advice
- the strengthening of a corporate asset management approach at senior officer level by the formation of a Corporate Asset Management Group (CAMG)
- the initiation of three major projects to advance the AMP programme

4.4 The three projects referred to above are the Council's administrative buildings review (examining the use and occupation of 53 buildings across the city), District Asset Management Plans (examining the delivery of services in each district), and efficiencies in property utilisation (examining modern methods of working).

4.5 Each project, while separate, will be co-ordinated through the officer and member level Property groups as part of the Council's overall Asset Management Strategy. In taking forward this work, the needs of future service delivery are the key drivers for analysing and changing the property portfolio. The aim is to improve service delivery and value for money by substantially refocusing the property portfolio. This is likely to require some painful decisions to dispose of long-held properties in order to achieve improved services to customers.

- 4.6 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, the Business Transformation Strategic Partnership and the savings programme which is part of the proposed 2006/07 revenue budget.

Next Steps

- 4.7 The Property Committee and the CAMG will challenge the recently updated draft Service AMPs with Strategic Directors as appropriate to ensure that each Directorate has clearly identified the strategic needs of the property portfolio required to meet its service delivery needs both now and in the future. It is anticipated that this will take place before the end of the 2005/06 financial year.
- 4.8 Three District AMPs have been completed and the rest are due to be completed by CAPITA under the interim arrangements supporting the proposed Strategic Partnership by the end of March 2006. Service AMPs and the other projects referred to above will enable the production of a corporate AMP by June/July which can feed into the Council's revenue and capital budget process for 2007/08. Some early actions should also be possible in 2006/07.
- 4.9 The 2006 AMP process is a departure from the previous one in that it challenges Directorates to review rationally and consider the property they need to deliver their services. To be successful Directorates must thoroughly consider their business needs and the requirements of their client base in order to specify a portfolio of property that addresses those needs.
- 4.10 The strong geographical approach provided by District AMPs will enable the development during 2006 of detailed local options and solutions for property rationalisation and improvement in which the Districts will play a strong part alongside other Directorates' services. It is unlikely therefore that substantial capital investment will be required during 2006/07 but the Council needs to start identifying major funding for 2007/08.

Funding

- 4.11 The generation of additional capital receipts and revenue savings which can support prudential borrowing will contribute a significant level of resources to fund the property rationalisation programme. A stretching target of achieving £100m receipts in the three years from 2005/06 has been set. However significant further funding will be required. The Capital Budget in Chapter 5 proposes some initial resources for a 'Property Fund' 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).
- 4.12 Further work on affordable prudential borrowing levels in the long term is being carried out as described in paragraph 10 below.
- 4.13 A report will be brought to Cabinet in early Summer 2006 to approve the revised corporate AMP and to decide the process for general allocations of Property Fund monies. This is likely to be led by the priorities and early actions identified by the new AMP in the light of the District AMPs, Service AMPs and other studies, but there may be an element of 'bidding' for capital resources as in previous years.
- 4.14 Achieving the AMP objectives will require an integrated approach to using the resources available. The use of the capital receipts generated by proposals will need to be explored as part of the funding package for individual proposals. External funding will need to be levered in where possible.

5. Housing Strategy

- 5.1 The proposed Housing Capital budget for 2006/07 is £157.9m and the expenditure will be funded through the Major Repairs Allowance, Regional Housing Board Allocations, useable RTB/Land receipts and capital grants. The resources 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 have been approved by Cabinet and determine the Council's high level policy for capital investment in both public and private sector housing.
- 5.2 The key priority for council housing is the achievement of the Decent Homes Standard by 2009/10. 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 under annual review to ensure that the long-term planning priorities are delivered.
- 5.3 The total resources that will be invested in council housing between 2006/07 and 2008/09 are estimated at £374m. The key components of the investment include Decent Homes of £223m, developing new housing of £48m, and work on major voids of £8m.
- 5.4 The capital investment is delivered through key strategic partners selected following a tender process. This will help to ensure that value for money is achieved within the available resources and efficiency maximised.
- 5.5 The Council is also leading on a number of area regeneration programmes to enable the provision of affordable housing with private sector and registered social landlord partners. This will help to ensure that available land is utilised effectively.

- 5.6 There are a number of priorities for private sector housing and these are reflected in the current Housing Strategy. The key priorities include the following:
- Achievement of Decent Homes Standard for private sector owner-occupiers through a number of initiatives for example, affordable warmth, equity release, clearance and safety net individual renovation grants.
 - The provision of new affordable housing in conjunction with private sector and RSL partners and including bringing back empty properties into use.
 - Ensuring balanced housing market areas for the long term through the provision of mixed tenure housing accommodation including initiatives for tackling homelessness and adaptations for independent living.

6. Highways and Transportation

- 6.1 The proposed Transportation and Street Services capital budget for 2006/07 is £43.5m. The Local Transport Plan (LTP) is the key capital planning process 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 the authorities. The final LTP 2006 (which determines resources for 2007/08 onwards) will be submitted to the Government in the next few weeks following agreement by the WM Districts.
- 6.2 The proposed highways maintenance PFI is key to meeting the investment needs of the service. PFI credits of £379m have been provisionally offered to address the backlog in works and maintain the City Council's highway assets to an acceptable standard over the 25 year contract period. The PFI project is being developed to the Full Business Case stage and is planned to be submitted for Cabinet and Government approval in late 2006/07, with a view to commencing in 2007/08.
- 6.3 A major programme of re-investment in the City Council's car parks is being considered, to be funded by prudential borrowing. A Full Business Case is being prepared for Cabinet approval in the first half of 2006.
- 6.4 The further development of the Metro network and the improvement of New Street Station are other major objectives of the transportation capital strategy but these require substantial external funding which relies on significant public sector contribution. £2.5m has been included in the proposed capital budget to support initial design work on New Street Station. The Council's primary role is as a facilitator as the station belongs to Network Rail, but the Council would be the applicant in any bid for major LTP funding for the project. The Metro is being developed and funded by the Passenger Transport Authority and Centro.
- 6.5 The 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 proposals.

7. Children, Young People and Families

7.1 The Children, Young People and Families proposed capital budget for 2006/07 is £57.1m. The capital strategy supports the three key themes of the Council Plan to achieve the goals of:

- (i) contributing to service delivery both through the provision of appropriate, maintained and flexible infrastructure and maximising external funding/grant opportunities;
- (ii) establishing and implementing best value property solutions with service/site management teams, property consultants/contractors and other stakeholders;
- (iii) providing a safe, secure, accessible and welcoming environment for users and staff.

Building Schools for the Future (BSF)

7.2 BSF is the Government's strategic programme of rebuilding and renewal to deliver modern schools for all secondary school pupils. A £2m development budget has been created to cover the period 2005-2008. It is a critical service delivery objective to utilise BSF as effectively as possible in Birmingham. This will involve an unprecedented collaboration to obtain best value from £750m additional government funding. It also provides the opportunity for co-ordinated planning with other City Council and public services to provide a range of services where they are wanted, as part of the wider Asset Management Plan review. Further meetings are being held with other service providers. There is also an opportunity to develop a joint PFI bid to complement the work of BSF in respect of the provision of updated residential accommodation for some special needs pupils.

PFI Packages

7.3 Having successfully secured and implemented the first package of PFI school rebuilds in the country, the City Council is expecting to let a contract to rebuild a further 12 schools prioritised for action because of their poor condition. It is expected that this contract will be secured within the next few weeks and building commence in early summer.

Other Key Priorities for 2006/07

7.4 The priorities applied in 2005/06 and developed with the Directorate's Property Working Group remain:

- emergency work
- new pupil places resulting from permanent demographic change

- stewardship - prioritised property maintenance and renewal work
- additional catering resources to accelerate implementation of healthy eating across city schools
- delivery of children's centres Phase 2 and other nursery-related initiatives
- inclusion/co-location/access - prioritised co-location schools need to be implemented

7.5 As part of the City Council's wider Asset Management Plan work, there is also an opportunity to consider property rationalisation across libraries, schools and other Council facilities.

Education Asset Management Plan

7.6 The strategic and operational management of the property portfolio must reflect the increased role for schools and centre managers following the delegation and devolving of budgets. Current backlog of repair and maintenance related works indicates investment required over the next 5 years of more than £440m to deal with identified issues. In addition to the R&M backlog, a survey has been undertaken to consider the appropriateness of school accommodation (Suitability assessments), when measured against a standard model based on national guidelines. Whilst a significant proportion of these issues may be dealt with via the Building Schools for the Future programme, they are likely to remain significant issues for all schools and centres which are not Secondary Schools.

8. Other Service Strategies

8.1 The corporate Asset Management Plan (considered in section 4 above) co-ordinates the property issues of all Council services. This is led by the relevant service strategies.

8.2 An important strand in the Council's Capital Strategy and capital programme in the next few years is the implementation of the two Commissioning Strategies for Older Persons and for Children. These strategies are bringing together children's services, adults' services, Housing officers, and social landlords in partnership to deliver housing, care and other needs. The proposed funding solution includes prudential borrowing, the generation of capital receipts, targeted land sales to RSLs and a bid for PFI funding.

9. Capital and the Financial Planning Process

9.1 The financial planning process which has developed the 2006/07 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.

9.2 In allocating capital resources for the 2006/07 capital budget, scope has been left for further resources to be allocated in the 2007/08 capital budget. The process for this will commence in the summer of 2006. The aim is to ensure a

modest capital allocation on an annual basis, to avoid a stop-start approach to capital planning.

- 9.3 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 2006/07 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?

Proposals were initially reviewed and scored by the Budget Analysis Group of officers, before being reviewed by the Corporate Management Team and members of the Executive Management Team.

10. Prudential Borrowing

- 10.1 The Prudential Capital system offers local authorities more flexibility in their capital finance and greater ability to borrow for capital providing they can afford the revenue consequences. This enables the Council to determine the speed at which it can meet its capital needs as measured by the Asset Management Plan. The City Council's scope to use borrowing affordably will be reviewed during 2006 in the context of its developing long term strategy for Asset Management Plan funding. A 30 year financial model is being used to test and develop a long term affordable borrowing strategy in this context.

11. Capital Receipts Policy

- 11.1 The capital receipts policy approved in the 2005/06 budget 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 Districts, a further 10% is available 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.

- Some other specific receipts approvals agreed before the above framework was introduced in 2005 remain in place.

12. Single Capital Pot Policy

12.1 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:

Education	75%
Housing	100%
Transport	75%
Social Services	75%

12.2 The remaining 'corporate topslice' is then available as part of the annual capital budget process to support corporate priorities and cross-cutting needs.

CHAPTER 4 - CAPITAL RESOURCES

1. Summary

Specific resources make up most of the capital programme and are used in support of City Council priorities - these resources include 'off balance sheet' proposals like PFI. The Single Capital Pot and capital receipts are the main resources whose use can be determined by the City Council. The amount available for allocation in this budget is £39.9m including some modest 'over-programming'. Prudential borrowing of £47.3m and £3.7m from capital receipts are also proposed. The borrowing costs can be met within proposed service budgets.

2. Summary of Resources

2.1 The capital programme for 2005/06 to 2007/08 approved last year was £948.5m. Since then, services have obtained additional "specific" resources from external funders. Additional "corporate" resources have also been identified, mainly from capital receipts and from the Government's Single Capital Pot allocation (these are available for the Council to spend in accordance with its own priorities).

2.2 The following table summarises the total capital resources being used or otherwise available to fund the existing programme and new proposals:

Table 13

£millions funded from	2005/06	2006/07	2007/08	2008/09	Total
Specific Resources	249.7	207.4	146.3	83.1	686.5
Prudential Borrowing	*224.0	55.9	34.6	15.5	330.0
Corporate Resources	163.8	88.1	101.5	61.9	415.3
Total	637.5	351.4	282.4	160.5	1,431.8

* of which £215m was for NEC refinancing

3. Specific resources

3.1 Council services bid for specific capital resources from the Government and other external funders. The current resources available are summarised as follows:

Table 14

	2005/06	2006/07	2007/08	2008/09
	£m	£m	£m	£m
Grants	107.6	88.2	63.9	39.7
Contributions	35.6	13.3	1.0	0.4
NRF/SRB	15.5	2.9	0.2	0.0
Portfolio Revenue	7.8	6.0	6.7	10.6
Borrowing	13.9	4.7	1.5	0.0
Earmarked Receipts	68.3	92.3	73.0	32.4
Leasing	1.0	0.0	0.0	0.0
Total specific Resources	249.7	207.4	146.3	83.1

- 3.2 Specific resources reduce in later years because future allocations are not yet known - this does not necessarily imply shrinking resources in the future.
- 3.3 The remainder of this chapter concentrates on Corporate resources, which the Council has some discretion to allocate in accordance with its own priorities. The level of specific resources available to portfolios is a factor in considering the allocation of general resources.

4. Single Capital Pot Allocation

- 4.1 The Government has so far announced Single Capital Pot allocations for 2006/07 of £51.9m. This is a combination of supported borrowing and ring fenced grants. However a further announcement of Housing resources is expected giving a total forecast of £67.2m as follows:

Table 15

	2005/06 allocation	2006/07 allocation	2007/08 forecast	2008/09 forecast
	£m	£m	£m	£m
Education	21.0	21.1	21.4	10.5
Housing (forecast)	31.3	26.0	26.0	22.3
Transport	19.0	19.4	15.8	8.8
Social Services	0.7	0.7	0.7	0.6
	72.0	67.2	63.9	42.2

- 4.2 The Single Capital Pot is available to spend on any service in line with City Council priorities, but in practice the Government expects it to be used largely to achieve its targets and objectives for the four big services above. The Capital Strategy (Chapter 3) proposes to maintain last year's policy of allocating 75% of single pot resources automatically to Education, Transport and Social Services, and 100% to Housing. The remaining 25% corporate topslice is available for allocation in this budget (the allocation of this is described in Chapter 5).

5. Corporate Resources

5.1 The City Council's Corporate Capital resources position is summarised as follows:

Table 16

	2005/06	2006/07	2007/08	2008/09
	£m	£m	£m	£m
Single Capital Pot	72.0	67.2	63.9	42.2
Capital receipts	26.2	19.8	36.5	18.6
Other	65.6	1.1	1.1	1.1
Total Corporate Resources	163.8	88.1	101.5	61.9

6. Available Corporate Resources

6.1 Taking account of the above policies, the remaining resources are available for allocation to services:

Table 17

	2005/06	2006/07	2007/08	2008/09	Total
	£m	£m	£m	£m	£m
Corporate Resources	163.8	88.1	101.5	61.9	415.3
Less:					
Existing allocations	126.9	100.4	86.8	69.8	383.9
Balance Available	36.9	-12.3	14.7	-7.9	31.4

6.2 It is considered that a modest level of 'over-programming' of £8.5m is appropriate given the likely level of slippage in corporate capital budgets. The total resources available are therefore £39.9m.

6.3 During 2005 a process was undertaken for allocating these capital resources. This was undertaken in accordance with the processes highlighted in the Capital Strategy (Chapter 3 Section 9). The outcome of this bidding process is covered in Chapter 5 of this report.

7. Prudential Borrowing

7.1 The City Council has a genuine choice about the level of prudential borrowing it wishes to make available to support the Capital Programme. The key consideration is the affordability of the interest and repayment costs and other revenue consequences of the projects. This budget includes £47.3m of proposals which will be funded from prudential borrowing, where the revenue costs will be met from the relevant services' approved budgets.

7.2 The total prudential borrowing included in these budget proposals is therefore as follows. This is taken into account in the Prudential Indicators proposed within this budget (Appendix F).

Table 18

	2005/06	2006/07	2007/08	2008/09	Total
	£m	£m	£m	£m	£m
Prudential Borrowing					
1. previously approved	224.0	24.0	19.2	15.5	282.7
2. now proposed		31.9	15.4		47.3
Total	224.0	55.9	34.6	15.5	330.0

CHAPTER 5 - CAPITAL BUDGET AND CAPITAL EXPENDITURE PROGRAMME

1. Summary

- 1.1 A capital allocation process has been run in accordance with Council priorities. New schemes totalling £20.9m are proposed (including a contingency) together with a Property Fund of £19m towards AMP priorities, and with schemes funded from prudential borrowing of £47.3m; and from capital receipts of £3.7m: a total package of £90.9m. These become part of an overall programme totalling £840m over the three years 2006/07 - 2008/09.
- 1.2 The proposed prudential limits and indicators at Appendix F reflect a balanced and affordable approach to the City Council's capital finance. Within these indicators the Authorised Limit for Debt is set at £1,799m.

2. Background

- 2.1 This Chapter sets out the proposed total Capital Expenditure Programme 2006/07 to 2008/09 including the allocation of available Corporate Capital Resources. The Capital Strategy (Chapter 3) outlines the capital needs and priorities of services in the context of the City Council's corporate priorities, which forms a framework for this capital budget and for the preparation of future budgets in next year's financial planning process. Chapter 4 (Capital Resources) describes the capital resources currently available to the Council, which are available for this capital budget and programme.

3. Allocation of capital resources

- 3.1 Services were invited during the financial planning process to submit proposals for the available capital resources, which were ranked using simple assessment criteria based on a policy and technical evaluation as described in the Capital Strategy (Chapter 3 paragraph 9.3 above).
- 3.2 Bids were initially considered by officers and have been further reviewed by members of the Executive during the development of the budget. Bids for specific schemes have been either accepted in full, or rejected, whilst bids for programmes of works have sometimes been scaled back.
- 3.3 Chapter 4 above has identified that £39.9m of corporate capital resources are available for allocation in this budget, after taking account of the policy allocations from capital receipts and the Single Capital Pot.
- 3.4 Appendix D lists the schemes and programmes totalling £39.9m which are now proposed to be accepted into the capital budget. The normal capital expenditure rules (set out in Accounting Procedures Manual) will apply to these schemes, namely that an Outline Business Case and a Full Business Case should be presented to the relevant Cabinet Member, Cabinet Committee or Cabinet before schemes can proceed (major annual programmes should be presented for

approval in a Full Business Case before the start of the year and be reviewed during the year and after the year end). Option appraisal is an important element in the Business Case report especially at Outline stage.

- 3.5 The proposals in Appendix D include the establishment of a Property Fund of £19m to start addressing Asset Management Plan issues, as described in Chapter 3 paragraph 4.11 (above).
- 3.6 Appendix D also lists £47.3m of further proposals for the capital budget which will be funded from prudential borrowing. The interest and repayment charges for borrowing will be met within the proposed revenue budgets of the relevant service. The main prudential borrowing proposal is for the Special Care Centres which form part of the Commissioning Strategy for older peoples services approved by Cabinet on 19 December 2005.
- 3.7 Cabinet has previously approved a long term earmarking policy for receipts in Attwood Green and at Eastside. Further reports will be brought to Cabinet to approve the allocation of these receipts. Two specific Eastside proposals are included in Appendix D.
- 3.8 These proposals amend the overall capital programme as follows:

Table 19

	2006/07	2007/08	2008/09	Total
	£m	£m	£m	£m
New proposals:				
- corporate resources	16.9	14.3	8.7	39.9
- prudential borrowing	31.9	15.4	0.0	47.3
- earmarked receipts	3.0	0.7	0.0	3.7
	51.8	30.4	8.7	90.9
Existing commitments	328.8	251.6	168.4	748.8
Total Capital Programme	380.6	282.0	177.1	839.7

- 3.9 The proposed three year Capital Budget is therefore as follows, including the additional schemes now proposed as well as the existing commitments within the Capital Programme.

Table 20

	2006/07	2007/08	2008/09	Total
	£m	£m	£m	£m
Expenditure				
Leaders	13.8	11.0	5.8	30.6
Deputy Leaders	11.5	2.4	0.0	13.9
Adults & Communities	38.8	18.7	0.2	57.7
Children, Young People & Families	57.1	38.0	7.6	102.7
Equalities & Human Resources	1.7	0.5	0.0	2.2
Housing	157.9	151.2	145.1	454.2
Leisure Sport & Culture	24.1	3.2	0.0	27.3
Local Services & Comm Safety	5.3	6.0	0.0	11.3

Regeneration	18.2	14.4	2.1	34.7
Transport & Street Services	43.5	27.6	10.7	81.8
Public Protection	0.2	0.0	0.0	0.2
Planning Committee	0.5	0.0	0.0	0.5
Council Business Management	0.2	0.0	0.0	0.2
Property Fund	6.4	8.0	4.6	19.0
Contingency	1.4	1.0	1.0	3.4
Total Expenditure	380.6	282.0	177.1	839.7
Resourced By				
Specific Resources	(207.4)	(146.3)	(83.1)	(436.8)
Corporate Resources (inc Prudential Borrowing)	(144.0)	(136.1)	(77.4)	(357.5)
Total Resources	(351.4)	(282.4)	(160.5)	(794.3)
In Year (Surplus) /Deficit	29.2	(0.4)	16.6	45.4
Opening Resources	(36.9)			(36.9)
Cumulative (Surplus) /Deficit	(7.7)	(8.1)	8.5	8.5

- 3.10 Over the three year Programme a funding shortfall of £8.5m is forecast. However, due to the level of slippage the capital programme has experienced over recent years (see below) it is reasonable to expect there will be sufficient resources available to finance this over-programming over the three years and in each individual year. Appendix E provides a further analysis of the proposed Capital Expenditure Plan by Portfolio.
- 3.11 This budget does not yet identify capital resources for the substantive cost of some major capital proposals including the Library of Birmingham, Metro, or New Street Station, as noted in chapter 3 paragraph 6.4. Funding packages for these will need to be developed in order to progress further.
- 3.12 The Capital Programme above shows City Council expenditure and therefore excludes capital expenditure by contractors under PFI schemes. Schools 1 PFI is in progress and Schools 2 PFI contract completion is expected imminently. Further PFIs are likely under the Building Schools for the Future Programme, and the proposed Highways Maintenance contract.
- 3.13 At Quarter 2 of 2005/06 £37.3m slippage was reported to Cabinet. This is 5.8% of the approved capital budget. Given the experience of recent years this figure is very likely to increase significantly at outturn. Work is continuing to review the way the capital programme is budgeted and managed to reduce future levels of slippage.

4. Prudential Code and Indicators

- 4.1 In determining the above 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 F provides the Prudential Indicators which result from the above capital budget and considers other matters which the Code requires authorities to take into account.
- 4.2 The Authorised Limit for Debt represents the maximum level of debt which the City Council may have 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 2006/07 which are not included in the budget. The proposed limit is built up as follows:

Table 21

	£m	£m
Forecast borrowing at 31 March 2006		1,349
Add borrowing to finance capital in 06/07		
Government supported	50	
Unsupported	56	
Add assumed cashflow	121	
Less revenue provision to repay debt	(48)	
Less maturing investments	(77)	
= Forecast borrowing requirement		<u>102</u>
		1,451
Allowance for:		
Peak/adverse cashflow	50	
Borrowing in advance of need	150	
Potential unsupported borrowing	100	
		<u>300</u>
= 1. Authorised Limit for Borrowing		1,751
Other Long Term Liabilities at 31.3.06	38	
+ Possible increase in 2006/07	10	
= 2. Authorised Limit for other long term liabilities		48
1 + 2 = Authorised Limit for Debt		<u>1,799</u>

CHAPTER 6 - TREASURY MANAGEMENT STRATEGY

1. Summary

The Treasury Management Policy at Appendix G sets out the policy and framework for this Treasury Management Strategy. Interest rates are expected to remain relatively low in 2006/07. Much of the borrowing needs of 2006/07 have already been funded due to the availability of very low long term rates. New borrowing is expected to be short term or variable rate, but further fixed rate borrowing may be taken if rates fall further. The Strategy is flexible if circumstances change. For example, higher rates may offer the opportunity to restructure part of the borrowing portfolio.

2. Purpose

- 2.1 This Strategy 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 Director of Corporate Finance prepares a Treasury Management Strategy for the forthcoming year as part of delegated responsibilities to manage the Council's loan debt and to approve borrowings and investments by the Council. 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 Director of Corporate Finance 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 2006 is forecast to be as follows:

Table 22

	Debt £m	Average Interest Rate %
Short/variable debt	0.1	4.5
Fixed Rate: Under 5 years	40.0	10.0
5-9 years	149.7	9.7
10-24 years	666.8	8.4
25+ years	492.1	5.4
	1,348.7	
Less short term investments	(76.6)	(4.5)
Total Net Debt	1,272.1	

- 5.2 The City Council's volume of debt is fairly typical of other metropolitan authorities, proportionate to its size. Birmingham's debt per head of population was £1,114 at 31 March 2005 compared with an average of £1,477 per head for the eight English 'Core Cities'. However, this has more to do with the historic amount of government borrowing approvals, than the individual policies of the local authorities.

6. City Council Borrowing Requirement

- 6.1 The City Council's debt is forecast to increase over the coming two years as a result of new borrowing to finance the Capital Programme contained in Chapter 5 of this Budget Report.
- 6.2 The City Council's budgeted additional borrowing for 2006/07 therefore takes account of the financing of the Capital Programme, and the maturity of existing loans. This will result in an increase in the level of short term and variable rate debt unless decisions are taken to borrow long term:

Forecast variable rate exposure

(assuming no fixed rate borrowing)

Table 23

	2006/07	2007/08	2008/09
	£m	£m	£m
Opening short and variable debt	0.1	111.9	168.7
Maturing long term debt ⁽¹⁾	20.0	30.0	50.0
Committed long term borrowing	(10.0)		
Forecast borrowing requirement	101.8	26.8	(13.4)
Closing short and variable debt	111.9	168.7	205.3
<i>variable exposure as % of net debt</i>	+7.7%	+11.4%	+14.0%
Less variable debt charged to HRA:	97.6	119.0	138.7
General Fund variable rate exposure (if no fixed rate long term borrowing)	14.3	49.7	66.6
Nb. forecast total net debt (year end)	1450.6	1477.4	1463.9

⁽¹⁾ These maturities are dependent on the lender exercising an option which may not be exercised in practice.

- 6.3 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 below the limit in 2006/07 and is forecast to remain below it in the following two years, even if no 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

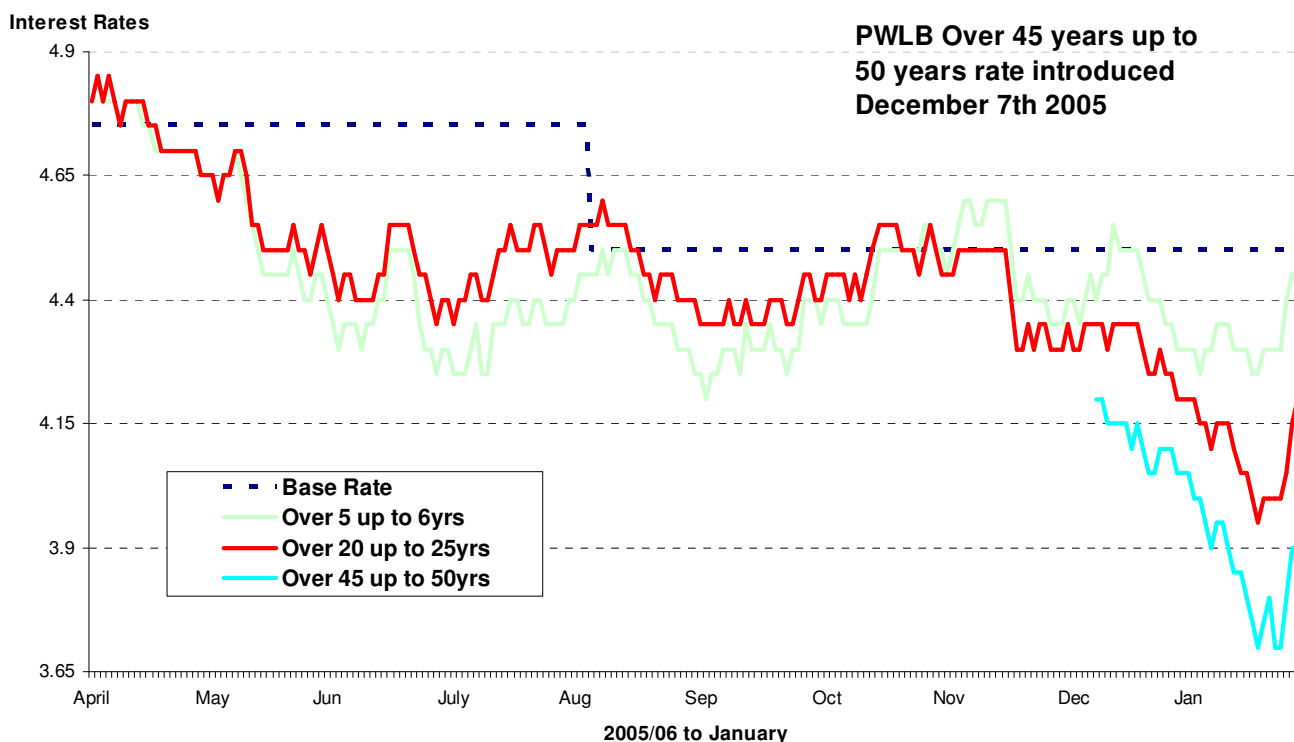
- 7.1 The world economy has been experiencing an increase in commodity prices due to strong economic growth in China and India, as well as higher oil prices. However, this has not fed through into significant inflationary pressures due in part to supply side increases and technology improvements. Interest rates in the USA have been rising but the indications are that this phase is nearing its end and US growth is expected to weaken. The Eurozone economies are showing modest growth and ECB rates have risen slightly, and this may continue.
- 7.2 In the UK, GDP has weakened in 2005 following oil price rises and fiscal and monetary tightening. House price inflation has reduced and appears to have stabilised. Inflation is generally expected to remain close to the Government's 2% target although the Monetary Policy Committee (which sets base rates) is sensitive to potential price pressures.

7.3 Most commentators expect at least one further base rate fall during 2006, and possibly a second (down to 4%), before starting to rise again in 2007. Base rates are generally expected to remain relatively stable and few commentators expect base rates to rise far beyond 5% in the next two or three years.

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 fallen steadily throughout the year, recently reaching historic lows of 4.10% for 10 years fixed and as low as 3.7% for 45 years fixed. In this climate a substantial amount of long term borrowing has been taken, totalling £135m from PWLB and £80m in "LOBOs" from market lenders during 2005/06 to date. This has pre-funded the Council's borrowing needs for the next 12 to 18 months. Looking forward, long-term rates seem very vulnerable to a significant upwards shift, but further heavy pension fund buying or economic weakness (for example) could see rates fall further.

Table 24

Base Rates and PWLB Rates 2005/06



8. 2006/07 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 its changeable and potentially higher costs) 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 6.2 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 £111.9m in 2006/07, which represents 7.7% of total borrowing. However, £97.6m is recharged to the HRA at variable rates so the General Fund will have a small exposure of £14.3m to variable rates. Although the variable rate exposure increases in the following two years, this is based on cautious assumptions about the repayment of loans and cashflow assumptions so the Council's variable rate exposure is likely to remain small during the 3 year period.
- 8.3 This is due to the substantial borrowing programme that has been carried out in 2005/06 in order to pre-fund the planned capital programme. Given that long term fixed rates have continued to fall as low as 3.7% in recent weeks, the proposed strategy for 2006/07 is to continue to take fixed rate funding if still lower rates emerge. Variable rates are not expected to fall below 4% and the current long term borrowing opportunity is considered to be exceptional. In these circumstances, long term borrowing in advance of requirement will be considered up to the three year planning horizon of the CIPFA Code for Capital Finance. It is possible that in consequence there will be temporarily surplus cash to invest for up to three years.
- 8.4 In summary the strategy is:
- New borrowing to be short term or variable rate, but:
 - Borrow fixed rate if rates fall further, 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 Based on this strategy the proposed budget figures are as follows:

Table 25

	2005/6 budget £m	2006/07 budget £m	2007/08 forecast £m	2008/09 forecast £m
Average Borrowing Rate	7.86%	7.62%	7.50%	7.49%
Net interest budget	77.428	80.484	83.805	88.108
Other interest and costs	2.482	1.590	1.590	1.590
Contributions to (from) TM Reserves	7.071	(3.708)	(1.902)	(1.091)
Revenue charge for debt repayment	35.473	45.724	46.237	45.979
Total budget	122.454	124.090	129.730	134.586
Less: charges to HRA etc cost for General Fund	38.920	38.555	40.147	41.896
	83.534	85.535	89.583	92.690

(nb: This table adjusts the base budget increase referred to in Chapter 2 para 3.5 by taking account of budget transfers with other services which do not change the Council's bottom line)

- 8.6 The Average Rate reflects the cost of the fixed rate borrowing taken out at relatively high levels in the 1980's and early 1990's.
- 8.7 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 2006/07 include:

Higher interest rates if:

- World economic growth increases
- UK house prices start rising again
- The US has difficulty funding its deficit (ie investors become cautious of the US)

- 9.2 This risk has been reduced for 2006/07 by borrowing in advance for the year's needs at historically low levels.

Lower interest rates if:

- World recession
- The UK housing market falls steeply
- Major acts of terrorism threaten world growth or markets

- 9.3 If long-term rates rose it would become easier to shorten the maturity profile by debt restructuring. Conversely, if long-term rates fall, it may be an opportunity to secure more borrowing at a low rate.

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 2006/07. However, 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 Director of Corporate Finance has limited these to 15% of gross borrowing and there are no plans currently to increase this level.
- 10.3 Other bond structures are available from the market. Index-linked bonds are currently offering very low rates but the annual interest and repayment costs increase each year indexed to inflation. These can be obtained via a private placement or a public offering. The Director of Corporate Finance will keep borrowing options under review.

11. Companies Associated with the City Council

- 11.1 The NEC refinancing in 2005 removed the risks to the City Council in relation to the £215m NEC (Finance) plc stock. However, the £73m NEC (Developments) plc stock due 2027 remains in the market with a guarantee from the Council. Contributions to a sinking fund for the repayment of the £73m 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 will be brought forward to the Executive if appropriate.

12. Other Treasury Management exposures

- 12.1 The volume of leases outstanding has fallen from £65.6m in 2001/02 to £30.7m currently. The introduction of the 'prudential' capital system enables greater choice between leasing and other ways of financing equipment (such as borrowing). The financing of equipment is reviewed to determine whether leasing or prudential borrowing offers best value for money. It is expected that borrowing will largely replace the use of leasing in future.

13. Advisers

- 13.1 This Strategy has been prepared in discussion with Sector Treasury Services Ltd who are appointed to provide treasury management advice. 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, and we consider this represents good value for money. Their appointments are renewable annually. The future need and the best source of such advice will be reviewed before making any renewals under delegated powers.

14. Prudential Indicators for Treasury Management

- 14.1 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. Some indicators have been revised to accommodate the borrowing in advance of need as envisaged in paragraph 8.3 above.

APPENDIX A

<u>Budget Pressures</u>	£000
Leader's – additional emergency planning responsibilities arising from the Civil Contingencies Act 2003 and making adequate provision for insurance claims.	1,630
Deputy Leader's – costs in support of the Consultation and Engagement Strategy and Corporate Website.	135
Adults and Communities - learning disability, physical disability, mental health, older adults, grant fall-out, persons from abroad.	22,451
Children, Young People and Families - Children's fieldwork services, fostering/external placement costs, teachers' Pay Grant fall-out.	4,804
Housing - temporary accommodation for homeless people.	1,000
Leisure, Sport & Culture - Olympics related activity, support to the Arts, Tyseley Railway Museum, Big Screen - Chamberlain Square.	1,288
Regeneration - Chicago Exhibition/Tall Buildings Conference underwriting.	100
Transportation & Street Services - Cleaner, Greener and Safer City, Waste management, City Centre management, highway maintenance inventory growth, loss of car parking income due to development works.	6,169
Council Business Management Committee - expected impact of the Electoral Registration Bill and the scrutiny review of elections administration.	380
Planning Committee - Local Land Search fees – reduced income levels.	745
District & Constituency Committees - accommodation issues prior to anticipated efficiencies from asset management developments.	210
Items previously held centrally, now covered by Portfolio efficiency savings (Appendix B)	1,246
	40,158

APPENDIX B

<u>Portfolio Efficiency Savings</u>	£000
Leader – efficiency savings from changed working practices and procedures and increased property rental income.	1,828
Deputy Leader – reduced running costs of the new Revenues and Benefits System, general efficiencies in Benefits and Support Services and increased income.	2,426
Adults and Communities – re-provision of services for users with a learning disability, and office accommodation savings.	2,500
Children, Young People and Families – Children’s placements – planned increased use of internal foster care. Efficiencies in the LEA Budget Block revolve around a number of areas and include a review of policy, tightening up existing processes, generating additional income and managing within a reduced cash envelope.	4,411
Equalities & Human Resources – additional grant income and efficiency savings from changed working practices and procedures.	450
Housing (General Fund) – maximising income from Urban Living / Fees and Charges, efficiencies in operational running costs and changing existing methods of service delivery.	1,000
Leisure, Sport & Culture – efficiencies in Support Services and in the delivery of some events.	324
Local Services & Community Safety – mainly related to a review of grants.	110
Regeneration – to be achieved through a review of specific service areas including restructuring proposals, efficiencies in overhead and general support costs, additional income generation and a review of grant funding support.	1,494
Transportation & Street Services – additional Government grant and other income generation proposals, revised methods of working and efficiency savings in relation to supplies and equipment and transport budgets, review elements of clinical waste service and bereavement services.	4,057
Council Business Management Committee – general efficiencies and reduced running costs.	169
Planning Committee – to be achieved by generating additional income and efficiencies in overhead and general support costs.	368
Public Protection Committee – general efficiencies and reduced running costs.	220
District & Constituency Committees – District & Constituency Committees are currently considering options for meeting this saving target.	2,247
	21,604

Revenue Budget - Gross Expenditure

	2005/06 Budget £'000	2006/07 Budget £'000
Portfolios		
Leader's	167,806	192,751
Deputy Leader's	433,809	449,918
Adults & Communities	335,854	357,710
Children, Young People and Families	1,088,180	1,181,249
Equalities & Human Resources	4,545	4,396
Housing General Fund	102,143	102,412
Housing Revenue Account	220,067	222,399
Leisure, Sport & Culture	55,828	54,380
Local Services & Community Safety	29,734	35,439
Regeneration	75,933	78,997
Transportation & Street Services	127,149	134,890
Committees		
Council Business Management	8,224	8,598
Districts and Constituencies	111,449	116,847
Licensing	2,476	2,568
Planning	12,388	12,020
Public Protection	14,935	14,798
Total Portfolio/Committee Expenditure	2,790,520	2,969,372
Capital	(85,415)	(103,817)
Contingencies	6,896	6,692
Partnership priorities held centrally	5,670	0
Centrally held savings	(6,800)	(10,335)
Total Expenditure on Services	2,710,871	2,861,912
Contribution to reserves	1,000	0
Total Gross Expenditure	2,711,871	2,861,912

Revenue Budget - Gross Income

	2005/06 Budget £'000	2006/07 Budget £'000
Portfolios		
Leader's	(100,998)	(117,743)
Deputy Leader's	(408,087)	(426,779)
Adults & Communities	(112,045)	(103,410)
Children, Young People and Families	(198,012)	(903,216)
Equalities & Human Resources	(597)	(757)
Housing General Fund	(62,900)	(63,087)
Housing Revenue Account	(220,067)	(222,399)
Leisure, Sport & Culture	(10,785)	(9,382)
Local Services & Community Safety	(25,281)	(27,928)
Regeneration	(54,863)	(58,069)
Transportation & Street Services	(37,127)	(42,493)
Committees		
Council Business Management	(100)	(101)
Districts and Constituencies	(14,064)	(14,786)
Licensing	(2,476)	(2,368)
Planning	(9,508)	(8,924)
Public Protection	(2,631)	(2,268)
Total Gross Income	<u>(1,259,541)</u>	<u>(2,003,710)</u>

Revenue Budget - Net Expenditure

	2005/06 Budget £'000	2006/07 Budget £'000
Portfolios		
Leader's	66,808	75,008
Deputy Leader's	25,722	23,139
Adults & Communities	223,809	254,300
Children, Young People and Families	890,168	278,033
Equalities & Human Resources	3,948	3,639
Housing General Fund	39,243	39,325
Housing Revenue Account	0	0
Leisure, Sport & Culture	45,043	44,998
Local Services & Community Safety	4,453	7,511
Regeneration	21,070	20,928
Transportation & Street Services	90,022	92,397
Committees		
Council Business Management	8,124	8,497
Districts and Constituencies	97,385	102,061
Licensing	0	200
Planning	2,880	3,096
Public Protection	12,304	12,530
Total Portfolio/Committee Net Spend	1,530,979	965,662
Capital	(85,415)	(103,817)
Contingencies	6,896	6,692
Partnership priorities held centrally	5,670	0
Centrally held savings	(6,800)	(10,335)
Total Net Expenditure on Services	1,451,330	858,202
Contribution to Reserves	1,000	0
City Council Budget Requirement	1,452,330	858,202

CORPORATE CAPITAL RESOURCE ALLOCATIONS

PROPOSED TITLE	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
DEPUTY LEADER				
Louisa Ryland House - Lift Replacement works	235	30		265
Council House Complex - Fire Alarm Installation	100	65		165
Portland Centre - Improvements to Security	100	10		110
Total Of Bids Recommended	435	105		540
Desktop Refresh (pump priming)	1,500			1,500
Total Of Self Funded Bids	1,500			1,500
Total Deputy Leader Portfolio	1,935	105		2,040
HOUSING				
Create Family Homes for Homeless families	1,000	1,000	1,000	3,000
Modernisation of Travellers Site	500			500
Total Of Bids Recommended	1,500	1,000	1,000	3,500
Total Housing Portfolio	1,500	1,000	1,000	3,500
LEISURE SPORT & CULTURE				
Safe Access to roof voids	100			100
CBSO Tour Bus	100			100
Cocks Moor Wood Flume	300			300
Roof works/master plan project	500			500
Total Of Bids Recommended	1,000			1,000
Total Leisure Sport & Culture Portfolio	1,000			1,000
REGENERATION				
Conservation: Jewellery Quarter and Soho Hill	230	235	235	700
SparkBrook Tornado Recovery Package	600	400		1,000
SparkBrook Tornado Recovery Package - Additional Package	900	1,100	1,000	3,000
EASTSIDE : Millennium Point Car Park	300	700		1,000
Spaghetti Junction and City Park - Feasibility Work for Living Landmarks	700			700
Lottery Bid				
Total Of Bids Recommended	2,730	2,435	1,235	6,400

PROPOSED TITLE	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
EASTSIDE : Millennium Point Car Park		2,000		2,000
EASTSIDE : Curzon St Station Funding (Additional Funding Required)		400		400
EASTSIDE Strategic Acquisition	3,000	250		3,250
Total Of Self Funded Bids	3,000	2,650		5,650
Total Regeneration Portfolio	5,730	5,085	1,235	12,050
ADULTS & COMMUNITIES				
Special Care Centres	30,400	13,400		43,800
Total Of Self Funded Bids	30,400	13,400		43,800
Total Adult & Community Services	30,400	13,400		43,800
TRANSPORTATION & STREET SERVICES				
Birmingham Gateway Project (New Street Station) - Design Phase	1,500	1,000		2,500
Selly Oak New Road		500	900	1,400
Handsworth Cemetery Roadway Construction	200			200
Quinton Cemetery Roadway Construction		225		225
Replacement of Traffic Signal	250			250
Norris Way Recycling Development	800			800
Total Of Bids Recommended	2,750	1,725	900	5,375
Total Transportation & Street Services Portfolio Recommended Bids	2,750	1,725	900	5,375
PUBLIC PROTECTION				
Essential Maintenance of Mortuary Buildings	250			250
Total Of Bids Recommended	250			250
Total Public Protection Committee	250			250
PLANNING COMMITTEE				
Ocella Replacement (balance)	250			250
	250			250
COUNCIL BUSINESS MANAGEMENT				
Purchase of new Council Chamber Microphone/Voting System	100			100
ADMES - enhancements and system improvements	100			100
Total Of Bids Recommended	200			200
Total Council Business Management Committee	200			200

PROPOSED TITLE	2006/07	2007/08	2008/09	Total
	£'000's	£'000's	£'000's	£'000's
SUB-TOTAL CORPORATE RESOURCES	9,115	5,265	3,135	17,515
PROPERTY FUND	6,400	8,000	4,600	19,000
CONTINGENCY	1,400	1,000	1,000	3,400
TOTAL CORPORATE RESOURCES	16,915	14,265	8,735	39,915
TOTAL SELF FUNDED	34,900	16,050		50,950
TOTAL OF BIDS RECOMMENDED	51,815	30,315	8,735	90,865

CAPITAL PROGRAMME 2006/07 - 2008/09

	2006/07 £000	2007/08 £000	2008/09 £000	Total £000
DEPUTY LEADER'S				
Catering Equip-Best Value	50	-	-	50
Markets Cash Collect System	-	420	-	420
Council House Access for People With Disabilities	285	-	-	285
Office Accommodation Strategy	4,769	-	-	4,769
Council House & Extension Repairs Roof & Walls	3,898	1,850	-	5,748
Access to Service Hubs	131	-	-	131
WAN Enhancement	125	-	-	125
Corp Web Services	240	-	-	240
E Catalogue System	91	-	-	91
New Proposals				
Louisa Ryland House - Lift Replacement works	235	30	-	265
Council House Complex - Fire Alarm Installation	100	65	-	165
Portland Centre - Improvements to Security	100	10	-	110
Desktop Refresh (pump priming)	1,500	-	-	1,500
Total	11,524	2,375	-	13,899

CHILDREN YOUNG PEOPLE & FAMILIES

Devolved Capital	16,232	17,091	-	33,323
NDS Modernisation	14,705	14,889	-	29,594
Devolved Capital	10,000	-	-	10,000
NOF Lottery PE & Sports	2,820	-	-	2,820
Childrens Centre	2,789	-	-	2,789
Access Initiative	1,839	1,839	-	3,677
Colebourne Co-location	1,000	-	-	1,000
LPSA 2 Pump Prim	141	-	-	141
Hunters Hill NOF	135	-	-	135
Children's Residential Estate	6,050	3,530	0	9,580
Children's Homes New Build	1,073	-	0	1,073

	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
New Proposals				
Single Capital Pot Allocation	303	621	7,572	8,496
Total	57,087	37,970	7,572	102,629
EQUALITIES & HUMAN RESOURCES				
Access To Buildings	1,743	520	-	2,263
HOUSING				
Council Housing				
Decent Homes (windows, central heating, re-roofing, doors, rewiring)	73,300	74,363	75,193	222,856
Clearance of Non Decent Stock & Acquisitions	9,146	6,720	3,747	19,613
Long Term Empty Properties	2,523	2,634	2,735	7,892
Lift Replacement	2,650	3,246	3,841	9,737
Structural Repairs	1,182	2,318	2,401	5,901
Environmental Security	1,666	2,318	2,401	6,385
Painting Programme	800	3,478	3,601	7,879
Fire Protection	950	1,739	1,800	4,489
Developing New Housing (section 106/ discounts)	26,139	18,846	2,678	47,663
Other	13,952	13,313	14,012	41,277
Private Sector Housing				
Programmes for Adaptations, Decent Homes, Clearance, Affordable Homes, Empty Properties, Equity Release Programmes	24,083	21,194	18,200	63,477
New Proposals				
Create Family Homes for Homeless families	1,000	1,000	1,000	3,000
Modernisation of Travellers Site	500	-	-	500
Single Capital Pot Allocation			13,545	13,545
Total	157,891	151,169	145,154	454,214
LEADER'S PORTFOLIO				
Corporate Property Asbestos Survey	442	306	-	748
NEC Minor Works	275	275	275	825
NEC Capital Grant	92	92	92	276
NEC REFINANCING 06	12,949	10,363	5,408	28,720
Total	13,758	11,036	5,775	30,569

	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
LEISURE SPORT AND CULTURE				
MAC/SAMPAD- Development	3,000	-	-	3,000
Refurb Bham Town Hall	7,759	1,030	-	8,789
Other Learning & Culture Schemes	971	100	-	1,071
Handsworth Park Refurbishment	1,276	-	-	1,276
Libraries Programme	989	25	-	1,014
Sports Schemes	1,399	-	-	1,399
Parks Schemes	5,580	1,788	-	7,368
Health & Safety Schemes	240	250	-	490
Districts' Schemes	1,884	-	-	1,884
New Proposals				
Safe Access to roof voids	100	-	-	100
CBSO Tour Bus	100	-	-	100
Cocks Moor Wood Flume	300	-	-	300
Roof works/master plan project	500	-	-	500
Total	24,098	3,193	-	27,291
LOCAL SERVICES & COMMUNITY SAFETY				
Stockland Green Local Office	863	-	-	863
Local Services Districts allocation	4,403	6,000	-	10,403
Total	5,266	6,000	-	11,266
PLANNING COMMITTEE				
Service Improvement-IT	246			246
New Proposals				
Ocella Replacement (balance)	250	-	-	250
	496	-		496

	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
REGENERATION				
Vibrant Urban Villages -Prince's Trust-Shard End	1,299	-	-	1,299
Vibrant Urban Villages -Improvement of Land & Property	1,530	-	-	1,530
Vibrant Urban Villages -other	5,504	5,231	144	10,879
Eastside Schemes	2,212	3,230		5,442
Property Related Schemes	930	505	250	1,685
City Centre, City Wide & Miscellaneous	920	287	472	1,679
Disability Schemes	38	15	29	82
New Proposals				
Conservation: Jewellery Quarter and Soho Hill	230	235	235	700
SparkBrook Tornado Recovery Package	600	400	-	1,000
SparkBrook Tornado Recovery Package - Additional Package	900	1,100	1,000	3,000
EASTSIDE : Millennium Point Car Park	300	700	-	1,000
Spaghetti Junction and City Park - Feasibility Work for Living	700	-	-	700
Landmarks Lottery Bid				
Eastside specific strategic acquisition	3,000	250	-	3,250
EASTSIDE : Millennium Point Car Park	-	2,000	-	2,000
EASTSIDE : Curzon St Station Funding (Addit Funding Required)	-	400	-	400
Total	18,163	14,353	2,130	34,646
ADULTS & COMMUNITIES				
Programme of Minor Works	887	450	0	1,337
DSOP - Commissioning Strategy	825	700	0	1,525
Replacement Vehicles	2,477	-	0	2,477
Learning Disability Homes - Compliance to Standards	802	300	0	1,102
Older Adult Homes - Compliance to Standards	2,350	3,600	0	5,950
Mental Health SCE	566	-	0	566
Minor Capital Schemes	297	-	0	297

	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
New Proposals				
Special Care Centres	30,400	13,400	0	43,800
Single Capital Pot Allocation	200	268	250	718
Total	38,805	18,718	250	57,773

TRANSPORTATION & STREET SERVICES

Highways Major Schemes

Northfield Relief Rd	3,873	2,251	-	6,124
Hagley Road Bus Showcase	4,350	-	-	4,350
Other Bus Showcase Schemes	2,539	-	-	2,539
Red Routes Schemes	1,880	-	-	1,880
Completion of Prior Year/Future Major Schemes	2,498	-	-	2,498

Other Highways Minor Schemes

Highways & Bridges Maintenance	10,917	6,596	-	17,513
Integrated Transport - Main Network	4,094	4,240	-	8,334
Integrated Transport - Local Areas	1,892	-	-	1,892
Replacement of Road Tunnel Lighting	1,100	-	-	1,100
Street Lighting Ward Programme	800	-	-	800
Other Schemes	1,943	9,607	6,626	18,176

Non Highways Schemes

Car Parks Reinvestment Programme	250	1,250	3,100	4,600
Drainage and Flood Relief	250	-	-	250

New Proposals

Birmingham Gateway Project (New Street Station) - Design Phase	1,500	1,000	-	2,500
Selly Oak New Road	-	500	900	1,400
Handsworth Cemetery Roadway Construction	200	-	-	200
Quinton Cemetery Roadway Construction	-	225	-	225
Replacement of Traffic Signal	250	-	-	250
Norris Way Recycling Development	800	-	-	800
Single Capital Pot Allocation	-	-	17	17

	2006/07 £'000's	2007/08 £'000's	2008/09 £'000's	Total £'000's
Local Services Schemes				
Recycling Initiatives	1,952	-	-	1,952
Crematoria Improvements	1,250	1,970	-	3,220
Waste Management Vehicles Replacement	1,100	-	-	1,100
Kings Norton Cemetery	91	-	-	91
Total	43,529	27,639	10,643	81,811
Public Protection				
New Proposals				
Essential Maintenance of Mortuary Buildings	250	-	-	250
	250	-	-	250
Council Business Management				
New Proposals				
Purchase of new Council Chamber Microphone/Voting System	100	-	-	100
ADMES - enhancements and system improvements	100	-	-	100
	200	-	-	200
Property Fund	6,400	8,000	4,600	19,000
Contingency	1,400	1,000	1,000	3,400
Whole Programme total	380,610	281,973	177,124	839,706

PRUDENTIAL INDICATORS

	05/06 Indicators Feb 05 £m	05/06 Forecast Q3 Monitor £m	06/07 Indicators £m	07/08 Indicators £m	08/09 Indicators £m	
AFFORDABILITY						
Ratio of financing costs to net revenue stream:						
1	General Fund financing costs	111.5	102.7	122.1	125.9	125.3
2	General Fund net revenue stream	1,452.3	1,452.3	858.2	892.1	904.3
3	General Fund ratio	7.7%	7.1%	14.2%	14.1%	13.9%
n.b.	General Fund ratio (05/06 restated)	13.6%	12.5%	14.2%	14.1%	13.9%
4	HRA financing costs	77.0	77.0	77.0	78.5	80.1
5	HRA net revenue stream	220.1	220.1	219.0	224.8	228.4
6	HRA Ratio	35.0%	35.0%	35.2%	34.9%	35.1%
7	Effect on Council Tax (Band D equiv)	-£26.62	-£27.38	£2.79	£11.23	£14.19
8	Effect on Housing Rents (ave. weekly rent)	Nil	Nil	Nil	Nil	Nil
CAPITAL EXPENDITURE						
Capital Expenditure						
9	General Fund	443.6	460.7	248.3	153.0	64.7
10	HRA	108.5	139.9	132.3	129.0	112.4
11	Total Capital Expenditure	552.1	600.6	380.6	282.0	177.1
Capital Financing Requirement (CFR)						
12	General Fund CFR	1,226.7	1,162.7	1,198.5	1,194.2	1,163.5
13	HRA CFR	502.8	507.1	529.2	550.7	568.1
14	Total Capital Financing Requirement	1,729.6	1,669.8	1,727.6	1,744.9	1,731.5
PRUDENCE						
Net borrowing and the capital financing requirement:						
15	net borrowing	1,421.6	1,276.5	1,437.8	1,465.1	1,482.3
16	Capital Financing Requirement in year 3 (as above)	1,760.3	1,727.6	1,731.5	1,731.5	1,731.5
17	does forecast net borrowing exceed year 3 CFR?	No	No	No	No	No
EXTERNAL DEBT						
Authorised limit for external debt						
		Limit	Forecast Max	Limit	Forecast Limit	Forecast Limit
18	Authorised limit for borrowing	1,655	1,348	1,751	1,817	1,814
19	+ authorised limit for other long term liabilities	49	39	48	47	47
20	= authorised limit for debt	1,704	1,387	1,799	1,865	1,861
Operational boundary for external debt						
		Boundary	Forecast Max	Boundary	Forecast Boundary	Forecast Boundary
21	Operational boundary for borrowing	1,435	1,349	1,451	1,477	1,494
22	+ Operational boundary for other long term liabilities	39	39	38	37	37
23	= Operational boundary for external debt	1,474	1,387	1,489	1,515	1,531

Prudential Indicators - continued
TREASURY MANAGEMENT

CIPFA Treasury Management Code

24 Has the authority adopted the TM Code?	Yes	Yes	Yes	Yes	Yes
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Interest rate exposures

	Limit	Limit	Limit	Limit	Limit
25 upper limit on fixed rate exposures	115%	130%	130%	130%	130%
26 upper limit on variable rate exposures	35%	35%	35%	35%	35%

Maturity structure of borrowing

(lower limit and upper limit)

27 under 12 months	0% to 35%	0% to 35%	0% to 35%	0% to 35%	0% to 35%
28 12 months to within 24 months	0% to 35%	0% to 35%	0% to 35%	0% to 35%	0% to 35%
29 24 months to within 5 years	0% to 30%	0% to 30%	0% to 30%	0% to 30%	0% to 30%
30 5 years to within 10years	0% to 50%	0% to 50%	0% to 50%	0% to 50%	0% to 50%
31 10 years & above	25% to 80%	25% to 80%	25% to 80%	25% to 80%	25% to 80%

investments longer than 364 days

(excluding NEC Sinking Fund investments)

upper limit on amounts maturing in:

	£m	£m	£m	£m	£m
34 1-2 years	-	100	100	100	100
35 2-3 years	-	50	50	50	50
36 3-5 years	-	30	30	30	30
37 later	-	-	-	-	-

Prudential indicators 2006/07 – 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 comparator of financing costs, the amounts of GF expenditure to be funded from Council Tax and general Government Grants, has changed for 2006/7 onwards, being reduced as a consequence of the introduction of the Dedicated Schools Grant. Therefore, 2005/06 has been restated to enable a true comparison. The ratio increase in 2006/07 is due to the impact of the refinancing of the NEC loan stock (requiring an additional debt repayment of £8.6m), and the effect of the Capital Expenditure Programme.

Effect on Council Tax

This represents the interest and repayment costs of new unsupported borrowing in 2006/07 and future years, in terms of the council tax effect. The revenue consequences will not in practice need to be met by council tax increases because they are budgeted within services' current plans. This indicator showed a net benefit to council tax as a result of the proposed NEC refinancing in 2005/06. The increase in 2007/08 is due to 2007/08 borrowing plans plus the full year effect of 2006/07.

Effect on housing rents

No new prudential borrowing proposals for the HRA are included in this budget.

Capital Expenditure level for 2005/06 was high as it included the £215m NEC refinancing; 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. Actual **net borrowing** is lower than this because of strong positive cashflow and balances, and it would be a cause for concern if net borrowing exceeded the CFR figure.

Net Borrowing

This indicator is based on the forecast peak net debt in each year, and excludes the debt for which reimbursements are received in relation to transferred services under historic local government reorganisations.

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. However, it is extremely unlikely that borrowing will actually increase to near the proposed limit of £1,799m.

The 'operational boundary' for debt is a better benchmark to monitor actual debt levels against. It represents the forecast peak level of debt for the year. It is increasing over the 3 years as a result of the City Council's spending plans.

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 capital planning process including the preparation of this report.

Affordability, eg Implications for Council Tax

Directorates are required to resource the running costs of new schemes from within their own budgets. In relation to the 'unsupported' borrowing proposed in this report, revenue budgets have been identified to meet the borrowing costs. Key prudential indicators identify trends in financing costs especially the indicator for unsupported financing costs.

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 and using longer term financial models 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 2006/07 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 capital bidding processes.

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.

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.³

2.4 The treasury management function falls within the Resources Directorate's objective to oversee the management of the City Council's resources by making sure the Council has all the money needed to do its work, and by seeing its money is properly managed.

2.5 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:

³ Paragraphs 2.1 to 2.3 are required by the CIPFA Treasury Management Code

"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".

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:		
	2006/07	2007/08	2008/09
upper limit on fixed rate exposures	130%	130%	130%
upper limit on variable rate exposures	35%	35%	35%

The proposed upper limits on fixed rate exposures are increased from the previous limits of 115% to 130% in order to increase the Council's ability to borrow in advance for its planned needs over the coming two years or so, in order to take advantage of periods when interest rates are low. The current year (2005/06) indicator is also revised to 130%.

Prudential indicators - maturity structure of fixed rate borrowing

		Forecast Year end 2005/06
	lower and upper limits:	
under 12 months	0% to 35% of fixed rate borrowing	4.96%
12 to 24 months	0% to 35%	2.22%
24 months to 5 years	0% to 30%	6.67%
5 to 10 years	0% to 50%	11.81%
10 years and above	25% to 80%	74.34%

- 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:

Investments:	Lending limit	FITCH individual and support rating	FITCH short term rating
Banks	£25m	A1, A2, A/B1	F1
Banks	£20m	A/B2, B1	F1
Banks	£15m	A3, B2, B3, B/C1	F1
Building Societies	£15m	A1 to B4	F1
Money market funds	£40m	The highest possible rating only	
Local Authorities	£15m	N/A	N/A
UK Government	None	N/A	N/A

- 3.4 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.
- 3.5 These lending limits have each been increased by £5m from the previously approved levels in order to accommodate the higher volume of investments which may result in the Council's borrowing strategy in an environment where borrowing rates are particularly low. No relaxation of credit rating requirements is proposed.
- 3.6 Credit ratings are monitored on an ongoing basis on information from the Council's Treasury Management advisers, and Council's lending list is update accordingly when a rating changes.
- 3.7 Lending of City Council funds by its appointed investment managers is not subject to the above restrictions, provided that their arrangements for assessing creditworthiness and exposure limits have been agreed by the Director of Corporate Finance (Note: investment managers are not currently being used).

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 far 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 Director of Corporate Finance.
 2. Certificates of Deposit with a maturity in less than five years subject to a long term credit rating of not less than A (in addition to the restrictions in 3.3 above).
 3. Callable deposits with a maturity of less than three years subject to a long term credit rating of not less than A (in addition to the restricts in 3.3 above).

Prudential indicator – principal sums invested longer than 364 days

Upper limit on total sums invested beyond 364 days:

1-2 years	£100m
2-3 years	£50m
3-5 years	£30m

This is also the maximum that may be held in any of the above categories of non-specified investments or in total non-specified investments.

4. Reporting and delegation

- 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 will be produced after the year end, in accordance with the CIPFA Treasury Code. The Strategy for 2006/07 forms Chapter 6 of the Budget Report.
- 4.2 The City Council has delegated responsibility for treasury management decisions to the Director of Corporate Finance as part of its Delegations to Officers. The Director or his deputy will report every half year to the Cabinet on the decisions taken under delegated treasury management powers.
- 4.3 The Director of Corporate Finance 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

BUDGET RISK ASSESSMENT

Risk		Impact	Likelihood	Management Control
1	Delivery of Efficiency Programme	M	M	The Programme has been developed using proposals from managers and subject to a rigorous review process. Assignment of project sponsors and managers is continuing as are arrangements for monitoring and delivery across the Council.
2	Inflationary and budget pressures exceed amount provided to re-price budget	M	M	Prudent inflation estimates have been based on latest forecasts and known pressures included within budget
3	Risks associated with managing implications of proposed PFI schemes and other strategies.	M	M	Arrangements made to ensure that decisions based on full and complete information, that risks managed proactively and with robust project management controls
4	Non delivery of Single Status agreement	L-M	M	A programme is being managed and provision has been made for financial implications
5	Supporting People Programme: managing impact of changed eligibility criteria	L-M	M	A package of measures which includes a review of eligibility criteria and grant conditions, contract inspections.
6	Changes in funding regimes for specific government grants	L	M	Specific changes have been fed into Directorate budgets and will be kept under review
7	Collection Fund deficit	L	M	MTFS makes allowance for expected Collection Fund losses. Close monitoring of collection rate throughout the year Proposals to improve to collection rate being implemented
8	Inability to control and manage demand for temporary accommodation	L	M	New team structures, new contracts and rates negotiated with private sector housing providers. Additional resources have been allocated and Home Options Advice being rolled out across the City
9	Adequacy of reserves balances and contingencies	L - M	L - M	Resources have been assigned with the aim of providing adequate cover for such items. The position will be closely monitored in 2006/07.

	Risk	Impact	Likelihood	Management Control
10	Impact of actuarial valuation of Pension Fund; possibility of additional contributions from 2008/09	H	L	Incremental increases in funding rate built into forward plan. Position to be reviewed for 2007/08 and 2008/09 budget processes.
11	Formula Grant reductions exceed assumptions made in budget from 2008/09	L - M	L	Prudent assumptions have been included made in Medium Term Financial Strategy and the position will be reviewed for the 2007/08 and 2008/09 budget process.
12	Changes in demography	L-M	L	Social Care & health budget assumptions based on detailed projections of demographic change.
13	Attainment of income targets	L	L	The Council has a rigorous budget monitoring system which will be used to manage these risks
14	Inadequate provision made for new legislative requirements	L	L	Budget includes financial impact of all known legislative
15	Interest Rates, debt management costs are higher than forecast	L	L	Risks managed through robust Treasury Management Strategy
16	Interest earned on cash balances lower than forecast	L	L	Budget includes prudent assumptions underpinned by detailed management and monitoring
17	Delayed delivery of Capital Programme thus prejudicing external funding	L	L	The Council has a structured capital programme with robust management and monitoring arrangements
18	Transfer of Sure Start Local Programmes from PCT	L	L	Working groups set up to manage transfer. Exit arrangements to be addressed in 2006/07.