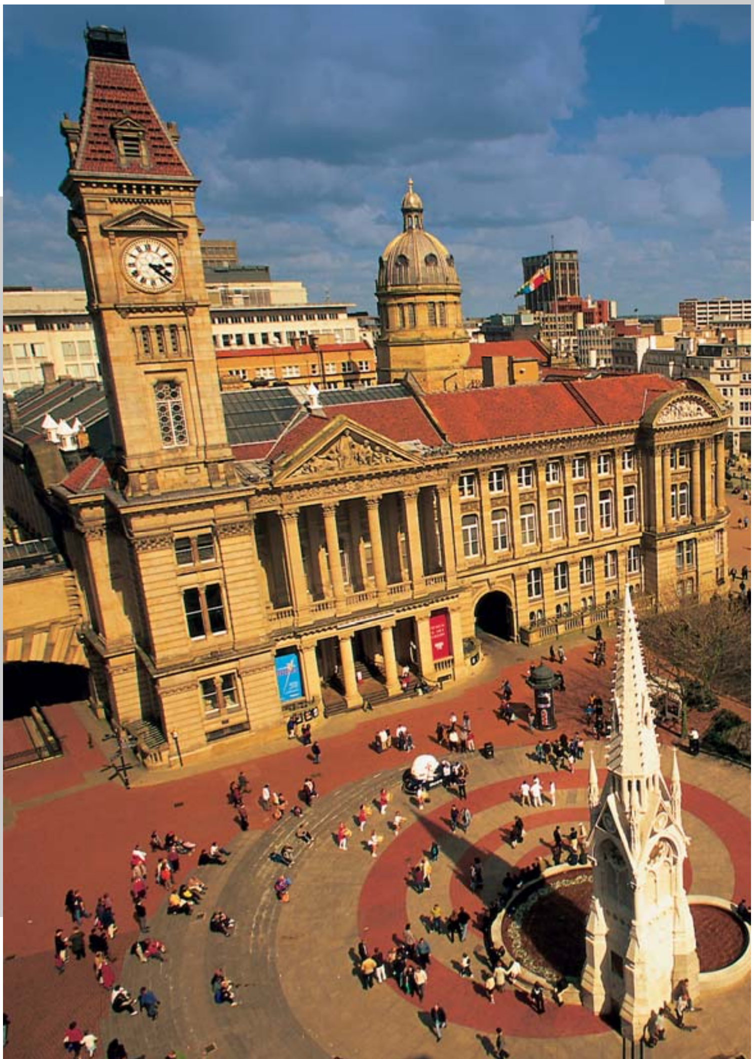
Birmingham City Council

# BUDGET

# 2009/10



**Report of the Executive**

**to the City Council**

**Tuesday 24 February 2009**

# CONTENTS

# FOREWORD

The Council's budget is a financial representation of the organisation's plans for the forthcoming financial year and beyond. This includes an updated Long-Term Financial Strategy (LTFS) which projects all known and estimated financial requirements and pressures over a 10 year period. The long-term planning regime also illustrates Birmingham's ambitious efficiency commitments and major service transformation programme which will enable the Council to continue to invest in and maintain front line services. Long-term analysis and planning over this period is a clear advantage in budget management, and means that early actions can be put in place to meet these future demands and pressures.

The LTFS projections are updated during the year and annually as part of the budget process and as estimates become firm service commitments. The key drivers in setting the budget each year are the delivery of:

- the Sustainable Community Strategy, in conjunction with our partners
- the Council Plan 2008-13, containing the vision, strategies and values of the organisation

This report sets out the City of Birmingham budget proposals for 2009/10. It is set within the context of a long-term financial strategy which seeks to drive out inefficiency, embrace new processes and allow investment in front line services for the residents of Birmingham. This report embraces all aspects of the budget (revenue, capital and treasury management) as these are integrated parts of the overall financial plans of the City Council.

The budget is constructed to support and deliver the City's Sustainable Community Strategy, Birmingham 2026. This strategy has been developed by Birmingham City Council and the local strategic partnership, Be Birmingham, bringing together partners from the business, public, community, voluntary and faith sectors. The Council's vision is to make Birmingham the first sustainable global city in modern Britain. It will be a great place to live, learn, work and visit: **a global city with a local heart**. This vision is at the centre of the Council Plan 2008-13 which sets out, at a strategic level, the council's commitment to deliver its own contribution to the work of the wider partnership. It is focused on the tangible, significant outcomes for Birmingham residents, the goals to:

- **Succeed Economically** – benefiting from education, training, jobs and investment
- **Stay Safe in a Clean, Green City -** living in clean, green and safe communities
- **Be Healthy** – enjoy long and healthy lives
- **Enjoy a High Quality of Life** – benefiting from good housing and renowned cultural and leisure opportunities
- **Make a Contribution** – valuing one another and playing an active part in the community

In delivering the strategic outcomes, the Council has set its priorities, both outward looking and internally focused, to ensure that the Council is an efficient and driven organisation able to deliver the City Vision successfully. The continuing priorities are:

- Protect and support vulnerable people
- Ensure everyone has a decent home
- Make the city cleaner, greener and safer
- Provide excellent services
- Ensure services are connected and customer focused
- Build the city's reputation at home, nationally and internationally
- Maintain a city where communities get on well together
- Develop a globally successful City Region

As in every year, but perhaps more critically than in previous years, the budget is taking account of the prevailing economic conditions. At the time of setting the budget, the country is defined as being in recession. This will have a major impact on the businesses and residents of Birmingham, who may find themselves losing work, unable to borrow and with reduced disposable income. The Council will have many of its services stretched by these conditions, but is committed to maintaining and enhancing these services whilst setting a council tax level that is affordable. This presents many challenges to Birmingham's annual budget process and means that the future delivery of savings and business transformation are critical to our future.

The key to the success of the 2009/10 budget will be the continued commitment of Members and Officers to tight financial discipline and secure and successful treasury management. This focus on improving customer satisfaction and effective use of resources enables the Council to set a revenue budget delivering investment into frontline services and a bold capital strategy which will see major physical development and regeneration within the city.

**Councillor Mike Whitby**
**Leader of the Council**

**Councillor 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 2009:

| | | £m |
|---|---|---|
| a. | aggregate of estimated expenditure, contingencies, and contributions to financial reserves | 3,375.958 |
| b. | aggregate of estimated income, and use of financial reserves | 2,392.010 |
| c. | budget requirement, being the difference between (a) and (b) above | 983.948 |

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

## Council Tax - Basic Amount

2. That the basic amount of Council Tax, for City Council services, for the financial year commencing 1 April 2009 be set at £1,092.91, pursuant to the formula in Section 33, Local Government Finance Act 1992 -

| | | £m |
|---|---|---|
| a. | Budget requirement of | 983.948 |
| | LESS | |
| b. | Redistributed non-domestic rates and Revenue Support Grant of | 660.074 |
| | LESS | |
| c. | Net transfer from the Collection Fund in respect of Council Tax and Community Charge | 0.000 |
| | | 323.874 |

DIVIDED BY the Council Tax Taxbase of 296,341 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 2009 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<br>£ |
|---|---|
| A | 825.19 |
| B | 962.73 |
| C | 1,100.26 |
| D | 1,237.79 |
| E | 1,512.85 |
| F | 1,787.92 |
| G | 2,062.98 |
| H | 2,475.58 |

and shall in the New Frankley in Birmingham Parish be:

| Band | Council Tax<br>£ |
|---|---|
| A | 852.89 |
| B | 995.03 |
| C | 1,137.18 |
| D | 1,279.33 |
| E | 1,563.63 |
| F | 1,847.92 |
| G | 2,132.22 |
| H | 2,558.66 |

# MOTIONS FOR COUNCIL

## Capital Strategy and Budget

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

   (a) the Capital Strategy as set out in Chapter 3 and Appendix I
   (b) the Capital Programme, as set out in Appendix J
   (c) the Prudential Indicators, as set out in Appendix L, including the Authorised Limit for debt of £3,090m for 2009/10.

## Treasury Management

5. That the Treasury Management Strategy for 2009/10, as set out in Chapter 5, and the Treasury Management Policy, as set out in Appendix M, be approved.

# CHAPTER 1 - REVENUE RESOURCES

## 1. Summary

1.1 The financial year 2009/10 is the second year of a three-year Government Grant settlement. The City Council will receive general Government Formula Grant of £660.074m in 2009/10 - an increase of 3.3% on a like-for-like basis, which is above the national average of 2.8%. The increase for 2010/11 will be 2.7%, which will be slightly above the national average of 2.6%.

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

1.3 After taking account of a projected balanced Collection Fund as at the end of 2008/09, total resources of £983.948m are available to fund City Council services in 2009/10.

1.4 Spending plans for 2009/10 are set in the context of a Long-Term Financial Strategy, which sets out proposals over a ten year period. Further details are set out in Chapter 2 and Appendix H.

1.5 In addition to these figures, the resources for schools are provided for via the Dedicated Schools Grant (DSG). The total DSG for 2009/10 will be £773.999m, an increase of 3.5%, subject to final pupil numbers. The provisional figure for 2010/11 is £809.557m, an increase of 4.6%.

## BACKGROUND

## 2. Government Grant Settlement

2.1 2009/10 will mark the second year of a multi-year cycle, part of the first three year settlement.

2.2 The City Council's Formula Grant for 2009/10 will be £660.074m, increasing to £678.017m in 2010/11. The figures are presented in Table 1 below.

---

1 Based on the Consumer Prices Index of 3.1% for December 2008, released by the Office for National Statistics on 20 January 2009

**Table 1 - Summary of Government Grant Settlement**

| | 2009/10 £m | 2010/11 £m |
|---|---|---|
| Previous Year | 639.580 | 660.074 |
| Adjustments | (0.360) | (0.137) |
| Re-stated base for previous year | 639.220 | 659.937 |
| Increase | 46.882 | 38.826 |
| Formula calculation | 686.102 | 698.763 |
| Less Damping | (26.028) | (20.746) |
| Formula Grant | 660.074 | 678.017 |
| Percentage increase | 3.3% | 2.7% |

*Note*
The Government has adjusted the base Formula Grant position in each year to reflect a transfer of responsibility from the City Council in respect of student finance. The relevant Portfolio budget has been adjusted to reflect this technical change.

2.3 It will be noted that the City Council's entitlement to Formula Grant continues to be scaled back (damped) by the Government in order to provide resources to ensure that all authorities receive a minimum increase in grant each year.

*Dedicated Schools Grant (DSG)*

2.4 The provisional DSG allocation for Birmingham is £773.999m for 2009/10. This represents a £26.390m (or 3.5%) year-on-year increase in the overall amount of DSG. At the time of writing this report, this DSG allocation is provisional and it is subject to change. The final allocation of the 2009/10 DSG will depend on actual pupil numbers as at January 2009 and will be determined by June 2009.

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

**Table 2 – Two Year Dedicated Schools Grant**

| | 2009/10 £m | 2010/11 £m |
|---|---|---|
| Previous year | 747.609 | 773.999 |
| Increase | 26.390 | 35.558 |
| **Total DSG** | **773.999** | **809.557** |
| **% increase** | **3.5%** | **4.6%** |

## 3. Council Tax

3.1 After taking account of the Formula Grant as set out in paragraph 2.2 above, the total Council Tax for 2009/10 depends on:

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

(b) any estimated Collection Fund surplus or deficit to be brought forward from 2008/09;

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

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

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

*City Council Budget Requirement*

3.2 The City Council's "budget requirement" for 2009/10 is £983.948m and is set out in further detail in Chapter 2 of this report.

*Collection Fund*

3.3 It is estimated that the Council Tax Collection Fund will be balanced as at the end of 2008/09.

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

*Tax base for 2009/10*

3.5 The taxbase to be used for setting the 2009/10 Council Tax was agreed by the Cabinet at its meeting on 12 January 2009. The taxbase consists of 296,341 "Band D equivalent" properties, after allowing for a non-collection rate of 2%. This taxbase is now fixed for the purposes of setting the 2009/10 Council Tax.

3.6 The taxbase has increased by 3,330 band D equivalent properties compared with 2008/09. This includes the impact of the city council's active review of the eligibility of discounts. However, it is the case that the underlying rate of increase has slowed compared with previous years; this has been taken into account in the LTFS.

*Council Tax for City Council Services 2009/10*

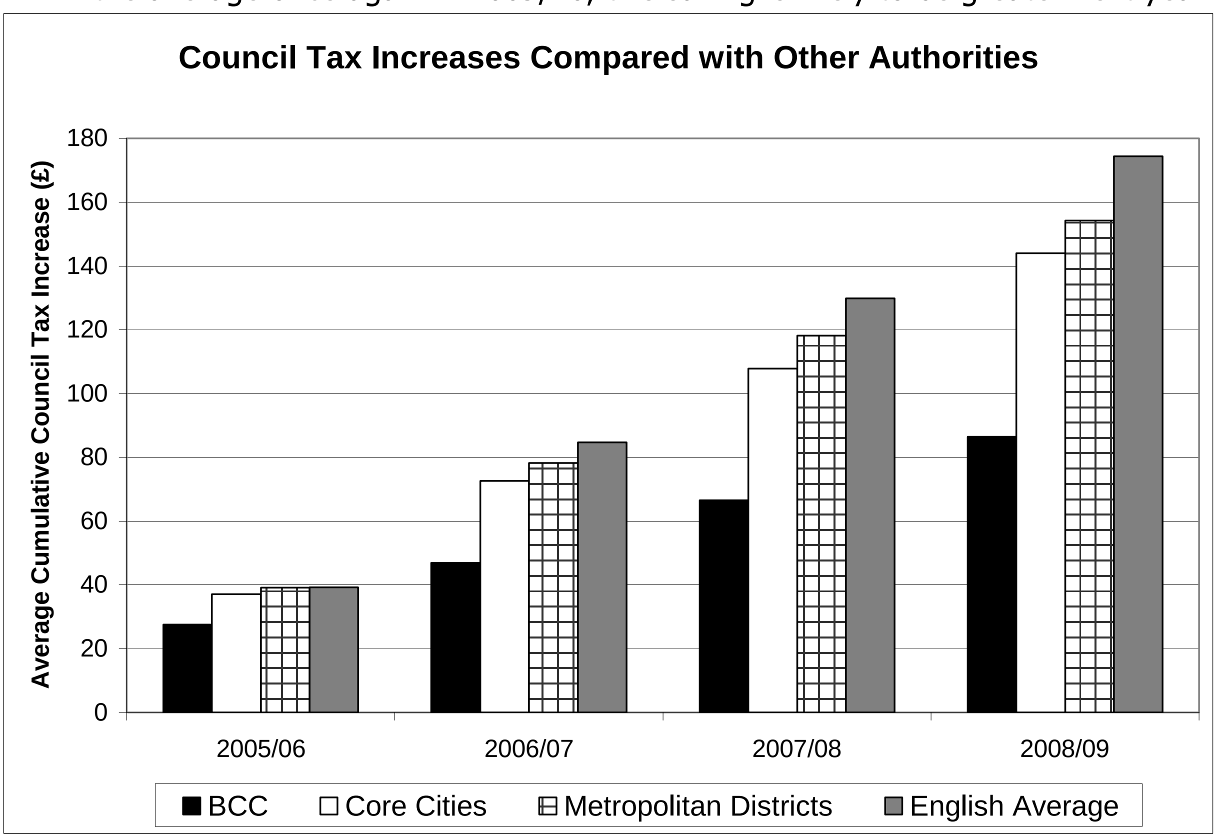
3.7 The total required from council tax payers in 2009/10 for City Council services (including levies) is summarised as follows:

**Table 3 - Council Tax Requirement**

| | £m |
|---|---|
| Budget requirement | 983.948 |
| Less | |
| Formula Grant | (660.074) |
| Collection Fund | 0.000 |
| Total Call on Council Tax Payers | 323.874 |

3.8 Dividing this by the tax base of 296,341 Band D equivalent properties gives a Band D Council Tax for the City Council of £1,092.91. This figure represents a 1.9% increase in Council Tax for the City Council - a figure which is once again below the rate of inflation[1] and one which is expected to be amongst the lowest in the country.

3.9 The City's Council Tax increase has been consistently below that for other comparable authorities and the national average for a number of years. The graph below illustrates the significant difference between the actual increase in Birmingham's Council Tax and what it would have been had it grown in line with the average for the Core Cities, Metropolitan Authorities and for the country as a whole. This shows that, over the period from 2005/06 to 2008/09, a Band D Council Taxpayer's saving has grown to nearly £88 per annum compared with the national average. With the increase expected to be significantly less than the average once again in 2009/10, this saving is likely to be greater next year.




1 Based on the Consumer Prices Index of 3.1% for December 2008, released by the Office for National Statistics on 20th January 2009

*Fire and Rescue Authority and Police Authority Precepts*

3.10 The Police Authority met on 12 February 2009, and the Fire and Rescue Authority met on 9 February 2009, to agree the precepts on the City Council.

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

**Table 4 - Precepts**

| | £m |
|---|---|
| Fire and Rescue Authority | 13.898 |
| Police Authority | 29.035 |
| Total | 42.933 |

3.12 For the Fire and Rescue Authority, the Band D precept is £46.90, and it represents an increase of 2.5% compared with 2008/09.

3.13 For the Policy Authority, the Band D precept is £97.98 and it represents an increase of 3.5% compared with 2008/09.

*Total Council Tax 2009/10 (excluding Parish Precept)*

3.14 In accordance with the standard multipliers for the different property bands the Council Tax for 2009/10, representing an increase of 2.05% including precepts, can be summarised as Table 5 below.

*Parish Precept - New Frankley in Birmingham*

3.15 The New Frankley in Birmingham Parish Council agreed its precept on 17 November 2008. The precept for the parish in 2009/10 is £86,059 (2008/09: £78,220). The tax base for the Frankley area is 2,072. The effect of the parish precept on the level of Council Tax for a Band D property is £41.54. This represents an increase of 9.2% compared with 2008/09.

**Table 5 - Detailed Council Tax Figures**

| | | | | | New Frankley in Birmingham Parish | |
|---|---|---|---|---|---|---|
| **Band** | **City Council** | **Fire and Rescue Authority** | **Police Authority** | **Total** | **Parish Precept** | **Parish Total** |
| | **£** | **£** | **£** | **£** | **£** | **£** |
| **A** | 728.60 | 31.27 | 65.32 | 825.19 | 27.70 | 852.89 |
| **B** | 850.05 | 36.48 | 76.20 | 962.73 | 32.30 | 995.03 |
| **C** | 971.48 | 41.69 | 87.09 | 1,100.26 | 36.92 | 1,137.18 |
| **D** | 1,092.91 | 46.90 | 97.98 | 1,237.79 | 41.54 | 1,279.33 |
| **E** | 1,335.78 | 57.32 | 119.75 | 1,512.85 | 50.78 | 1,563.63 |
| **F** | 1,578.66 | 67.74 | 141.52 | 1,787.92 | 60.00 | 1,847.92 |
| **G** | 1,821.51 | 78.17 | 163.30 | 2,062.98 | 69.24 | 2,132.22 |
| **H** | 2,185.82 | 93.80 | 195.96 | 2,475.58 | 83.08 | 2,558.66 |

# CHAPTER 2 - REVENUE BUDGET

## 1. Summary

1.1 The revenue budget for 2009/10 totals £983.9m. After allowing for the effects of inflation, it has been possible to commit £21.8m to addressing key priorities and funding essential budget pressures. This includes further major investment in adults' care services, accommodating the costs of waste disposal, recycling and grounds maintenance, mainstreaming resources previously met by Neighbourhood Renewal Fund or Working Neighbourhoods Fund grant, meeting the financing costs for the new Library of Birmingham, resourcing ICT expenditure and addressing the short-term trading position of the NEC.

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

1.3 In comparison with the size of its budget, the Council has a relatively modest working balance, but a strategy is in place to build this up in the medium-term.

1.4 The 2009/10 revenue budget has been developed in the context of a long-term financial strategy, which covers a period of ten years. From 2012/13 onwards there is expected to be a growing surplus of resources over expenditure as the benefits of the Business Transformation workstreams are realised. It is necessary to identify temporary internal sources of funding in the interim in order to address shortfalls in the short-term (2010/11 and 2011/12).

## 2. Revenue Budget Strategy

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

- The revised Council Plan – policy priorities have been an important driver of budget allocations.
- Addressing the need for improving performance in key service areas.
- Meeting the cost of pay and price increases.
- Recognising the need to meet some pressures in particular services.
- 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 long-term strategy, as a contingency against unforeseen costs.

- Integration of revenue and capital plans.

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

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

*Area Based Grant (including Working Neighbourhoods Fund)*

2.3 This is the second year of the Area Based Grant system whereby a large number of specific grants, which were previously received as individual amounts, have been consolidated into Area Based Grant (ABG). New funding streams were also added to the grant, most significantly the Working Neighbourhoods Fund (WNF) and this continues to be the route through which government places new funding. The grant is not ringfenced and part of the mainstream resources of the council. The allocation of the WNF is planned and co-ordinated with partner organisations through Be Birmingham, and as part of the Local Area Agreement. Be Birmingham Executive have approved planning totals for thematic partnerships. The WNF planning totals for 2009/10 and 2010/11 are detailed at Appendix B, the remaining ABG allocations for 2009/10 at Appendix C. The Council and its partners are committed to delivering the Sustainable Community Strategy, which has an agreed set of priorities for the City. ABG is only part of the total partnership-wide funding available to deliver this strategy, and the spending of it contributes to the achievement to key priorities.

2.4 A detailed report will be provided for the Cabinet to approve allocations in 2009/10 prior to the start of the financial year, following consultation with partners. However as the grants have been made as a three year allocation, on-going commitments will be associated with part of these funding streams. The total Area Based Grant receipts for the remaining two years of the three year allocation can be summarised as follows:

**Table 6 – Area-Based Grant**

| | | 2009/10 £m | 2010/11 £m |
|---|---|---|---|
| Working Neighbourhoods Fund | | 39.6 | 41.1 |
| Other grants | Note 1 | 60.6 | 109.9 |
| **Total Area-Based Grant** | | **100.2** | **151.0** |

Note 1 : The significant increase in 2010/11 reflects the inclusion of Supporting People grant from that year onwards. In 2009/10 the City Council will act as a pilot for this grant being included in the ABG. We are awaiting notification of the amount.

*Estimated 2008/09 Outturn*

2.5 Revenue budgets for 2008/09 have been closely monitored and reported to Cabinet, Regulatory, Constituency and Scrutiny Committees and Portfolio holders. In a number of instances, where difficulties were identified in the earlier part of the year, actions have been taken to deal with the matters concerned.

2.6 The revenue budget monitoring report for Month 8 in 2008/09 identified a potential overspending of £14.2m for the City Council as a whole, of which £11.0m related to the Adults & Communities portfolio. Most of this pressure relates to services for Adults with Learning Disabilities. Work is being progressed with the Birmingham East and North (BEN) Primary Care Trust to reduce the potential year end deficit, as it is recognised by both parties that a planned pooled budget arrangement for Learning Disabilities for April 2009 would be severely compromised if these funding pressures are not alleviated. The position is being closely monitored by the Cabinet Member and Chairman of the Overview & Scrutiny Committee as part of the ongoing arrangements to reduce budget pressures. Similarly, arrangements are being made in other portfolios to take management action to contain spending within approved resource levels.

2.7 However, in the event that any overspendings remain at the year end, the City Council's budgetary control framework permits these to be carried forward, to be recouped by the portfolio/committee during next financial year. This would not necessitate the allocation of additional corporate resources in 2009/10 and, therefore, is not something which needs to be taken into account in setting the Council's overall budget requirement for 2009/10. Any service underspendings may be permitted to be carried forward, subject to the consideration of a business case.

## 3. Revenue Budget Allocations for 2009/10

3.1 The budget for 2009/10 allows for the following items:-

- pay and price inflation
- meeting the Executive's policy priorities

- approved budget pressures
- capital financing costs
- Dedicated Schools Grant budget allocation for schools
- savings determined by Portfolio holders to allow the re-allocation of resources to higher priorities
- continuing efficiency savings

*Inflationary Increases*

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

- for general pay awards at 2.0%
- for the teachers' pay awards in 2009/10 of 2.5% (the impact on schools is contained within the increase in schools' budgets)
- general increase in income of 2%
- price increases for large contracts to reflect indexation provisions where these are applied as a condition of the contract
- increases for the rise in energy prices
- increases for grants to organisations in the third sector at 2%
- increases for social care contracts at 2%

3.3 There has been no general increase for other expenditure budgets, apart from those to meet the increase in the costs of services from internal providers. The latest inflation figures (for December 2008) show that CPI is currently 3.1%, RPI is 0.9% and RPI(X) is 2.8%. However, it should be noted that it is widely expected that there will be a very significant reduction in inflation during 2009.

*Executive's Policy Priorities and Budget Pressures*

3.4 The Executive's priorities are set out in full in the Council Plan 2008-2013 "Birmingham: A global city with a local heart". These are framed by five long-term strategic objectives which are to create a city where people can: "succeed economically"; "stay safe in a clean, green city"; "be healthy"; "enjoy a high quality of life" and "make a contribution". Further details are spelt out in the Forward to this report.

*Budget Pressures*

3.5 The budget allows for new investment in 2009/10 in a number of areas, totalling £21.8m, including £13.1m relating to new decisions this year. The overall investment is planned to increase to £40.9m by 2011/12. Further details of these budget pressures are set out in Appendix D. The main elements are:

- Significant investment in adult care services in order to address demographic pressures and to provide resources to fund the procurement of quality services (£6.7m growing to £11.5m).

- Revenue funding for the capital financing costs of the new Library of Birmingham (an additional £1.2m in 2009/10, with further increases to £4.1m by 2011/12).
- Further investment in recycling, meeting the costs of waste disposal and grounds maintenance (£2.6m growing to £3.5m) together with resources to ensure that new road improvements are adequately maintained (£0.25m increase in each year).
- Meeting budget pressures caused by a loss of income to the Planning service (£0.6m).
- Ensuring that expenditure previously met by Neighbourhood Renewals Fund and Working Neighbourhoods Fund grant can continue (£1.1m).
- Continuing to provide funding for major events to promote the city (£0.25m).
- Funding for key ICT costs (£2.75m).
- A phased re-alignment of recharges to the Housing Revenue Account (£0.6m growing to £1.8m) which allows extra investment in the Council's housing stock.
- Meeting the impact of the economic cycle on the NEC's trading position.

*Capital Financing Costs*

3.6 The revenue effects of capital expenditure have been reviewed in the context of the announcements of Government capital resources, the Capital budget set out in Chapter 4 of this report, and expectations of movements in interest rates. Notwithstanding the significant new investment which is planned (please see Chapters 3 and 4) borrowing costs have been lower than were anticipated, and so it has proved possible to contribute net savings of £3.7m in the revenue budget for 2009/10.

*Schools' Budgets*

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

3.8 The provisional DSG figure for 2009/10 is £774.0m, an increase compared with the final 2008/09 figure of 3.5%. Whilst the amount per pupil is now guaranteed, the actual DSG will be based on January 2009 pupil numbers and will not be confirmed by the Department for Children, Schools and Families (DCSF) until June 2009. This means that the final allocation of grant may be higher or lower than currently projected and budgeted for. Adjustments may, therefore, need to be made to the Schools Budget Block during 2009/10 to reflect any amendment.

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

*Efficiencies and other Savings to allow re-allocation to policy priority*

3.10 The total efficiencies and other savings within the 2009/10 budget can be summarised as follows:

**Table 7 - Savings Summary - Movement from 2008/09**

| | £m |
|---|---|
| Business Transformation* | 5.5 |
| Portfolio savings | (22.9) |
| **Total savings** | **(17.4)** |

* This is a net figure which is consistent with the invest-to-save principles underpinning Business Transformation. The long-term benefits of Business Transformation are shown in Table 8.

3.11 The savings comprise the following elements:

(a) Business Transformation

Like most other local authorities, the City Council is facing a wide range of pressures and challenges to improve the way in which it functions, including changes to implement new central government policies, managing the increasing proportion of both younger and older residents in the City, and addressing the ever-increasing expectations for services to improve whilst, at the same time, reducing costs. Quite simply, we have to do better for less.

The Council itself is committed to a "journey towards excellence", and has an ambition to be "second to none". Through its Council Plan it is looking to develop the organisation so that it not only delivers high-quality cost-effective services, but also puts the customer first, ensuring that Birmingham people are served wherever needed and that their problems are solved as close to the front-line as is possible.

In order to bring about this significant change, two programmes have been put in place:

* Business Transformation - changing what we do; and

* Organisational Development - supporting staff to do it.

Business Transformation involves fundamentally redesigning our services either by changing the basic business model ("doing different things") or by making major changes to the way which services are delivered ("doing things differently"). Nine Programme Boards have been created to take this work forward: four service-specific (Adults & Communities; Children, Young People and Families; Housing and Environment) and five crosscutting (Efficiency, including Corporate Services; People Management; Working for the Future; Customer First and Information Management. The Organisational Development Programme, exemplified by the new corporate values of Belief, Excellence, Success, Trust (BEST), runs in parallel to the Business Transformation programme, responding to the cultural and staffing needs.

The planned net savings, over the period of the LTFS, are as follows:

**Table 8 – Business Transformation Net Savings**

| | Net Savings £m | Change from 2008/09 Base Budget £m |
|---|---|---|
| 2008/09 | (2.8) | |
| 2009/10 | 2.7 | 5.5 |
| 2010/11 | (21.1) | (18.3) |
| 2011/12 | (35.9) | (33.1) |
| 2012/13 | (51.8) | (49.0) |
| 2013/14 | (66.9) | (64.1) |
| 2014/15 | (76.5) | (73.7) |
| 2015/16 | (86.0) | (83.2) |
| 2016/17 | (104.5) | (101.7) |
| 2017/18 | (111.3) | (108.5) |
| 2018/19 | (111.6) | (108.8) |

These figures represent changes compared with the savings already included in the 2008/09 base budget. The actual overall level of savings is, therefore, higher than the amounts shown above. These figures are also shown net of costs incurred on an invest-to-save basis. Further details are set out in Appendix E.

Some of the savings in 2009/10 have been allocated on a provisional basis, pending approval of Full Business Cases. Therefore, there may well be the need for some re-distribution between portfolios/ committees during the year as specific proposals are identified, developed, and approved.

(b) Portfolio Savings

A range of portfolio savings has been identified totalling £22.9m, which are designed to make better use of the Council's resources. The details are set out in Appendix F. An analysis has been undertaken of service performance and unit costs in order to identify areas for more thorough review and evaluation of savings options. Services have used these analyses as a way of identifying efficiency improvements.

In addition, all services are required to review and improve productivity. There will be local discretion about how this will be achieved through a combination of slimmer, flatter management structures, controlling staff costs more tightly, changing business processes and improving output and efficiency. Increased savings of £10.0m in 2009/10, followed by a further £5.0m in each of the next two years, will be achieved in this way.

3.12 The implementation of Business Transformation and productivity improvements is concerned with reshaping services, to achieve equivalent or better outcomes at lower cost. This will necessitate, amongst other things, a review of staffing structures. Should reductions in posts be necessary, tools including In-source and vacancy management will be given priority. All proposals will be managed through the normal consultation process on a programme by programme basis.

3.13 One of the savings targets previously built into the 2009/10 budget in the Long-Term Financial Strategy was a further step-up in income generation from fees and charges. Whilst maximising income from fees and charges will continue to be the Council's policy, it has been decided not to set specific budgetary targets beyond the general 2% increase in 2009/10.

*Contingencies*

3.14 The budget contains a Policy Contingency of £12.154m. Specific sums included in this figure are:

**Table 9 - Specific Contingencies**

| | **£000** |
|---|---|
| Constituencies Investment Fund | 1,250 |
| Partnership Priorities | 350 |
| Centrally held provision for contract inflation | 150 |
| Single Status Implementation | 3,965 |
| Provision for Landfill Allowance Trading Scheme (LATS) valuation | 3,887 |
| CCTV investment | 1,000 |
| Loss of car park income due to major developments | 202 |
| | **10,804** |

3.15 In addition, there is a general unallocated contingency of £1.350m. This sum provides some flexibility in the overall management of the budget in 2009/10.

## 4. Housing Revenue Account

*Context and Strategic Objectives*

4.1 The financial framework for the Housing Revenue Account (HRA) is set out in the Local Government and Housing Act 1989. This established a ring-fenced account for expenditure/income relating to the management of the Council's housing stock, a new subsidy system and a requirement to prepare a balanced annual budget.

4.2 A HRA Business Plan framework was introduced in 2000/01 to complement the Housing Plan and was intended to improve the investment/asset management of council housing stock through long-term financial planning.

4.3 The HRA Business Plan sets out the investment, income and expenditure cash flows over 30 years and was assessed as 'fit for purpose' by Government Office for West Midlands in November 2007.

4.4 The strategic objectives and planned investment of the HRA Business Plan to 2017/18 are aligned to the Council Plan 2008 - 2013 and include:

- Completion of Decent Homes (heating and windows) by 2010 under our 4th option of positive retention (90% will be completed by March 2009)
- Commence and complete a Decent Homes Plus programme (kitchens and bathrooms) in the following years
- Maintaining 'Decent Places' to support the objectives of the Homes & Communities Agency
- Completion of all essential/structural/clearance work, day to day repairs and maintenance and local housing/estate services (eg caretaking, concierge, older people services)
- The continued direct management of council housing as the preferred choice of tenants

4.5 A further key objective is the provision of 3 Star excellent housing services (the maximum possible rating) through a Housing Business Transformation Programme. This commenced in 2008/09 and a number of key projects have been completed including centralisation of the rent/void teams, asset management system and new hand held ICT technology.

*Financial Management and Key Financial Targets*

4.6 The key financial and performance targets in the HRA Business Plan to 2017/18 include:

- Ensuring fiscal discipline and management to the annual cash limits set out in the financial plans
- Maintaining financial stability by retaining minimum balances of £3m in line with Audit Commission recommendations.
- Maintaining adequate provisions for potential bad debts on rents and service charges
- Compliance with prudent financial ratios in particular the level of debt to the value of the housing stock (at less than 30%) and capital finance costs to rent income (at less than 30%)
- An annual reduction in arrears of £0.5m (5%) per year and a reduction in the number of empty properties from 1.2% to 0.6% of the stock.

4.7 The HRA Business Plan is subject to a continuous internal review and is updated annually to ensure continued financial viability to deliver the strategic objectives for council housing services.

*HRA Budget 2009/10*

4.8 The HRA Budget for 2009/10 is consistent with the HRA Business Plan and to achieve the priorities set out in the Council Plan 2008 - 2013. The budget is balanced for 2009/10 and the table explains the major variations compared with 2008/09.

**Table 10 - HRA**

| | £m |
|---|---|
| **Reduction in Resources**<br>(increase in payments to government through the subsidy system) | **10.3** |
| **Allowances for Costs**<br>(pay awards and prices for contractual obligations and utilities only) | **5.6** |
| **Additional Capital Financing Costs**<br>(including affordable prudential borrowing) | **3.1** |
| **TOTAL COSTS/LOSS OF RESOURCES** | **19.0** |
| **Additional Income**<br>(rent/service charge increases after stock loss for sales/demolitions) | **(10.9)** |
| **Reducing Costs/Delivering Efficiencies**<br>(including Housing Business Transformation Programme) | **(5.9)** |
| **Improving Performance**<br>(void turn round and rent collection) | **(2.2)** |
| **TOTAL INCOME/EFFICIENCIES/COST REDUCTIONS** | **(19.0)** |

*HRA Medium Term Financial Challenges and Issues*

4.9 There has been a significant withdrawal of resources since 2003/04 from existing council housing services through the current HRA subsidy system and this presents a major issue of concern. The housing subsidy deficit i.e. the contribution that tenants make to national resources will be £10m more in the next financial year (at £57m in 2009/10 compared with £47m in 2008/9). This is in addition to the Council paying out 75% of the Right to Buy (RTB) capital receipts.

4.10 The subsidy contribution to the national exchequer is expected to continue to increase and is estimated to be £70m by 2011/12 (31% of total rent ) based on current projections. In addition, the supported capital expenditure borrowing approvals of £10.7m annually will be discontinued in 2010/11 based on the original national delivery of Decent Homes by 2010. These financial pressures will require robust financial management and the delivery of significant efficiencies.

4.11 A national review of the existing HRA Finance and Subsidy System is currently in progress (due for completion in Spring 2009) and the Council and its Officers are contributing to the review to seek a more equitable and transparent funding framework. In particular, this includes the abolition of the current subsidy system, retention of all right to buy receipts for local investment and greater flexibility in setting rent levels in consultation with tenants.

## 5. The City Council's Net Revenue "Budget Requirement" for 2009/10

5.1 The components of the budget increase from 2008/09 can be summarised as follows:

**Table 11 - Movement in Base Budget**

| | £m | £m |
|---|---|---|
| Base Budget 2008/09 | | 960.343 |
| **Cost of Service Changes:** | | |
| Pay & Price Inflation | 24.481 | |
| Pressures and Policy Priorities | 21.839 | |
| Efficiency Savings | (17.363) | |
| Capital Financing Costs | (3.675) | |
| Time limited prior year decisions | (2.935) | |
| Grant Transfers | (0.360) | |
| | | 21.987 |
| **Corporate Adjustments:** | | |
| Reduction in Application of One-off Resources | 11.157 | |
| Temporary Use of Reserves | (8.539) | |
| Contribution to General Balances | (1.000) | |
| | | 1.618 |
| **Base Budget 2009/10** | | **983.948** |

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 2009/10 will be £983.948m calculated as follows in accordance with Section 32 of the Local Government Finance Act 1992:-

**Table 12 - Summary of Budget Requirement**

| | £m |
|---|---|
| Gross City Council Expenditure | 3,375.958 |
| Less: Estimated City Council Income | (2,392.010) |
| **City Council Budget Requirement** | 983.948 |

5.4 The budget requirement includes an allowance of £53.938m (based on a 2.18% increase in the overall levy, with an adjustment for the Council's relative population share) in respect of the Passenger Transport Authority levy for 2009/10 and £0.315m for the Environment Agency Levy (a 3.5% increase).

## 6. Consultation

6.1 A formal meeting to consult with Business Ratepayers took place on 26 January 2009. A report on budget strategy was presented to the meeting attendees prior to the 26 January and feedback and dialogue was invited up to 16 February. Consultation took place with the corporate representatives of Trade Unions on 11 February 2009, and individual issues are being discussed through the normal directorate consultation process. Business Transformation programmes have been discussed with unions as appropriate throughout the financial year. No specific issues have been raised which need to be taken into account by the City Council in setting the 2009/10 budget.

## 7. Budget Risks

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

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

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

- Account has been taken, in planning the budget for future years, of issues which have emerged as part of the process of monitoring the budget during the 2008/09 financial year.

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

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

7.2 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 G. However, notwithstanding these issues, **the Corporate Director of Resources (as s151 Officer) is satisfied that the management frameworks and activities which are in place, taken together with the general, unallocated resources (see below), are such that he is able to confirm that the budget proposals are based on robust estimates.**

*Reserves & Balances*

7.3 The Council achieved a targeted level of general balances of £12.9m by 31 March 2008. The Council's balances are maintained at a relatively low level with regard to the scale and complexity of its business. However, given the level of earmarked reserves, the continued progress in building additional balances in the medium term (see paras 7.5-7.6), the rigorous arrangements for the prompt and regular monitoring of budgets, and the risk management measures set out above in paras 7.1-7.2 and Appendix G,(which are set in the context of the City Council's overall approach to risk management) **the formal view of the Corporate Director of Resources, in accordance with Section 25 (i) (b) of the Local Government Act 2003, is that the general balances are adequate, but that this needs to be kept under periodic review.**

7.4 The following reserves and balances are expected to be available on 1 April 2009:

**Table 13 - Reserves available to the Council**

| | **01/4/09 Estimate £m** |
|---|---|
| General unallocated balances | 15.4 |
| Portfolio and Committee Carry Forward Balances | 1.8 |
| Earmarked Reserves (excl Schools) | 72.5 |
| **Total** | **89.7** |

In addition school balances at 31 March 2008 stood at £66.1m.

7.5 The Council's strategy for general balances in the medium-term is to make planned contributions of £1.5m per annum from 2009/10 onwards.

7.6 The strategy is, therefore, to increase general balances to £19.9m by 31 March 2012 provided there is no need for emergency funding in the meantime.

7.7 The Business Transformation programmes, in particular, are expected to yield significant savings and generate the potential for reinvestment in services in later years. Pending the delivery of these benefits, and in order to identify resources to be spent on an invest-to-save basis, it is necessary to make temporary use of corporate reserves (£16.6m) over the two financial years 2008/09 and 2009/10, to be repaid in 2011/12 and 2012/13. Given the overall level of reserves, this is considered a prudent course of action in order to lever in significant long-term benefits.

*Budgetary Control Framework*

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

## 8. Ten-Year Financial Strategy

8.1 The budget for 2009/10, is set in the context of the Long-Term Financial Strategy for the ten year period to 2018/19. The position over that period, as currently estimated, is summarised in Appendix H, with the overall net surplus or deficit in each year in Table 14 below.

**Table 14 - Ten Year Financial Projections**

| | Net Expenditure | Resources | (Surplus) / Deficit |
|---|---|---|---|
| | £m | £m | £m |
| 2009/10 | 983.9 | (983.9) | 0.0 |
| 2010/11 | 1,018.6 | (1,010.9) | 7.7 |
| 2011/12 | 1,037.6 | (1,035.8) | 1.8 |
| 2012/13 | 1,040.2 | (1,064.2) | (24.0) |
| 2013/14 | 1,046.8 | (1,093.4) | (46.6) |
| 2014/15 | 1,066.3 | (1,123.4) | (57.1) |
| 2015/16 | 1,085.4 | (1,154.3) | (68.9) |
| 2016/17 | 1,092.1 | (1,186.0) | (93.9) |
| 2017/18 | 1,113.4 | (1,218.6) | (105.2) |
| 2018/19 | 1,144.1 | (1,252.0) | (107.9) |

8.2 The projections make the following principal assumptions:

- Council Tax rise of 1.9% in each year and the taxbase to continue to increase at the same rate as in 2009/10. This is only a planning assumption, and the actual level of increase for future years will need to be considered in due course.

- future inflationary pressures broadly in line with those allowed in the 2009/10 budget, with the resumption in the allowance for general expenditure inflation from 2010/11 onwards, and pay awards at an average of 2.5% from 2010/11 onwards.

- 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 last tri-annual actuarial revaluation.

- 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/committee cash limits.

- other than the above, portfolio/committee budgets continuing at the same level as in 2009/10.

8.3 The figures for future years set out above will be the framework within which long-term financial planning will be updated in the first half of next financial year and for setting the budget for 2010/11.

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

8.5 Whilst provision has been included in the LTFS for 2009/10 and 2010/11 for budget pressures arising from demographic changes, notably in social care services, any longer term requirement will need to be assessed further, and appropriate financial consequences reflected in updates to the LTFS.

8.6 In 2010/11 Local Government will be required to adopt the new International Financial Reporting Standards (IFRS), to bring public sector accounts in line with private sector and international accounting standards. As a result, there will be financial implications for the budget which we are currently working proactively to identify, and any necessary changes will be reflected in future updates of the LTFS.

# CHAPTER 3 - CAPITAL STRATEGY

## 1. Summary

1.1 During 2008/09, services have developed a draft ten year view of their capital investment needs. This has been done in the context of strategic corporate and service priorities and directions over the ten year period, and forms part of the Council's Long-Term Financial Strategy. Further development of the draft ten year service capital strategies will enable strategic choices to be made and achieve good value from investment decisions. Services are working hard to renew their asset portfolios and respond to the changing needs of the future.

1.2 The Capital Strategy also sets out corporate policies for distributing capital receipts, distributing 'Single Capital Pot' resources, the Property Fund, prudential borrowing, revenue provision for the repayment of borrowing, and lifecycle asset maintenance.

## 2. General Strategic Aims

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

- to integrate capital planning into the Council's overall strategic planning, including alignment with corporate and service priorities, and financial alignment with the Long-Term Financial Strategy;

- 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 is affordable and which delivers good value for money to the City Council, including a robust process for the appraisal and approval of capital projects and programmes (the 'Gateway' process);

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

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

2.2 The following sections of this chapter review key issues from the ongoing capital planning process, and outlines the overall Capital Strategy. The precise approach for any situation will depend on the circumstances, such as external funding available.

## 3. The Strategic Capital Planning Process

3.1 The capital planning process for the 2009/10 cycle is significantly different from previous years in its aim to develop:

- a strategic view of asset use and investment need which responds to the overall vision for service change and delivery over the next ten years;
- a ten year view in line with the Council's Long-Term Financial Strategy;
- a framework in which individual capital proposals are developed in line with the strategic view and taking account of the availability of resources;
- plans for an appropriate level of revenue maintenance for existing and new assets;
- a Capital Strategy for each of the Council's main service areas (at directorate and portfolio level) consistent with the above approach.

3.2 A Capital Strategy Group has been formed to oversee the process and review the proposals at an officer level.

3.3 This strategic ten-year approach is intended not just for the 2009/10 cycle but as the basis for ongoing capital planning into the future. It is recognised that some services have a more developed strategic solution for capital than others. The Capital Strategy for individual services (summarised below) seeks to identify the main areas where progress is required in order to implement plans for strategically aligned and affordable asset use and capital investment.

## 4. Overall Capital Strategy

4.1 Draft proposals for strategic, ten year service capital strategies (as set out in 3.1 above) were developed during 2008. These were reviewed individually through the Capital Strategy Group and by portfolio holders. Whilst it is encouraging that substantive capital strategies with funding have been established, significant asset categories have a funding gap, particularly for those services not well supported by Government capital allocations. Further work is therefore needed during 2009 to produce affordable and sustainable long-term capital investment plans.

4.2 The development of City Council services to meet the changing needs of the 21st century will require changes to the asset portfolios delivering those services. Some properties which are currently used for service delivery or back office support may need to be closed and sold, with services provided differently or in replacement buildings.

4.3 The City Council is already implementing radical change in its property portfolios, including Adults Services (where Special Care Centres and other forms of care and support are replacing the previous Elderly Persons Homes) and the Central Administrative Buildings portfolio (where many inefficient buildings are being replaced by fewer, more efficient office buildings). This approach will be rolled out to other areas, for example through the Cross-Portfolio transformation programme and the Sports Facilities Strategy. Capital resources are available in the Property Fund (see section 15 below) to support strategic portfolio-wide property reviews.

4.4 The City Council will continue to develop long-term capital strategies and investment programmes using Government support where available, for example through the Building Schools for the Future (BSF) Programme and the proposed Highways Maintenance PFI, where these are affordable and support City Council policy.

4.5 Asset maintenance strategies need further development in some areas to ensure that asset portfolios are sustainable and do not deteriorate. For new capital investment in particular, services will set aside resources into a cyclical maintenance reserve for future cyclical maintenance and replacement needs (see section 14 below).

4.6 The City Council's Asset Management Plan (AMP) has been approved by the Cabinet Committee (Property). It describes the current position for the management of the property assets, examines influences for change across the Council whether driven by Government or the Council, and makes recommendations for action.

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

4.8 This Capital Strategy proposes that 'corporate strategic capital allocations' will in future be made to services in accordance with their ten year capital strategy developed through this process. In the short term for the 2009/10 budget, corporate capital resources are very limited and the allocations proposed are set out in Chapter 4 below.

4.9 The rest of this chapter outlines the capital strategies of the major service areas (paragraphs 5-11) and the major corporate policies relating to capital planning (paragraphs 12-17).

## Major Service Capital Strategies

## 5. Housing Strategy and HRA Business Plan

5.1 The HRA Business Plan sets out, over a 30-year period, plans for revenue and capital income and expenditure relating to HRA properties on an integrated basis. Planned investment is required to ensure that retained council housing properties have not only achieved the Decent Homes Standard by 2010 (as required by Government), but are also kept at or above this standard subsequently, including any structural works needed to the fabric of the buildings. Further investment in an extensive kitchens and bathrooms renewal programme is also included to reflect the reality that these facilities are beyond their economic life. The HRA Business Plan sets out how this investment will be carried out and funded.

5.2 The Directorate is also pursuing a PFI scheme which will cover a combination of new build council housing, conversions of flats into larger family homes and refurbishments, with overall value of the PFI contract anticipated to be about £150m.

5.3 Funding assumptions for the capital investment programme included within the HRA Business Plan do not assume any contribution from general corporate resources, other than the continuation of existing policies for the treatment of useable capital receipts from RTB and housing land sales (as set out in paragraph 16 below). Prudential borrowing is being used to support the HRA Business Plan. The current Business Plan revision demonstrates that this is affordable over the long-term (30 years+).

## 6. Local Transport Plan and Highways Maintenance

6.1 The City's highway network enables the movement of people, goods and materials around Birmingham thereby contributing to economic success and supporting new development and housing growth in the City (with strong links to the Community Infrastructure Fund). A key element of the service strategy aims to keep the City's highway network in 'good working order' and to undertake specifically targeted initiatives to improve its operation, in line with the City Council's strategy for transportation and its legal Traffic Management duty.

6.2 Significant maintenance backlog exists in relation to the highway network. The strategy is to deliver a major cash injection to restore the network to a sustainable condition (over a 25 year period). A Private Finance Initiative (PFI) is currently being pursued which is expected to deliver the level of investment required for the highway network. However, if the PFI were not to proceed, over £300m would be required (including £247m of corporate resources) over the next 10 years. This is not achievable on current resource forecasts without Government support, which currently is only available through PFI.

6.3 PFI bidders are now being asked to return revised bids by early March 2009. The Cabinet Committee for the Highways Maintenance and Management PFI will decide on whether to appoint a Preferred Bidder and/or reserve. This decision is expected to be sought from Members in spring/early summer 2009, subject to approval of the Final Business Case by HM Treasury Project Review Group for a possible 31st March 2010 contract start date.

6.4 The strategy also reflects the provision of improvements on both local as well as strategic roads in the network which add new assets to the network (through the West Midlands regional Local Transport Planning (LTP) framework, other Portfolio and developer proposals) which will need to be maintained and funded. The improvements contribute to specific LTP outputs and outcomes which Government monitors and can influence future City Council capital resource allocations.

6.5 Under the LTP process, Government funding for major schemes (over £5m) is determined through a regional bidding process, and the Government contribution is ring fenced to each named scheme. Such schemes are usually not wholly funded by the Government, but may include developer contributions, funding from the Regional Development Agency, Centro, and corporate resources (minimum of 10% local funding contribution is required by DfT). In order to deliver potential major projects (not yet within the Capital Programme) over the 10 year period, corporate capital resources totalling £37m may be required.

## 7. Transforming Education

7.1 As part of the drive to raise standards we are seeking to transform our school estate as part of the Government led Transformation Programme in order that it is fit for purpose in the 21st century through innovative combinations of rebuilding, remodelling and curriculum delivery. This is a major programme. The schools transformation programme will affect:

**Secondary Phase** - There are six phases of new build/remodel/refurbish for all our 76 secondary schools. The emphasis will be on ensuring appropriate curricula are offered to meet the needs of the children and this is related in the design of the school. We will also need to incorporate the '14-19 Agenda' reforms set out in recent legislation.

**Primary Phase** - A Primary Strategy for Change Vision document has been submitted to DCSF and approval is imminent. This programme's budget is much smaller but will affect up to 50% of schools.

**Strategy for Special Provision** - Following widespread public consultation, implementation of these proposals will shortly commence. This will look at synergies with the secondary and primary phases of our transformation programme.

7.2 This work has clear links with Housing, Regeneration and Leisure and we are seeking to develop strategic and operational approaches that ensure joined up planning and delivery to meet the needs of the future communities in Birmingham.

7.3 There are a number of challenges in funding this programme. These include achieving an affordable BSF programme, and obtaining land needed for school relocations.

## 8. Leisure, Sport and Culture

8.1 This Portfolio covers a wide range of services which do not generally receive regular capital funding from Government. This makes the maintenance and renewal of the extensive property portfolio particularly challenging.

8.2 Cabinet (on 15 December 2008) has approved Phase I of a Sports Facilities Strategy subject to identifying funding. This comprises developing plans for a new 50m swimming pool and leisure complex near the National Indoor Arena, the replacement of Harborne Pool, and the refurbishment of Stechford Cascades. Not all the funding for this work, or for further phases of the Sports Facilities Strategy has been identified to date. The solution may include land disposals, rationalisation of facilities, developer contributions, partnership arrangements and external grant funding, supported by further prudential borrowing in the interim where this is affordable.

8.3 The Libraries Strategy is driven by the provision of the new Library of Birmingham planned for 2013. Neighbourhood libraries are being considered as part of the transformation programme for cross-portfolio services, the business case for which will be brought forward during 2009.

8.4 The draft capital strategies for Museums, Arts and Parks and Open Spaces require significant external funding, given the limited level of City Council capital resources likely to be available. However, funding for the creation of the Eastside Park is included in the existing Regeneration Capital Programme, and a further allocation to enhance the Park’s design is proposed in this budget as part of Eastside infrastructure works (Chapter 4 paragraph 3.2, below).

## 9. Regeneration

9.1 A strategic vision for transformational and sustainable regeneration which enables the City to ‘succeed economically’ will require support for the following capital investment priorities.

- Delivering the Big City Plan (BCP)
- Delivering the Growth Agenda and Regeneration outside the City Centre (including Area Investment Prospectuses (AIPs) and Local Centres)
- Delivering Knowledge and Technology linked to the World Expo event
- Delivering Sustainability and Energy Infrastructure

- Delivering Disability Employment Investment

These are focused on delivering growth and targeted regeneration across the City, linked to tackling worklessness. It is recognised that delivering the Big City Plan and the Growth Agenda are key to achieving this transformational change.

9.2 Given the limited availability of corporate capital resources to support this strategy and investment requirements, maximising external resources must be a priority. There are opportunities to lever in significant public and private sector funding and this will need to be secured and maximised if proposals are to be approved and delivered successfully. However, City Council resources may be required as pump-priming in negotiating other public and private investment contributions.

9.3 Revenue implications may arise as a consequence of the investment proposals, particularly in relation to public realm and highways infrastructure works, but the strategy will be to minimise the revenue impact and strive for a revenue cost neutral position as part of developing the business case.

## 10. Adults and Communities

10.1 With Care Services, the national policy is to empower service users to be able to exercise more control over the way that care is provided for them, known as self directed care. As part of this exercise to change control there will be an inevitable shift away from residential care to domiciliary care. The Directorate's strategy is, therefore, to:

- Disinvest from capital assets and ensure that resources are made available to support self directed care
- Maintain assets that are retained to a high standard
- Create new assets only where there are specific needs for a service that is more expensive to purchase externally
- Use capital receipts from the sale of redundant assets to fund replacements where necessary.

10.2 Whilst the impact of self directed care on the provision of services will not be known for some time, it is envisaged that there will be significant change and this forms the core of the Adults and Communities Business Transformation proposals.

## 11. Working For The Future

11.1 The Working For The Future programme aims to transform the Council's property portfolio, underpinning all of the other transformation programmes to make significant improvements to customer service delivery and enhance the working environment for employees.

11.2 Working For The Future has three main aims:

- To provide modern, fit-for-purpose buildings and work space for customers and employees
- To encourage wider adoption of agile working practices such as desk/space sharing, mobile and home working.
- To provide a Council-wide property and facilities management service – freeing up managers' time so they can focus on service delivery.

### Capital Policies

## 12. Prudential Borrowing

12.1 Prudential Borrowing offers local authorities more flexibility in their capital planning and greater ability to borrow for capital, providing they can sustainably afford the revenue consequences. The City Council has made significant use of prudential borrowing to deliver key priorities such as funding Business Transformation, the Library of Birmingham, Special Care Centres, equal pay settlements (back pay), and many smaller scale service priorities.

12.2 The City Council's policy is to enable services to use prudential borrowing where they can meet the revenue consequences, providing the business case is sound and the proposal does not conflict with the Council policies.

12.3 The City Council is planning to repay its prudential borrowing within the expected life of the assets created, and sometimes within a shorter period. This should enable capacity for further borrowing to be created over the years. However the Prudential Code requires authorities to take account of the affordability and sustainability of borrowing in the long-term, and it is recognised that the fiscal and economic climate in future years may restrict the opportunities for further prudential borrowing.

## 13. Annual MRP Statement

13.1 Government Guidance requires the full Council to approve a statement of its policy on making Minimum Revenue Provision (MRP). MRP is an annual revenue charge for the repayment of borrowing and other capital financing liabilities. Government Regulations give authorities some discretion about how to calculate 'prudent provision' for MRP. However, the statutory guidance steers authorities firmly towards a limited choice of options in which the key principles are demonstrating prudence, and repaying borrowing over the period in which the capital expenditure provides benefits. The City Council's MRP Statement is attached at Appendix I.

## 14. Lifecycle maintenance

14.1 The City Council is progressively tackling the backlog of maintenance on its existing assets. However, it also needs to ensure that resources are available for the future maintenance of its capital investment in new assets.

14.2 For new capital investment approved from 2009/10, an annual revenue contribution will be made by the service into a Cyclical Maintenance Reserve. This will generally be 2.4% pa of the capital cost, unless other prudent arrangements specific to the project have been made. The reserve will be held for future cyclical maintenance and renewal of those assets. The adoption of planned funding for the future maintenance needs enables a reduction in prudential borrowing charges, as it can be expected that the asset life will be enhanced. Detailed arrangements will be agreed by the Corporate Director of Resources.

## 15. The Property Fund

15.1 A 'Property Fund' of £25.2m is available for the purpose of facilitating:

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

15.2 Use of the Property Fund is approved by Cabinet Committee (Property) based on criteria relating to the above three categories. This accords with the ten year strategic capital planning approach introduced in this Capital Strategy, and a realistic capital strategy for the service concerned will be a key factor in allocating Property Fund resources. Preference will be given to those projects able to lever in additional funding to support the investment or to realise efficiency savings.

## 16. Capital Receipts Policy

16.1 The policy for the application of capital receipts approved previously is proposed to remain in place. The policy is as follows (in summary):

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

16.2 The impact of falling capital receipts in the current economic climate is considered in Chapter 4 below.

## 17. Single Capital Pot Policy

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

**Table 15 - Single Capital Pot 2009/10**

| | | Government Announcement £m | Council Allocation £m |
|---|---|---|---|
| Education | 75% | 18.9 | 14.2 |
| Housing | 100% | 26.0 | 26.0 |
| Transport | 75% | 19.8 | 15.0 |
| Social Services | 75% | 0.8 | 0.6 |
| Corporate reallocation | | | 9.7 |
| **Total** | | **65.5** | **65.5** |

# CHAPTER 4 - CAPITAL PROGRAMME

## 1. Summary

1.1 This Chapter proposes a revised capital programme of £1,416.2m over the three year period 2009/10 to 2011/12. This is consistent with the Capital Programme monitoring report which will be reported to the Cabinet shortly.

1.2 The proposed prudential limits and indicators at Appendix L reflect a balanced and affordable approach to the City Council's capital finance. The Authorised Limit for Debt is set at £3,090m.

## 2. Capital Resources

2.1 Appendix J summarises the proposed capital programme of £1,416.2m. The resources identified to fund this programme are summarised in Appendix K, and comprise 'specific' and 'corporate' resources.

2.2 'Specific' capital resources total £457.4m and represent funding which has been obtained from external sources for a specific purpose - eg government grant and developer contributions. These projects are added to the capital programme on a rolling basis, as the resources are awarded to the City Council.

2.3 'Corporate' capital resources total £958.8m. These represent resources which the City Council has more freedom to allocate to its own policy priorities. The main sources are as follows:

1. The Single Capital Pot funding from the Government totals around £66m per annum. Government Departments have clear expectations about how most of this will be spent, and this is taken into account in the Single Capital Pot Policy in section 17 of the Capital Strategy (Chapter 3 above).

2. Capital receipts from asset sales are generally available for the City Council to spend in accordance with its own priorities, and the policy is set out in Chapter 3 section 16. The current economic climate is affecting the forecast level of capital receipts in 2008/09 and across the three year plan period. Forecast sale proceeds are reducing and the timing of receipts is being deferred. Assessments are being made about whether it is better to seek to sell at current prices or to wait for a recovery, and use prudential borrowing or other financial strategies in the interim. The total medium term capital receipts now expected in 2008/09 and in this Budget compared with the original 2008/09 Budget is as follows:

**Table 16 - Capital Receipts Forecasts**

| | This Budget £m | Last Budget £m |
|---|---|---|
| 2008/09 | 47.5 | 117.5 |
| 2009/10 | 50.3 | 67.4 |
| 2010/11 | 113.9 | 104.7 |
| 2011/12 | 62.6 | - |
| **Total** | **274.3** | **289.6** |

The deferral and reduction in capital receipts has been taken into account in the funding of the proposed Capital Budget in Appendix K. This has required the use of prudential borrowing in the HRA to maintain the programme until future receipts arrive. It has also meant that the level of resources available for new corporately funded proposals in this budget is less than it would otherwise have been and generally means only a minimum number of new schemes have been put forward as part of the capital programme for approval.

3. Planned capital expenditure is liable to 'slip' significantly each year, and £17.2m of over-programming has been included in 2009/10 to take account of likely slippage.

4. The Long-Term Financial Strategy has set aside revenue resources to cover the cost of planned prudential borrowing. Prudential borrowing of £520m is included in this budget, largely representing commitments from earlier decisions including funding for the Library of Birmingham, Business Transformation, and other service projects. This is included in the prudential indicators and limits discussed in paragraph 6.2 below.

## 3. Allocation of capital resources

3.1 The Capital Strategy (Chapter 3) has described the process for taking a ten year strategic view of capital resources and investment. The ten year strategy is continuing to develop and this will have implications for future investment. The level of corporate capital resources over the coming three year period is also affected by the economic climate and its impact on the capital receipts programme. A limited allocation of additional corporate resources is therefore proposed in this budget. A capital contingency of £6.5m is proposed for small scale urgent capital expenditure across Council services where this is needed to keep properties open or maintain services where other specific resources are not available. This could include health and safety and other urgent issues, but not new initiatives or big projects. Allocations will be recommended to Cabinet by the Capital Strategy Group. A further £3m for Constituency-managed properties has already been allocated.

3.2 An allocation of £3.5m corporate resources is also proposed for further infrastructure works at Eastside, to be matched by external funding. A Constituency minor works programme of £1.0m is proposed for 2011/12, and a project development fund of £1.0m is proposed for project feasibility and approval for projects considered for corporate capital funding.

3.3 Cabinet has supported the development of a City Council response to the Quirk review of community assets. Encouraging community cohesion and participation may lead to the disposal of Council assets at less than best value, and this reduces the corporate capital resources available to fund the capital budget. It is proposed that Cabinet will set a limit to the level of discounts granted on such sales, in order to ensure that scarce resources are allocated in line with Council priorities.

3.4 Additional specific resources will also be added to the budget during the year as they are awarded. Further prudential borrowing may also be agreed during the year, where projects are self-financing or resources are identified to meet the borrowing costs and other revenue costs. However, borrowing will need to be contained within the prudential limits proposed in Section 6.

## 4. Capital Programme

4.1 The proposed Capital Programme is therefore as follows:

**Table 17 - Portfolio/Committee Capital Programmes**

| Expenditure | 2009/10 £m | 2010/11 £m | 2011/12 £m | Total £m |
|---|---|---|---|---|
| Leader's | 21.9 | 10.0 | 0.0 | 31.9 |
| Deputy Leader's | 142.0 | 92.7 | 36.6 | 271.3 |
| Adults and Communities | 6.1 | 1.9 | 0.9 | 8.9 |
| Children Young People & Families | 65.7 | 47.9 | 40.3 | 153.9 |
| Equalities and Human Resources | 0.4 | 0.7 | 0.0 | 1.1 |
| Housing | 164.4 | 117.9 | 121.9 | 404.2 |
| Leisure Sport & Culture | 27.8 | 46.4 | 135.5 | 209.7 |
| Local Services & Community Safety | 0.0 | 0.0 | 0.0 | 0.0 |
| Regeneration | 26.5 | 25.7 | 4.0 | 56.2 |
| Transportation and Street Services | 87.6 | 68.7 | 81.2 | 237.5 |
| Planning Committee | 0.1 | 0.0 | 0.0 | 0.1 |
| Public Protection | 0.2 | 0.0 | 0.0 | 0.2 |
| Constituencies | 3.0 | 2.0 | 2.0 | 7.0 |
| Corporately held resources | 3.3 | 16.2 | 14.7 | 34.2 |
| **Total Programme** | **549.0** | **430.1** | **437.1** | **1,416.2** |

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

4.3 The Capital Programme shows only City Council capital expenditure and therefore excludes capital expenditure by contractors under proposed PFI schemes. Major PFI proposals currently being considered include £96m under the Building Schools for the Future programme, £48m on Special Care Centres and around £300m on Highways maintenance.

## 5. Provisional Capital Allocations and Approved Capital Budget

5.1 The City Council's capital appraisal and approval processes require that projects included in the Capital Programme may not proceed to spend until a Business Case report has been approved for the project.

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

## 6. Prudential Code and Indicators

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

6.2 The Authorised Limit for Debt represents the maximum level of debt which the City Council may have during the 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 2009/10 which are not included in the budget. The proposed limit is built up as follows:

**Table 18 - Borrowing Limits**

| | **£m** |
|---|---|
| Forecast borrowing at 31 March 2009 | 2,114 |
| Capital Programme Expenditure financed from borrowing | 289 |
| Less investment and debt repayment provision | (72) |
| Allowance for cashflow, borrowing in advance, and further potential borrowing | 709 |
| Other long-term liabilities | 50 |
| Authorised Limit for Debt, 2009/10 | **3,090** |

## 7. Future Developments

7.1 The City Council is actively engaged in investigating a number of major capital project proposals which are not yet ready for inclusion in the approved Capital Programme. These projects need further appraisal before any formal commitment can be given by the Council. They include investigating the replacement of the Wholesale Markets, a 50m Swimming Pool and leisure facilities, supporting the redevelopment of New St Station, providing residential mortgages and finance for Birmingham businesses.

7.2 It is likely that prudential borrowing will contribute to the funding of these projects where the revenue cost of borrowing is affordable. An allowance for a prudent level of additional borrowing has been made within the overall Authorised Limit (6.2 above). However, the individual project business cases will need to demonstrate the affordability of these projects, and some prudential indicators, such as the ratio of financing costs to the net revenue stream, will increase.

# CHAPTER 5 - TREASURY MANAGEMENT STRATEGY

## 1. Summary

1.1 The Treasury Management Policy at Appendix M sets out the policy and framework for this Treasury Management Strategy. Financial markets are currently very volatile and the interest rate outlook is particularly uncertain. However the City Council has borrowed in advance and therefore has a relatively small borrowing requirement for the next two or three years. Further long-term borrowing may take place to take advantage of currently low rates, and to fund specific initiatives.

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

## 4. Objectives of Treasury Management

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

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

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

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

## 5. The City Council's Debt

5.1 The City Council's debt portfolio at 31st March 2009 is forecast to be as follows:

**Table 19 - Summary of Debt Portfolio**

| | | Debt £m | Average Interest Rate % |
|---|---|---|---|
| Short/variable debt | | 95.3 | 0.9 |
| Fixed Rate: | Under 5 years | 179.2 | 5.2 |
| | 5-9 years | 164.6 | 8.5 |
| | 10-19 years | 255.1 | 7.7 |
| | 20-39 years | 792.7 | 5.8 |
| | 40+ years | 626.7 | 5.3 |
| Less short-term investments | | (150.0) | (6.0) |
| **Total Net Debt** | | 1,963.6 | |

## 6. City Council Borrowing Requirement

6.1 The City Council's net debt is forecast to increase by £466m over the coming three years as a result of new borrowing to finance the Capital Programme contained in Chapter 4 of this Budget Report. Total debt at the end of 2011/12 is forecast to be £2,377m.

6.2 A substantial programme of borrowing was carried out in 2007 and 2008 to fund in advance the borrowing needs of 2008/09 to 2009/10. This produced a cash surplus which has been invested until needed in the next year or two. There is therefore a relatively low need to borrow in this period.

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

**Table 20 - Forecast Variable Rate Exposure**

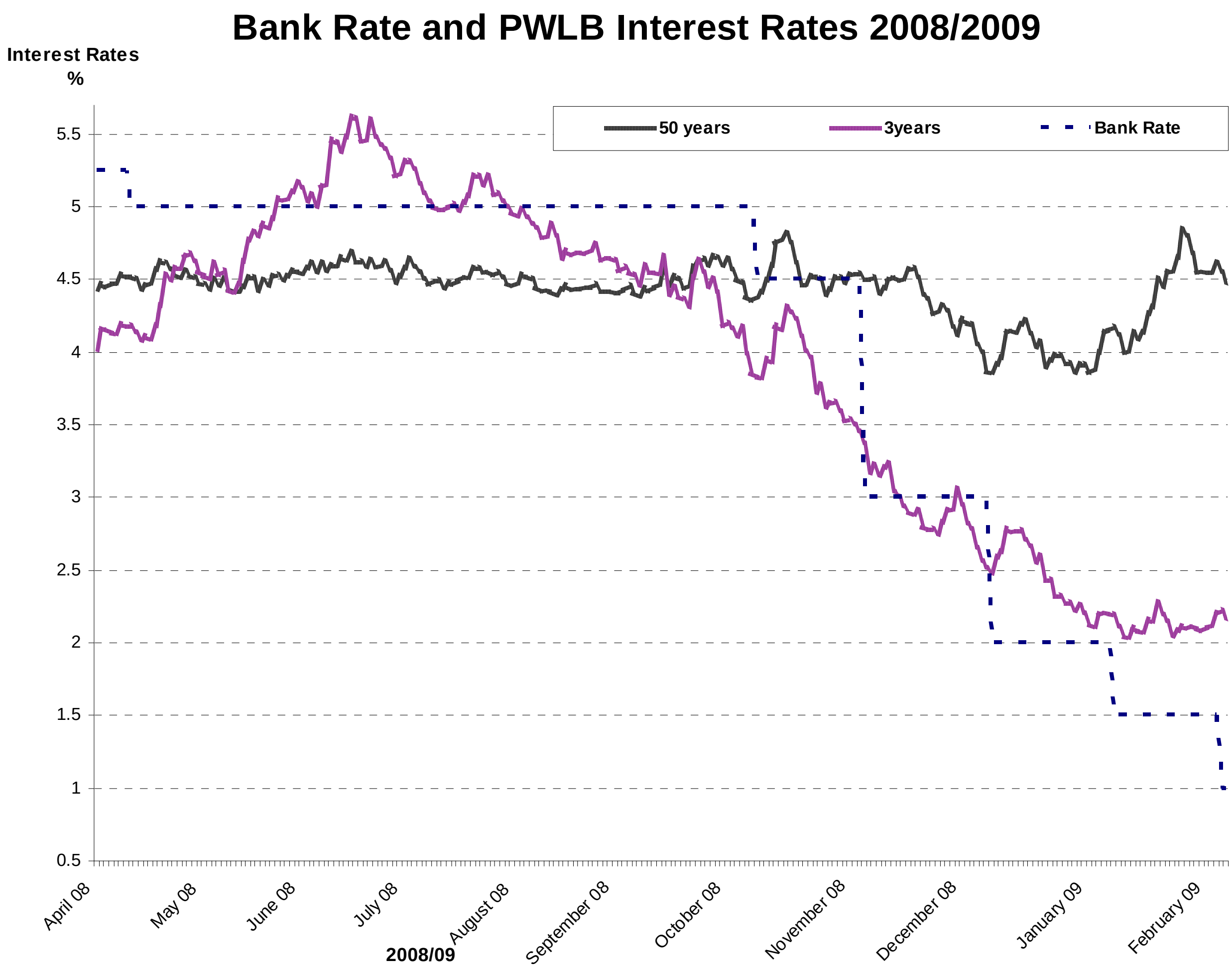
| (assuming no further fixed rate borrowing) | 2009/10 £m | 2010/11 £m | 2011/12 £m |
|---|---|---|---|
| Net exposure to variable rates | 212.7 | 309.0 | 418.5 |
| Closing total net debt | 2,181.0 | 2,267.3 | 2,376.7 |
| Variable exposure % | 9.8% | 13.6% | 17.6% |
| % relating to HRA | 5.3% | 7.1% | 8.4% |
| % relating to General Fund | 4.5% | 6.5% | 9.2% |

6.4 The Policy Statement sets a limit for exposure to variable rates of -30% to +35% around a central benchmark of 5%. These figures show that variable rate exposure will be within these limits in 2009/10 and is forecast to remain within these limits for the following two years, even if no further long-term fixed rate borrowing is taken. There is therefore no pressing need to take further fixed rate borrowing in the coming financial year unless the interest rates on offer are particularly attractive.

## 7. Interest Rate Outlook

7.1 Base rates started 2008 at 5.5% but began falling in response to a contracting global economy. However, the crisis in world financial markets then led to the near-collapse of banking systems and the virtual cessation of bank lending. The impact on the real economy was swift and base rates now stand at an all time low of 1.0%. Most commentators expect further cuts during 2009 to below 1% and further forms of government intervention such as 'quantitative easing' (close to printing money) to avoid the prospect of recession turning into a longer term 1930's style depression.

7.2 The risk of a prolonged period of Japanese-style deflation has been reduced by swift international government action. However, this creates the risk of kindling a surge in inflation once economies start to recover. This leaves the gilt market (which the Government uses to set the Public Works Loan Board borrowing rate for local authorities) caught in an extreme position. Gilts are currently a 'safe haven' for investors and especially banks who are reluctant to lend elsewhere. However, the huge increase in the Government's borrowing requirement will put considerable upward pressure on long-term interest rates. When investors start to anticipate an economic recovery and the risk of a severe recurrence of inflation, gilts will be vulnerable to a swift turnaround and a rise in medium and long-term interest rates. The market is currently extremely volatile.




## 8. 2009/10 Strategy

8.1 The City Council's new borrowing needs are relatively low, as explained in section 6, although some specific borrowing needs in relation to major projects may arise. Long-term borrowing shorter than 5 or 6 years is therefore unlikely to be appropriate, but given the low levels of interest rates out to 15 years, PWLB borrowing in the 8-12 year area may be the best option if needed. The City Council has little borrowing at short-term rates out to 12 years, so this would fill a gap in the maturity profile.

8.2 Given the extreme volatility in gilt yields there may be opportunities to manage risks by prematurely repaying PWLB loans in one maturity and reborrowing in another maturity. However, the PWLB applies a substantial penalty cost of 0.3% to 0.5% to the repurchase yield, which means that rescheduling is less often likely to be viable than in the past.

8.3 The vulnerability of debt markets also makes the outlook highly uncertain. The Treasury Management Strategy must be flexible to adapt to changing circumstances.

8.4 Further borrowing may be carried out to secure future borrowing costs, even though there is likely to be a short term reinvestment loss, particularly as only the most secure investments will be used (see paragraph 11 below).

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

**Table 21 - Treasury Management Budget**

| | 2009/10 forecast £m | 2010/11 forecast £m | 2011/12 forecast £m |
|---|---|---|---|
| Net interest budget | 101.5 | 107.5 | 108.0 |
| Other costs | 2.3 | 2.6 | 2.7 |
| Contributions to (from) TM Reserves | 3.0 | 2.5 | 1.8 |
| Revenue charge for debt repayment | 46.4 | 48.3 | 52.6 |
| Total budget | 153.2 | 160.9 | 165.1 |
| Less: charges to HRA etc | (40.0) | (43.2) | (49.7) |
| Cost for General Fund | 113.2 | 117.7 | 115.4 |

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

## 9. Risks and Alternative Strategies

9.1 The main risks to interest rates in 2009/10 relate to how deep and how long lasting the recession is expected to be:

Upward pressure on rates:
- economic recovery
- resurgence of inflation
- government difficulty in funding its borrowing programme

Downward pressure on rates:
- a more protracted recession than expected
- Japanese-style deflation
- continuation of the banking crisis

## 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 2009/10. However, the PWLB has recently substantially increased its penalty charges for the early repayment of fixed rate debt. This severely constrains the Council's ability to directly manage its PWLB borrowing in order to control treasury risks and general revenue savings. Other sources of finance will continue to be evaluated as an alternative to PWLB funding and will be used if appropriate.

## 11. Investments

11.1 The City Council is forecast to start 2009/10 with around £150m of investments as a result of borrowing in advance of need. The City Council did not invest in any Icelandic Banks but many banks in other countries including the UK have needed government support. In this environment, the City Council's approach has been largely to avoid direct lending to banks and to use the AAA-rated money market funds which are approved in the Investment Policy in Appendix M. These pooled funds are able to reduce credit risks in a way the City Council cannot do independently, by accessing top quality financial institutions and spreading the risk more widely.

11.2 In managing investment risks the City Council will as always give priority to the security of capital, accepting that this will mean choosing investments with a lower interest rate. This may include investments in the UK Government which earn very low interest rates.

## 12. Other Treasury Management exposures

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

## 13. Advisers

13.1 This Strategy has been prepared in discussion with Butlers Treasury Consultancy Services who 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, which represents good value for money. Their appointments are renewable triennially.

## 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 M.

## Revenue Budget - Gross Expenditure

| | 2008/09 Budget £'000 | 2009/10 Budget £'000 |
|---|---|---|
| **Portfolios** | | |
| Leader's | 193,723 | 174,008 |
| Deputy Leader's | 515,869 | 521,814 |
| Adults & Communities | 363,440 | 365,328 |
| Children, Young People and Families | 1,309,674 | 1,405,135 |
| Equalities & Human Resources | 16,551 | 17,440 |
| Housing General Fund | 101,559 | 106,069 |
| Housing Revenue Account | 218,635 | 221,327 |
| Leisure, Sport & Culture | 63,456 | 68,779 |
| Local Services & Community Safety | 110,835 | 112,925 |
| Regeneration | 70,377 | 71,256 |
| Transportation & Street Services | 157,106 | 159,661 |
| **Committees** | | |
| Constituencies | 117,700 | 118,027 |
| Council Business Management | 9,356 | 9,284 |
| Licensing | 2,815 | 2,922 |
| Planning | 12,331 | 11,603 |
| Public Protection | 17,064 | 17,908 |
| **Total Portfolio/Committee Expenditure** | **3,280,491** | **3,383,486** |
| Capital accounting & financing costs | (52,875) | (21,182) |
| Contingencies | 40,478 | 12,154 |
| **Total Expenditure on Services** | **3,268,094** | **3,374,458** |
| Contribution to General Balances | 2,500 | 1,500 |
| **Total Gross Expenditure** | **3,270,594** | **3,375,958** |

# Revenue Budget - Gross Income

| | 2008/09 Budget £'000 | 2009/10 Budget £'000 |
|---|---|---|
| **Portfolios** | | |
| Leader's | (132,634) | (121,483) |
| Deputy Leader's | (445,753) | (447,031) |
| Adults & Communities | (92,530) | (76,428) |
| Children, Young People and Families | (1,044,052) | (1,124,293) |
| Equalities & Human Resources | (11,941) | (11,512) |
| Housing General Fund | (65,931) | (91,406) |
| Housing Revenue Account | (218,635) | (221,327) |
| Leisure, Sport & Culture | (17,065) | (17,189) |
| Local Services & Community Safety | (104,329) | (104,126) |
| Regeneration | (56,026) | (54,926) |
| Transportation & Street Services | (71,554) | (69,695) |
| **Committees** | | |
| Constituencies | (17,631) | (18,137) |
| Council Business Management | (105) | (108) |
| Licensing | (2,661) | (2,710) |
| Planning | (8,493) | (8,046) |
| Public Protection | (3,885) | (4,185) |
| **Total Portfolio/Committee Income** | **(2,293,225)** | **(2,372,602)** |
| Application of corporate resources | (12,984) | (6,827) |
| Temporary use of reserves | (4,042) | (12,581) |
| **Total Gross Income** | **(2,310,251)** | **(2,392,010)** |

APPENDIX A(iii)

## Revenue Budget - Net Expenditure

| | 2008/09 Budget £'000 | 2009/10 Budget £'000 |
|---|---|---|
| **Portfolios** | | |
| Leader's | 61,089 | 52,525 |
| Deputy Leader's | 70,116 | 74,783 |
| Adults & Communities | 270,910 | 288,900 |
| Children, Young People and Families | 265,622 | 280,842 |
| Equalities & Human Resources | 4,610 | 5,928 |
| Housing General Fund | 35,628 | 14,663 |
| Housing Revenue Account | 0 | 0 |
| Leisure, Sport & Culture | 46,391 | 51,590 |
| Local Services & Community Safety | 6,506 | 8,799 |
| Regeneration | 14,351 | 16,330 |
| Transportation & Street Services | 85,552 | 89,966 |
| **Committees** | | |
| Constituencies | 100,069 | 99,890 |
| Council Business Management | 9,251 | 9,176 |
| Licensing | 154 | 212 |
| Planning | 3,838 | 3,557 |
| Public Protection | 13,179 | 13,723 |
| **Total Portfolio/Committee Net Spend** | **987,266** | **1,010,884** |
| Capital accounting & financing costs | (52,875) | (21,182) |
| Application of corporate resources | (12,984) | (6,827) |
| Temporary use of reserves | (4,042) | (12,581) |
| Contingencies | 40,478 | 12,154 |
| **Total Net Expenditure on Services** | **957,843** | **982,448** |
| Contribution to General Balances | 2,500 | 1,500 |
| **City Council Budget Requirement** | **960,343** | **983,948** |

**APPENDIX B**

## WORKING NEIGHBOURHOODS FUND

| | Transitional Year 2008/09 £'000 | 2009/10 £'000 | 2010/11 £'000 | Total £'000 |
|---|---|---|---|---|
| **Centrally driven, but locally targeted interventions to tackle worklessness in the most deprived neighbourhoods.** | 19,000 | 19,000 | 19,000 | 57,000 |
| **Thematic allocations** – to Housing, Health & Wellbeing, Community Safety, Children & Young People, Culture and Environment. | 5,000 | 7,000 | 6,000 | 18,000 |
| **Contribution to Ward Community Chests –** to match that from the City Council. | 2,500 | 2,000 | 2,000 | 6,500 |
| **Local Infrastructure Support** – to meet some of the costs of the constituencies (and will address issues such as environmental wardens). | 1,800 | 1,800 | 1,800 | 5,400 |
| **Social Capital/Enterprise Investment Fund** - to help develop enterprise culture in Birmingham. | 2,000 | 2,000 | 2,000 | 6,000 |
| **Commissioning community engagement activities** – to meet specific needs as they occur | - | 750 | 750 | 1,500 |
| **Partnership Support –** to meet the costs of the Be Birmingham Partnership including Neighbourhoods Board 2009-2011 | 2,200 | 3,200 | 3,200 | 8,600 |
| **Transitional costs –** of moving to new partnership and local infrastructure arrangements | 988 | 612 | - | 1,600 |
| **To be allocated** | 0 | 2,339 | 5,467 | 7,806 |
| **Financial Inclusion** | - | 80 | 80 | 160 |
| **Environmental Wardens -** additional resources | - | 350 | 350 | 700 |
| **Neighbourhood Management** | - | 500 | 500 | 1,000 |
| **Birmingham Adult Education Service** | 736 | ** | ** | 736 |
| **Total** | **34,224** | **39,631** | **41,147** | **115,002** |

** Applications expected to be submitted for consideration

**APPENDIX C**

## Area Based Grants Allocations 2009 - 2010 (as at February 2009)

| | | | Funding 2009/10 £'000 | Funding 2008/09 £'000 |
|---|---|---|---|---|
| **Revenue Funding Streams** | | | | |
| **Chief Executive's Directorate** | | | | |
| Stronger Safer Communities Fund Neighbourhood Element | DCLG | | **774** | 1,239 |
| Working Neighbourhoods Fund (replaces Neighbourhood Renewal Fund) | DCLG | | **39,631** | 34,224 |
| | | | **40,405** | 35,463 |
| **Housing Directorate** | | | | |
| Supporting People Administration | DCLG | | **664** | 721 |
| | | | **664** | 721 |
| **CYP&F Directorate** | | | | |
| 14-19 Flexible Funding Pot | DCSF | | **325** | 324 |
| Care Matters White Paper | DCSF | | **1,658** | 1,182 |
| Carers | DH | Note 1 | **0** | 1,176 |
| Child Death Review Process | DCSF | | **268** | 259 |
| Child Trust Fund (New) | DCSF | | **44** | 34 |
| Children's Social Care Workforce (formerly HRDS and NTS) | DCSF | | **658** | 656 |
| Children's Fund | DCSF | | **4,738** | 4,738 |
| Child and Adolescent Mental Health Services | DH | | **3,538** | 3,347 |
| Choice Advisers | DCSF | | **179** | 179 |
| Connexions | DCSF | | **11,054** | 11,598 |
| Education Health Partnerships | DCSF | | **326** | 457 |
| Extended Rights to Free Transport | DCSF | | **88** | 48 |
| Extended Schools Start Up Costs | DCSF | | **4,191** | 1,857 |
| Positive Activities for Young People | DCSF | | **2,474** | 2,474 |
| Secondary National Strategy - Behaviour and Attendance | DCSF | | **183** | 183 |
| Secondary National Strategy - Central Coordination | DCSF | | **559** | 558 |
| Primary National Strategy - Central Coordination | DCSF | | **706** | 672 |
| School Development Grant (Local Authority element) | DCSF | | **2,638** | 2,638 |
| School Improvement Partners | DCSF | | **448** | 448 |
| School Intervention Grant | DCSF | | **274** | 274 |
| School Travel Advisers | DCSF | | **124** | 124 |
| Sustainable Travel General Duty | DCSF | | **83** | 83 |
| Young Peoples Substance Misuse | HO | | **427** | 427 |
| Young Peoples Substance Misuse | DCSF | | **152** | 152 |
| Teenage Pregnancy | DCSF | | **644** | 644 |
| Preventing Violent Extremism Toolkit | DCSF | | **-** | 25 |
| Youth Task Force | DCSF | | **343** | 343 |
| | | | **36,122** | 34,900 |

| | | | Funding 2009/10 £'000 | Funding 2008/09 £'000 |
|---|---|---|---|---|
| **Development Directorate** | | | | |
| Detrunking | DfT | | **1** | 1 |
| Climate Change (New) | DCLG | | **23** | 23 |
| | | | **24** | 24 |
| **Adults & Communities Directorate** | | | | |
| Adult Social Care Workforce (formerly HRDS and NTS) | DH | | **3,247** | 3,176 |
| Carers | DH | Note 1 | **6,268** | 4,706 |
| Learning & Disability Development Fund | DH | | **1,152** | 1,151 |
| Local Involvement Networks | DH | | **556** | 558 |
| Mental Capacity Act and Independent Mental Capacity Advocate Service | DH | | **733** | 584 |
| Mental Health | DH | | **3,867** | 3,672 |
| Preserved Rights | DH | | **5,092** | 5,330 |
| | | | **20,915** | 19,177 |
| **Community Safety Partnership** | | | | |
| Preventing Extremism | DCLG | | **800** | 645 |
| Safer Stronger Communities Fund Revenue | HO | | **1,253** | 1,253 |
| | | | **2,053** | 1,898 |
| **Total Grants via Area Based Grant (revenue)** | | | **100,183** | 92,183 |

Note 1 – The allocation of Carers grant between Adults & Communities and Children, Young People & Families directorates has not yet been notified

**APPENDIX D**

| <u>**Budget Pressures & Policy Priorities**</u> | **2009/10 £000** | **2010/11 £000** | **2011/12 £000** |
|---|---|---|---|
| **Leader's**<br>Meeting the impact of the economic cycle on the NEC's trading position | 5,500 | 8,700 | 15,100 |
| **Deputy Leader's**<br>The funding covers additional services required under the ICT contract and the Housing Benefit impact of RSL adaptations. | 3,360 | 3,640 | 3,640 |
| **Adults and Communities**<br>Over the next three years the additional investment will enable the Council to meet increasing demographic pressures and allow people with learning and physical disabilities, older adults and those who experience mental illness to have more choice and control over their care and experience a higher quality of life. This investment will complement the increasing personalisation of services through the introduction of individual budgets and support our commitment to lifelong learning. | 6,650 | 11,500 | 11,500 |
| **Children, Young People and Families**<br>The additional funding provides ongoing support to the College of International Citizenship. | 50 | 50 | 50 |
| **Leisure, Sport & Culture**<br>Further funding has been allocated to the revenue costs of the Library of Birmingham, to meet the costs of the new grounds maintenance contracts, to increase the resources for international events and transitional funding for Aston Hall. | 2,481 | 3,862 | 5,349 |
| **Transportation & Street Services**<br>Additional resources have been made available to enable the rolling out of recycling to all properties, meeting increasing costs of landfill tax and waste disposal and keeping roads and footpaths well maintained. | 1,814 | 2,649 | 3,262 |
| **Council Business Management Committee**<br>Resources to fund the requirement for additional training for canvassers for the electoral register, following a change in legislation. | 71 | 71 | 71 |
| **Licensing Committee**<br>Resources to meet the costs of dealing with village green applications. | 50 | 50 | 50 |
| **Planning Committee**<br>Additional resources have been provided to compensate for reduced levels of Local Land Search income as a consequence of the economic downturn. | 580 | 580 | 580 |
| **Public Protection Committee**<br>Additional resources for the Coroner's Office, to support investigations into complex cases. | 150 | 150 | 150 |

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 |
|---|---|---|---|
| **Constituency Committees**<br>Resources to address the phased reduction in NRF/WNF grant, together with meeting the property costs of Castle Vale library. | 1,133 | 1,133 | 1,133 |
| **Total** | **21,839** | **32,385** | **40,885** |

Note: Figures for 2010/11 and 2011/12 represent cumulative amounts

## Long-Term Business Transformation Analysis by Programme

**APPENDIX E**

| | 2008/09 | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £'000 | £000 | £000 | £000 | 000 | £000 | £000 |
| Efficiency | (30,072) | (29,518) | (32,198) | (36,573) | (38,908) | (40,338) | (41,460) | (42,161) | (42,316) | (42,766) | (43,216) |
| Working for the Future | 3,406 | 5,763 | 5,213 | 665 | (1,165) | 525 | (253) | (653) | (1,324) | (1,040) | (2,439) |
| People Management | 5,359 | 3,356 | (7,733) | (9,415) | (9,344) | (9,616) | (9,732) | (9,806) | (9,761) | (9,762) | (9,761) |
| Customer First | 9,020 | 2,495 | 698 | (267) | (4,591) | (7,352) | (9,063) | (12,946) | (17,781) | (19,781) | (20,181) |
| Adult Services | 1,125 | 3,582 | 2,310 | (678) | (4,779) | (12,990) | (18,217) | (25,581) | (29,932) | (31,642) | (31,642) |
| Housing | 761 | (199) | (198) | (198) | (264) | (265) | (265) | (265) | (265) | (265) | (265) |
| Children YP&F | 249 | 321 | 625 | 749 | 783 | 783 | 749 | 483 | (4,215) | (9,059) | (8,407) |
| Information Management | 1,191 | (636) | (4,779) | (3,472) | (3,720) | (3,720) | (3,720) | (3,720) | (3,720) | (3,720) | (3,720) |
| **Total Net Rev Cost / (Saving)** | **(8,961)** | **(14,836)** | **(36,062)** | **(49,189)** | **(61,988)** | **(72,973)** | **(81,961)** | **(94,649)** | **(109,314)** | **(118,035)** | **(119,631)** |
| Corporate Adjustments * | 6,163 | 17,534 | 14,962 | 13,275 | 10,149 | 6,063 | 5,443 | 8,667 | 4,848 | 6,779 | 8,604 |
| **Total Net Rev Cost / (Saving)** | **(2,798)** | **2,698** | **(21,100)** | **(35,914)** | **(51,839)** | **(66,910)** | **(76,518)** | **(85,982)** | **(104,466)** | **(111,256)** | **(111,567)** |
| **Movement as per LTFS** | **0** | **5,496** | **(18,302)** | **(33,116)** | **(49,041)** | **(64,112)** | **(73,720)** | **(83,184)** | **(101,668)** | **(108,458)** | **(108,769)** |

* Includes temporary use and repayment of reserves, savings already included in the budget and benefits arising from increased Council Tax income.

**APPENDIX F**

| **Portfolio Efficiency Savings** | **2009/10 £000** | **2010/11 £000** | **2011/12 £000** |
|---|---|---|---|
| **Leader's**<br>The savings will be achieved through general efficiencies reductions in running costs and efficiencies in property services. | (1,980) | (2,791) | (2,830) |
| **Deputy Leader's**<br>Savings arise though back office efficiencies, modernised benefit service and lower ICT unit costs. | (2,721) | (3,158) | (3,324) |
| **Adults and Communities**<br>The savings programme is designed to move resources from the back office into the provision of services. Increases in user charges are being kept to a minimum, but there is a need to ensure that the Council's limited resources are targeted to those in greatest need. The introduction of individual budgets and the increased personalisation of services reduce our need for physical assets and will allow more money to be directed by those who need our care. | (6,084) | (9,809) | (11,122) |
| **Children, Young People and Families**<br>Savings will be found by continuing to review and reconfigure services to improve efficiency. In particular, service managers will ensure that grant use is maximised in order to reduce pressure on mainstream budgets. | (6,062) | (9,643) | (11,281) |
| **Equalities & Human Resources**<br>Efficiencies will be found from support service reviews. | (127) | (197) | (243) |
| **Housing (General Fund)**<br>The efficiencies will be delivered through a combination of defraying costs to capital programmes, funding costs through specific grant resources, contributions from partner organisations and management of the existing staffing establishment (through turnover and natural wastage). | (336) | (530) | (633) |
| **Leisure, Sport & Culture**<br>Savings will come from a range of operational efficiencies as part of the continued review and re-configuration of services, and reviewing funding of external bodies. | (1,095) | (1,747) | (2,029) |
| **Local Services & Community Safety**<br>Administrative and overhead efficiencies will be made. | (232) | (362) | (443) |
| **Regeneration**<br>Efficiencies will be delivered from detailed service and budget reviews, including restructuring options and new methods of working. This will be achieved in a way that enables us to respond to the current economic downturn, deliver the Big City Plan, work with businesses, wherever possible attract new investment and support residents to access jobs, so that Birmingham's regeneration continues unabated. | (837) | (1,322) | (1,573) |

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 |
|---|---|---|---|
| **Transportation & Street Services**<br>The productivity savings will be delivered as part of the on-going efficiency drive, including reducing overheads, increasing operational effectiveness and introducing revised, modern ways of working. | (1,435) | (2,249) | (2,722) |
| **Planning Committee**<br>Efficiencies from continuing to review and restructure the planning service, whilst experiencing reduced income levels due to the economic downturn. | (118) | (177) | (236) |
| **Public Protection Committee**<br>Efficiencies will be found from on-going service reviews | (82) | (124) | (164) |
| **Constituency Committees**<br>The efficiency targets flow from the 2008/09 budget and the fall out of external funding. Efficiencies are proposed from unallocated funds approved in 2008/09, a business review of service delivery and general efficiencies on a range of operational costs. | (1,750) | (1,750) | (1,750) |
| **Total** | **(22,859)** | **(33,859)** | **(38,350)** |

Note: Figures for 2010/11 and 2011/12 represent cumulative amounts

Note: In line with previous years, service efficiency proposals will be more fully detailed in individual portfolio/committee reports to be approved prior to the commencement of the financial year to which they relate

**APPENDIX G**

## BUDGET RISK ASSESSMENT FOR 2009/10

| | Risk | Impact | Likeli-hood | Management Control |
|---|---|---|---|---|
| 1 | Failure to secure capital receipts (incl S106 receipts) to fund investment plans | M-H | M | Receipts forecasts have been revised downwards recently, and further spending plans and alternative sources of funding modified accordingly. A medium-term, rather than short-term, view is taken of resource planning. Marketing of land takes account of market conditions, in order to optimise the income to the Council. |
| 2 | Adverse changes in levels of Housing Subsidy | M | H | Position kept under close review and active response to Government consultations, including participation in national review. |
| 3 | Loss of income due to economic downturn. Main risk areas are Leisure & Culture, NEC and Airport. | M | H | Position monitored actively, and pricing strategies varied or cost savings actioned if necessary. Resources added to the budget in relation to specific issues. Some future projects may need to be re-phased. |
| 4 | Inadequate resource transfers from other public bodies as part of change in responsibilities | M | H | Working with partners to ensure appropriate funding arrangements. |
| 5 | Further cost implications of large schemes/ contracts, including running expenses of both new and replaced assets. | M | M | Arrangements made to ensure that decisions based on full and complete information, that risks managed pro-actively and with robust project management controls. Financial costs of several large projects are included in the LTFS. |
| 6 | Non-delivery of elements of the Efficiency Programme, including Business Transformation savings | M | M | Implementation of savings is subject to rigorous project management and review processes. Business Transformation programmes are making use of significant project management expertise and are subject to strict governance arrangements. |
| 7 | Clawback of grant following audit work, including from City Council as Accountable Body | L-M | M | Careful management of projects in line with grant conditions, including requirement for business cases. Projects kept under close review, and corrective actions identified where necessary. |
| 8 | Further costs of Implementation of Single Status agreement | L-M | L-M | The programme is being managed and provision has been made for financial implications |

| | Risk | Impact | Likeli-hood | Management Control |
|---|---|---|---|---|
| 9 | Inadequate reserves balances and contingencies | L-M | L-M | Resources have been assigned with the aim of providing adequate cover for such items and this will continue to be addressed in the LTFS, including continuing to rebuild general balances. The budgetary position will be closely monitored in 2009/10. |
| 10 | Changes to proper accounting practice with adverse impact. | L-M | L | Close contact established with national bodies, external advisors, and auditors. |
| 11 | Cost increases of contractual arrangements | L | L | The Council is strengthening its procurement and commissioning capability, and taking a strategic approach. In individual negotiations the Council will seek to secure the optimum outcome for Birmingham. |
| 12 | Inflationary and budget pressures exceed amount provided to re-price budget | L | L | Prudent inflation estimates have been based on latest forecasts and known pressures included within budget. All budgets monitored proactively right from the start of each financial year. Some contingency provision included in budget. |
| 13 | Impact of changes in demography increasing service demands | L | L | Budget assumptions based on projections of demographic change. Active budgetary control to keep position under control. |
| 14 | Changes in service demand due to changes in Government policy or changing regulatory or public expectations | L | L | Provision included in budget for specific known pressures. Active budgetary control to keep the financial position under control. Business Transformation programmes to modernise services to meet developing requirements. |
| 15 | Impact of actuarial valuation of Pension Fund | L | L | Impact of valuation built into LTFS. Future changes not yet known, but funding strategy takes long-term view. |
| 16 | Formula Grant less than assumed | L | L | Government has now confirmed the figures first announced in 2007, covering the period up to 2010/11. |
| 17 | Inadequate provision made for new legislative requirements | L | L | Budget includes financial impact of known legislative changes. Any emerging issues will be kept under careful review. |
| 18 | Significant adverse interest rate changes | L | L | Risks managed through robust Treasury Management Strategy. Prudent assumptions made based on external advice. Both high and low rates offer opportunities. Previous long-term borrowing at low rates has already provided some protection against these risks. |

| | Risk | Impact | Likeli-hood | Management Control |
|---|---|---|---|---|
| 19 | Changes in funding regimes or amounts for specific government grants | M | M | Known changes have been reflected in Directorate budgets and will be kept under review. Services keep knowledge of grants receivable up-to-date, and proactive management action taken to respond to changes and to maximise external income. The management of Area Based Grant is under active discussion with partners. Commitments are aligned to funding confirmation. |
| 20 | Delayed delivery of Capital Programme - prejudicing external funding | L | L | The Council has a structured capital programme with robust management and monitoring arrangements, and this has been further enhanced through the Business Transformation Programme. |

## Long-Term Financial Strategy 2009/10 to 2018/19

| | 2009/10 £m | 2010/11 £m | 2011/12 £m | 2012/13 £m | 2013/14 £m | 2014/15 £m | 2015/16 £m | 2016/17 £m | 2017/18 £m | 2018/19 £m |
|---|---|---|---|---|---|---|---|---|---|---|
| Base Budget 2008/09 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 | 960.3 |
| Pay & Price Inflation | 24.5 | 60.0 | 83.8 | 109.0 | 136.7 | 165.9 | 194.7 | 221.3 | 251.3 | 282.7 |
| Transfer out of Formula Grant | (0.4) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) | (0.5) |
| Impact of Time Limited Prior Yr Decisions | (2.9) | (3.7) | (5.8) | (5.8) | (6.2) | (6.2) | (6.2) | (6.2) | (6.2) | (6.2) |
| Budget Pressures and Policy Priorities | 21.8 | 32.4 | 40.9 | 41.1 | 43.4 | 45.9 | 46.8 | 47.4 | 47.7 | 48.7 |
| Efficiency Savings | (17.4) | (52.2) | (71.5) | (87.4) | (102.5) | (112.1) | (121.5) | (140.0) | (146.8) | (147.1) |
| Financing Costs | (3.7) | 1.3 | (0.6) | (4.0) | (5.4) | (8.0) | (9.2) | (11.2) | (13.4) | (14.8) |
| Borrowing From Reserves | (8.5) | 4.0 | 14.0 | 10.5 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Use of One-off Reserves | (4.9) | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Use of One-off Resources | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 | 16.1 |
| Contribution to General balances | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) | (1.0) |
| **Total Expenditure** | **983.9** | **1,018.6** | **1,037.6** | **1,040.2** | **1,046.8** | **1,066.3** | **1,085.4** | **1,092.1** | **1,113.4** | **1,144.1** |
| Formula Grant | (660.0) | (678.0) | (693.7) | (712.7) | (732.2) | (752.2) | (772.8) | (793.9) | (815.6) | (837.9) |
| Council Tax (assumed 1.9% pa increase) | (323.9) | (332.9) | (342.1) | (351.5) | (361.2) | (371.2) | (381.5) | (392.1) | (403.0) | (414.1) |
| (Surplus) / deficit on Collection Fund | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total Resources** | **(983.9)** | **(1,010.9)** | **(1,035.8)** | **(1,064.2)** | **(1,093.4)** | **(1,123.4)** | **(1,154.3)** | **(1,186.0)** | **(1,218.6)** | **(1,252.0)** |
| GAP/(SURPLUS) | 0.0 | 7.7 | 1.8 | (24.0) | (46.6) | (57.1) | (68.9) | (93.9) | (105.2) | (107.9) |

APPENDIX H

**APPENDIX I**

## BIRMINGHAM CITY COUNCIL MRP STATEMENT

1. The MRP Regulation requires authorities to make 'prudent provision'. The City Council believes that 'prudent' in this context does not mean the quickest possible repayment period, but has regard to the period over which the expenditure is expected to provide benefits, as stated in the Guidance.

2. The City Council also considers that 'prudent' MRP should have regard to financial stability and predictability, and avoid affordability problems due to unexpected changes. As expected by the Statutory Guidance, the Council will not therefore review the asset lives used for MRP after they have been fixed, irrespective of any changes in the expected life of the asset or its actual write off. Some assets will last longer than their initially estimated life, and others will not; the important thing is the reasonableness of the estimate.

3. The proposed policy for borrowing which is supported by Government revenue grants is to use the 'Regulatory method'.

4. The proposed policy for 'prudential borrowing' (which is not supported by Government grant), is to use the 'Asset Life method' following an annuity repayment calculation. This means that MRP will be calculated on an annuity basis (like many domestic mortgages) over the estimated life of the asset. This is subject to the following details:

    4.1 An average asset life for each project will be used. There will not be separate MRP schedules for the components of a building (eg plant, roof etc). Asset life will be determined by the Corporate Director of Resources. A standard schedule of asset lives will generally be used, but where borrowing on a project exceeds £10m, an asset life calculated by Urban Design may be used. The maximum asset life for MRP calculations will be 40 years.

    4.2 MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for single assets where over £10m financed from borrowing is incurred, where MRP will be deferred until the asset becomes operational.

    4.3 Expenditure which does not create a fixed asset, but is statutorily capitalised, will follow the MRP treatment in the Government guidance, with the exception in 4.4 below.

4.4 MRP on loan advances to other organisations or individuals will not be required where cabinet agrees to apply the capital receipts arising from the loan repayments to repay borrowing, in such a way that the Council's 'Capital Financing Requirement' (or CFR) is reduced. However, revenue MRP contributions would still be required to the extent that due loan repayments are not receivable, or where the capital receipts applied are for whatever reason insufficient to repay the Council's borrowing over the originally estimated repayment period.

4.5 Shorter repayment periods (ie less than the asset life) may be used.

4.6 Other methods to provide for debt repayment may occasionally be used where this is consistent with the statutory duty to be prudent, as justified by the circumstances of the case, at the discretion of the Corporate Director of Resources.

4.7 This MRP policy applies to 2009/10 financial year but also to 2008/09 as a revision to the outline policy approved in the 2008/09 Budget Report.

4.8 Other ways of determining prudent provision may be used where justified by the circumstances of the case, at the discretion of the Corporate Director of Resources. This applies to any financial year where the accounts have not been closed.

**APPENDIX J**

## CAPITAL EXPENDITURE PROGRAMME 2009/10 – 2011/12

| | 2009/10<br>£000 | 2010/11<br>£000 | 2011/12<br>£000 | TOTAL<br>£000 |
|---|---|---|---|---|
| **Leader's Portfolio** | | | | |
| Replacement Integrated Property Management System | 40 | 0 | 0 | 40 |
| NEC Arena refurbishment | 13,624 | 0 | 0 | 13,624 |
| NEC Minor Works | 275 | 0 | 0 | 275 |
| Loan to Warwicks County Cricket Club (+ £2m in 8/9)** | 8,000 | 10,000 | 0 | 18,000 |
| **Revised Capital Budget** | **21,939** | **10,000** | **0** | **31,939** |
| **Deputy Leader's Portfolio** | | | | |
| Council House Extension Roof & Wall Repairs | 1,078 | 0 | 0 | 1,078 |
| Server Refresh & Thin Client | 2,111 | 0 | 1,449 | 3,560 |
| Bus Transformation Efficiency | 12,359 | 7,556 | 4,256 | 24,171 |
| Bus Transformation Customer Services | 20,049 | 13,339 | 7,282 | 40,670 |
| Bus Transformation Working for the Future | 65,844 | 59,526 | 22,259 | 147,629 |
| Bus Transformation Adult Services | 13,654 | 6,323 | 803 | 20,780 |
| Bus Transformation People Management | 17,617 | 2,011 | 0 | 19,628 |
| Bus Transformation Children's | 5,159 | 2,214 | 248 | 7,621 |
| Bus Transformation Information Management | 3,425 | 1,776 | 310 | 5,511 |
| Other Minor Schemes | 680 | 0 | 0 | 680 |
| **Revised Capital Budget** | **141,976** | **92,745** | **36,607** | **271,328** |
| **Adult & Communities** | | | | |
| Older Adult Homes - Compliance to Standards | 1,864 | 0 | 0 | 1,864 |
| Mental Health Schemes | 1,364 | 881 | 448 | 2,693 |
| Programme of Minor Works | 508 | 622 | 0 | 1,130 |
| Replacement Vehicles | 1,050 | 0 | 0 | 1,050 |
| Other Minor Schemes | 1,320 | 382 | 402 | 2,104 |
| **Revised Capital Budget** | **6,106** | **1,885** | **850** | **8,841** |
| **Children, Young People and Families** | | | | |
| Devolved Capital Allocation to Schools | 17,187 | 17,187 | 26,128 | 60,502 |
| DCFS Modernisation | 14,195 | 14,195 | 14,195 | 42,585 |
| DCFS Modernisation – School Kitchens | 2,000 | 0 | 0 | 2,000 |
| Colebourne Co-location | 452 | 0 | 0 | 452 |
| Coppice/Langley Co-location | 2,477 | 0 | 0 | 2,477 |
| Building Schools for the Future Resources Plan | 1,000 | 500 | 0 | 1,500 |
| Youth Capital Fund | 679 | 679 | 0 | 1,358 |
| Big Lottery Fund – PE & Sports | 2,064 | 0 | 0 | 2,064 |
| Refurbishment of Residential Establishments | 850 | 1,600 | 0 | 2,450 |
| New Primary School - Yardley Green | 6,500 | 500 | 0 | 7,000 |
| Eastside Academy - Creative & Performing Arts | 12,500 | 10,000 | 0 | 22,500 |
| Early Years Extended Schools | 1,852 | 0 | 0 | 1,852 |
| Children's Centres – Phase 3 | 2,741 | 1,089 | 0 | 3,830 |
| Children's Centres – Maintenance | 461 | 485 | 0 | 946 |
| Aiming Higher for Disabled Children | 694 | 1,619 | 0 | 2,313 |
| **Revised Capital Budget** | **65,652** | **47,854** | **40,323** | **153,829** |

****** An application from the Cricket Club for financial support is under consideration. This allocation is only indicative at this stage.

| | 2009/10 | 2010/11 | 2011/12 | TOTAL |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| **Equalities & Human Resources** | | | | |
| Access to Buildings | 400 | 744 | 0 | 1,144 |
| **Revised Capital Budget** | **400** | **744** | **0** | **1,144** |
| **HOUSING** | | | | |
| **Council Housing** | | | | |
| Decent Homes (Windows, Heating, Doors, Roofing, Rewiring) | 51,676 | 0 | 0 | 51,676 |
| Kitchens & Bathrooms | 16,318 | 74,377 | 75,991 | 166,686 |
| Other (Clearance, Lift Refurbishments, Security / Environmental) | 30,116 | 22,498 | 24,591 | 77,205 |
| Structural Works | 36,427 | 5,719 | 5,862 | 48,008 |
| Other Minor Schemes | 0 | 0 | 194 | 194 |
| | **134,537** | **102,594** | **106,638** | **343,769** |
| **Private Sector Housing** | | | | |
| Ind Living, Urban Living, Clearance, Afford Warmth, Develop New Hsg | 28,887 | 15,300 | 15,300 | 59,487 |
| Provision of Major Adaptations for Children | 500 | 0 | 0 | 500 |
| Implementation of Affordable Warmth and Fuel Poverty | 500 | 0 | 0 | 500 |
| | **29,887** | **15,300** | **15,300** | **60,487** |
| **Revised Capital Budget** | **164,424** | **117,894** | **121,938** | **404,256** |
| **Leisure Sport & Culture** | | | | |
| MAC/SAMPAD- Development | 1,646 | 0 | 0 | 1,646 |
| Library of Birmingham | 11,064 | 44,211 | 133,959 | 189,234 |
| Community Libraries – Flexible Spaces Programme | 989 | 0 | 0 | 989 |
| Museums & Arts Schemes | 0 | 52 | 0 | 52 |
| Community Libraries Schemes | 745 | 0 | 0 | 745 |
| Other Sports Schemes | 1,525 | 0 | 0 | 1,525 |
| Parks Schemes | 5,752 | 1,785 | 1,545 | 9,082 |
| Development & Play Schemes | 100 | 0 | 0 | 100 |
| Health & Safety Works | 81 | 0 | 0 | 81 |
| Lozells Community Development Initiative | 800 | 0 | 0 | 800 |
| Lozells Neighbourhood Investment Plan Infrastructure Fund | 1,150 | 0 | 0 | 1,150 |
| Alexander Stadium 2012 Olympics Infrastructure | 750 | 340 | 0 | 1,090 |
| Golf Courses | 650 | 0 | 0 | 650 |
| Swimming Pool Facilities | 2,500 | 0 | 0 | 2,500 |
| **Revised Capital Budget** | **27,752** | **46,388** | **135,504** | **209,644** |

| | 2009/10 | 2010/11 | 2011/12 | TOTAL |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| **Local Services & Community Safety** | | | | |
| Hodge Hill Office Improvements | 10 | 0 | 0 | 10 |
| **Revised Capital Budget** | **10** | **0** | **0** | **10** |
| | | | | |
| **Regeneration** | | | | |
| | | | | |
| Vibrant Urban Villages-Business Employment | 550 | 0 | 0 | 550 |
| Vibrant Urban Villages-Irish Quarter | 379 | 532 | 0 | 911 |
| Vibrant Urban Villages-Sparkbrook Tornado A41/A34 Corridor | 2,227 | 1,000 | 0 | 3,227 |
| Vibrant Urban Villages-Frankley Regeneration | 381 | 764 | 0 | 1,145 |
| Vibrant Urban Villages-Northfield Environmental Improvements | 1,530 | 217 | 0 | 1,747 |
| Vibrant Urban Villages-Other | 3,513 | 286 | 0 | 3,799 |
| City Centre Development (incl. Eastside)-Joint Venture | 2,051 | 2,342 | 0 | 4,393 |
| City Centre Development (incl. Eastside)-Eastside Park | 577 | 9,103 | 0 | 9,680 |
| City Centre Development (incl. Eastside)-Millennium Point Car Park | 6,897 | 4,200 | 0 | 11,097 |
| City Centre Development (incl. Eastside)-Curzon St Station | 1,720 | 1,300 | 0 | 3,020 |
| City Centre Development (incl. Eastside)-City Centre Masterplan | 3,473 | 4,924 | 2,200 | 10,597 |
| City Centre Development (incl. Eastside)-Eastside Infrastructure | 250 | 0 | 1,800 | 2,050 |
| City Centre Development (incl. Eastside)-Other | 1,218 | 62 | 0 | 1,280 |
| Conservation-Heritage Project Evans & Jewellery Quarter Conservation Grants | 168 | 0 | 0 | 168 |
| Conservation-Lozells & Soho Rd Townscape Heritage Initiative | 395 | 581 | 0 | 976 |
| Conservation-Other | 172 | 0 | 0 | 172 |
| City Property-Jewellery Quarter Conservation | 160 | 0 | 0 | 160 |
| City Property-Other | 5 | 0 | 0 | 5 |
| City Wide & Miscellaneous Disability Schemes | 156 | 4 | 0 | 160 |
| Investment Enterprise & Employment | 16 | 0 | 0 | 16 |
| Urban Design-Building Energy Management System | 172 | 150 | 0 | 322 |
| Energy Savings Programme | 471 | 280 | 0 | 751 |
| | | | | |
| **Revised Capital Budget** | **26,481** | **25,745** | **4,000** | **56,226** |

| | 2009/10 | 2010/11 | 2011/12 | TOTAL |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| **Transportation & Street Services** | | | | |
| | | | | |
| **Highways Major Schemes** | | | | |
| Northfield Relief Rd | 1,474 | 0 | 0 | 1,474 |
| Selly Oak New Road | 1,960 | 0 | 0 | 1,960 |
| Hagley Road Bus Showcase | 2,440 | 0 | 0 | 2,440 |
| Other Bus Showcase Schemes | 2,305 | 0 | 0 | 2,305 |
| Red Routes Schemes | 619 | 0 | 0 | 619 |
| **Other Highways Minor Schemes** | | | | |
| Highways, Street Lighting & Bridges Maintenance | 8,312 | 9,028 | 7,294 | 24,634 |
| Replacement of Road Tunnel Lighting | 755 | 0 | 0 | 755 |
| Integrated Transport Schemes | 6,774 | 6,149 | 7,088 | 20,011 |
| Local Safety Schemes | 680 | 65 | 0 | 745 |
| Facilities for the Disabled | 200 | 0 | 0 | 200 |
| Subway Replacement | 200 | 0 | 0 | 200 |
| Safer Routes to Schools | 300 | 0 | 0 | 300 |
| Measures to Encourage Public Transport | 200 | 0 | 0 | 200 |
| Improving Local Accessibility | 300 | 0 | 0 | 300 |
| Tackling Congestion | 300 | 0 | 0 | 300 |
| Improving the Environment | 220 | 0 | 0 | 220 |
| Street Lighting Ward Programme | 2,000 | 2,000 | 0 | 4,000 |
| Highways LTP - Other Schemes | 0 | 2,900 | 0 | 2,900 |
| **Non Highways Schemes** | | | | |
| Car Parks Reinvestment Programme | 1,107 | 0 | 0 | 1,107 |
| Birmingham Gateway Project (New Street Station) | 38,663 | 47,619 | 66,826 | 153,108 |
| **Environmental Schemes** | | | | |
| Cemeteries & Crematoria | 268 | 0 | 0 | 268 |
| Cemeteries & Crematoria - Emissions | 2,970 | 0 | 0 | 2,970 |
| Perry Barr HRC | 0 | 900 | 0 | 900 |
| Norris Way Recycling Development | 700 | 0 | 0 | 700 |
| Lifford HRC Depot | 900 | 0 | 0 | 900 |
| Materials Recycling Facility | 14,000 | 0 | 0 | 14,000 |
| | | | | |
| **Revised Capital Budget** | **87,647** | **68,661** | **81,208** | **237,516** |
| | | | | |
| **Planning Committee** | | | | |
| New Technology | 155 | 0 | 0 | 155 |
| **Revised Capital Budget** | **155** | **0** | **0** | **155** |
| | | | | |
| **Public Protection Committee** | | | | |
| Contaminated Land | 243 | 0 | 0 | 243 |
| **Revised Capital Budget** | **243** | **0** | **0** | **243** |

| | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | TOTAL £000 |
|---|---|---|---|---|
| **Constituencies** | | | | |
| Constituency Fund | 2,950 | 2,000 | 2,000 | 6,950 |
| **Revised Capital Budget** | **2,950** | **2,000** | **2,000** | **6,950** |
| | | | | |
| **Unallocated Resources** | | | | |
| Property Fund | 1,000 | 10,032 | 14,207 | 25,239 |
| Corporate Contingency | 2,000 | 5,392 | 500 | 7,892 |
| Project Development Fund | 250 | 750 | 0 | 1,000 |
| | | | | |
| **Revised Capital Budget** | **3,250** | **16,174** | **14,707** | **34,131** |
| | | | | |
| **Total Revised Capital Budget** | **548,985** | **430,090** | **437,137** | **1,416,212** |

APPENDIX K

## FINANCING THE CAPITAL PROGRAMME

| **Specific Resources** | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** | **Total £m** |
|---|---|---|---|---|
| Grants | 119.9 | 80.6 | 87.0 | 287.5 |
| Contributions | 53.6 | 13.3 | 31.5 | 98.4 |
| Portfolio Revenue Contributions | 0.6 | 0.3 | 0.3 | 1.2 |
| Additional Supported Borrowing | 10.2 | 21.4 | 38.7 | 70.3 |
| **Total Specific Resources** | **184.3** | **115.6** | **157.5** | **457.4** |
| | | | | |
| **Corporate Resources** | | | | |
| Single Capital Pot * | 65.5 | 66.9 | 67.9 | 200.3 |
| Capital Receipts | 19.0 | 28.9 | 23.8 | 71.7 |
| Earmarked Receipts | 31.3 | 85.0 | 38.8 | 155.1 |
| Prudential Borrowing | 230.2 | 128.3 | 161.7 | 520.2 |
| Revenue contributions | 1.3 | 1.3 | 1.3 | 3.9 |
| Overprogramming | 17.4 | 4.1 | (13.9) | 7.6 |
| **Total Corporate Resources** | **364.7** | **314.5** | **279.6** | **958.8** |
| | | | | |
| **Total Resources** | **549.0** | **430.1** | **437.1** | **1,416.2** |

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

| | **2009/10 £m** | **2010/11 £m** | **2011/12 £m** | **Total £m** |
|---|---|---|---|---|
| Children, Young People and Families (Education) | 14.2 | 14.2 | 15.2 | 43.6 |
| Children, Young People and Families (Children Social Services) | 0.2 | 0.2 | 0.2 | 0.6 |
| Housing | 26.0 | 26.0 | 26.0 | 78.0 |
| Development (Transport) | 15.0 | 16.1 | 15.6 | 46.7 |
| Adults & Communities | 0.4 | 0.4 | 0.4 | 1.2 |
| Corporate Top Slice | 9.7 | 10.0 | 10.5 | 30.2 |
| | **65.5** | **66.9** | **67.9** | **200.3** |
| <u>of which :</u> | | | | |
| Capital Grant | 16.6 | 26.5 | 27.1 | 70.2 |
| Supported Borrowing | 48.9 | 40.4 | 40.8 | 130.1 |
| | **65.5** | **66.9** | **67.9** | **200.3** |

**APPENDIX L (i)(a)**

## PRUDENTIAL INDICATORS

| | | 09/10 Indicators | 10/11 Indicators | 11/12 Indicators |
|---|---|---|---|---|
| | | £m | £m | £m |
| | **AFFORDABILITY** | | | |
| | **Ratio of financing costs to net revenue stream:** | | | |
| 1 | General Fund financing costs | 171.3 | 182.4 | 193.2 |
| 2 | General Fund net revenue stream | 983.9 | 1,018.6 | 1,037.6 |
| 3 | General Fund ratio | 17.4% | 17.9% | 18.6% |
| 4 | HRA financing costs | 79.3 | 82.5 | 90.8 |
| 5 | HRA net revenue stream | 221.3 | 219.1 | 212.1 |
| 6 | HRA Ratio | 35.8% | 37.7% | 42.8% |
| | **Net revenue effect of capital programme changes:** | | | |
| 7 | Effect on Council Tax (Band D equiv) | £3.84 | £18.77 | £31.13 |
| 8 | Effect on Housing Rents (ave. weekly rent) | £0.62 | £1.41 | £2.30 |
| | **CAPITAL EXPENDITURE** | | | |
| | **Capital Expenditure** | | | |
| 9 | General Fund | 414.5 | 327.5 | 330.7 |
| 10 | HRA | 134.5 | 102.6 | 106.4 |
| 11 | Total Capital Expenditure | 549.0 | 430.1 | 437.1 |
| | **Capital Financing Requirement (CFR)** | | | |
| 12 | General Fund CFR | 1,761.7 | 1,810.5 | 1,917.2 |
| 13 | HRA CFR | 768.1 | 817.7 | 854.3 |
| 14 | Total Capital Financing Requirement | 2,529.8 | 2,628.2 | 2,771.5 |
| | **PRUDENCE** | | | |
| | **Net borrowing and the capital financing requirement:** | | | |
| 15 | forecast maximum net borrowing * | 2,180.5 | 2,266.9 | 2,376.3 |
| 16 | Capital Financing Requirement in year 3 (as above) | 2,771.4 | 2,771.4 | 2,771.4 |
| 17 | does forecast net borrowing exceed year 3 CFR? | No | No | No |
| | **EXTERNAL DEBT** | | **Forecast** | **Forecast** |
| | **Authorised limit for external debt** | **Limit** | **Limit** | **Limit** |
| 18 | Authorised limit for borrowing | 3,040 | 3,133 | 3,222 |
| 19 | + authorised limit for other long-term liabilities | 50 | 166 | 294 |
| 20 | = authorised limit for debt | 3,090 | 3,299 | 3,516 |
| | | | **Forecast** | **Forecast** |
| | **Operational boundary for external debt** | **Boundary** | **Boundary** | **Boundary** |
| 21 | Operational boundary for gross borrowing | 2,216 | 2,267 | 2,376 |
| 22 | + Operational boundary for other long-term liabilities | 35 | 35 | 35 |
| 23 | = Operational boundary for external debt | 2,251 | 2,302 | 2,411 |

* In accordance with the Cipfa Prudential Code forecast maximum net borrowing is shown after being reduced for debt held for transferred functions.

APPENDIX L (i)(b)

# PRUDENTIAL INDICATORS

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

# Prudential Indicators 2009/10 – 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.

The indicators are based on approved budget and do not include the allowance for cashflows, borrowing in advance, and potential borrowing, contained in the prudential authorised limit.

### Ratio of financing costs to net revenue stream

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

### Effect on Council Tax

This indicator represents the interest and repayment costs arising from programmed prudential borrowing, expressed as the impact on Band D Council Tax. This impact has been accommodated within the Long-Term Financial Strategy and assumed Council Tax increases up to 2011/12.

### Effect on Housing Rents

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

### The Capital Financing Requirement (CFR)

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

### Net Borrowing

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

### The Authorised limit for debt

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

### The 'Operational Boundary' for debt

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

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

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

**Affordability, eg Implications for Council Tax**
Portfolios/committees are required to resource the running costs of most new schemes from within their own budgets. Revenue budgets have been identified to meet all planned borrowing costs. Key prudential indicators identify trends in financing costs especially the revenue stream ratio.

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

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

**Stewardship of Assets, eg Asset Management Planning**
The Asset Management planning process for 2009/10 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 long-term service planning, including the capital resource allocation process.

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

**APPENDIX M**

# BIRMINGHAM CITY COUNCIL

## TREASURY MANAGEMENT POLICY

### 1. Background

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

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

### 2. The City Council's Treasury Management Objectives

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

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

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

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

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

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

---

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

## 3. Setting limits to manage treasury management risks

### Interest rate exposures

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

**Prudential indicators - interest rate exposure**

| | % of borrowing (net of investments): | | |
|---|---|---|---|
| | **2009/10** | **2010/11** | **2011/12** |
| upper limit on net fixed rate exposures | 130% | 130% | 130% |
| upper limit on net variable rate exposures | 35% | 35% | 35% |

**Prudential indicators - maturity structure of fixed rate borrowing**

| | lower and upper limits: | **Forecast Year end 2008/09** |
|---|---|---|
| under 12 months | 0% to 30% of gross borrowing | 7.7% |
| 12 to 24 months | 0% to 30% | 0.5% |
| 24 months to 5 years | 0% to 30% | 4.8% |
| 5 to 10 years | 0% to 40% | 7.8% |
| 10 to 20 years | 5% to 55% | 12.0% |
| 20 to 40 years | 10% to 60% | 37.4% |
| 40 years and above | 10% to 60% | 29.6% |

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 and Building Societies | £25m | A1, A2, A/B1 | F1 |
| Banks and Building Societies | £20m | A/B2, B1 | F1 |
| Banks and Building Societies | £15m | A3, B2, B3, B/C1 | F1 |
| Money Market Funds | £40m | The highest possible rating only | |
| Local Authorities | £25m | N/A | N/A |
| UK Government | None | N/A | N/A |

3.4 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 Credit ratings are monitored on an a real-time basis on information from the Council's Treasury Management advisers, and the Council's lending list is updated accordingly, when a rating changes. In addition, other financial market information is actively monitored, including the ratings of other rating agencies and commentary in the financial press. The use of some counter parties may be restricted should conditions become uncertain. In the financial market turmoil of 2008/09, the Corporate Director of Resources has been using a very restricted list of banks within the overall policy, and restrictions are likely to continue during 2009/10. At the time of writing, no investments are being made in the lowest rated institutions (ie the £15m limit above). Investments in the institutions in the £20m limit are restricted to overnight only, and investments in the institutions in the £25m limit are restricted to a maximum of one week. These temporary restrictions within the Council's general policy are reviewed continually in the light of financial market circumstances.

## Investment Maturity

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

3.7 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 Services Authority and in accordance with an investment policy approved by the Corporate Director of Resources.
2. Certificates of Deposit (CD) with a maturity of less than three years, subject to a long-term credit rating of not less than AA (in addition to the restrictions in 3.3-3.5 above). CDs shall not exceed 25% of long-term investments.

3.8 Financial markets seem likely to retain a higher level of counterparty risk into the medium term future. It is therefore proposed to discontinue all lending by way of fixed term deposits in excess of 1 year to financial institutions.

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

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

Any of the categories of non-specified investments (paragraph 3.7) may be utilised up to this limit.

3.10 In making investments in accordance with the criteria set out in 3.3-3.9 above, the Corporate Director of Resources will seek to spread risk (for example, across different types of investment and to avoid concentration on lower credit quality). This may result in lower interest earnings, as safer investments will earn less than riskier ones.

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

## 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 is produced after the year end, in accordance with the CIPFA Treasury Code. The Strategy for 2009/10 forms Chapter 5 of this Budget Report.

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

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

| | |
|---|---|
| TMP1 | Treasury risk management |
| TMP2 | Best value and performance measurement |
| TMP3 | Decision-making and analysis |
| TMP4 | Approved instruments, methods and techniques |
| TMP5 | Treasury management organisation, clarity and segregation of responsibilities, and dealing arrangements |
| TMP6 | Reporting requirements and management information arrangements |
| TMP7 | Budgeting, accounting and audit arrangements |
| TMP8 | Cash and cash flow management |
| TMP9 | Money laundering |
| TMP10 | Staff training arrangements and qualifications |
| TMP11 | Use of external service providers |
| TMP12 | Corporate governance |