BIRMINGHAM CITY COUNCIL

BUDGET 2005/06

Report of the Executive to the City Council on Tuesday, 22 February 2005

BUDGET 2005/06

CONTENTS

FOREWORD

1. This report sets out the budget proposals for the coming financial year, 2005/06. It embraces all aspects of the budget: revenue, capital, and treasury management. This is on the basis that these are integrated parts of the overall financial plans of the City Council.

2. They are inter-related in policy terms, as they all stem from the same overall priorities. Further detail behind this aspect is set out in the Council Plan 2005+.

3. However, they are also inter-related in financial terms, because various issues have implications which cross over between these different elements of the City Council's finances. For example, a part of the revenue budget stems from the strategy adopted in relation to treasury management, and is also determined by the overall size and sources of funding of the capital budget. Equally, capital investment and the disposal of assets also have impacts on the running costs of the Council's services.

4. As a consequence, all aspects of the budget need to be considered together, albeit that the different components set out in the various chapters of this report are covered by a number of separate resolutions to the City Council.

5. Financial planning is a medium-term or long-term process, so that regard is had to the ongoing effects of decisions and also that issues (eg savings) are pursued even if they do not yield immediate returns. The focus of the revenue budget is primarily, the 2005/06 financial year, but this is set in the context of a longer timeframe. The capital budget and treasury management strategy have a medium-term perspective as it is often the case that schemes and programmes span several financial years. Further work will be undertaken in the coming year to further enhance the City Council's approach to medium-term planning.

6. Local Government law places responsibility on the City Council's Chief Financial Officer, the Strategic Director of Resources, as well as Members of the City Council in setting the budget. In particular, the Local Government Act 2003 requires the Chief Financial Officer to report on the robustness of the estimates included in any budget being put before the City Council and on the adequacy of the financial reserves. The Strategic Director of Resources confirms both the robustness of the estimates underlying this recommended budget and the adequacy of the financial reserves.

MOTIONS

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 2005:

		£m
a.	aggregate of estimated expenditure, contingencies, and contributions to financial reserves	2,727.446
b.	aggregate of estimated income, and use of financial reserves	1,275.116
c.	budget requirement, being the difference between (a) and (b) above	1,452.330

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

Council Tax - Basic Amount

2. That the basic amount of Council Tax, for City Council services, for the financial year commencing 1 April 2005 be set at £1,013.64 pursuant to the formula in Section 33, Local Government Finance Act 1992 -

		£m
a.	Budget requirement of	1,452.330
	LESS	
b.	Redistributed non-domestic rates and Revenue Support Grant of	1,165.471
	PLUS	
c.	Net transfer from the Collection Fund in respect of Council Tax deficit and Community Charge surplus	1.117
		287.976
	£287.976m DIVIDED BY the Council Tax Taxbase of 284,101 Band D properties	

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 2005 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 Civil Defence Authority and the West Midlands Police Authority; to

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

and shall, for areas without a Parish Council be:

Band	Council Tax £
A	759.02
B	885.52
C	1,012.02
D	1,138.53
E	1,391.53
F	1,644.54
G	1,897.54
H	2,277.05

and shall in the New Frankley in Birmingham Parish be:

Band	Council Tax £
A	777.58
B	907.18
C	1,036.77
D	1,166.37
E	1,425.56
F	1,684.76
G	1,943.95
H	2,332.74

MOTIONS

Capital Strategy and Budget

4. That the proposals for the capital budget, as set out in Chapters 3-5 of this report, be approved, embracing:

   (a) the Capital Strategy as set out in Chapter 3
   (b) the Capital Programme, as set out in Appendix E
   (c) the Prudential Indicators, as set out in Appendix F, including the Authorised Limit for debt of £1,704m.

Treasury Management

5. That the Treasury Management Strategy for 2005/06, as set out in Chapter 6, and the Treasury Management Policy and Investment Strategy, as set out in Appendix G (including the revision to the Investment Limits for 2004/05 as set out in paragraph 3.9 of that Appendix) be approved.

CHAPTER 1 - REVENUE RESOURCES

BACKGROUND

1. Revenue Support Grant (RSG) and Non-Domestic Rates (NNDR) Settlement

1.1 The City Council's final Formula Spending Share (FSS) for 2005/06 is £1,444.5m and formula grant is £1,165.5m. The relationship between these figures is summarised in the table below.

The 2005/06 financial year will be the final year in a period of a relative stability, as the funding formula has not been reviewed since the Autumn of 2002, although there have been changes to the data used in the meantime.

Table 1: Summary of Government Grant Settlement

	2004/05 Actual £m	Gov Adjusts £m	2004/05 Restated £m	Real Change £m	2005/06 £m
Formula Spending Share	1,350.6	6.2	1,356.8	87.7	1,444.5
Less Assumed Funding from Council Tax	(262.7)		(262.7)	(12.6)	(275.3)
Equals Gross External Support	1,087.9	6.2	1,094.1	75.1	1,169.2
Less Effects of Scaling	(2.1)		(2.1)	(1.6)	(3.7)
Equals Total Formula Grant (RSG/NNDR)	1,085.8	6.2	1,092.0	73.5	1,165.5

1.2 The Government has made it clear that the FSS is only intended as a means of distributing grant between authorities. The FSS is not a spending target and does not imply any Government judgment about the spending levels of individual authorities. Furthermore, the Government has stated that the FSS does not have any significance for local authority budget decision making. There is an expectation in some parts of Government that authorities will make resources available to particular services and this can also be the focus of some inspection regimes.

2. Council Tax

2.1 The total Council Tax for 2005/06 depends on:

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

(b) any estimated Collection Fund surplus or deficit to be brought forward from 2004/05;

(c) the net precepts of Fire and Civil Defence and Police Authorities;

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

(e) the tax base for the setting of the Council Tax.

City Council Budget Requirement

2.2 The City Council's "budget requirement" for 2005/06 is £1,452.330m and is set out in further detail of Chapter 2 of this report. The City Council will receive Formula Grant of £1,165.5m as shown in Table 1.

Collection Fund

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

(i) Community Charge

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

2.5 The total surplus in relation to Community Charge is estimated at £0.029m at the end of 2004/05. This is attributable to the City Council only, and is only available to reduce the Council Tax level in 2005/06.

(ii) Council Tax

2.6 It is estimated that the part of the Fund relating to Council Tax will be in deficit at the end of 2004/05. This largely arises because of a higher than anticipated number of discounts and exemptions. The deficit is apportioned as:

Table 2

	£000
City Council	1,146
Police	92
Fire and Civil Defence	45
	1,283

2.7 For the City Council the £1.146m deficit is partially off-set by the Community Charge surplus of £0.029m shown above, giving a net deficit of £1.117m.

2.8 The Fire and Civil Defence and Police Authorities have already been advised of the expected Collection Fund deficit, as required by statute.

Tax base for 2005/2006

2.9 The tax base for setting the Council Tax next year was set by Cabinet at its meeting on 17 January 2005. The tax base consists of 284,101 "Band D Equivalent" properties, after allowing for a non-collection rate of 2%. This tax base cannot now be changed for the purpose of fixing the 2005/06 Council Tax.

Council Tax for City Council Services 2005/06

2.10 The total required from council tax payers in 2005/06 for City Council services (including levies) is summarised as follows:

Table 3

	£m
Budget requirement	1,452.330
Less	
Formula Grant	(1,165.471)
Collection Fund Deficit	1.117
Total Call on Council Tax Payers	287.976

Dividing this by the tax base of 284,101 Band D equivalent properties gives a Band D Council Tax for the City Council of £1,013.64. These figures represent a 2.8% increase in Council Tax for the City Council.

Police and Fire and Civil Defence Authority Precepts

2.11 The Police Authority met on 10 February 2005, and the Fire and Civil Defence Authority met on 14 February 2005, to agree the precepts on the City Council. The final figures are subject to the decisions of these meetings.

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

Table 4

	£m
Fire and Civil Defence Authority	11.707
Police Authority	23.773
Total	35.480

2.13 The provisional changes from 2004/05 represent an increase in the Fire & Civil Defence Authority precept of 4.8% and an increase in the Police Authority precept of 4.5%.

2.14 These represent a Band D precept of £41.21 for the Fire & Civil Defence Authority and £83.68 for the Police Authority.

Parish Precept - New Frankley in Birmingham

2.15 The New Frankley in Birmingham Parish Council agreed its precept on 15 November 2004. The precept for the parish in 2005/06 is £57,581. The tax base for the Frankley area is 2,068. The effect of the parish precept on the level of Council Tax for a Band D property in the Frankley area is £27.84.

Total Council Tax 2005/06

2.16 In accordance with the standard multipliers for the different property bands the Council Tax for 2005/06 representing an increase of 2.99% overall, can be summarised as follows:

Table 5

					New Frankley in Birmingham Parish	
Band	**City Council**	**Fire & Civil Defence Authority**	**Police Authority**	**Total**	**Parish Precept**	**Parish Total**
	£	**£**	**£**	**£**	**£**	**£**
A	675.76	27.47	55.79	759.02	18.56	777.58
B	788.39	32.05	65.08	885.52	21.66	907.18
C	901.01	36.63	74.38	1,012.02	24.75	1,036.77
D	1,013.64	41.21	83.68	1,138.53	27.84	1,166.37
E	1,238.90	50.36	102.27	1,391.53	34.03	1,425.56
F	1,464.15	59.52	120.87	1,644.54	40.22	1,684.76
G	1,689.39	68.68	139.47	1,897.54	46.41	1,943.95
H	2,027.28	82.41	167.36	2,277.05	55.69	2,332.74

CHAPTER 2 - REVENUE BUDGET

1. Revenue Budget Strategy

1.1 The City Council's revenue budget has been compiled in the context of the government spending strategy, and its financial support for local government.

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

- The revised Council Plan, which determines budget allocation.
- Addressing the need for improving performance in key service areas.
- Addressing overspending on budgets for the current financial year (2004/05), but without any deficit being carried forward to 2005/06.
- Cost of pay and price increases to be included in the budget.
- Recognising the need to meet some pressures in particular services.
- Passing on to schools a significant increase in budget.
- The continued rebuilding of council balances as part of a medium-term strategy.
- Integration of revenue and capital plans - this is evidenced by this combined budget report.

Estimated 2004/05 Outturn

1.3 Revenue budgets for 2004/05 have been closely monitored and reported to Cabinet, Regulatory and Scrutiny Committees and Portfolio holders. Management action has been taken in those services where difficulties were identified in the earlier part of the year to ensure that the budgets are not overspent at the end of the year. A potential net overspending on Portfolio budgets of £9.7m was set out in the Month 8 budget monitoring report. This includes overspending of £16.5m within the Social Care and Health Portfolio and £4.5m in the Housing General Fund, but is also net of a number of underspendings and sources of funding.

1.4 Further savings are anticipated from Social Care & Health and Housing as they implement their recovery plans. There are also other resources which the Council is likely to receive before the end of the financial year. As a consequence, it is expected that there will not be a deficit for the current year to be carried forward into 2005/06.

2. Revenue Budget Allocations for 2005/06

2.1 The budget for 2005/06 allows for the following items:-

- meeting the Executive's policy priorities
- pay and price inflation
- changes in the Council's responsibilities and methods of funding
- changes approved in 2004 for implementation in 2005/06
- approved budget pressures
- adding £39.4m to schools' budgets
- a sustainable budget for Social Care
- continuing efficiency savings
- savings determined by Portfolio holders to allow the re-allocation of resources to higher priorities
- capital financing costs

2.2 Inflationary Increases

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

- provision for general pay awards at 2.95%
- provision for the teachers' pay awards in 2005/06 of 2.95% (the impact on schools is contained within the 6.6% increase in schools' budgets)
- general price/income increase of 2.0%
- price increases for contracts to reflect indexation provision where these applied as a condition of the contract
- increases for grants to organisations in the not-for-profit sector at 2.1% (reflecting the fact that the element of this relating to pay awards was in excess of actual pay settlements in 2004/05)

Partnership Priorities

2.3 A total of £6.0m has been included in the budget in order to meet the policy priorities of the Executive.

2.4 Schools' Budgets

The schools' budget, as defined by the DfES, primarily consists of schools' delegated budgets but with some prescribed centrally retained services. The proposed budget will ensure that we increase schools' budget by a substantial amount (£39.4m, 6.6%). This will, again, allow Birmingham to increase funding per pupil in excess of the Government's minimum guarantee in the majority of its schools. The DfES has indicated that it is content with this increase and will not seek to impose a higher figure. The Schools Forum has been consulted over this budget increase.

2.5 Integrated Children's Services

In addition to the £39.4m referred to above, a further £6m will be made available for the provision of services for children, young people and their families and/or carers in schools and extended schools. These services will be provided in co-operation with Social Care, the voluntary and community sector, Primary Care Trusts, Police, Connexions, Youth Services, the Learning and Skills Council and other public and private organisations. This will help to address the emerging "children's services" agenda.

2.6 Social Care & Health

2.6.1 The budget for 2005/06 includes resources to ensure that there is a sustainable budget for the Social Care & Health portfolio. Significant budgetary pressures have been faced in 2004/05, especially in relation to:

- External placements, particularly for children, and adults with learning disabilities
- Supporting adults in the community, through home support and day care.

2.6.2 In addition to the £10m included in the revised base budget for 2004/05, and also resources to replace Government grants which are being reduced (£6.3m), provision has been made for the investment of an additional £20m in the service. This will ensure that adequate resources are available for the provision of a modern service. Commissioning strategies are being developed, which will give service users and their carers greater choice and control in accessing appropriate services, and will improve the performance of the service. Savings are also being made within the service, through the review of the way services are provided and by changing practices to eliminate avoidable costs.

2.6.3 It will be essential that the service operates within the resources that are available. To that end, budget managers will be required to "sign up" to their budget, and performance in keeping within that budget will be monitored closely. The additional resources of £20m will only be made available at the rate of £5m per quarter and based on evidence that the resources are needed and are being managed properly. The fortnightly meetings of key Members to review the financial position of the service will continue, and careful consideration will be given by the Overview & Scrutiny Committee.

Budget Pressures

2.7 The budget also allows for increases in the following areas:

Table 6: Revenue Pressures

	2005/06 £000
Pressures Included	
Benefits Service - funding to replace loss of grant	2,150
Temporary accommodation for homeless people	1,000
Street Lighting Energy - due to higher prices	827
Supporting People - due to grant losses	4,000
Car Parking - further loss of income due to major developments	250
Recycling (net of Government Grant)	313
Fall-Out of Winter Maintenance Reserves	337
PTA Levy	1,224
Co-financing - match-funding for employment and training programme	500
Land charges - compensation for loss of income	450
Thinktank - a second instalment of development money	350
Provision for amendment to 2005/06 Settlement*	1,000
Miscellaneous issues - see Appendix A	992
Included in Budget Proposals	**13,393**

[Further details are shown in Appendix A]

* The settlement for 2005/06 is known to be based on inaccurate population data, which will be corrected retrospectively. Birmingham is expected to lose resources from this.

2.8 Functional and Funding Changes

The total proposed net base budget for Portfolios/Regulatory Committees reflects the impact of the following functional changes resulting from legislation, or changes in central government funding arrangements which also change the net budget:

Table 7: Function/Funding Changes by Portfolio

		£m
1.	Deputy Leaders Portfolio:	
(a)	Magistrates' Courts: Transfer of responsibility to the Department of Constitutional Affairs	(1.9)
(b)	Phased transfer of rent rebate costs to the General Fund from the Housing Revenue Account	(0.6)
(2)	Social Care and Health Portfolio: The transfer of former specific grant funding to Formula Grant	6.3
(3)	Leader's Portfolio: Transfer of Civil Defence Grant into Formula Grant	0.2
Total		**4.0**

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

2.9 In order to secure funds to assist in the Council's service improvement plan, Portfolio holders have been asked to cover spending pressures, base budget commitments and changed responsibilities (apart from those items set out in para 2.8). The budget strategy also includes efficiency savings which fall into two broad categories:

- Further savings from improvements in the Council's procurement of goods and services (£2.8m).
- Efficiency savings (£4.0m) which will be derived from the targeted review of services, with emphasis upon areas of high costs relative to other authorities.

2.10 A range of other portfolio savings have been also identified, which have minimal impact on front line services. These amount to £5.4m. The key points are:

Table 8: Portfolio Savings for corporate re-allocation

	£m
Leader's	0.8
Deputy Leader's	0.7
Education & Lifelong Learning (non schools)	0.9
Equalities and Human Resources	0.2
Housing (General Fund)	0.3
Leisure, Sport & Culture	0.9
Local Services	0.1
Regeneration	0.4
Transportation, Street Services	0.6
District and Constituency Committees	0.2
Regulatory Committees	0.3
	5.4

Further details are set out in Appendix B

2.11 The £5.4m above represent "cashable" savings. In addition, various pressures totalling £4.5m, have been identified which will be contained within existing budget. These represent further savings towards "Gershon" efficiency targets.

2.12 Capital Financing Costs

The revenue effects of capital expenditure have been reviewed in the context of the announcements of Government capital resources, the Capital budget set out in Chapter 5 of the report, and expectations on movements in interest rates. A general increase of £2.6m is offset by savings of £8.0m achieved through debt refinancing. This will result in an expected General Fund net reduction in cost of £5.4m in 2005/06 to cover the costs of interest and providing for future loan repayment. Further details are included in Chapter 6.

2.13 Summary of Efficiencies and Savings

The total efficiencies and other savings within the 2005/06 budget can, therefore, be summarised as follows:

Table 9 - Efficiency Savings

	£m
Procurement	2.8
General efficiency savings	4.0
Portfolio efficiency savings	5.4
Financing costs	8.0
Total cashable savings	20.2
Non-cashable savings	4.5
Total efficiencies	**24.7**

2.14 In addition, reductions of £3.4m are possible, relating to the impact of decisions in previous years on the 2005/06 budget and miscellaneous corporate issues. Also, the provision made in our forward plans to meet the cost of the Single Status agreement in 2005/06 can be released, as implementation will not be achieved before 1 April 2006 - this provides £11m of one-off resources (of which £2.5m was in the 2004/05 base budget).

2.15 Balances

The budget strategy for 2004/05 continued the strategy to replenish general balances so that they will reach £10.9m by 31 March 2005.

Table 10 - Reserves available to the Council

	31/3/04 £m	31/3/05 £m
General unallocated balances at March	9.4	10.9
Portfolio and Committee Carry forward Balances	10.2	7.8
Earmarked Reserves (excl Schools)	40.1	37.5
Total	**59.7**	**56.2**

In addition school balances at the 31 March 2004 stood at £33.2m.

2.16 The District Auditor and the CPA endorse the need for such a general reserve as described in 2.15. As a percentage of the City Council's annual turnover this general provision is still relatively small. The formal view of the Strategic Director of Resources, in accordance with Section 25 (i) (b) of the Local Government Act 2003, is that the general reserves are adequate, given the other earmarked reserves which exist and also the rigorous arrangement for the regular and prompt monitoring of budgets.

2.17 However, there are risks inherent in the budget which is being set, which will need to be managed. Particular issues are:

- funding the £1m of savings needed from the Leisure, Sport and Culture budgets, against which only temporary solutions were found in 2004/05
- identifying further match funding in addition to the £0.5m referred to in para 2.7 in order to maximise "co-financing" grant income
- securing increased income/efficiencies to balance the Land Charges budget after taking account of the £0.450m referred to in para 2.7
- delivering the £8.0m of savings from refinancing NEC debt - this is subject to market conditions
- absorbing changes in business rates - any changes from 1 April 2005 will need to be found within approved resources. The final impact is still the subject of review/appeal. However, it is clear that the impact will vary across property types/portfolios, and there may need to be some redistribution of budgets to accommodate this.

2.18 Contingencies

The budget contains an allowance for contingencies of £6.896m. Specific sums included in this figure are:

Table 11

	£000
Loss of car park income due to major developments	1,150
Birmingham Anti-Social Behaviour Unit	915
Land Charges - loss of income	450
Costs of implementing Licensing Act	127
Thinktank development money	350
Other minor items, including provision for contract indexation	156
	3,148

In addition, there is a general unallocated contingency of £3.748m. This sum provides some flexibility in the overall management of the budget in 2005/06.

3. Housing Revenue Account

3.1 The Housing Revenue Account (HRA) is a 'ringfenced' account, which is self-financing and therefore has a net expenditure of 'nil' for overall General Fund budget purposes. A detailed report on the budget for the HRA element of the Housing Portfolio will be brought to Cabinet on 14 March 2005.

4. The City Council's Net Revenue "Budget Requirement" for 2005/06

4.1 The components of the budget increase from 2004/05 can be summarised as follows:

Table 12 - Movement in Base Budget

	£m
Base Budget 2004/05	1,360.2
Partnership Priorities	6.0
Pay & Price inflation (non-schools)	16.8
Meeting budget pressures & service changes	49.4
Functional & funding changes	4.0
Portfolio savings for re-allocation	(5.4)
Efficiency and other savings	(18.1)
Increase for schools	39.4
	1,452.3

4.2 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.

4.3 It is proposed that the City Council budget requirement for 2005/06 will be £1,452.3m calculated as follows in accordance with Section 32 of the Local Government Finance Act 1992:-

Table 13 - Summary of Budget Requirement

	£'000
Gross City Council Expenditure	2,727.4
Less: Estimated City Council Income	1,275.1
City Council "Budget Requirement	**1,452.3**

The budget requirement includes an allowance of £48.086m (2.5% increase overall) in respect of the PTA levy for 2005/06 and £ 0.295m for the Environment Agency Levy.

4.4 The budget for each Portfolio/Regulatory Committee is summarised in Appendix C.

5. Consultation

5.1 Consultation with Business Ratepayers took place on 10 February 2005 and with representatives of not-for-profit organisations on 7 February. Any issues raised will be reported to the City Council at its meeting on 22 February 2005. Consultation has taken place with the Trade Unions corporately, and individual savings proposals will go through the normal Directorate consultation processes.

6. Three-Year Financial Plan

6.1 Based upon the decisions for 2005/06 figures have now been developed for the three year period to 2007/08. The position over that period, as currently estimated, is summarised in Table 14 below.

Table 14 - Three Year Financial Projections

	2005/06 £m	2006/07 £m	2007/08 £m
Spending	1,452.3	1,529.6	1,608.2
Target Efficiency Savings	0.0	(28.4)	(39.4)
Less Resources	(1,452.3)	(1,501.2)	(1,568.8)
Net	**0.0**	**0.0**	**0.0**

6.2 The spending projections make the following principal assumptions:

- council tax rise of 2.8% in each year.
- future inflationary pressures in line with those allowed in the 2005/06 budget.
- continued allowance for on-going items included in the budget and for essential organisational developments.
- provision for employers' increased pension costs in 2006/07 following the tri-annual actuarial revaluations.
- extra capital financing costs based on the capital budget with any net revenue costs resulting from further borrowing within the "prudential framework" to be met from within portfolio cash limits
- other than the above, portfolio budgets continuing at the same level for 2006/07 and 2007/08.

6.3 The figures for 2006/07 and 2007/08 set out above will be the starting point for medium-term financial planning in the early part of next financial year and for setting the budget for 2006/07. The medium-term perspective will be maintained by then adding a further Year 3 (2008/09) to maintain a rolling three-year programme.

6.4 Table 14 shows efficiency savings of £28.4m will be required in 2006/07 and a further £11.0m in 2007/08. This should be viewed in the context of the £20.2m of "cashable" savings in the 2005/06 budget shown in Table 9. However, it will be important for work to start straight away in developing solutions.

6.5 A key aspect of this will be actioned through drawing out efficiency savings through changing the way we organise services ("business transformation") and seedcorn funding has been included in the 2005/06 budget in order that progress can be made in this regard. In addition a number of other tools and techniques will be used in order to deliver efficiency savings. These include:

- Benchmarking as a way to identify areas to examine in detail
- Targeted base budgeting exercises
- A thorough in-year budget review process
- Tough financial disciplines and enhanced monitoring
- Joining up the various approval "gateways" which currently exist
- Establishing a new "gateway" for grant aid to the not-for-profit sector

- More effective use of resources used for projects
- Getting better value out of property, and making disposal arrangements more efficient and responsive
- Improving staff productivity, and reviewing terms and conditions

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

7. Monitoring and Control of the Revenue Budget

7.1 Portfolio holders will receive reports on budget allocations for 2005/06 during March 2005, as will Regulatory Committees. Portfolio Holders and Committee Chairs will be required, along with the relevant Strategic Director, to sign off these budgets.

7.2 It will be essential for budget holders and Cabinet Members/Committee Chairs to maintain proper fiscal discipline in order to keep within approved budgets. This will be a key component of performance management.

7.3 The 2005/06 revenue budget will be monitored closely during the forthcoming financial year. Regular reports on individual Cabinet portfolios, approved by the relevant Strategic Director(s) and the Strategic Director of Resources, will be presented to Portfolio holders and Committees, and will also be forwarded to Scrutiny Committees.

7.4 In addition regular reports from the Chief Executive and the Strategic Director of Resources will be presented to Cabinet on the overall Council position. This will report on the following:

- financial position to-date.
- projected outturn position at the end of the financial year.
- corrective action required to ensure that the budget remains within the agreed guidelines.
- service impact of any proposed corrective action.

7.5 In addition, the Strategic Director of Resources will review the current framework of rules and accountabilities in order to make sure that they are updated in order to reinforce the need for tight budgetary control.

CHAPTER 3 - CAPITAL STRATEGY

1. Purpose

1.1 The Capital Expenditure Programme 2005/06 to 2007/08 (CEP) proposed in Chapter 5 of these budget papers sets out specific capital expenditure proposals for the next few years. This Capital Strategy chapter sets the framework for the CEP's proposals in the context of the City Council's medium to longer term capital needs and pressures. The strategy should also assist the development of future capital budgets.

1.2 This Capital Strategy covers all the City Council's capital expenditure, including the plans contained in (for example) the Asset Management Plan (AMP), Housing Strategy, HRA Business Plan and Local Transport Plan. This Strategy takes account of the individual service Capital Strategies prepared by each Directorate.

2. General Strategic Aims

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

- to maximise external funding and to supplement this with the City Council's own resources where appropriate; especially where external funding supports the City Council's priorities;
- to procure the use of capital assets by the means which delivers best value for money to the City Council;
- to welcome the increasing use of partnership working whilst retaining clear lines of accountability and responsibility;
- to use 'prudential' borrowing where this is justified, demonstrably affordable, and complies with the CIPFA Code for Capital Finance;
- to keep the City Council's portfolio of capital assets under review and managed according to best practice through the Asset Management Planning process; including the rationalisation of property holdings.

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

3. Capital and Financial Planning Process

3.1 The financial planning process which has developed the 2005/06 Budget considered services' capital needs alongside their revenue pressures and savings. This approach is intended to continue as part of the annual budget process and will encourage services' capital and revenue priorities and funding to be better integrated.

3.2 In allocating capital resources for the 2005/06 capital budget, scope has been left for further resources to be allocated in the 2006/07 capital budget. The process for this will commence this summer. The aim is to ensure a modest capital allocation on an annual basis, to avoid a stop-start approach to capital planning.

3.3 Capital proposals are assessed against corporate priorities, service priorities and the soundness of the scheme itself (including capital funding requirements, revenue consequences, and value for money). The detailed criteria are likely to change from year to year but for the 2005/06 proposals the criteria were:

1. How well does the bid contribute to the objective of developing Vibrant Urban Villages?
2. Will the proposed scheme provide joined up service delivery?
3. How effectively does the bid address capital strategy and AMP issues including property rationalisation; addressing the worst property in terms of condition and suitability; and addressing other AMP priorities?
4. How well does the bid address issues raised in consultation?
5. Is the financial appraisal acceptable?

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

4. Long-Term Business Planning and Prudential Borrowing

4.1 The new Prudential Capital system, which started in 2004/05, offers local authorities more flexibility in their capital finance and greater ability to borrow for capital providing they can afford the revenue consequences. The Strategic Director of Resources and the Strategic Resources Group officers will carry out a long-term business planning exercise during 2005/06 to identify the long term potential for affordable prudential borrowing, taking account of the uncertainties and risks relating to the City Council's finances. This will enable the Council to determine the speed at which it can meet its capital needs as measured by the Asset Management Plan.

5. Section 106 Obligations: corporate policy

5.1 A S.106 corporate working group has been set up, chaired by the Chief Planning Officer, to review the role of S.106 obligations in the context of the City Council's corporate priorities and the Government's consultations on developing the statutory framework and guidance for S.106s. The Group will recommend a S.106 Corporate Policy to Cabinet and Development Control Committee, with the objective of aligning S.106 policy more closely to the Council's long-term corporate priorities set out in the Community Strategy.

6. Asset Management Plan

6.1 The Asset Management Plan (AMP) has been updated using information provided in each Directorate's AMP. The authority has over one thousand operational buildings. 75% of these are classed as good or satisfactory condition, with 25% being in poor or bad condition. The level of maintenance required over the next 5 years is assessed at £420m. Further expenditure may also be needed to make properties suitable for purpose.

District-based review of property holdings

6.2 Resolving these asset problems is an enormous task. The AMP shows that there is a substantial maintenance backlog, and most maintenance is reactive (responding to a property problem) rather than planned or preventative maintenance. However, even if the Council had sufficient resources, fully funding the condition and suitability needs would not necessarily be the best value solution. Much of the Council's property is a historic legacy of buildings which may no longer be efficient, appropriate or sited in the right place. A bottom-up District-based review of property holdings is being undertaken to identify the scope for property rationalisation. This would review Council properties in an area, identify those with poor condition or suitability, and start to develop District Property Strategies. This might include relocation into fewer more efficient buildings, refurbishment, or finding different premises. This process will be assisted by one of the Proof of Concept projects within the Business Transformation initiative, which may provide a suitable methodology for subsequent use.

6.3 District Property Strategies which are self-financing or which produce revenue savings or capital receipts will have a better chance of being implemented. Some new resources have been identified to support this process: a general capital allocation has been made to Districts, and all services (including Districts) are able to retain 25% of capital receipts from the disposal of property as part of the rationalisation. This is described further in section 6.5 below. The objective is to rationalise, ie produce more efficient and appropriate property holdings. Strategies should be able to generate capital resources from property sales and may include prudential borrowing supported from revenue savings.

6.4 District Property Reviews are a big task. Reviews of this nature have already been started in Hodge Hill and Edgbaston which will be used to establish the methodology for further reviews. A report will be taken to Cabinet to outline a programme of District reviews. This will be led by Corporate Property Team but the role of Districts will be crucial in understanding how properties and services work on the ground. The focus will in the first instance be on property held for Districts' use, but will also need to review other services' properties in conjunction with them. We will be looking at ways of ensuring that those involved in property decisions work together in a co-ordinated and efficient way to speed up our processes and become more responsive.

6.5 An incentive share scheme has been in operation for some years to encourage services to release surplus property for sale, which gives 25% of the proceeds to the service up to a maximum of £250,000 in any case. This incentive scheme has now been amended to give the service 25% of the receipt up to a maximum £1m from any one receipt, where the receipt results from property rationalisation. Benefits from S106 agreements and earmarking will be taken into account within the 25%. The scheme does not apply to housing receipts which have their own policy (see paragraph 7.3 below).

6.6 An additional 10% of receipts from local services property rationalisation is available to the portfolio for the strategic service concerned (in addition to the 25% for the District), within the overall £1m limit.

7. Housing

Budget

7.1 The Housing Capital budget in 2004/05 is £133m. Most of this is funded through the housing subsidy (major repairs allowance), the Single Capital Pot, and capital receipts.

Main Priorities

7.2 The housing service faces an enormous challenge in seeking to meet the Government's Decent Homes Standard by 2010 - for private as well as local authority housing. The total cost to make properties decent between now and 2010 is estimated at £469m. In addition a further £118m is required over the same period for other essential maintenance works, making a total investment need of £587m. The forecast level of resources (from Major Repair Allowance, usable receipts from the sale of council homes, revenue contributions and continuation of the current level of support from the Regional Housing Board) is £422m, which leaves the Council with a shortfall of £165m to achieve the Decent Homes Standard. Two key opportunities for tackling this are housing land sales and prudential borrowing, which are considered in the following two paragraphs.

7.3 The City Council is bringing forward a number of housing-led area regeneration programmes, often arising from the demolition of defective system-built council housing estates. These are forecast to generate substantial receipts: over £75m in open market value from 2005/06 to 2007/08. The bulk of these resources will be directed to housing needs, with 20% of the open market value (before the cost of S.106/278 contributions) being retained for other corporate objectives. After taking account of S.106 costs and discounts on sales to social landlords, this is forecast to generate around £48m cash for housing investment in the 3 year Plan period and significantly more subsequently.

7.4 The City Council's 2004/05 Budget approved £15m of prudential borrowing to support the HRA capital budget. It is considered that there is scope for significantly more, providing the revenue consequences are appraised and managed through the HRA long-term Business Plan process. It will be important for the HRA to budget a prudent repayment profile for such borrowing, because its income base is falling significantly due to right-to-buy sales. This should take a careful view of the use of revenue contributions, budgets to support prudential borrowing, and must be accompanied by active control of management cost budgets, to generate significant savings as the number of Council dwellings falls.

7.5 In total £394m in resources has been identified for investment in the City's housing across all tenures over the next three years, representing the largest allocation for housing the City has ever seen. The Council will be able to offer tenants the option of staying with the Council and be confident that they will have decent homes.

8. Highways and Transportation

Budget

8.1 The highways and transportation capital budget for 2004/05 is £48m. The Local Transport Plan is the key capital planning process for the service which relies heavily on Single Capital Pot resources. Some resources for integrated transport are co-ordinated and reallocated between the West Midlands local authorities.

Main priorities

8.2 The proposed highways maintenance PFI is key to meeting the investment needs of the service. PFI credits of £379m have been provisionally offered to address the backlog in works and maintain the City Council's roads to an acceptable standard over the 25 year contract period. A final business case will be submitted for Cabinet and Government approval in 2005/06.

8.3 Prudential borrowing is being considered for the maintenance and renewal needs of the Council's car parks. A full business case is due shortly.

8.4 The further development of the Metro network and the improvement of New Street Station are other major objectives of the transportation capital strategy but these require substantial external funding which needs to be identified. A study has been commissioned into the feasibility of an underground Metro system.

8.5 The proposed Capital Budget includes a block allocation of £11m over the 3 year period to be allocated to transportation schemes in a way which takes account of local priorities. A process will need to be developed by Resources, Development and Local Services Directorates which involves the Districts in allocating this resource.

9. Learning and Culture

Budget

9.1 The 2004/05 capital budget is £66m. Much of this comes from specific DfES grants including NDS Modernisation and Devolved Capital funding to schools. The Single Capital Pot is also important. Culture schemes have no regular funding streams and are supported by specific bids (eg Lottery Fund) or by the City Council's own resources.

Main Priorities

9.2 The condition and suitability needs of the schools estate nationally have been increasingly recognised by the government. For Birmingham this has resulted in a successful Schools 1 PFI scheme and the prospective Schools 2 PFI. The Government has also included Birmingham in the second wave of the Building Schools for the Future programme. This will modernise the first phase of the Council's secondary schools (with further phases to be negotiated with Government in the future). Both the PFI2 and Building Schools programmes are subject to the revenue consequences being affordable to the Council. Much of this programme is likely to be delivered by PFI and the programme represents a major opportunity and a major organisational and financial challenge for the Council. This leaves the needs of primary schools to be funded from traditional DFES funding and the Single Capital Pot.

9.3 Culture scheme spending is dominated by the Town Hall refurbishment. However, resources have been found to carry out some major repairs. In addition, reserves allocated to local services will also address the needs of some assets in the portfolio managed locally.

10. Social Care and Health

Budget

10.1 The 2004/05 Capital Budget is £6m. A very small element of the Single Capital Pot allocation relates to Social Services.

Main Priorities

10.2 The key priorities for the service are the Children's homes and Elderly Persons strategy with a small amount of resources set aside to progress other commissioning strategies as they are developed, notably any changes in the provision in learning difficulties services. The current children's and elderly persons' homes need major maintenance but are also in danger of failing statutory requirements including minimum care standards. Very little capital funding is provided by Government for these facilities and solutions are likely to rely heavily on the Council's own resources and on partnership working with housing associations. Financial appraisal work is currently in hand. The Council is working actively to prepare a financially viable solution.

11. Local Services

<u>Budget</u>

11.1 The capital budget for 2004/05 is £18m most of which relates to the Parks, Sports and Events services.

<u>Main Objectives</u>

11.2 This service lacks a major ongoing capital funding stream from government and therefore relies on specific bids to external funders and on the Council's corporate resources. Major repair and renewal needs across the Council's Leisure Centres and Libraries have started to materialise and will become increasingly urgent in the next few years. A facilities strategy for leisure facilities is in preparation to identify the options and way ahead.

11.3 A general block budget of £15.4m for district services is proposed as part of this capital budget. A process for allocating this resource for District facilities will need to be developed by Local Services and Resources Directorates, in discussion with other directorates, taking account of needs and priorities across the City as a whole.

11.4 Districts will also receive 25% of the proceeds of sales resulting from property rationalisation, in relation to The District property reviews, as described in paragraph 6.2 above.

12. Regeneration

<u>Budget</u>

12.1 The 2004/05 budget for Regeneration is £10m, covering Economic Development, Eastside, Planning and Urban Design.

<u>Main Objectives</u>

12.2 The Economic Strategy, the Eastside Vision and Master Plan, and the Commercial Property Portfolio, all have established objectives. The further assembly and development of land at Eastside and the establishment of the proposed City Park is a major financial exercise requiring substantial external funding.

13. Other Services

<u>Budget</u>

13.1 The 2004/05 capital budget for Resources' and Chief Executive's services is £5m. £10m is also proposed for NEC major maintenance in 2005/06.

Main Priorities

13.2 The NEC Group facilities (the NEC, ICC and NIA) are major income earning capital assets which are owned by the City Council or by NEC Ltd (and financially supported by the Council). Mainstream corporate capital resources are not generally provided for these assets, but as with other properties, they have improvement and renewal needs in order to stay productive. A £40m programme at the NEC has been identified (including the £10m in 2005/06) and this budget includes a proposal to finance these, using resources made available as a result of the proposed refinancing of the NEC stock issues (which will also generate revenue savings for the Council).

13.3 The NEC stock refinancing proposed is referred to in the Treasury Management Strategy in Chapter 6 below, and will result in prudential borrowing of £215m to replace the £215m of NEC (Finance) plc stock currently traded on the stock exchange. The cost of the NEC borrowing is already supported by the City Council so the prudential borrowing is affordable for the Council within existing budgets.

13.4 The Office Accommodation Strategy aims to reduce the Council's use of expensive City Centre offices and the feasibility of options is under development.

14. Summary and Conclusions

In summary, therefore, it can be seen that:

- major resources are available
- plans have been laid to meet the Decent Homes standard and to modernise Social Care residential establishments
- significant resources are available to meet priority needs in local areas
- the intention is to devise a long-term business model to enable a plan to be developed to meet AMP backlog needs
- work continues with Government departments and other external bodies to access additional resources to meet priority needs on transportation, economic development and schools.

CHAPTER 4 - CAPITAL RESOURCES

1. Summary of Capital Resources

1.1 The resources for 2004/05-2006/07 approved with last year's budget totalled £567.5m. Since then, services have obtained additional "specific" resources (which have been provided for specific programmes or schemes) and additional "general" or "corporate" resources have also been identified, mainly from capital receipts and from the Government's SCP allocation (these are available for the Council to spend in accordance with its own priorities).

1.2 The total capital resources now available can be summarised as follows:

Table 15

£millions funded from	2004/05 (Qtr 3)	2005/06	2006/07	2007/08	Total
Specific resources	157.5	193.2	102.0	71.7	524.4
General Resources	151.5	123.4	93.4	92.3	460.6
Total	**309.0**	**316.6**	**195.4**	**164.0**	**985.0**

1.3 This report concentrates on the proposals for allocating the additional General Resources available. This is done in the context of the Capital Strategy reported separately in Chapter 3 of these Budget Papers.

2. Specific resources

2.1 Council services bid for specific capital resources from the Government and elsewhere. The current resources available are summarised as follows:

Table 16

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Grants	79.7	93.4	58.0	56.8
Contributions	31.5	34.4	17.7	0.5
NRF / SRB	18.5	0.9	0.5	0.0
Portfolio Revenue Contributions	4.1	1.2	9.1	10.7
Additional Supported Borrowing	10.2	18.3	8.6	1.5
Earmarked Receipts	8.1	41.8	5.9	2.2
Leasing	5.4	3.2	2.2	0.0
Total specific resources	**157.5**	**193.2**	**102.0**	**71.7**

2.2 Specific resources reduce in later years because future allocations are not yet known - this does not necessarily imply shrinking resources in the future.

2.3 The previous table shows City Council expenditure and therefore excludes capital expenditure by contractors under PFI schemes. There are three large potential areas of PFI, the Highways Maintenance PFI, The Schools 2 PFI and PFI contracts under the Building Schools for the Future Programme.

2.4 The remainder of this chapter concentrates on General or Corporate resources, which the Council has discretion to allocate in accordance with its own priorities. The level of specific resources available to portfolios is a factor in considering the allocation of General resources.

3. Single Capital Pot Allocation

3.1 The Government's Single Capital Pot allocation for 2005/06 is £71.8m, down from previous forecast of £80.6m due mainly to a reduction in the Education element.

Table 17

	2005/06 allocation	**2006/07 forecast**	**2007/08 forecast**
Education	20,951	20,724	20,970
Housing	31,328	26,003	26,003
Transport	19,033	15,684	15,813
Social Services	493	600	600
TOTAL	**71,805**	**63,011**	**63,386**

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

4. General Resources

4.1 The City Council's General Capital resources position is summarised as follows:

Table 18

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m
Resources:				
Single Capital Pot	86.0	71.8	63.0	63.4
Capital receipts	10.9	18.7	14.6	17.7
Housing RTB receipts	18.3	18.0	10.5	9.5
Prudential borrowing	17.3	14.4	4.2	0.7
Other	19.0	0.5	1.1	1.0
Total General Resources	**151.5**	**123.4**	**93.4**	**92.3**

5. Available Capital Resources

5.1 Taking account of the above policies, the remaining resources are available for allocation to services via the City Council's "Capital Investment Fund":

Table 19

	2004/05 £m	2005/06 £m	2006/07 £m	2007/08 £m	Total £m
General Resources	**151.5**	**123.4**	**93.4**	**92.3**	**460.6**
Less:					
Existing Allocations	(107.1)	(77.2)	(56.6)	(54.1)	(295.0)
Prudential Borrowing	(17.3)	(14.4)	(4.2)	(0.7)	(36.6)
Housing RTB Receipts	(18.3)	(18.0)	(10.5)	(9.5)	(56.3)
Balance Available	**8.8**	**13.8**	**22.1**	**28.0**	**72.7**

5.2 In 2004/05 a bidding process was undertaken for future capital resources. This was undertaken in accordance with the processes highlighted in the Capital Strategy (Ch3 Section 3). The outcome of this bidding process is covered in Chapter 5 of this report.

CHAPTER 5 - CAPITAL BUDGET AND CAPITAL EXPENDITURE PROGRAMME

1. Background

1.1 This Chapter proposes the allocation of available General Capital Resources over the 3 year period 2005/06 to 2007/08. The Capital Strategy chapter outlines the capital needs and priorities of services in the context of the City Council's corporate priorities, and this forms a framework for this capital budget and for the preparation of future budgets in next year's financial planning process. The Capital Resources chapter describes the capital resources currently available to the Council, which are available for this capital budget and programme.

2. Allocation of capital resources

2.1 Services were invited during the financial planning process to submit bids for the Capital Investment Fund using simple assessment criteria based on corporate priorities; encouraging a joined-up approach to services and property; and encouraging a strategic corporate approach to capital planning.

2.2 Bids were initially considered by officers and have been further reviewed by members of the Executive during the development of the budget. Bids for specific schemes have been either accepted in full, or rejected, whilst bids for programmes of works have sometimes been scaled back.

2.3 The availability of resources going into the Capital Investment Fund has been reviewed. Bids were initially invited from a fund of £38.3m but this has increased, due to the inclusion of projected 2007/08 resources and to include a small element of over- programming (see section 2.9 below). The value of the Capital Investment Fund, without taking into account over-programming was £72.7m (Chapter 4 Para. 5.1).

2.4 Appendix D lists the schemes and programmes totaling £81.4m which are now proposed to be accepted into the capital budget. This reflects the Capital Investment Fund of £72.7m and over-programming of £8.7m. The normal capital expenditure rules (set out in Accounting Procedures Manual) will apply to these schemes, namely that an Outline Business Case and a Full Business Case should be presented to the relevant Cabinet Member or Cabinet before schemes can proceed (major annual programmes should be presented for approval in a Full Business Case before the start of the year and be reviewed during the year and after the year end). Option appraisal is an important element in the Business Case report especially at Outline stage.

2.5 The proposals in Appendix D include a block budget of £15.4m for Local Services schemes. This reflects the corporate priority for Vibrant Urban Villages and the large number of bids made of this type. The process for allocating this budget will need to be managed by Local Services Directorate in conjunction with Strategic Resources Group and reported to relevant members for approval.

There is also a provision for expenditure of £2.7m per annum (£1.7m Aids & Adaptations and £1.0m Education) that can be made available once further work concerning possible future requirements has been finalised.

2.6 Within the bidding process for the Capital Investment fund, Portfolios were also asked to submit details of schemes that may require the use of Prudential Borrowing, (the revenue costs of which will be paid by the Portfolio). A number of schemes have been identified and further schemes may come forward. However, there are no schemes that are at a stage where it is appropriate to include them within the Capital Programme. However, a provision for these schemes has been included within the borrowing limits in Section 3 of this Chapter to ensure resources are available if the schemes do gain approval.

2.7 This budget does not identify capital resources for some major capital proposals including the Library of Birmingham, Metro, or New Street Station. Funding packages for these will need to be developed in order to progress further.

2.8 The following proposed three year Capital Budget and its financing includes the addition of the schemes financed through the Capital Investment Fund, the proposed NEC refinancing deal and the existing commitments within the Capital Programme.

Table 20

	2005/06 £m	**2006/07 £m**	**2007/08 £m**
Expenditure			
Existing Commitments (as at Q3)	302.8	173.4	135.9
NEC Refinancing	225.0	20.0	10.0
Capital Investment Fund	24.3	31.8	25.3
Total Expenditure	**552.1**	**225.2**	**171.2**
Resourced By			
Specific Resources	(193.2)	(102.0)	(71.7)
General Resources*	(132.2)	(93.4)	(92.3)
NEC Prudential Borrowing	(215.0)		
NEC Revenue Reserves	(10.0)	(20.0)	(10.0)
Total Resources	**(550.4)**	**(215.4)**	**(174.0)**
In Year (Surplus) / Deficit	**1.7**	**9.8**	**(2.8)**
Cumulative (Surplus)/Deficit	**1.7**	**11.5**	**8.7**

*2005/06 figure includes £8.8m surplus carried forward from 2004/05

2.9 Over the three year Programme a funding shortfall of £8.7m is forecast. However, due to the level of slippage the capital programme has experienced over recent years (see below) it is reasonable to expect there will be sufficient resources available to finance the programme over the three years and in each individual year. Appendix E provides a breakdown of the proposed Capital Expenditure Plan by Portfolio.

2.10 At Quarter 2 of 2004/05 £60.9m slippage was reported to Cabinet. This represented 16% of the approved capital budget. For Quarter 3 this figure is expected to increase by a further £14.0m to £74.9m and given the experience of recent years this figure will increase further at outturn (for 2003/04 slippage between Quarter 3 and outturn was £29.4m). If this trend is continued for the final quarter of 2004/05, slippage will be over £100m, which would represent over a quarter of the approved budget.

2.11 Clearly, this level of slippage is not acceptable. Within any capital programme an element of slippage is expected, as issues arise that could not have been planned for. However, slippage of this level demonstrates due care is not being taken in terms of managing schemes and projecting cash flows. As a consequence resources are being unnecessarily committed to schemes that could have been used to allow other schemes to begin earlier. Slippage can also result in unrealistic costs, as original costs may fail to take into account the costs of delays and therefore understate the true cost of a project.

2.12 In order to maximise Birmingham's progress in delivering this proposed Capital Expenditure Programme this Report proposes a review of all schemes scheduled for 2005/06 to take place between April and June 2005(Quarter 1). The review will ask Project Officers to re-evaluate project cash flows and should provide a more realistic guide for the timing of the authority's capital resource needs over the next three years. Following the opportunity for schemes to be re-phased for Quarter 1 monitoring, greater scrutiny will be placed on slippage for Quarter 2 onwards. This scrutiny will focus on why the slippage occurred and why this problem was not anticipated in advance.

2.13 This may allow for the possibility of future years' schemes being brought forward. There will also need to be a heightened focus on improved project appraisal and management in order to ensure delivery on time and within budget wherever practicable.

3. Prudential Code and Indicators

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

3.2 The Authorised Limit for Debt represents the maximum level of debt which the City Council may have during year. The Council has no powers to exceed this unless a further report with revised prudential indicators is approved by the full City Council. The Limit needs therefore to make appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, in particular the ups and downs of short term cashflow. The proposed limit is built up as follows:

Table 21

	£m	£m
Forecast borrowing at 31 March 2005		**1,161**
Add borrowing to finance capital in 05/06		
Government supported	71	
Unsupported	232	
Possible unsupported borrowing funded by depts.	69	
Less revenue provision to repay debt	-36	
		336
		1,497
+ Allowance for peak/adverse cashflow	100	
+ Allowance for borrowing in advance of need	58	
		158
= 1. Authorised Limit for Borrowing		**1,655**
+ Other Long Term Liabilities at 31/3/05	39	
+ Possible increase in 2005/06	10	
= 2. Authorised Limit for other long term liabilities		**49**
1 + 2 = Authorised Limit for Debt		**1,704**

CHAPTER 6 - TREASURY MANAGEMENT STRATEGY 2005/06

1. Purpose

1.1 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.

2. Background

2.1 Before the start of each financial year, the Strategic Director of Resources prepares a Treasury Management Strategy for the forthcoming year as part of delegated responsibilities to manage the Council's loan debt and to approve borrowings and investments by the Council. This report complies with CIPFA's "Code of Practice for Treasury Management in the Public Services" and the new "Prudential Code for Capital Finance in Local Authorities".

3. Objectives of Treasury Management

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

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

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.

3.2 These objectives must be implemented flexibly in the light of changing market circumstances. The Strategic 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.

4. The City Council's Debt

4.1 The City Council's debt portfolio at 31st March 2005 is forecast to be as follows:

Table 22

		Debt £m	Average Interest Rate %
Short/variable debt		172.2	5.0
less short term investments		0.0	0.0
Fixed Rate:	Under 5 years	125.1	5.2
	5-9 years	144.7	9.2
	10-24 years	471.8	7.9
	25+ years	247.2	7.1
Total Net Debt		1,161.0	

4.2 The City Council's volume of debt is fairly typical of other metropolitan authorities, proportionate to its size. Birmingham's debt per head of population is £1,082 compared with an average of £1,410 per head for the eight English 'Core Cities'. However, this has more to do with the historic amount of government borrowing approvals, than the individual policies of the local authorities.

5. City Council Borrowing Requirement

5.1 The City Council's debt is forecast to increase over the coming two years as a result of new borrowing to finance the Capital Programme contained in Chapter 5 of this Budget Report.

Exchange offer for the NEC Finance plc stock

5.2 The 2005/06 Budget includes a proposal to refinance the £215m NEC Finance plc loan stocks, which benefit from a City Council guarantee. The stocks mature in 2016 and pay interest at an average 12.25% (reflecting fixed interest rates at the time the loans were agreed). This proposal has three main objectives:

- the efficient management of the NEC's and City Council's loans in order to generate revenue savings and better manage treasury management risks;
- the generation of resources to fund the growing need for a venue improvement programme for the NEC's facilities;
- to remove the need to provide for the repayment of the NEC debt through the Sinking Fund mechanism, which is open to the risks of lower than expected interest earnings.

The proposal is for the City Council to offer to purchase the NEC Finance plc stock from the holders in exchange for the issue of a new City Council bond maturing at a later date in 2030 to 2035. This means that the Council will:

- acquire the £215m NEC Finance plc stocks as an investment earning 12.25% to 2016;
- borrow £215m at an interest rate of around 9.5% until 2030 to 2035, in the form of 'bearer Eurobonds'. This interest rate is high in relation to current fixed rates, but represents fair value in compensating the current investors for giving up the NEC Finance plc stocks.

The proposal was considered in detail by Cabinet on 14th February 2005. The implications for treasury management are significant and have been taken into account in this report, in the Treasury Management Policy, in the treasury management prudential indicators and Investment Strategy all contained in Appendix G, and in the other prudential indicators contained in Appendix F.

5.3 The City Council's budgeted additional borrowing for 2005/06 therefore takes account of the financing of the Capital Programme, the NEC refinancing, and the maturity of existing loans. This will result in an increase in the level of short term and variable rate debt unless decisions are taken to borrow long term:

Forecast variable rate exposure
(assuming no fixed rate borrowing other than the NEC refinancing)

Table 23

	2005/06 £m	**2006/07 £m**	**2007/08 £m**
Opening short and variable debt	172.2	321.1	362.8
Maturing long term debt	90.0	10.0	0.0
New borrowing less sums set aside for debt Redemption	52.8	30.7	17.3
Short term cash flow effects	6.1	1.0	1.0
Closing short and variable debt	321.1	362.8	381.1
variable exposure as % of net debt	***+22.9%***	***+25.0%***	***+25.8%***
Less variable debt charged to HRA:	-121.4	-171.9	-182.6
General Fund variable rate exposure (if no fixed rate long term borrowing)	199.7	190.9	198.5
Nb. forecast total net debt	1,397.9	1,449.5	1,477.8

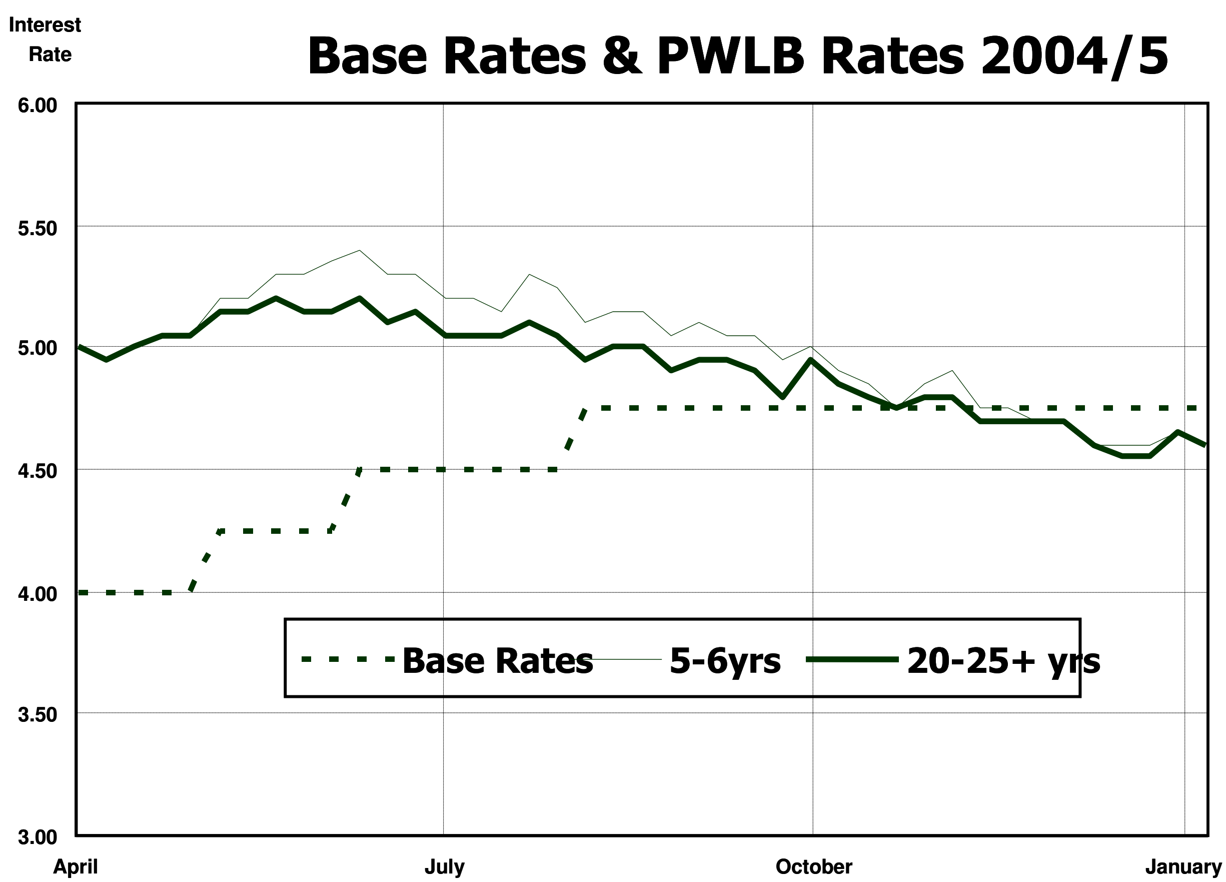
5.4 The Policy Statement sets a limit for exposure to variable rates of -15% to +35% around a central benchmark of 5%.These figures show that variable rate exposure is below the limit in 2005/06 and is forecast to remain below it in the following two years even if no long term fixed rate borrowing (other than the NEC refinancing) is taken. There is therefore no pressing need to take fixed rate borrowing in the coming financial year unless the interest rates on offer are particularly attractive.

6. Interest Rate Outlook

6.1 Interest rates in the USA are on an upwards trend due to a pick up in inflation and a weaker dollar. The UK however has seen a sharper than expected slowdown in growth last autumn and inflation continues to fall. House prices have started to fall under the impact of increases in base rates from a low of 3.5% in November 2003 to 4.75% by August 2004. A further ¼% rise to 5% in early 2005 is still possible at the time of writing, but many commentators think that will be the top of the current interest rate cycle (though it may be late in 2005 before it starts falling). Even the most pessimistic commentators do not expect base rates to rise above 5.5% in 2005.

6.2 Long-term gilt yields determine the borrowing rates available to local authorities from the Public Works Loans Board (PWLB) or elsewhere. Recent PWLB rates are shown in the graph below. PWLB rates have fallen steadily since June and reached levels of 4.5% to 4.6% this winter at which the City Council has considered it attractive to borrow long-term. Looking forward, long-term rates seem vulnerable to an upwards shift, but a collapse in the UK housing market (for example) could see rates fall further.

Table 24



7. 2005/06 Strategy

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

7.2 The table in paragraph 5.3 shows that, if no long-term borrowing or premature repayment of debt is carried out, the City Council's short and variable rate debt is forecast to reach £321m in 2005/06, which represents 22.9% of total borrowing. However, £121m is recharged to the HRA at variable rates so the General Fund will have a smaller exposure of £200m to variable rates.

7.3 Short-term and variable interest rates are expected to peak and probably begin falling in 2005/06, and may become cheaper than long-term borrowing later in 2005. On our view, short- or long-term rates offer good value at levels of 4.75% to 5% or lower, and in this context it is appropriate for variable rate exposure to be relatively high, providing it remains within the 35% limit. If good opportunities arise to increase variable rate exposure (by repaying fixed rate borrowing) or conversely to reduce it (if cheap fixed rates arise), such opportunities will be taken.

7.4 The NEC refinancing is expected to take place in April, and will increase interest payable, interest receivable and debt repayment charges. The net saving to the General Fund in 2005/06 is estimated as £8m.

7.5 Based on this strategy the proposed budget figures are as follows:

Table 25

	2004/5 budget £m	**2005/06 budget £m**	**2006/07 forecast £m**	**2007/08 forecast £m**
Average Borrowing Rate	7.48%	7.86%	7.60%	7.52%
Net interest budget	86.269	103.722	105.012	107.565
Other interest and costs	1.324	2.482	1.695	1.695
Contributions to (from) TM Reserve	1.761	0.191	(0.838)	nil
Revenue charge for debt repayment	33.061	35.473	46.617	47.248
Total budget	122.415	141.868	152.486	156.508
Less: charges to HRA etc	37.504	38.920	37.919	38.000
cost for General Fund	84.911	102.948	114.567	118.508

The Average Rate reflects the cost of the fixed rate borrowing taken out at relatively high levels in the 1980's and early 1990's.

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.

8. Risks and Alternative Strategies

8.1 Financial market circumstances can change rapidly. Some of the more foreseeable risks to interest rates in 2005/06 include:

Higher interest rates if:

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

Lower interest rates if:

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

8.2 If long-term rates rose it would become easier to shorten the maturity profile, consistent with the strategy described in 7.3 above. Conversely, if long-term rates fall, it may be an opportunity to secure more borrowing at a low rate.

8.3 The NEC refinancing is particularly susceptible to risk because of its size and the need to negotiate with the current stockholders. It is a complex transaction, whose timing cannot be fine tuned to market conditions. There are associated interest rate risks until it is completed, and the possibility that it may not be possible to purchase all the stock at an acceptable price.

9. Sources of Borrowing

9.1 The Public Works Loan Board (PWLB) will probably continue to be the cheapest source of most long-term finance during 2005/06. However, other sources of finance will continue to be evaluated as an alternative to PWLB funding and will be used if appropriate. In particular, long-term market loans with a 'lender's option, borrower's option' structure have proved attractive over the last two years and a small place for these may continue to be appropriate.

9.2 The City Council Bond of £215m taken as part of the NEC refinancing will be in the form of a "bearer Eurobond" which will be listed on the London Stock Exchange. This is the market standard form for large listed Bond issues.

10. Companies Associated with the City Council

10.1 The NEC refinancing will remove the need for the Sinking Fund to meet the £215m repayment in 2016. A smaller Sinking Fund will still however be needed to meet the NEC Developments loan repayment of £73m in 2027. Based on current expectations of investment returns, the Developments Sinking Fund is fully funded without future contributions being required. This will continue to be invested via a combination of external investment by Morley Fund Managers and internal investment within the City Council. (Paragraphs 3.6 to 3.8 of the treasury management policy at Appendix G set the parameters for these investments).

10.2 The City Council is exposed to the loans and treasury management risks of some other bodies related to the Council, including Millennium Point and Aston Science Park. The Prudential capital system may enable these off balance sheet financings to be brought onto the City Council's balance sheet where the treasury management risks may be managed more effectively and efficiently. Options will be reviewed and brought forward to Cabinet if appropriate.

11. Other Treasury Management exposures

11.1 The volume of leases outstanding has fallen from £65.6m in 2001/02 to £31.5m currently. The introduction of the 'prudential' capital system enables greater choice between leasing and other ways of financing equipment (such as borrowing). The financing of equipment is reviewed to determine whether leasing or prudential borrowing offers best value for money. It is expected that borrowing will largely replace the use of leasing in future.

12. Advisers

12.1 This Strategy has been prepared in discussion with Sector Treasury Services Ltd who are appointed to provide treasury management advice. Advice relating to operating leases is obtained from Unilink Finance Ltd. Both advisers have been a valuable support in view of the size of the transactions involved and the pressures on staff time, and we consider this represents good value for money. Their appointments are renewable annually. The future need and the best source of such advice will be reviewed before making any renewals under delegated powers.

12.2 The NEC refinancing has been developed by a project team including Sector, KPMG, and Wragges (for legal advice). Sector are the lead advisor for the transaction, and UBS have been appointed as the Investment Bank responsible for sponsoring the listing, pricing the transaction and managing market trading in the Bonds following issue.

13. Prudential Indicators for Treasury Management

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

Budget Pressures	**£000**
Benefits Service – the reduction of one-off Government funding needs to be made good if service standards are not to decline. In addition, the revised grant regime for correcting benefits has resulted in a loss of resources	2,150
The costs of meeting the Council's obligations towards **homeless people** has been repeatedly reported as a budget pressure in 2004/05. Even with proactive measures to utilise existing accommodation and to develop new approaches, the current budget is insufficient	1,000
There has been a general rise in electricity prices, reflecting global economic conditions. The renewal of the contract for **street lighting electricity** imposes this increase on the Council	827
Again, the pressure on the **Supporting People** budget has been a regular feature of monitoring information in 2004/05, added to which Government grant will be cut in 2005/06	4,000
The City Council will suffer a further loss of **car park income**, in addition to current provision, as a consequence of car parks being taken out of use because of redevelopment and regeneration projects.	250
Although there will be some additional grant to meet the costs of **recycling**, there is a funding shortfall as a result of the fallout of short-term resources. This will contribute towards achieving 2005/06 recycling targets.	313
The short-term use of the **winter maintenance reserve** to meet budget pressures cannot be sustained. This will allow the service to be maintained at the current level.	337
The 2.5% increase in the **PTA levy**, allied to changes in population data, will result in increased costs for the Council	1,224
The identification of match funding, when allied to other spending within the service, will lever in European funding for a programme to allow the continuation of **employment and training** opportunities.	500
Market conditions and competitive pressures are resulting in a loss of income from **Land Charge searches**. Not all of this impact can be managed within the service.	450
A second instalment of development money will enable **Thinktank** to develop outreach facilities with schools, and will also assist in the promotion of the facility and support to the development of capital projects and a new exhibition.	350
Changes to the 2005/06 **Government Grant Settlement** are expected to be made retrospectively, to take account of the fact that some of the population data used for other cities is known to be flawed. Birmingham will lose from this.	1,000
There is a variety of **other, relatively minor, pressures** including the on-going costs of CCTV, permanent funding for Christmas events, the costs of community consultation, the implementation of the Licensing Act and a contingency against the non-achievement of target savings.	992
	13,393

Portfolio Efficiency Savings	**£000**
Leader Savings have been identified across a range of services, including reducing Girobank charges and payroll stationery costs. Additional income will also be generated, eg, from summons and warrants and rents	747
Deputy Leader Efficiencies will include the renegotiation of contracts, new staffing structures and renegotiated rentals for office space. Some price increases and revised administrative procedures will increase income.	738
Education & Lifelong Learning Savings have been sourced across a range of support and frontline services. By spreading the impact, it is intended that the effects on the relevant services will be manageable.	893
Equalities & Human Resources Savings will be made across the Council-wide Equalities structure, together with the implementation of Service Level Agreements specifying charges for Human Resources services	160
Housing (General Fund) Efficiency savings in the management of private sector programmes	330
Leisure, Sport & Culture Efficiency savings in strategic budgets for grounds maintenance, sport and community services	901
Local Services & Community Safety Reductions in grants to Not-for-Profit Organisations not meeting performance standards, together with efficiencies in strategic services.	73
Regeneration General efficiency, overhead and employee budget reductions and a re-alignment of priorities on employment and business support to reflect the Council Plan.	412
Transportation & Street Services Additional income over a range of activities and efficiency savings within the portfolio without any adverse impact on frontline services.	598
District & Constituency Committees Efficiencies across Districts, allowing for local discretion, aimed at minimising the impact on frontline services.	227
Council Business Management Committee General efficiency savings across the range of services.	89
Development Control Committee General efficiency and overhead reductions and increased planning application income.	111
Public Protection Committee Efficiency savings and minor additional income, whilst still maintaining resources for enforcement activity at current levels.	74
	5,353

Revenue Budget - Gross Expenditure

Portfolios	2004/05 Budget £'000	2005/06 Budget £'000
Leader's	185,003	168,074
Deputy Leader's	397,439	453,564
Education & Lifelong Learning	892,793	970,588
Equalities & Human Resources	4,044	4,321
Housing GF	44,427	104,230
Housing HRA	233,201	220,112
Leisure, Sport & Culture	51,139	55,828
Local Services & Community Safety	27,470	28,532
Regeneration	72,102	73,722
Social Care & Health	408,655	451,754
Transport & Street Services	119,494	127,153
Council Business Mgt Committee	8,569	8,224
Regulatory Committees		
Development Control Committee	11,542	12,115
Licensing Committee	1,512	1,738
Public Protection Committee	15,196	14,935
District and Constituency Committees	113,556	111,205
Total Portfolio/Committee Expenditure	**2,586,142**	**2,806,095**
Capital	(71,541)	(85,415)
Contingencies	9,006	6,896
Partnership priorities held centrally	0	5,670
Procurement and PEP Savings	0	(6,800)
Total Expenditure on Services	**2,523,607**	**2,726,446**
Contribution to General Balances	1,500	-
Contribution to Reserves	0	1,000
Total Gross Expenditure	**2,525,107**	**2,727,446**

APPENDIX C(ii)

Revenue Budget - Gross Income

Portfolios	2004/05 Budget £'000	2005/06 Budget £'000
Leader's	(115,787)	(100,845)
Deputy Leader's	(372,973)	(427,952)
Education & Lifelong Learning	(174,157)	(202,285)
Equalities & Human Resources	(436)	(597)
Housing GF	(10,106)	(64,948)
Housing HRA	(233,201)	(220,112)
Leisure, Sport & Culture	(9,833)	(10,785)
Local Services & Community Safety	(23,414)	(23,895)
Regeneration	(53,197)	(52,652)
Social Care & Health	(107,559)	(106,391)
Transport & Street Services	(35,180)	(37,127)
Council Business Mgt Committee	(110)	(100)
Regulatory Committees		
Development Control Committee	(8,717)	(9,235)
Licensing Committee	(1,512)	(1,738)
Public Protection Committee	(1,830)	(2,631)
District and Constituency Committees	(14,100)	(13,823)
Total Portfolio/Committee Income	**(1,162,112)**	**(1,275,116)**
Contribution from reserves	(2,800)	0
Total Gross Income	**(1,164,912)**	**(1,275,116)**

APPENDIX C(iii)

Revenue Budget - Net Expenditure

Portfolios	**2004/05 Budget £'000**	**2005/06 Budget £'000**
Leader's	69,216	67,229
Deputy Leader's	24,466	25,612
Education & Lifelong Learning	718,636	768,303
Equalities & Human Resources	3,608	3,724
Housing GF	34,321	39,282
Housing HRA	0	0
Leisure, Sport & Culture	41,306	45,043
Local Services & Community Safety	4,056	4,637
Regeneration	18,905	21,070
Social Care & Health	301,096	345,363
Transport & Street Services	84,314	90,026
Council Business Mgt Committee	8,459	8,124
Regulatory Committees		
Development Control Committee	2,825	2,880
Licensing Committee	0	0
Public Protection Committee	13,366	12,304
District and Constituency Committees	99,456	97,382
Total Portfolio/Committee Net Spend	**1,424,030**	**1,530,979**
Capital	(71,541)	(85,415)
Contingencies	9,006	6,896
Partnership priorities - held centrally	0	5,670
Procurement and PEP Savings	0	(6,800)
Total Net Expenditure on Services	**1,361,495**	**1,451,330**
Contribution to General Reserves	1,500	-
Contribution to/(from) reserves	(2,800)	1,000
City Council Budget Requirement	**1,360,195**	**1,452,330**

APPENDIX D

Capital Investment Fund Allocations

	2005/06	2006/07	2007/08	Total
Schemes				
Moseley Road Baths	900			900
Northfield Road		750	750	1,500
Emissions 3 crematoria	1,000	1,000	1,000	3,000
Warden scheme (Homelessness)	1,250	250		1,500
Regeneration of Local Centres	0	220	2,603	2,823
Frankley Regeneration	100	500	785	1,385
Alexander Stadium Lights	820			820
Wharfedale Road Bridge Tyseley	400	600		1,000
Lozells and Soho Townscape	0	75	75	150
Aston Hall and Park	1,000			1,000
Eastside City Park pre-contract work	450	650	350	1,450
Town Hall		3,600		3,600
Museum Roof later stages	1,950	2,900	1,850	6,700
Weoley Castle	300	200		500
Midlands Art Centre	-	3,000		3,000
Total Schemes	**8,170**	**13,745**	**7,413**	**29,328**
Programmes				
Aids & Adaptations	1,300	1,300	1,300	3,900
Aids & Adaptations – Further Allocation	1,700	1,700	1,700	5,100
Education	1,000	1,000	1,000	3,000
DDA + Health & safety various	900	900	900	2,700
Irish Quarter - Environment & public realm works	300	300	300	900
Implement older people's homes contract	500	900	700	2,100
LD Homes comply to Social Care standards	400	400	400	1,200
Make older homes comply with standards	3,000	2,200	1,600	6,800
Additional Transportation schemes	3,000	4,000	4,000	11,000
Local Services	4,000	5,400	6,000	15,400
Total Programmes	**16,100**	**18,100**	**17,900**	**52,100**
Total Capital Investment Fund Allocation	**24,270**	**31,845**	**25,313**	**81,428**

Capital Programme - 2005/06 to 2007/08

PORTFOLIO	2005/06 £000	2006/07 £000	2007/08 £000
Leader's	2,257	1,267	1,267
Education & Lifelong Learning	67,154	32,775	33,819
Equalities & Human Resources	1,313	500	
Housing	136,443	88,265	88,086
Leisure Sport & Culture	31,669	15,829	2,880
Local Services & Community Safety	4,913	5,400	6,000
Deputy Leader's	1,068	5,191	
Regeneration	10,224	4,661	5,474
Social Care & Health	14,259	8,450	3,150
Public Protection	418		
Transport Street Services & Sustainability	57,110	42,826	20,561
Development Control	256		
NEC	225,000	20,000	10,000
TOTAL CAPITAL PROGRAMME	**552,084**	**225,164**	**171,237**

PRUDENTIAL INDICATORS

		04/05 indicators Feb 04 £m	04/05 Forecast Q3 Monitor £m	05/06 Indicators £m	06/07 Indicators £m	07/08 Indicators £m
	AFFORDABILITY					
	Ratio of financing costs to net revenue stream:					
1	General Fund financing costs	89.6	86.6	111.5	126.0	129.6
2	General Fund net revenue stream	1,360.2	1,360.2	1,452.3	1,501.2	1,568.8
3	General Fund ratio	6.6%	6.4%	7.7%	8.4%	8.3%
4	HRA financing costs	75.6	74.9	77.0	74.4	73.7
5	HRA net revenue stream	217.6	217.6	220.1	216.1	218.1
6	HRA Ratio	34.7%	34.4%	35.0%	34.4%	33.8%
	Local indicator:					
7	**General Fund unsupported financing costs**	9.8	6.8	23.6	39.6	39.8
8	**HRA unsupported financing costs**	-7.6	-8.9	-9.5	-9.5	-9.5
9	**Effect on Council Tax (Band D equiv)**	£1.40	£2.04	-£26.62	-£22.03	-£22.27
10	**Effect on Housing Rents (ave. weekly rent)**	£0.75	£0.75	Nil	Nil	Nil
	CAPITAL EXPENDITURE					
	Capital Expenditure					
11	General Fund	215.8	196.9	443.6	158.3	104.3
12	HRA	86.7	103.6	108.5	66.8	66.9
13	Total Capital Expenditure	302.5	300.5	552.1	225.2	171.2
	Capital Financing Requirement (CFR)					
14	General Fund CFR	870.1	939.6	1,226.7	1,246.7	1,264.1
15	HRA CFR	509.2	492.1	502.8	513.5	513.5
16	Total Capital Financing Requirement	1,379.3	1,431.8	1,729.6	1,760.3	1,777.6
	PRUDENCE					
	Net borrowing and the capital financing requirement:					
17	net borrowing	1,190.8	1,147.3	1,421.6	1,462.7	1,527.7
18	Capital Financing Requirement in year 3 (as above)	1,443.0	1,760.3	1,760.3	1,760.3	1,760.3
19	does forecast net borrowing exceed year 3 CFR?	No	No	No	No	No
	EXTERNAL DEBT		**Forecast**		**Forecast**	**Forecast**
	Authorised limit for external debt	**Limit**	**Max**	**Limit**	**Limit**	**Limit**
20	Authorised limit for borrowing	1,490	1,161	1,655	1,687	1,660
21	+ authorised limit for other long term liabilities	47	39	49	48	47
22	= authorised limit for debt	1,537	1,200	1,704	1,735	1,708
			Forecast	**Forecast**	**Forecast**	**Forecast**
	Operational boundary for external debt	**Boundary**	**Max**	**Max**	**Max**	**Max**
23	Operational boundary for borrowing	1,204	1,161	1,435	1,475	1,540
24	+ Operational boundary for other long term liabilities	37	39	39	38	37
25	= Operational boundary for external debt	1,241	1,200	1,474	1,514	1,577

TREASURY MANAGEMENT

	CIPFA Treasury Management Code					
26	Has the authority adopted the TM Code?	Yes	Yes	Yes	Yes	Yes
	Interest rate exposures		**Limit**	**Limit**	**Limit**	**Limit**
27	upper limit on fixed rate exposures		115%	115%	115%	115%
28	upper limit on variable rate exposures		35%	35%	35%	35%
	Maturity structure of borrowing					
	(lower limit and upper limit)					
29	under 12 months		0% to 35%	0% to 35%	0% to 35%	0% to 35%
30	12 months to within 24 months		0% to 35%	0% to 35%	0% to 35%	0% to 35%
31	24 months to within 5 years		0% to 30%	0% to 30%	0% to 30%	0% to 30%
32	5 years to within 10years		0% to 50%	0% to 50%	0% to 50%	0% to 50%
33	10 years & above		25% to 80%	25% to 80%	25% to 80%	25% to 80%
	investments longer than 364 days					
	(excluding NEC investments)					
	upper limit on amount maturing in:					
34	2005/6		0%	0%	0%	0%
35	2006/7		0%	0%	0%	0%
36	2007/8		0%	0%	0%	0%
37	later		0%	0%	0%	0%

Prudential indicators 2005/06 – interpretation

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

Ratio of financing costs to net revenue stream

The ratio increases in 2005/06 and 2006/077 are mainly due to the impact of the proposed refinancing NEC loan stock; the initial 2005/06 impact being interest costs of £20m and 2006/07 including additional requirements for debt repayment of £8.6m. The mechanism of the NEC refinancing highlights these costs within the prudential indicators; however, because the NEC debt has previously been supported by the Council, these costs are not an additional burden within 2005/06.

Unsupported financing costs

This shows the revenue cost of borrowing net of Government grant support. The increase from £6.8m in 04/05 to £23.6m in 05/06 for the General Fund is due to proposed NEC refinancing and the £17.6m of unsupported borrowing in the Capital Budget. The cost does however also vary due to the changeable way the Government calculates support for borrowing in the Revenue Support Grant settlement. HRA unsupported financing costs are negative because the cost of borrowing is less than the associated subsidy received.

Effect on Council Tax

This represents the interest and repayment costs of any unsupported borrowing in 2005/06 and future years, in terms of the council tax effect. This indicator shows a net benefit to council tax as a result of the proposed NEC refinancing. This benefit has been taken into account in setting the 2005/06 budget.

Effect on housing rents

This indicator would represent the interest and repayment costs of any unsupported borrowing in the HRA, in terms of a weekly rent figure. No further unsupported HRA borrowing is proposed at this time.

Capital Expenditure level for 2005/06 is high as it includes the proposed £215m NEC refinancing; programmed expenditure tails off in later years because future grants and other capital resources are not yet known.

The Capital Financing Requirement (CFR)

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

The authorised limit for debt
The City Council may not breach the limit it sets so it is important that this allows prudent room for uncertain cashflow movements and borrowing in advance for future needs. However, it is extremely unlikely that borrowing will actually increase to near the proposed limit of £1,704m.

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

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

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

Affordability, eg Implications for Council Tax

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

Prudence and Sustainability, eg implications for external borrowing

This asks the question whether borrowing is sustainable in the long term. The trend in unsupported financing costs is a guide to medium-term pressures. Revenue budgets have been provided to repay the proposed unsupported borrowing over time.

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.

Stewardship of assets, eg asset management planning

The Asset Management Plan for 2005/06 is reported elsewhere on this agenda and the distribution of the limited capital resources available in this Capital Budget is intended in part to address the suitability and condition issues it raises.

Service objectives, eg strategic planning for the authority

The capital budget has been prepared in the context of the Council Plan. The prudential capital system has been integrated into medium-term service planning, including capital bidding processes.

Practicality, eg achievement of the forward plan

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

APPENDIX G

BIRMINGHAM CITY COUNCIL

TREASURY MANAGEMENT POLICY

1. Background

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

- CIPFA's Code of Practice for Treasury Management in the Public Services;
- CIPFA's Prudential Code for Local Authority Capital Finance; and
- The Government's draft 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.[1]

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

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

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

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

3. Setting limits to manage treasury management risks

Interest rate exposures

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

Prudential indicators - interest rate exposure

	% of borrowing net of investments:		
	2005/06	**2006/07**	**2007/08**
upper limit on fixed rate exposures	115%	115%	115%
upper limit on variable rate exposures	35%	35%	35%

Prudential indicators - maturity structure of fixed rate borrowing

	lower and upper limits:
under 12 months	0% to 35% of fixed rate borrowing
12 to 24 months	0% to 35%
24 months to 5 years	0% to 30%
5 to 10 years	0% to 50%
10 years and above	25% to 80%

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. This risk will be limited by investing temporarily surplus cash only in 'specified investments' as described in Government Investment Guidance, and by applying lending limits and high creditworthiness criteria as follows:

Specified Investments:	Lending limit	FITCH individual and support rating	FITCH short term rating
Banks	£20m	A1, A2, A/B1	F1
Banks	£15m	A/B2, B1	F1
Banks	£10m	A3, B2, B3, B/C1	F1
Building Societies	£10m	A1 to B4	F1
Money market funds	£40m	The highest possible rating only	
Local Authorities	£10m	N/A	N/A
UK Government	None	N/A	N/A

Money may also be lent to the City Council's own bank, currently the Co-operative Bank, for up to 1 week maximum £10m in addition to the daily bank balance.

3.4 Lending of City Council funds by its appointed investment managers is not subject to the above restrictions, provided that their arrangements for assessing creditworthiness and exposure limits have been agreed by the Strategic Director of Resources.

3.5 Temporarily surplus cash will not be invested beyond 364 days as the volume of such investments fluctuates and it is generally better to repay borrowing than maintain long-term investments.

Prudential indicator – principal sums invested longer than 364 days

Upper limit on total sums invested beyond 31.3.06: £ zero

This indicator excludes the investment of the NEC Sinking Fund and the proposed investment in the £215m NEC Finance plc stocks, which relate specifically to the NEC service. This is considered below.

<u>Investment Strategy for non-specified investments</u>

3.6 A Sinking Fund has been accumulated from regular revenue contributions to provide for the repayment of NEC Ltd and NEC (Developments) plc stock guaranteed by the City Council. This Sinking Fund requires a long term investment strategy very different from the temporary investment of surplus cash. Assuming the NEC refinancing is successfully completed, the Sinking Fund will be exclusively for the NEC (Developments) stock repayment in 2027.

3.7 The City Council's investment activity takes place in the context of Government Guidance on Local Authority investment. Gilts and other long term investments suitable for the Sinking Fund are described by the Guidance as 'non-specified investments'. Such investments require a high standard of accountability in that the full City Council must approve the process for deciding where to invest; the categories of investment to use; and the maximum which may be held in each category. In addition, the City Council has the option of investing in corporate bonds; however such an investment would be required to be accounted for as Capital Expenditure necessitating consideration of the future revenue/capital resource implications.

3.8 It is therefore proposed that NEC Sinking Fund Investments should only be considered in the light of professional advice from an FSA registered investment adviser on their suitability and that they be limited to the following investment categories and maximum amounts.

Proposed Sinking Fund Investment Limits

	Min%	Max%	Max £m
Gilts	50	100	90
Supranationals	0	50	45
Corporate Bonds or Corporate Bond Funds (investment grade rating)	0	25	23

3.9 The NEC refinancing includes the purchase by the City Council of the £215m NEC (Finance) plc stocks, which are a non-specified investment. The following additional category and limit for non-specified investments is also therefore recommended

	Max £m
NEC (Finance) plc loan stock (nominal)	215

This revision is proposed for the 2004/05 Investment Strategy as well as 2005/06, because the ODPM guidance treats an investment as entered into when the commitment is made. For the refinancing, this is expected to be in March 2005.

4. Reporting and delegation

4.1 A Treasury Management Strategy report is presented as part of the annual budget to the Cabinet and the Council before the start of each financial year, and an Annual Review report will be produced after the year end, in accordance with the CIPFA Treasury Code. The Strategy for 2005/06 forms Chapter 6 of the Budget Report.

4.2 The City Council has delegated responsibility for treasury management decisions to the Strategic Director of Resources as part of its Delegations to Officers. The Director will report every half year to the Cabinet on the decisions taken under delegated treasury management powers.

4.3 The Strategic 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