

# **BIRMINGHAM CITY COUNCIL**

## **BUDGET 2007/08**

**Report of the Executive  
to the City Council  
Tuesday 27 February 2007**

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## **FOREWORD**

1. This report sets out the budget proposals for the coming financial year, 2007/08 within the context of a medium term financial strategy covering three years. It embraces all aspects of the budget (revenue, capital, and treasury management) as these are integrated parts of the overall financial plans of the City Council.
2. The budget has been constructed around the priorities which are set out in the Council Plan 2007-2010, "*A global city with a local heart: A Blueprint for Birmingham*". This sets out the vision for Birmingham to be a city:
  - with an even stronger and more sustainable economy offering benefits to all its citizens
  - where people are safe, well housed and healthy
  - where they enjoy a high quality of life within a thriving, diverse and cohesive community
  - where everyone feels they can play their part to the full
  - where people want to live, work and visit
  - where businesses and government choose to invest
3. The strategic outcomes we seek are for Birmingham people to:
  - succeed economically - benefiting from education, training, jobs and investment
  - stay safe - living in clean, green and safe communities
  - be healthy - enjoying long and healthy lives
  - enjoy a high quality of life - benefiting from good housing and renowned cultural and leisure opportunities
  - make their contribution - valuing one another and playing an active part in the community
4. In order to achieve this our priority actions are:
  - protect and support vulnerable people
  - ensure everyone has a decent home
  - make the city cleaner, greener and safer
  - provide excellent services
  - ensure services are connected and customer focused
  - build the city's reputation at home, nationally and internationally
  - maintain a city where communities get on well together
  - develop a globally successful city region

5. The Progressive Partnership continues to lead and implement real benefits for the people of Birmingham. Birmingham people are now seeing the benefits, with a significant majority of citizens now satisfied with how we run things. The actions set out in the Council Plan and this budget will enable us to deliver our vision, building on the success we have already achieved. We will continue to raise our game, by:
- transforming the way we manage our business and work with partners
  - radically improving our approach to customer service
  - making devolution work better within our communities and enabling citizens to play their part
  - making more sustainable choices in the way we manage our business and deliver services
6. This budget sets out the financial impact of our plans and priorities. At the same time as delivering improved services, tight financial discipline continues to be a priority. We have promised to deliver value for money, with combined efforts of Members and managers, we are continuing to achieve efficiency savings. We have done this whilst still improving frontline services.

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

**Cllr Paul Tilsley**  
**Deputy Leader of the Council**

## MOTIONS FOR COUNCIL

### Revenue Budget

1. That the following calculations be now made in accordance with Section 32, Local Government Finance Act 1992, for the financial year commencing 1 April 2007:

	<b>£m</b>
a. aggregate of estimated expenditure, contingencies, and contributions to financial reserves	3,047.363
b. aggregate of estimated income, and use of financial reserves	2,155.939
c. budget requirement, being the difference between (a) and (b) above	891.424

That the revenue budget allocations of the various Cabinet Portfolios and Committees of the Council, as set out in Appendix C(iv) 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 2007 be set at £1,052.53 pursuant to the formula in Section 33, Local Government Finance Act 1992 -

a. Budget requirement of	<b>£m</b> 891.424
LESS	
b. Redistributed non-domestic rates and Formula Grant of	587.364
PLUS	
c. Net transfer from the Collection Fund in respect of Council Tax and Community Charge	nil
	<hr/>
	304.060

DIVIDED BY the Council Tax Taxbase of 288,885 Band D properties

## MOTIONS FOR COUNCIL

### Council Tax - Total

3. That, in accordance with Section 30 of the Local Government Finance Act 1992, the amounts of Council Tax set for the financial year commencing on 1 April 2007 for each category of dwelling listed within a particular valuation band, shall be calculated by adding:
- a. the amount given by multiplying the basic amount of Council Tax by the fraction whose numerator is the proportion applicable to dwellings listed in a particular valuation band, and whose denominator is the proportion applicable to dwellings listed in valuation Band D; to
  - b. the amounts which are stated in the final precepts issued by the West Midlands Fire and Rescue Authority and the West Midlands Police Authority; to
  - c. the amounts stated in the precept issued by the New Frankley in Birmingham Parish Council

and shall, for areas without a Parish Council be:

Band	Council Tax £
A	792.29
B	924.33
C	1,056.38
D	1,188.43
E	1,452.53
F	1,716.62
G	1,980.72
H	2,376.86

and shall in the New Frankley in Birmingham Parish be:

Band	Council Tax £
A	815.43
B	951.33
C	1,087.24
D	1,223.14
E	1,494.95
F	1,766.76
G	2,038.57
H	2,446.28

## **MOTIONS FOR COUNCIL**

### Capital Strategy and Budget

4. That the proposals for the capital budget, as set out in Chapters 3-5 of this report, be approved, embracing:
  - (a) the Capital Strategy as set out in Chapter 3
  - (b) the Capital Programme, as set out in Appendix F
  - (c) the Prudential Indicators, as set out in Appendix G, including the Authorised Limit for debt of £2,367m.

### Treasury Management

5. That the Treasury Management Strategy for 2007/08, as set out in Chapter 6, and the Treasury Management Policy as set out in Appendix H, be approved.

## CHAPTER 1 - REVENUE RESOURCES

### 1. Summary

- 1.1 The City Council will receive general Government Formula Grant of £587.4m in 2007/08 – an increase of 4.7% on a like-for-like basis, which is above the national average of 3.8%. As 2007/08 is the second year of a multi-year settlement, the Government has made no changes to the distribution formulae.
- 1.2 This report sets out proposals for a Council Tax increase for next year for City Council services of just 1.9%, which is significantly lower than the rate of inflation<sup>1</sup> and much less than the Government's own assumption which is in the region of 3%.
- 1.3 After taking account of a projected balanced Collection Fund, total resources of £891.4m are available to fund City Council services in 2007/08.
- 1.4 In addition to these figures, the resources for schools are provided for via the Dedicated Schools Grant (DSG). The total DSG for 2007/08 will be £720.9m, an increase of 6.4%, subject to final pupil numbers.

### **BACKGROUND**

### 2. Government Grant Settlement

- 2.1 2007/08 will mark the second and final year of the first multi-year cycle. As expected, the formula grant for 2007/08 did not change compared to the one already announced as part of the 2006/07 Settlement.
- 2.2 The City Council's Formula Grant for 2007/08 is £587.4m. The figures are presented in the tables below.

**Table 1: Summary of Government Grant Settlement 2007/08**

	2006/07 Actual £m	Gov Adjusts <sup>2</sup> £m	2006/07 Restated £m	Real Change £m	2007/08 Actual £m
Formula Grant	591.1	(2.7)	588.4	23.5	611.9
Less effects of scaling	(27.3)	0.0	(27.3)	2.8	(24.5)
Total Formula Grant	563.8	(2.7)	561.1	26.3	587.4

1 Based on the Consumer Prices Index of 3.0% for December 2006, released by the Office for National Statistics on 16<sup>th</sup> January 2007.

2 The Government restates prior year figures to reflect transfers of funding, so that figures for the two years can be compared on a like-for-like basis



- 2.3 Changes to the method of calculating Formula Grant since 2006/07 mean that Government assumptions about the level of Council Tax increases are no longer made explicit. However, the implied increase can still be derived. The figure for 2007/08 is in the region of 3%.

*Dedicated Schools Grant*

- 2.4 The provisional DSG allocation for Birmingham is £720.9m for 2007/08. This represents a £43.3m (or 6.4%) year-on-year increase in the overall amount of DSG. At the time of writing this report, this DSG allocation is provisional and it is subject to change. Final allocation of the 2007/08 DSG will depend on actual pupil numbers as at January 2007 and will be determined by May 2007.

**3. Council Tax**

- 3.1 After taking account of Formula Grant as set out in paragraph 2.2 above, the total Council Tax for 2007/08 depends on:

- (a) the City Council's "budget requirement";
- (b) any estimated Collection Fund surplus or deficit to be brought forward from 2006/07;
- (c) the tax base for the setting of the Council Tax
- (d) the precepts of the Fire and Rescue Authority and the Police Authority; and
- (e) the precept levied by any parish council (the City Council currently has only one parish, that of New Frankley in Birmingham).

*City Council Budget Requirement*

- 3.2 The City Council's "budget requirement" for 2007/08 is £891.4m (non-school expenditure) and is set out in further detail in Chapter 2 of this report.

*Collection Fund*

- 3.3 It is estimated that the Collection Fund will be balanced at the end of 2006/07.
- 3.4 The Fire and Rescue and Police Authorities have already been advised of the expected Collection Fund position, as required by statute.

*Tax base for 2007/2008*

- 3.5 The tax base for setting the Council Tax next year was set by Cabinet at its meeting on 22 January 2007. The tax base consists of 288,885 "Band D Equivalent" properties, after allowing for a non-collection rate of 2%. This tax base cannot now be changed for the purpose of setting the 2007/08 Council Tax.

*Council Tax for City Council Services 2007/08*

- 3.6 The total required from council tax payers in 2007/08 for City Council services (including levies) is summarised as follows:

**Table 2 - Council Tax Requirement**

	<b>£m</b>
Budget requirement	891.424
Less	
Formula Grant	(587.364)
Collection Fund	-
Total Call on Council Tax Payers	<u>304.060</u>

Dividing this by the tax base of 288,885 Band D equivalent properties gives a Band D Council Tax for the City Council of £1,052.53. This figure represents a 1.9% increase in Council Tax for the City Council - a figure which is significantly below the rate of inflation<sup>3</sup>, and much less than the figure implied in the Government's Formula Grant calculation, and one which is expected to be amongst the lowest in the country.

*Fire and Rescue Authority and Police Authority Precepts*

- 3.7 The Police Authority met on 15 February 2007, and the Fire and Rescue Authority met on 12 February 2007, to agree the precepts on the City Council.
- 3.8 The information received in respect of these major precepts is as follows:

**Table 3 - Precepts**

	<b>£m</b>
Fire and Rescue Authority	12.835
Police Authority	<u>26.425</u>
Total	<u>39.260</u>

- 3.9 For the Fire and Rescue Authority, the Band D precept is £44.43 and it represents an increase of 2.9% compared to 2006/07.

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<sup>3</sup> Based on the Consumer Prices Index of 3.0% for December 2006, released by the Office for National Statistics on 16<sup>th</sup> January 2007

3.10 For the Policy Authority, the Band D precept is £91.47 and it represents an increase of 4.5% compared to 2006/07.

*Total Council Tax 2007/08 (excluding Parish Precept)*

3.11 In accordance with the standard multipliers for the different property bands the Council Tax for 2007/08, representing an increase of 2.1% overall, can be summarised as Table 4 below.

*Parish Precept - New Frankley in Birmingham*

3.12 The New Frankley in Birmingham Parish Council agreed its precept on 20 November 2006. The precept for the parish in 2007/08 is £71,679. The tax base for the Frankley area is 2,065. The effect of the parish precept on the level of Council Tax for a Band D property is £34.71.

**Table 4 - Detailed Council Tax Figures**

Band	City	Fire and	Police	Total	New Frankley in	
	Council	Rescue	Authority		Parish	Parish
	£	Authority	Authority	£	Precept	Total
		£	£		£	£
<b>A</b>	701.69	29.62	60.98	792.29	23.14	815.43
<b>B</b>	818.63	34.56	71.14	924.33	27.00	951.33
<b>C</b>	935.58	39.49	81.31	1,056.38	30.86	1,087.24
<b>D</b>	1,052.53	44.43	91.47	1,188.43	34.71	1,223.14
<b>E</b>	1,286.43	54.30	111.80	1,452.53	42.42	1,494.95
<b>F</b>	1,520.31	64.18	132.13	1,716.62	50.14	1,766.76
<b>G</b>	1,754.22	74.05	152.45	1,980.72	57.85	2,038.57
<b>H</b>	2,105.06	88.86	182.94	2,376.86	69.42	2,446.28

## CHAPTER 2 - REVENUE BUDGET

### 1. Summary

- 1.1 The revenue budget for 2007/08 totals £891.4m. After allowing for the effects of inflation, it has been possible to commit £33.4m to addressing key priorities and in funding essential budget pressures. This includes a further significant investment in Children's and Adults' care services and in making the city a cleaner, greener and safer place.
- 1.2 This investment has been made possible by planned improvements in efficiency, and other savings, totalling £42.7m. This includes the effects of transforming the way the Council undertakes its business, with a view to reducing overhead costs, and re-focusing our service delivery models to make better use of existing assets and to enable us to provide more timely, customer-focused services.
- 1.3 The Council has relatively modest balances, but a strategy is in place to build these up in the medium term.
- 1.4 The 2007/08 revenue budget has been developed in the context of a medium-term financial strategy. Additional efficiencies or income of £10.9m will be required in order to balance the budget in 2008/09 whilst a surplus of £10.3m is currently anticipated in 2009/10 – figures for these years will be the subject of further work during the course of the coming year.

### 2. Revenue Budget Strategy

- 2.1 The budget strategy has been drawn up in the context of the following framework:
  - The revised Council Plan – policy priorities have been an important driver of budget allocations.
  - Addressing the need for improving performance in key service areas.
  - Meeting the cost of pay and price increases.
  - Providing funding for the on-going costs of the new pay and grading structure and to meet obligations expected under the Equal Pay Act.
  - Recognising the need to meet some pressures in particular services, including areas where there are new legislative or regulatory requirements.
  - Meeting the costs of demographic trends, particularly in the likely number of people requiring assistance from our social care services.

- Continuing to rebuild council balances, as part of a medium-term strategy, as a contingency against unforeseen costs.
  - Integration of revenue and capital plans.
  - Providing resources for schools at the level included in the new Dedicated Schools Grant.
- 2.2 The City Council's revenue budget is heavily influenced by the level of financial support from Government. Nonetheless, this is only one element of our planning, and this budget includes provision for important service developments which are a priority locally. This investment has been made possible by the continuing actions to drive out inefficiencies, together with a programme of business transformation in conjunction with the Council's strategic partner, in order to make significant changes to the Council's administrative processes and to reduce overhead costs.

*Estimated 2006/07 Outturn*

- 2.3 Revenue budgets for 2006/07 have been closely monitored and reported to Cabinet, Regulatory, District/Constituency and Scrutiny Committees and Portfolio holders. In those services where difficulties were identified in the earlier part of the year, management action has been taken and, in some cases, additional resources identified, to ensure that the budgets are not overspent at the end of the year.
- 2.4 The monitoring report for Month 8 in 2006/07 identified a potential overspending of £4.0m for the City Council as a whole but the position for Month 9 is expected to show an improvement. Work continues to identify funding and/or compensating savings to address the remaining issues.
- 2.5 As a consequence, it is expected that there will not be a deficit for the current year to be carried forward which needs to be taken into account in setting the budget for 2007/08.

**3. Revenue Budget Allocations for 2007/08**

- 3.1 The budget for 2007/08 allows for the following items:-
- pay and price inflation
  - meeting the Executive's policy priorities
  - approved budget pressures
  - capital financing costs
  - Dedicated Schools Grant budget allocation for schools
  - savings determined by Portfolio holders to allow the re-allocation of resources to higher priorities
  - continuing efficiency savings

### *Inflationary Increases*

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

- for general pay awards at 2.5% (2% allocated to budgets, and 0.5% held centrally)
- for the teachers' pay awards in 2007/08 of 2.5% (the impact on schools is contained within the 6.4% increase in schools' budgets)
- general price increase of 1.8%
- general increase in income of 2%
- price increases for contracts to reflect indexation provisions where these are applied as a condition of the contract
- increases for grants to organisations in the third sector at 2%
- for increases in energy prices

### *Executive's Priorities and Budget Pressures*

3.3 The Executive's priorities are set out in full in the Council Plan 2007-10, " A global city with a local heart: A blueprint for Birmingham", and these are summarised in the Forward to this report.

### *Budget Pressures*

3.4 The budget allows for new investment in a number of areas, totalling £32.6m, including £17.4m relating to new decisions this year. Full details of these budget pressures are set out in Appendix A. This covers:

- a further substantial investment (£19.9m) in children's and adults' care services in order to reflect demographic pressures, the fall out of grant and important service developments
- extra investment (£6.9m) in budgets to make the city a cleaner, greener and safer place, including further expansion of kerbside recycling.
- investment in our Planning service (£1.1m)
- development of library services including extending access points (£1.4m)
- providing support to assist in securing international events (£0.3m)
- meeting the unavoidable cost of changes in Housing Benefit legislation (£1.0m)
- ensuring that the master planning of the further development of the city centre is adequately resourced (£0.6m)
- other minor items (£1.4m)

3.5 In addition, £0.75m has been added to the Policy Contingency which, together with £0.5m in the base budget, has made it possible to create a Constituencies Service Improvement Investment Fund of £1.25m. These resources are available to all Constituencies in order to assist in improving frontline services, and will be released following consideration by the PEP Group of business cases outlining proposals.

### *Capital Financing Costs*

- 3.6 The revenue effects of capital expenditure have been reviewed in the context of the announcements of Government capital resources, the Capital budget set out in Chapter 5 of the report, and expectations of movements in interest rates and £2.8m has been included in the revenue budget for 2007/08 to meet these costs.

### *Schools' Budgets*

- 3.7 From 1 April 2006, funding for the Schools Budget Block has been through the Dedicated Schools Grant (DSG). The total of DSG and Learning and Skills Council Grant for post-16 education determines the size of the Schools Budget Block.
- 3.8 The total DSG in 2007/08 currently stands at £720.9m, an increase compared with 2006/07's budgeted spend of 6.4%. Whilst the amount per pupil is guaranteed, the actual DSG will be based on January 2007 pupil numbers and will not be confirmed by the DfES until May 2007. This allows for the possibility of actual grant being higher or lower than currently projected and budgeted for. Adjustments may, therefore, need to be made to the Schools Budget Block during 2007/08 to stay within the grant total.
- 3.9 Final budgets will be adjusted accordingly and authority to do so has been delegated to the Director of Corporate Finance, in consultation with the Strategic Director and Cabinet Member for Children, Young People and Families.

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

- 3.10 The budget strategy also includes efficiency savings shown below.

(a) Business Transformation and Business Review

The Council has started the implementation of a major change programme ("Business Transformation") designed to drive out inefficiencies and allow investment in frontline services. The estimated distribution of savings across portfolios/committees has been included in 2007/08 budgets. These assumptions will be refined, and budgets adjusted accordingly, as specific proposals are implemented during the year. In addition, savings will be achieved from targeted reviews of specific services. The combined net savings will amount to £12.3m.

(b) Portfolio Savings

A range of portfolio savings have been identified totalling £23.8m, which are designed to make better use of the Council's resources. The details are set out in Appendix B.

(c) Income Generation

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

(d) Productivity Improvements

All services, other than those which will already be subject to review work, will be required to improve productivity by 2.5%. There will be local discretion about how this will be achieved through a combination of slimmer, flatter management structures, controlling staff costs more tightly, changing business processes and improving output and efficiency. Total savings of £5.6m will be achieved in this way.

*Summary of Efficiencies and Savings*

- 3.11 The total efficiencies and other savings within the 2007/08 budget can, therefore, be summarised as follows:

**Table 5 - Savings Summary**

	<b>£m</b>
Business Transformation and Business Review	12.3
Portfolio savings	23.8
Income generation	1.0
Productivity Improvements	5.6
<b>Total savings</b>	<b><u>42.7</u></b>

*Contingencies*

- 3.12 The budget contains a Policy Contingency of £8.339m. Specific sums included in this figure are:

**Table 6 - Specific Contingencies**

	<b>£000</b>
Constituency Service Improvement Investment Fund	1,250
Loss of car park income due to major developments	736
Partnership priorities	500
Provision for energy price inflation	975
Centrally held provision for higher pay award	3,000
	<b><u>6,461</u></b>

- 3.13 In addition, there is a general unallocated contingency of £1.878m. This sum provides some flexibility in the overall management of the budget in 2007/08.



## *Pay Costs*

- 3.14 Central provision has also been made for the combined costs of implementing a new pay and grading structure and the financing costs of meeting obligations expected under the Equal Pay Act.

## **4. Housing Revenue Account**

### *Background and Financial Overview*

- 4.1 The Housing Revenue Account (HRA) is a ring-fenced account with a requirement to prepare a balanced annual budget. The 'Resource Accounting Framework' introduced in 1999 required local authorities to prepare 30-year HRA Business Plans.
- 4.2 The HRA Budget for 2007/08 is set in the context of the HRA Business Plan (formally approved by the City Council in July 2005). The Business Plan has been assessed as 'fit for purpose' by Government Office for the West Midlands subject to continual review of the financial projections by the Council.
- 4.3 The financial position for the HRA in 2007/08 continues to be challenging for a number of reasons:
- The continuation of the national programme to achieve efficiencies in the social housing sector in line with Government statements.
  - The subsidy deficit (contribution from tenants to national resources) will be more than in 2006/07. This will be £34.8m in 2007/08, representing £10 per week from tenants' rents (18% of weekly rent). The overall contribution is £6m more than the assumptions in the Business Plan.
  - All available underspendings on the HRA from previous years have been fully utilised and only a minimum balance of £3m will be maintained in line with Audit Commission recommendations.

### *Budget and Service Strategy 2007/08*

- 4.4 The HRA Budget for 2007/08 has been developed to achieve the priorities set out in the Council Plan 2007-2010 and this includes the following:
- Achievement of Decent Homes Standard by 2010 in line with the government targets.
  - Investing in services to ensure the achievement of 3 Star services.
  - Improving performance in key service areas for arrears and empty property management.
  - Reducing costs and delivering efficiencies to maximise the use of available resources.

- 4.5 The HRA Budget for 2007/08 is a balanced budget and the table below sets out the major variations.

**Table 7 - HRA Budget Variations 2007/08**

	<b>£m</b>
Reduction in Resources	
reserves carried forward & subsidy	16.4
Allowances for Costs	
pay & price inflation	9.2
Investment for 3 Star Services	0.8
<b>Total Costs/Loss of Resources</b>	<b>26.4</b>
Additional Income	
rent/service charge increases after stock loss - sales/ demolitions	(4.8)
Reducing Costs	
property numbers, disrepair claims & operational costs	(4.7)
Delivering Efficiencies	
in line with Business Plan on repairs	(3.5)
Improving Performance	
empty properties and arrears	(3.2)
Financial Variations	
discontinue revenue contributions & contingency	(10.2)
<b>Total Income/Efficiencies/Cost Reductions</b>	<b>(26.4)</b>

## 5. The City Council's Net Revenue "Budget Requirement" for 2007/08

- 5.1 The components of the budget increase from 2006/07 can be summarised as follows:

**Table 8 - Movement in Base Budget**

	<b>£m</b>	<b>Notes</b>
Base Budget 2006/07	858.2 <sup>4</sup>	
Pay & Price inflation (non-schools)	41.3	Para 3.2
Meeting budget pressures & policy choices	33.4 <sup>4</sup>	Paras 3.4/3.5 & App A
Efficiency savings	(42.7)	Paras 3.10/3.11 & App B
Financing costs	2.8	Para 3.6
Fall-out of one-off resources	(2.1)	

<sup>4</sup> The figure for budget pressures and policy choices includes £0.75m which, together with £0.5m from the base budget, has enabled the creation of the Constituency Service Improvement Investment Fund of £1.25m

Contribution to general balances	0.5	Para 7.6
<b>City Council Budget Requirement</b>	<b>891.4</b>	

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

5.3 It is proposed that the City Council budget requirement for 2007/08 will be £891.4m calculated as follows in accordance with Section 32 of the Local Government Finance Act 1992:-

**Table 9 - Summary of Budget Requirement**

	<b>£m</b>
Gross City Council Expenditure	3,047.363
Less: Estimated City Council Income	<u>(2,155.939)</u>
<b>City Council Budget Requirement</b>	<u>891.424</u>

5.4 The budget requirement includes an allowance of £50.731m (based on a 2.5% increase in the overall levy, with an adjustment for the Council’s relative population share) in respect of the Passenger Transport Authority levy for 2007/08 and £0.354m for the Environment Agency Levy (a 16.2% increase).

**6. Consultation**

6.1 Consultation with Business Ratepayers has taken place at a series of meetings held in conjunction with the Chamber of Commerce & Industry throughout the year. A briefing on the budget for third sector organisations took place at the Voluntary Sector Chief Executives Forum convened by Birmingham Voluntary Service Council. There is ongoing dialogue throughout the year with the Forum about third sector matters led by Cllr Sue Anderson, Cabinet Third Sector Champion. Consultation took place with the Trade Unions corporately on 24 January 2007, and individual proposals are being discussed through the normal Directorate consultation processes. No issues have been raised which need to be taken into account by the City Council in setting the Budget for 2007/08.

**7. Budget Risks**

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

- The planning of the Budget and Council Plan are integrated activities.
- The process of planning the budget has afforded the opportunity for services to identify emerging budget pressures, including those relating to legislative requirements and demographic changes. This has resulted in a significant

level of new investment.

- Account has been taken, in planning the budget for future years, of issues which have emerged as part of the process of monitoring the budget during the 2006/07 financial year.
- The City Council has a rigorous and proactive process of budget monitoring, which ensures that any emerging budgetary issues are identified, and a way forward agreed, at an early stage.
- The process of reporting new developments and projects, including Gateway reviews where appropriate, ensures that they are subject to rigorous scrutiny and evaluation before commitments are entered into.

7.2 The proposed budget for 2007/08 includes resources to fund the impact of a new pay and grading structure which the Council is required to establish to discharge its obligations under the Single Status initiative. The Council - as with other councils nationally - is facing equal pay claims under the provisions of the Equal Pay Act 1970 (as amended). The Council will fund expenditure which may arise as a result of such claims, or which arises from action to settle any entitlement to pay, through borrowing from reserves and seeking capitalisation permissions from the Secretary of State.

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

#### *Reserves & Balances*

7.4 The Council achieved a targeted level of balances of £12.4m by 31 March 2006. The Council's balances are maintained at a relatively low level with regard to the scale and complexity of its business. However, given the level of earmarked reserves, the continued progress in building additional balances in the medium term (see para 7.6), the rigorous arrangements for the prompt and regular monitoring of budgets, and the risk management measures set out above in paras 7.1-7.3 and Appendix I, **the formal view of the Director of Corporate Finance, in accordance with Section 25 (i) (b) of the Local Government Act 2003, is that the general balances are adequate, but that this needs to be kept under periodic review.**

7.5 The following reserves and balances are expected to be available on 1 April 2007:

**Table 10 - Reserves available to the Council**

	<b>01/4/07 Estimate £m</b>
General unallocated balances	12.4
Portfolio and Committee Carry forward Balances	3.9
Earmarked Reserves (excl Schools)	78.0
<b>Total</b>	<b>94.3</b>

In addition school balances at the 31 March 2006 stood at £49.4m.

- 7.6 The Council's strategy for general balances in the medium-term is to consider contributing one-off resources to balances should there be an underspending at outturn 2006/07 and to make planned contributions of £0.5m in 2007/08, £2.5m in 2008/09 and £1.5m per annum thereafter.
- 7.7 The strategy is, therefore, for there to be an increase in general balances to at least £16.9m by 31 March 2010 (provided there is no need for emergency funding in the meantime) in accordance with the strategy described above.

*Budgetary Control Framework*

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

**8. Three-Year Financial Plan**

- 8.1 The budget for 2007/08, is set in the context of the Medium Term Financial Strategy for the three year period to 2009/10. The position over that period, as currently estimated, is summarised in Table 11 below.

**Table 11 - Three Year Financial Projections**

	<b>2007/08 £m</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
Base Budget 2006/07	858.2	858.2	858.2
Pay & Price inflation (non-schools)	41.3	79.5	105.1
Meeting budget pressures & service changes	33.4	42.8	58.3
Efficiency savings	(42.7)	(66.7)	(105.7)
Financing costs	2.8	6.5	6.6
Fall-out of one-off resources	(2.1)	(2.9)	(2.9)
Contributions to/(from) general balances	0.5	2.5	1.5
<b>Spending</b>	<b>891.4</b>	<b>919.9</b>	<b>921.1</b>
Less Resources:			
Government Formula Grant	(587.4)	(597.5)	(612.3)
Council Tax	(304.0)	(311.5)	(319.1)
<b>Net Position</b>	<b>0.0</b>	<b>10.9</b>	<b>(10.3)</b>

8.2 The projections make the following principal assumptions:

- council tax rise of 1.9% in each year and the taxbase to continue to increase at the same rate as in 2007/08. This is only a planning assumption, and the actual level of increase for future years will need to be considered in due course.
- future inflationary pressures broadly in line with those allowed in the 2007/08 budget.
- continued allowance for the on-going effect of items included in the budget and for essential organisational developments.
- provision for employers' increased pension costs following the tri-annual actuarial revaluations.
- extra capital financing costs based on the capital budget with any net revenue costs resulting from further borrowing within the "prudential framework" to be met from within portfolio cash limits.
- other than the above, portfolio budgets continuing at the same level for 2008/09 and 2009/10.

8.3 The figures for 2008/09 and 2009/10 set out above will be the framework within which medium-term financial planning will be updated in the first half of next financial year and for setting the budget for 2008/09. The medium-term perspective will be maintained by then adding a further Year 3 (2010/11) to maintain a rolling three-year programme.

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

## CHAPTER 3 - CAPITAL STRATEGY

### 1. Summary

- 1.1 The City Council's strategy for its capital programme is developed in accordance with the priorities set out in the Council Plan and other service-specific policy documents. The main processes which drive the capital strategy are as follows:
- The Asset Management Plan, including the Business Transformation programme, Working for the Future
  - The Housing Strategy and HRA Business Plan
  - The Local Transport Plan and the Highways PFI proposal
  - The Education Asset Management Plan and Building Schools for the Future Programme
- 1.2 The City Council also has corporate policies for distributing capital receipts and 'Single Capital Pot' resources, and an annual process for prioritising where scarce capital resources are spent.

### 2. General Strategic Aims

- 2.1 There are some general strategic aims underlying capital planning for all services. These are:
- to maximise external funding and to supplement this with the City Council's own resources where appropriate, especially where external funding supports the City Council's priorities;
  - to procure the use of capital assets by the means which delivers good value for money to the City Council;
  - to welcome the increasing use of partnership working whilst retaining clear lines of accountability and responsibility;
  - to use 'prudential' borrowing where this is justified, offers good value, is demonstrably affordable, and complies with the CIPFA Code for Capital Finance;
  - to keep the City Council's portfolio of capital assets under review and managed according to best practice through the Asset Management Planning (AMP) process, including the rationalisation of property holdings.
- 2.2 The following sections of this Chapter review key issues from the ongoing AMP process and other key capital strategies in the light of corporate priorities, and relate these to the overall Capital Strategy. The precise approach for any situation will depend on the circumstances such as external funding available.

### **3. Asset Management Plan (AMP)**

3.1 The Council's property portfolio requires modernisation. Most services have property portfolios that are struggling to meet effectively the needs of their services, either at a practical level, or at a legislative level. The AMP 2006 has been approved by the Cabinet Committee (Property). It describes the current position for the management of the property assets, examines influences for change, and makes recommendations for action.

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

- The Central Administrative Buildings project which seeks by 2014 to reduce the portfolio from 55 to 9.
- The introduction of a Single Property Management Function with aims to revise organisation structures to ensure more efficient management of property assets.
- Consideration of the effective location of facilities across the city based both on service need and a number of other indicators including deprivation indices, and drawing in partner organisations to seek synergies of co-location.
- A review of our approach to Facilities Management in order to improve standards and achieve significant savings.

3.3 The generation of additional capital receipts, and revenue savings which can support prudential borrowing, will contribute a significant level of resources to fund the property rationalisation programme.

3.4 A 'Property Fund' has been created for the purpose of facilitating:

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

### **4. Housing Strategy and HRA Business Plan**

4.1 The resources available for housing capital investment are used for the improvement of both council housing and private sector housing in line with the HRA Business Plan and Housing Strategy. These two documents support the



objectives identified within the Council Plan for capital investment in both public and private sector housing. They have been approved by both Cabinet and Government Office for the West Midlands.

- 4.2 The key priority for council housing is the achievement of the Decent Homes Standard by 2009/10. The current HRA Business Plan has been compiled on the basis that the Decent Homes Standard will be achieved within the available resources including use of land receipts and prudential borrowing. The Business Plan is kept under review to ensure that the long-term planning priorities are delivered.
- 4.3 There are a number of priorities for private sector housing and these are reflected in the current Housing Strategy. The key priorities include the following:
- Achievement of Decent Homes Standard for private sector owner-occupiers. The approach to providing this support is increasingly based on an enabling rather than grant support role for the Council.
  - The provision of affordable housing in conjunction with private sector and Registered Social Landlords partners.
  - Ensuring balanced housing market areas for the long term, including provision of mixed tenure housing, homelessness initiatives and adaptations for independent living.
  - Renewal initiatives designed to turn around failing housing markets in these areas and produce sustainable communities.

## **5. Local Transport Plan and Highways PFI**

### Local Transport Plan

- 5.1 The Local Transport Plan (LTP) is the key capital planning framework for the service which relies heavily on Single Capital Pot resources. The LTP is an integrated submission by all the West Midlands local authorities and some resources for integrated transport are reallocated between the authorities. The latest LTP has been assessed as "Excellent" by the Department for Transport (DfT) which has resulted in additional integrated transport resources being allocated to the West Midlands Region.
- 5.2 The LTP strategy identifies highways and transportation needs and is developed from and supports the key development strategies, in line with government guidance and City Council Plan priorities.
- 5.3 The Transportation and Street Services Portfolio's Capital Budget includes block allocations (particularly related to Integrated Transport schemes) which are allocated to transportation schemes in a way which takes account of local

priorities. Work programmes are developed in consultation with local ward councillors and residents to ensure that local priorities are incorporated into scheme proposals.

#### Highways Maintenance and Management Private Finance Initiative

- 5.4 The proposed highways maintenance and management PFI is key to meeting the investment needs of the service. PFI credits have been provisionally offered by Government to address the backlog in works and maintain the City Council's highway assets to an acceptable standard over a 25 year contract period. The PFI project is being developed to the Full Business Case stage and is planned to be submitted for Cabinet and Government approval in late 2007/08, with a view to commencing in 2008/09.

### **6. Education Asset Management Plan and BSF**

- 6.1 The capital strategy supports the key themes of the Council Plan and the Every Child Matters outcomes by:
- contributing to service delivery through the provision of appropriate, maintained and flexible infrastructure and maximising external funding and grant opportunities;
  - establishing and implementing best value property solutions with service and site management team, property consultants, contractors and other stakeholders;
  - providing a safe, secure, accessible and welcoming environment for users and staff

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

- Building Schools for the Future (BSF)/Birmingham Academies: This will involve the replacement and/or major improvement of the secondary school estate and includes secondary age pupils in other settings, eg special schools.
- PFI: A second PFI package of school rebuilds reached contract signature on 31 March 2006 and 12 schools will be rebuilt by October 2008.
- Primary Capital: Additional government investment is anticipated to improve primary schools. Birmingham has been identified by DfES as a pathfinder authority, which will see the rebuild of Lozells JI School ahead of the main investment programme.

- Children's Centres: Phase 2 of this government funded programme is to be completed by March 2008 and should see an additional 43 centres opening.

## **7. Adults and Communities**

- 7.1 The Commissioning Strategy identifies the need to develop across the city a number of special-care centres that will become the focal points for delivering services to older people with a higher and/or more complex level of need. These centres will offer a full range of residential and non-residential services for both short and longer term needs. They will also incorporate a dedicated day facility.
- 7.2 The Full Business Case for the construction of four centres was agreed by Cabinet on 19 December 2005 and approved the use of £45.822m of Prudential Borrowing. The Cabinet member for Adults and Communities also approved the submission of an Outline Business Case for Private Finance Initiative funding in March 2006, for construction of a further four Special Centres.
- 7.3 The first three Special Care Centres should be completed within the 2007/08 financial year (Erdington, Edgbaston and Ladywood).

## **8. Other Service Strategies**

- 8.1 The Business Transformation programme has major implications for the Capital Programme in addition to the Working for the Future programme described in para 3.2 above. In particular, the re-provision of Core ICT needs was approved by Cabinet and built into the capital programme last year. Provision has also been made for IT and related costs to deliver change in the way support services in particular are delivered, in order to improve efficiency and to benefit front line services.

## **9. Capital and the Financial Planning Process**

- 9.1 The financial planning process which has developed the 2007/08 Budget considered services' capital needs alongside their revenue pressures and savings. This approach is intended to encourage services' capital and revenue priorities to be better integrated.
- 9.2 In allocating capital resources for the 2007/08 capital budget, scope has been left for further resources to be allocated in the 2008/09 capital budget. The process for this will commence in the summer of 2007. The aim is to ensure a modest capital allocation on an annual basis, to avoid a stop-start approach to capital planning.
- 9.3 Capital proposals have been assessed against corporate priorities, service priorities and the soundness of the scheme itself (including capital funding requirements, revenue consequences, and value for money). The detailed

criteria are likely to change from year to year but for the 2007/08 proposals the criteria were:

#### Policy criteria

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

#### Business criteria

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

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

## **10. Prudential Borrowing**

- 10.1 The Prudential Capital system offers local authorities more flexibility in their capital financing and greater ability to borrow for capital providing they can afford the revenue consequences. This enables the Council to fund additional capital investment providing additional income, savings or other revenue resources can be found. The City Council's policy is to enable services to use prudential borrowing where they can meet the revenue consequences providing the business case is sound and the proposal does not conflict with Council policies.

## **11. Capital Receipts Policy**

- 11.1 The capital receipts policy approved in the 2006/07 budget is proposed to remain in place. The policy is as follows (in summary):
- Property rationalisation: service receives 25% (up to £1m)
  - For property managed by Constituencies, a further 10% is available to the strategic service involved (within the £1m limit).
  - Housing right-to-buy sales: Housing receives 100%
  - Other housing land sales: Housing receives 80% of open market value to fund decent homes, discounts from the sale price, and S.106 requirements
  - Disposals at the NEC site: 100% for reinvestment at the NEC
  - Some other specific receipts approvals agreed before the above framework was introduced in 2005 remain in place.

## 12. Single Capital Pot Policy

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

**Table 12 - Single Capital Pot 2007/08**

		<b>Initial Announcement £m</b>	<b>Council Allocation £m</b>
Education	75%	21.4	16.0
Housing	100%	26.0*	26.0
Transport	75%	17.7	13.3
Social Services	75%	0.7	0.5
Corporate			10.0
<b>Total</b>		<b>65.8</b>	<b>65.8</b>

\* This figure is an estimate - final announcements still awaited

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

## CHAPTER 4 - CAPITAL RESOURCES

### 1. Summary

This chapter reviews the capital resources available for distribution in this Budget.

### 2. Available capital resources

- 2.1 The Revised Capital Programme at Quarter 3 2006 is being reported separately to Cabinet and planned expenditure from 2007/08 to 2009/10 totals £926.3m. The total capital resources available to the City Council from 2007/08 are detailed in Appendix D and total £953.5m. The difference of £27.2m is available to be allocated in this capital budget as follows:

**Table 13 - Medium-Term Summary of Capital Resources**

	2007/08	2008/09	2009/10	Total
	£m	£m	£m	£m
Total Resources	499.8	267.2	186.5	953.5
Less resources previously allocated	(492.1)	(254.2)	(180.0)	(926.3)
Further Resources now available	7.7	13.0	6.5	27.2

- 2.2 The availability of resources of £27.2m has been calculated after taking account of the following issues:
1. There are no surplus 'specific' capital resources available as these are tied to specific schemes approved by the funder.
  2. The capital budget is highly dependent on the asset sales programme to produce resources for the City Council's priorities. The budget assumes a cautious forecast as the level and timing of receipts is difficult to predict.
  3. The level of 'Single Capital Pot' funding from the Government (in relation to "Education" and "Transport") is forecast to decline substantially as resources are expected to be diverted to fund the Building Schools for the Future Programme and the proposed Highways PFI.
  4. Planned capital expenditure 'slips' significantly each year, and £6.7m of over-programming has been included to take account of likely slippage in 'corporate' capital resources.
  5. Resources include £2.0m of prudential borrowing which some services wish to use to fund their capital priorities where they can afford the revenue consequences. No additional allowance has been made for 'corporate' prudential borrowing.

6. Available resources take account of the City Council's policy for allocating a share of capital receipts and Single Capital Pot resources to services as described in Chapter 3 above.

## **CHAPTER 5 - CAPITAL BUDGET AND CAPITAL EXPENDITURE PROGRAMME**

### **1. Summary**

- 1.1 The allocation of corporate capital resources to new projects has been considered in the context of overall Council priorities. New schemes totalling £27.2m are proposed including an 'iconic' projects development fund of £4.5m and schemes funded from prudential borrowing or capital receipts totalling £2.0m. These become part of an overall capital programme totalling £953.5m over the three years 2007/08 - 2009/10.
- 1.2 The proposed prudential limits and indicators at Appendix G reflect a balanced and affordable approach to the City Council's capital finance. Within these indicators the Authorised Limit for Debt is set at £2,367m.

### **2. Background**

- 2.1 This Chapter sets out the proposed total Capital Expenditure Programme 2007/08 to 2009/10 including the allocation of available Corporate Capital Resources. The Capital Strategy (Chapter 3) outlines the capital needs and priorities of services in the context of the City Council's corporate priorities, which forms a framework for this capital budget and for the preparation of future budgets in next year's financial planning process. Chapter 4 (Capital Resources) describes the capital resources currently available for this capital budget and programme.

### **3. Allocation of capital resources**

- 3.1 Services were invited during the financial planning process to submit proposals for the available capital resources, which were ranked using assessment criteria based on a policy and technical evaluation as described in the Capital Strategy (Chapter 3 paragraph 9.3 above).
- 3.2 Bids were initially considered by officers and have been further reviewed by members of the Executive during the development of the budget. Bids for specific schemes have been either accepted in full, or rejected, whilst bids for programmes of works have sometimes been scaled back.
- 3.3 Chapter 4 above has identified that £27.2m of corporate capital resources are available for allocation in this budget, after taking account of the policy allocations from capital receipts and the Single Capital Pot.
- 3.4 Appendix E lists the schemes and programmes totalling £27.2m which are now proposed to be accepted into the capital budget. An Outline Business Case and a Full Business Case will need to be presented to the relevant Cabinet Member, Cabinet Committee or Cabinet before these schemes can proceed (major annual programmes will need to be presented for approval in a Full Business Case



before the start of the year). Option appraisal is an important element in the Business Case report especially at Outline stage.

- 3.5 The proposals in Appendix E include the establishment of an 'iconic' projects development Fund of £4.5m to progress the development of the Midlands Art Centre and to fund initial development work on major projects such as New Street Station. This budget does not identify substantive funding for New Street Station, a Stadium, Library of Birmingham or other major projects. Funding for these projects is being sought, and will need to be included in the specific business case for each project.
- 3.6 Appendix E includes some proposals (£2.0m) which can be self-funded from prudential borrowing or other funding generated by the scheme. The interest and repayment charges for borrowing will be met within the proposed revenue budgets of the relevant service.

- 3.7 These proposals amend the overall capital programme as follows:

**Table 14 - Summary Capital Programme**

	2007/08	2008/09	2009/10	Total
	£m	£m	£m	£m
<b>New proposals</b>	7.7	13.0	6.5	27.2
Existing commitments	492.1	254.2	180.0	926.3
<b>Total Capital Programme</b>	<b>499.8</b>	<b>267.2</b>	<b>186.5</b>	<b>953.5</b>

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

**Table 15 - Portfolio Capital Programmes**

	2007/08	2008/09	2009/10	Total
	£m	£m	£m	£m
<b>Expenditure</b>				
Leaders	20.2	3.0	0	23.2
Deputy Leaders	89.5	38.8	20.0	148.3
Adults & Communities	37.7	1.2	2.3	41.2
Children, Young People & Families	74.3	11.1	11.4	96.8
Equalities & Human Resources	1.5	0	0	1.5
Housing	170.1	142.7	123.0	435.8
Leisure Sport & Culture	23.8	13.8	1.6	39.2
Local Services & Community Safety	4.4	0	0	4.4
Regeneration	24.5	23.3	8.3	56.1
Transportation & Street Services	44.3	22.8	19.7	86.8
Council Business Management	0.1	0	0	0.1
Planning Committee	0.2	0.3	0	0.5
Public Protection	0.2	0	0	0.2
'Iconic' Projects Fund	0	0.5	0.2	0.7
Property Fund and Contingency	9.0	9.7	0	18.7
<b>Total Expenditure</b>	<b>499.8</b>	<b>267.2</b>	<b>186.5</b>	<b>953.5</b>

Details of the funding of this capital programme are given in Appendix D.

3.9 The Capital Programme above shows City Council expenditure and therefore excludes capital expenditure by contractors under PFI schemes. Schools 1 and Schools 2 PFI are in progress and further PFIs are likely under the Building Schools for the Future Programme and the proposed Highways Maintenance contract.

#### 4. Prudential Code and Indicators

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

4.2 The Authorised Limit for Debt represents the maximum level of debt which the City Council may have the during year. The Council has no powers to exceed this unless a further report with revised prudential indicators is approved by the full City Council. The Limit needs therefore to make appropriate allowance for the risks and uncertainties which affect day-to-day debt levels, and the ups and downs of short term cashflow. Allowance has also been made for potential funding needs during 2007/08 which are not included in the budget. The proposed limit is built up as follows:

**Table 16 - Borrowing Limits**

	£m	£m
Forecast borrowing at 31 March 2007		1,543
Add borrowing consequences of this budget		77
Allowance for cashflow, borrowing in advance, and potential unsupported borrowing		700
<b>= 1. Authorised Limit for Borrowing</b>		<b>2,320</b>
Other Long Term Liabilities at 31.3.07	37	
+ Possible increase in 2007/08	10	
<b>= 2. Authorised Limit for other long term liabilities</b>		<b>47</b>
<b>1 + 2 = Authorised Limit for Debt</b>		<b>2,367</b>

## CHAPTER 6 - TREASURY MANAGEMENT STRATEGY

### 1. Summary

The Treasury Management Policy at Appendix H sets out the policy and framework for this Treasury Management Strategy. Pressures in the economy are resulting in rising interest rates that will run into 2007/08. Higher interest rates may allow the opportunity to restructure the debt portfolio. There is currently no requirement to borrow long term but long term borrowing will be undertaken if rates fall. The Strategy is flexible if circumstances change.

### 2. Purpose

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

### 3. Background

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

### 4. Objectives of Treasury Management

- 4.1 The Treasury Policy Statement at Appendix H sets the City Council's objectives and provides a management and control framework for its Treasury Management activities. The key objective is:  
*to assist the achievement of the City Council's service objectives by obtaining funding and managing the City Council's debt and treasury investments at a net cost which is as low as possible, consistent with a high degree of interest cost stability and a very low risk to principal sums invested.*
- 4.2 For the City Council, the achievement of high returns from treasury activities is of secondary importance compared with the need to limit the exposure of public funds to the risk of loss.
- 4.3 These objectives must be implemented flexibly in the light of changing market circumstances. The Director of Corporate Finance holds regular meetings with senior staff to monitor market conditions and review planned activities and performance. Reports monitoring treasury activities are presented to Cabinet three times each year.

## 5. The City Council's Debt

5.1 The City Council's debt portfolio at 31<sup>st</sup> March 2007 is forecast to be as follows:

**Table 17 - Summary of Debt Portfolio**

	<b>Debt £m</b>	<b>Average Interest Rate %</b>
Short/variable debt	134.2	5.0
Fixed Rate: Under 5 years	219.9	6.5
5-9 years	186.2	9.3
10-24 years	590.1	8.3
25+ years	412.5	5.2
	<hr/>	
	1,542.9	
Less short term investments	(95.0)	(5.2)
<b>Total Net Debt</b>	<hr/>	
	1,447.9	

## 6. City Council Borrowing Requirement

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

6.2 The City Council's budgeted additional borrowing for 2007/08 therefore takes account of the financing of the Capital Programme, and the maturity of existing loans. This will result in an increase in the level of short term and variable rate debt unless decisions are taken to borrow long term:

**Table 18 - Forecast variable rate exposure**  
(assuming no fixed rate borrowing)

	<b>2007/08 £m</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>
Closing short and variable debt	241.0	321.3	373.0
Closing total debt	1,619.7	1,629.9	1,626.6
Short and variable debt %	14.9%	19.7%	22.9%
% relating to HRA	7.1%	9.5%	11.6%
% relating to General Fund	7.8%	10.2%	11.3%

6.3 The Policy Statement sets a limit for exposure to variable rates of -30% to +35% around a central benchmark of 5%. These figures show that variable rate exposure will be below the limit in 2007/08 and is forecast to remain below it in the following two years, even if no long term fixed rate borrowing is taken. There is therefore no pressing need to take fixed rate borrowing in the coming financial year unless the interest rates on offer are particularly attractive.

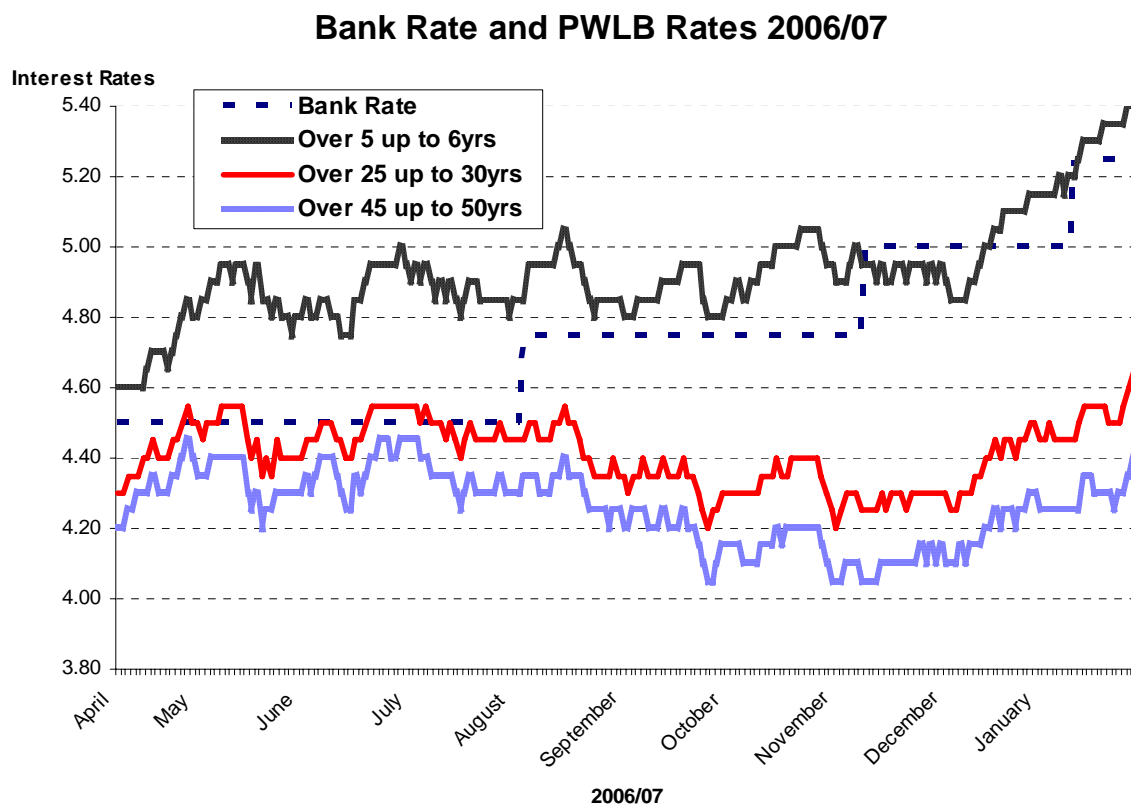
## 7. Interest Rate Outlook

- 7.1 The economies of the United States, United Kingdom and European Union have all been on the upswing of the economic cycle during 2005 and 2006 and are now facing the prospect of rising interest rates in order to counter inflationary pressures. Whilst the US may have reached its peak in interest rates, its economy is in advance of the UK and European cycles where there is an expectation of further interest rate increases.
- 7.2 In the UK, the surprise increase in the Bank Rate in January (most commentators expected a February rise) has fuelled expectation that inflationary pressures are more advanced than anticipated and the cyclical peak in interest rates may need to be higher than previously thought necessary. The Consumer Price Index, the governments main measure for the level of inflation, has risen to 3%<sup>5</sup>, the Retail Price Index, a key indicator for pay bargaining is at 4.4%, its highest level for 15 years. Most commentators expect at least one further base rate rise during 2007, with rates possibly starting to fall in 2008.
- 7.3 Long-term gilt yields determine the borrowing rates available to local authorities from the Public Works Loan Board (PWLB) or elsewhere. Recent PWLB rates are shown in the graph below. PWLB rates have remained relatively stable through the year, long term rates falling back marginally from August to the end of 2006. Only a small amount of borrowing has been required during 2006/07, mainly because of the extensive borrowing in advance taken in 2005/06. Looking forward, long term rates may be vulnerable to an upward shift; it is notable that whereas the previous rate increases this financial year had almost no impact on long term yields, the January increase, implying uncertainty as to the extent of the control of inflation, had a substantial effect.

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<sup>5</sup> Based on Consumer Prices Index of 3.0% for December 2006, released by the Office for National Statistics on 16 January 2007

**Table 19 - Interest Rate Movements**



## 8. 2007/08 Strategy

- 8.1 A general aim of the Treasury Management Strategy is to find an appropriate balance between short-term and variable rate debt, (with its changeable and potentially higher costs) and long-term fixed rate debt (which has greater budget certainty but may be more expensive than short-term debt, and which may be expensive to repay early).
- 8.2 The table in paragraph 6.2 shows that, if no long-term borrowing or premature repayment of debt is carried out, the City Council's short and variable rate debt is forecast to reach £241m in 2007/08, which represents 14.9% of total borrowing. However, £114.7m (7.1%) is recharged to the HRA at variable rates so the General Fund will have a small exposure of £126.3m (7.8%) to variable rates. Although the variable rate exposure increases in the following two years, this is based on cautious assumptions.
- 8.3 The City Council currently has a high level of investments outstanding due to borrowing in advance of need and short term cashflows. The investment strategy is based on the controls in the Treasury Policy at Appendix H. Given the expected short life of these funds it is unlikely that external investment managers will be used.

8.4 In summary the strategy is:

- New borrowing to be within the maturity limits in Appendix H but recognising the potential for longer term borrowing to be significantly cheaper;
- Borrow fixed rate if rates fall or the outlook changes, up to 3 years in advance;
- Restructure fixed rate loans if rates rise to suitable levels;
- Strategy subject to flexibility if circumstances change.

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

**Table 20 - Treasury Management Budget**

	<b>2007/08 budget £m</b>	<b>2008/09 forecast £m</b>	<b>2009/10 forecast £m</b>
Net interest budget	105.977	107.654	109.963
Other interest and costs	2.351	2.363	2.380
Contributions to (from) TM Reserves	(1.902)	(1.091)	(0.192)
Revenue charge for debt repayment	45.552	47.234	45.343
Total budget	151.978	156.160	157.494
Less: charges to HRA etc	39.570	41.093	42.427
Cost for General Fund	112.408	115.067	115.067

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

## **9. Risks and Alternative Strategies**

9.1 Financial market circumstances can change rapidly. Some of the more foreseeable risks to interest rates in 2007/08 include:

Higher interest rates if:

- World economic growth increases
- UK house prices continue rising
- External (to the UK economy) inflationary pressures arise

This risk has been reduced for 2007/08 by the borrowing in advance previously undertaken when rates were at historically low levels.

Lower interest rates if:

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

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

## **10. Sources of Borrowing**

10.1 The Public Works Loan Board (PWLB) will probably continue to be the cheapest source of most long-term fixed rate finance during 2007/08. However, other sources of finance will continue to be evaluated as an alternative to PWLB funding and will be used if appropriate.

10.2 In particular, long-term market loans with a 'lender's option, borrower's option' structure (known as 'LOBOs') have proved attractive over the last two years and a small place for these may continue to be appropriate. The Director of Corporate Finance has limited these to 15.1% of gross borrowing and there are no plans currently to increase this level.

10.3 Other bond structures are available from the market. Index-linked bonds are currently offering very low rates but the annual interest and repayment costs increase each year indexed to inflation. These can be obtained via a private placement or a public offering. The Director of Corporate Finance will keep borrowing options under review.

## **11. Companies Associated with the City Council**

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

## **12. Other Treasury Management exposures**

12.1 The volume of leases outstanding has fallen from £65.6m in 2001/02 to £24.6m currently. The introduction of the 'prudential' capital system enables greater choice between leasing and other ways of financing equipment (such as borrowing). The financing of equipment is reviewed to determine whether leasing or prudential borrowing offers best value for money. It is expected that borrowing will largely replace the use of leasing in future.



### **13. Advisers**

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

### **14. Prudential Indicators for Treasury Management**

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

## APPENDIX A

<b><u>Budget Pressures &amp; Policy Choices</u></b>	<b>£000</b>
<b>Leader's</b> – Resources to support anti-fraud activity and make increased provision for insurance claims.	300
<b>Deputy Leader's</b> – Resources to respond to the changes in Housing Benefit overpayment recovery legislation and to enhance the sustainability structure.	1,100
<b>Adults and Communities</b> – Increase in the number of people with learning and physical disabilities. Older adults commissioning. Access and Systems Capacity & Preserved Rights grant fall-out.	14,304
<b>Children, Young People and Families</b> – Children with disabilities, increase in the number of looked after children, Children's fieldwork services.	5,596
<b>Leisure, Sport &amp; Culture</b> - Additional resources to support attracting international events to Birmingham, to increase library service provision and to develop the Library of Birmingham initiative.	1,650
<b>Regeneration</b> – City Centre Masterplanning will produce a new vision which will analyse changes over the next 30 years and assess the steps required to strengthen the City Centre's position and secure world status.	600
<b>Transportation &amp; Street Services</b> – Additional resources for Recycling, Street Cleansing, Waste Disposal growth, City Centre Management, highway maintenance inventory growth and loss of car parking income due to development works.	7,557
<b>Planning Committee</b> – Additional funding to enable the Planning Service to meet its Best Value performance indicator and CPA Environment Service targets.	1,133
<b>Public Protection Committee</b> - Resources to respond to changes in legislation in respect of clean neighbourhoods.	390
	<b>32,630</b>

Note: In addition a Constituency Service Improvement Investment Fund of £1.25m has also been created.

## APPENDIX B

<b><u>Portfolio Efficiency Savings</u></b>	<b>£000</b>
<b>Leader</b> – Efficiency savings, reductions in running and support costs and increased property rental income.	713
<b>Deputy Leader</b> – Employee & overhead efficiencies, income generation and reduced running costs from a new Design and Print business plan.	523
<b>Adults and Communities</b> – Service reviews: Meals on Wheels, Transport, Day Care centres. Re-provision of older adults residential services. Review of learning disabilities contracts.	13,625
<b>Children, Young People and Families</b> – Changes in policy for the provision of home to school transport, increased use of internal foster carers and reduced reliance on external providers.	3,337
<b>Equalities &amp; Human Resources</b> – Employee & overhead efficiencies and reduced running costs.	245
<b>Housing (General Fund)</b> – Service provider efficiency reviews on the Supporting People Programme. Review of operational/support services.	1,637
<b>Leisure, Sport &amp; Culture</b> – Employee efficiencies and increased income.	264
<b>Local Services &amp; Community Safety</b> – Employee efficiencies.	100
<b>Regeneration</b> – Realignment of the Planning & Regeneration Service.	705
<b>Transportation &amp; Street Services</b> – Revised methods of working and efficiency savings in relation to overhead costs and additional income generation.	822
<b>Council Business Management Committee</b> – General efficiencies and reduced running costs.	74
<b>Planning Committee</b> – Increased planning application income and general efficiency savings across the service.	323
<b>Public Protection Committee</b> – Employee & overhead efficiencies and reduced running costs.	231
<b>Constituency Committees</b> – Service efficiencies planned as part of previous year's budget process, including the impact of the reduction in the number of Constituencies.	1,211
	<b>23,810</b>

## Revenue Budget - Gross Expenditure

	2006/07 *	2007/08 **
	£'000	£'000
<b>Portfolios</b>		
Leader's	178,086	186,795
Deputy Leader's	449,874	486,024
Adults & Communities	352,943	356,654
Children, Young People and Families	1,141,961	1,228,034
Equalities & Human Resources	4,397	3,665
Housing General Fund	82,532	109,150
Housing Revenue Account	222,399	224,200
Leisure, Sport & Culture	52,222	61,875
Local Services & Community Safety	35,441	54,489
Regeneration	75,656	73,222
Transportation & Street Services	121,047	125,754
<b>Committees</b>		
Council Business Management	8,599	9,180
Constituencies	113,830	115,239
Licensing	2,568	2,611
Planning	12,119	13,648
Public Protection	14,689	16,336
<b>Total Portfolio/Committee Expenditure</b>	<b>2,868,363</b>	<b>3,066,876</b>
Capital	(3,193)	(13,930)
Contingencies	6,692	25,339
Centrally held savings	(10,335)	(31,422)
<b>Total Expenditure on Services</b>	<b>2,861,527</b>	<b>3,046,863</b>
Contribution to Reserves		500
<b>Total Gross Expenditure</b>	<b>2,861,527</b>	<b>3,047,363</b>

\* 2006/07 figures have been adjusted to reflect the change, during 2006/07, in the accounting treatment of asset charges

\*\* 2007/08 figures are before the allocation of Business Transformation and other savings previously held centrally - please see Appendix C(iv)

## Revenue Budget - Gross Income

	2006/07 *	2007/08	**
	£'000	£'000	
<b>Portfolios</b>			
Leader's	(116,206)	(125,384)	
Deputy Leader's	(428,315)	(444,464)	
Adults & Communities	(99,836)	(101,408)	
Children, Young People and Families	(906,404)	(986,160)	
Equalities & Human Resources	(758)	(686)	
Housing General Fund	(63,086)	(87,918)	
Housing Revenue Account	(222,399)	(224,200)	
Leisure, Sport & Culture	(9,382)	(13,000)	
Local Services & Community Safety	(27,928)	(45,342)	
Regeneration	(58,069)	(53,415)	
Transportation & Street Services	(42,494)	(40,691)	
<b>Committees</b>			
Council Business Management	(102)	(103)	
Constituencies	(14,786)	(17,551)	
Licensing	(2,368)	(2,401)	
Planning	(8,924)	(9,647)	
Public Protection	(2,268)	(3,569)	
<b>Total Gross Income</b>	<b>(2,003,325)</b>	<b>(2,155,939)</b>	

## Revenue Budget - Net Expenditure

	2006/07 *	2007/08 **
	£'000	£'000
<b>Portfolios</b>		
Leader's	61,880	61,411
Deputy Leader's	21,559	41,560
Adults & Communities	253,107	255,246
Children, Young People and Families	235,557	241,874
Equalities & Human Resources	3,639	2,979
Housing General Fund	19,446	21,232
Housing Revenue Account	0	0
Leisure, Sport & Culture	42,840	48,875
Local Services & Community Safety	7,513	9,147
Regeneration	17,587	19,807
Transportation & Street Services	78,553	85,063
<b>Committees</b>		
Council Business Management	8,497	9,077
Constituencies	99,044	97,688
Licensing	200	210
Planning	3,195	4,001
Public Protection	12,421	12,767
<b>Total Portfolio/Committee Net Spend</b>	<b>865,038</b>	<b>910,937</b>
Capital	(3,193)	(13,930)
Contingencies	6,692	25,339
Centrally held savings	(10,335)	(31,422)
<b>Total Net Expenditure on Services</b>	<b>858,202</b>	<b>890,924</b>
Contribution to Reserves	0	500
<b>City Council Budget Requirement</b>	<b>858,202</b>	<b>891,424</b>

\*2006/07 figures have been adjusted to reflect the change, during 2006/07, in the accounting treatment of asset charges

\*\* 2007/08 figures are before the allocation of Business Transformation and other savings previously held centrally - please see Appendix C(iv)

## Revenue Budget - Net Expenditure

	2007/08 Net Exp £'000	Efficiency ** Savings £'000	2007/08 Budget £'000
<b>Portfolios</b>			
Leader's	61,411	(3,580)	57,831
Deputy Leader's	41,560	(1,690)	39,870
Adults & Communities	255,246	(6,886)	248,360
Children, Young People and Families	241,874	(3,898)	237,976
Equalities & Human Resources	2,979	(54)	2,925
Housing General Fund	21,232	(617)	20,615
Housing Revenue Account	0		
Leisure, Sport & Culture	48,875	(1,478)	47,397
Local Services & Community Safety	9,147	(18)	9,129
Regeneration	19,807	(984)	18,823
Transportation & Street Services	85,063	(2,362)	82,701
<b>Committees</b>			
Council Business Management	9,077	(131)	8,946
Constituencies	97,688	(2,775)	94,913
Licensing	210	(2)	208
Planning	4,001	(73)	3,928
Public Protection	12,767	(293)	12,474
<b>Total Portfolio/Committee Net Spend</b>	<b>910,937</b>	<b>(24,841)</b>	<b>886,096</b>
Capital	(13,930)	0	(13,930)
Contingencies	25,339	0	25,339
Centrally held savings	(31,422)	24,841	(6,581)
<b>Total Net Expenditure on Services</b>	<b>890,924</b>	<b>0</b>	<b>890,924</b>
Contribution to Reserves	500	0	500
<b>City Council Budget Requirement</b>	<b>891,424</b>	<b>0</b>	<b>891,424</b>

\*\* The allocation of Business Transformation and other savings previously held centrally includes sums that were part of the base budget t2006/07 as well as further savings in 2007/08

**FINANCING THE CAPITAL PROGRAMME**

<b>Specific Resources</b>	<b>2007/08 £m</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>	<b>Total £m</b>
Grants	129.7	63.7	53.8	247.2
Contributions	22.4	6.2	2.3	30.9
Portfolio Revenue Contributions	0.3	4.4	9.7	14.4
Additional Supported Borrowing	7.0	3.9	3.7	14.6
Earmarked Receipts	73.8	61.1	17.4	152.3
Leasing	1.0	0.0	0.0	1.0
<b>Total Specific Resources</b>	<b>234.2</b>	<b>139.3</b>	<b>86.9</b>	<b>460.4</b>
<b>Corporate Resources</b>	<b>2007/08 £m</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>	<b>Total £m</b>
Single Capital Pot *	65.8	48.4	48.7	162.9
Capital Receipts	42.5	29.1	10.4	82.0
Prudential Borrowing	134.9	57.3	34.8	227.0
Revenue balances (including balances b/f)	11.9	1.3	1.3	14.5
Overprogramming	10.5	(8.2)	4.4	6.7
<b>Total Corporate Resources</b>	<b>265.6</b>	<b>127.9</b>	<b>99.6</b>	<b>493.1</b>
<b>Total Resources</b>	<b>499.8</b>	<b>267.2</b>	<b>186.5</b>	<b>953.5</b>

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

	<b>2007/08 £m</b>	<b>2008/09 £m</b>	<b>2009/10 £m</b>	<b>Total £m</b>
Children, Young People and Families (Education)	16.0	8.0	8.0	32.0
Children, Young People and Families (Children Soc.Serv.)	0.1	0.1	0.1	0.3
Housing	26.0	26.0	26.0	78.0
Regeneration (Transport)	13.3	8.4	8.7	30.4
Adults & Communities	0.4	0.3	0.3	1.0
Corporate Top Slice	10.0	5.6	5.6	21.2
	<b>65.8</b>	<b>48.4</b>	<b>48.7</b>	<b>162.9</b>



## CORPORATE CAPITAL RESOURCE ALLOCATIONS

## APPENDIX E

**PROPOSED NEW SCHEMES 2007/08 - 2009/10**

	2007/08 £000	2008/09 £000	2009/10 £000	Total £000
<b>Leader's Portfolio</b>				
Replacement Integrated Property Management System	407	136	-	543
<b>Total</b>	<b>407</b>	<b>136</b>	<b>-</b>	<b>543</b>
<b>Housing</b>				
Imps. to Sheltered Housing Schemes for Older People	300	1,100	-	1,400
Provision of Major Adaptations for Children	-	500	500	1,000
Poplars Sheltered Scheme for Older People	500	-	-	500
Improvements and Repairs To City Owned Homeless Centres	275	1,000	-	1,275
Implementation of Affordable Warmth and Fuel Poverty	520	550	500	1,570
<b>Total</b>	<b>1,595</b>	<b>3,150</b>	<b>1,000</b>	<b>5,745</b>
<b>Leisure Sport &amp; Culture</b>				
Old Rep Theatre DDA Refurbishment	150	75	-	225
Hatchford Brook Golf Driving Range	270	30	-	300
Lozells Community Development Initiative	680	170	-	850
Lozells Neighbourhood Investment Plan Infrastructure Fund	960	240	-	1,200
<b>Total</b>	<b>2,060</b>	<b>515</b>	<b>-</b>	<b>2,575</b>
<b>Regeneration</b>				
City Centre Development - Eastside Infrastructure	250	5,050	-	5,300
Jewellery Quarter Conservation Area	100	210	-	310
Coffin Works Development Costs	100	-	-	100
Heritage Project Evans & Sons Development Costs	100	100	-	200
Building Energy Management System Replacement	160	184	18	362
<b>Total</b>	<b>710</b>	<b>5,544</b>	<b>18</b>	<b>6,272</b>

**PROPOSED NEW SCHEMES 2007/08 - 2009/10**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Transportation &amp; Street Services</b>				
Street Lighting Ward Programme	1,000	-	-	1,000
Traffic Signal Replacement	250	-	-	250
Coach & Lorry Park	150	-	-	150
Local Safety Schemes	-	300	300	600
Facilities for the Disabled	-	200	200	400
Subway Replacement	-	200	200	400
Safer Routes to Schools	-	300	300	600
Measures to Encourage Public Transport	-	200	200	400
Improving Local Accessibility	-	300	300	600
Tackling Congestion	-	300	300	600
Improving the Environment	-	200	200	400
Perry Barr HRC	800	100	-	900
Lifford HRC Depot	-	1,000	-	1,000
<b>Total</b>	<b>2,200</b>	<b>3,100</b>	<b>2,000</b>	<b>7,300</b>
<b>Public Protection</b>				
Coroners Phase 2	207	-	-	207
<b>Total</b>	<b>207</b>	<b>-</b>	<b>-</b>	<b>207</b>
<b>Iconic Project Fund</b>				
City Centre Dev - New St Ph1	500	-	3,338	3,838
Other Iconic Schemes	50	511	150	711
<b>Total</b>	<b>550</b>	<b>511</b>	<b>3,488</b>	<b>4,549</b>
<b>Total Capital Expenditure Programme</b>	<b>7,729</b>	<b>12,956</b>	<b>6,506</b>	<b>27,191</b>

**PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10**

	2007/08 £000	2008/09 £000	2009/10 £000	Total £000
<b>Leader's Portfolio</b>				
Corporate Property Asbestos Survey	396	-	-	396
NEC Minor Works	275	275	-	550
NEC Capital Grant	92	92	-	184
NEC Refurbishment	19,058	2,483	-	21,541
Replacement Integrated Property Management System	407	136	-	543
<b>Total</b>	<b>20,228</b>	<b>2,986</b>	<b>-</b>	<b>23,214</b>
<b>Deputy Leader's</b>				
Markets Cash Collect System	420	-	-	420
Council House & Extension Repairs Roof & Walls Sutton New Road	3,850	-	-	3,850
Louisa Ryland House - Lift Replacement works	2,988	5	-	2,993
Council House Complex - Fire Alarm Installation	100	-	-	100
Portland Centre - Improvements to Security	145	-	-	145
Server Refresh & Thin Client	10	-	-	10
Business Transformation	2,651	-	-	2,651
	79,308	38,797	20,000	138,105
<b>Total</b>	<b>89,472</b>	<b>38,802</b>	<b>20,000</b>	<b>148,274</b>
<b>Adults &amp; Communities</b>				
Replacement Vehicles	2,172	-	-	2,172
Older Adult Homes - Compliance to Standards	300	300	1,864	2,464
DSOP Project	1,569	-	-	1,569
Special Care Centres	30,519	-	-	30,519
Information & Communication Technology	560	-	-	560
Mental Health Schemes	652	400	400	1,452
Learning Disabilities Homes Standards	788	-	-	788
Other Minor Schemes	1,162	540	44	1,746
<b>Total</b>	<b>37,722</b>	<b>1,240</b>	<b>2,308</b>	<b>41,270</b>

## **PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Children Young People &amp; Families</b>				
Devolved capital 2005/06 to 2007/08	26,091	-	-	26,091
NDS Modernisation	16,410	7,572	8,969	32,951
NOF lottery schemes	2,790	-	-	2,790
Children Centres phase 2 -2006-2008	13,654	-	-	13,654
Refurbishment of Residential establishments	2,650	2,484	2,434	7,568
Schools Access Initiative schemes	1,839	-	-	1,839
Building Schools for the Future Resources Plan	885	706	-	1,591
Specialist Colleges Grant	100	-	-	100
Individual Client Services Grant	687	-	-	687
Computer equipment leasing for schools	1,000	-	-	1,000
Youth Capital Fund- equipment	761	-	-	761
Colebourne Co-location	925	-	-	925
Childrens Homes- new build	600	353	-	953
Local Public Sector Agreement schemes	141	-	-	141
Other schemes less than £50k	357	-	-	357
Early years- general sure start grant	5,414	-	-	5,414
<b>Total</b>	<b>74,304</b>	<b>11,115</b>	<b>11,403</b>	<b>96,822</b>
<b>Equalities &amp; Human Resources</b>				
Access To Buildings	1,479	-	-	1,479
<b>Total</b>	<b>1,479</b>	<b>-</b>	<b>-</b>	<b>1,479</b>
<b>Housing</b>				
<b>Council Housing</b>				
Decent Homes (Windows, Heating, Doors, Roofing, Re Wiring)	72,600	74,600	75,800	223,000
Other (Clearance, Lift Refurbishments, Structural, Major Voids)	37,400	35,600	17,851	90,851

## **PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Private Sector Housing</b>				
Independent Living, Urban Living, Clearance, Affordable Warmth, Developing New Housing (RSL Discounts / S106)	58,532	29,332	28,350	116,214
Imps. To Sheltered Housing Schemes for Older People	300	1,100	-	1,400
Provision of Major Adaptations for Children	-	500	500	1,000
Poplars Sheltered Scheme for Older People	500	-	-	500
Improvements and Repairs To City Owned Homeless Centres	275	1,000	-	1,275
Implementation of Affordable Warmth and Fuel Poverty	520	550	500	1,570
<b>Total</b>	<b>170,127</b>	<b>142,682</b>	<b>123,001</b>	<b>435,810</b>
<b>Leisure Sport &amp; Culture</b>				
MAC/SAMPAD- Development	1,588	9,146	1,646	12,380
Aston Hall & Park	5,906	1,469	-	7,375
Town Hall	1,153	-	-	1,153
Museums Schemes	300	60	-	360
Libraries & Archive Services Schemes	100	-	-	100
Community Libraries Schemes	793	900	-	1,693
Sports Schemes	2,140	100	-	2,240
Parks Schemes	6,170	1,608	-	7,778
Health & Safety Schemes	135	-	-	135
Districts New Bids Schemes	2,519	-	-	2,519
Community Schemes	465	-	-	465
Performance & Support Services Schemes	450	-	-	450
Old Rep Theatre DDA Refurbishment	150	75	-	225
Hatchford Brook Golf Driving Range	270	30	-	300
Lozells Community Development Initiative	680	170	-	850
Lozells Neighbourhood Investment Plan Infrastructure Fund	960	240	-	1,200
<b>Total</b>	<b>23,779</b>	<b>13,798</b>	<b>1,646</b>	<b>39,223</b>

## PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10

	2007/08	2008/09	2009/10	Total
	£000	£000	£000	£000
<b>Local Services &amp; Community Safety</b>				
Local Services	3,521	-	-	3,521
Stockland Green Neighbourhood Office	910	-	-	910
<b>Total</b>	<b>4,431</b>	<b>-</b>	<b>-</b>	<b>4,431</b>

### **Regeneration**

Vibrant Urban Villages-Construction Access Partnership	2,000	-	-	2,000
Vibrant Urban Villages-Sparkbrook Tornado Recovery Package	1,000	1,000	1,000	3,000
Vibrant Urban Villages-Business Employment	316	365	325	1,006
Vibrant Urban Villages-Frankley Regeneration	390	985	-	1,375
Vibrant Urban Villages-Northfield Environmental Imps.	50	1,834	-	1,884
Vibrant Urban Villages Other	4,065	2,834	1,900	8,799
City Centre Development - Eastside Joint Venture	10,822	2,806	650	14,278
City Centre Development - Eastside Park	700	445	-	1,145
City Centre Development - Millennium Point Car Park	175	3,800	-	3,975
City Centre Development - Curzon St Station	100	2,300	-	2,400
City Centre Development - Other	2,359	343	223	2,925
Investment Enterprise & Employment	65	14	16	95
Property Related Schemes-301 Broad Street	250	-	-	250
Property Related Schemes-Other	520	405	5	930
Conservation - Lozells & Soho Road THI	300	440	790	1,530
Conservation-Other	123	224	30	377
City Wide & Miscellaneous	19	-	15	34
Disability Schemes	10	11	-	21
City Centre Development - Eastside Infrastructure	250	5,050	-	5,300
City Centre Dev - New St Ph1	500	-	3,338	3,838
Jewellery Quarter Conservation Area	100	210	-	310
Coffin Works Development Costs	100	-	-	100
Heritage Project Evans & Sons Development Costs	100	100	-	200
Building Energy Management System Replacement	160	184	18	362
<b>Total</b>	<b>24,475</b>	<b>23,349</b>	<b>8,310</b>	<b>56,134</b>

**PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10**

	2007/08	2008/09	2009/10	Total
	£000	£000	£000	£000
<b>Transportation &amp; Street Services</b>				
<b>Highways Major Schemes</b>				
Northfield Relief Rd	1,937	702	537	3,176
Selly Oak New Road	8,131	1,900	1,960	11,991
Hagley Road Bus Showcase	724	3,206	2,440	6,370
Other Bus Showcase Schemes	3,690	-	1,727	5,417
Red Routes Schemes	1,057	1,934	-	2,991
Completion of Prior Year/Future Major Schemes	1,325	-	-	1,325
<b>Other Highways Minor Schemes</b>				
Highways & Bridges Maintenance	6,395	-	-	6,395
Integrated Transport - Main Network	6,280	-	-	6,280
Integrated Transport - Local Areas	7,240	-	-	7,240
Replacement of Road Tunnel Lighting	208	564	-	772
Street Lighting Ward Programme	226	-	-	226
Highways Minor Works Programme	1,438	8,177	7,834	17,449
Street Lighting Ward Programme	1,000	-	-	1,000
Traffic Signal Replacement	250	-	-	250
Coach & Lorry Park	150	-	-	150
Local Safety Schemes	-	300	300	600
Facilities for the Disabled	-	200	200	400
Subway Replacement	-	200	200	400
Safer Routes to Schools	-	300	300	600
Measures to Encourage Public Transport	-	200	200	400
Improving Local Accessibility	-	300	300	600
Tackling Congestion	-	300	300	600
Improving the Environment	-	200	200	400
<b>Non Highways Schemes</b>				
Car Parks Reinvestment Programme	1,430	3,207	-	4,637
Drainage and Flood Relief	244	-	-	244
Birmingham Gateway Project (New Street Station) - Design	1,000	-	-	1,000
<b>Environmental Schemes</b>				
Refuse Coll - Vehicles	357	-	-	357
Quinton Cemetery Roadway Construction	225	-	-	225
Cems & Crems Cremators	-	-	250	250
Cems & Crems-Emissions 3 Crematoria	-	-	2,970	2,970
Other Minor Schemes	167	-	-	167
Perry Barr HRC	800	100	-	900
Lifford HRC Depot	-	1,000	-	1,000
<b>Total</b>	<b>44,274</b>	<b>22,790</b>	<b>19,718</b>	<b>86,782</b>

**PROPOSED CAPITAL EXPENDITURE PROGRAMME 2007/08 - 2009/10**

	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Council Business Management</b>				
ADMES enhancements	75	-	-	75
<b>Total</b>	<b>75</b>	<b>-</b>	<b>-</b>	<b>75</b>
<b>Planning Committee</b>				
New Technology	253	253	-	506
<b>Total</b>	<b>253</b>	<b>253</b>	<b>-</b>	<b>506</b>
<b>Public Protection</b>				
Coroners Phase 2	207	-	-	207
<b>Total</b>	<b>207</b>	<b>-</b>	<b>-</b>	<b>207</b>
<b>Unallocated Resources</b>				
Property Fund	8,000	7,239	-	15,239
Contingency	1,000	2,400	-	3,400
Iconic Projects Fund	50	511	150	711
	<b>9,050</b>	<b>10,150</b>	<b>150</b>	<b>19,350</b>
<b>Total Capital Expenditure Programme</b>	<b>499,876</b>	<b>267,165</b>	<b>186,536</b>	<b>953,577</b>



## PRUDENTIAL INDICATORS

	06/07 Indicators	06/07 Forecast Q3 Monitor	07/08 Indicators	08/09 Indicators	09/10 Indicators
	£m	£m	£m	£m	£m
<b>AFFORDABILITY</b>					
<b>Ratio of financing costs to net revenue stream:</b>					
1 General Fund financing costs	122.1	117.2	136.1	150.1	152.6
2 General Fund net revenue stream	858.2	858.2	891.4	909.1	931.4
3 General Fund ratio	14.2%	13.7%	15.3%	16.5%	16.4%
4 HRA financing costs	77.0	77.2	78.0	79.3	80.5
5 HRA net revenue stream	219.0	219.0	229.6	233.1	236.5
6 HRA Ratio	35.2%	35.2%	34.0%	34.0%	34.0%
7 <b>Effect on Council Tax (Band D equiv)</b>	£2.79	£6.28	£34.15	£40.58	£73.44
8 <b>Effect on Housing Rents (ave. weekly rent)</b>	£0.26	£0.23	£0.56	£0.90	£1.25
<b>CAPITAL EXPENDITURE</b>					
<b>Capital Expenditure</b>					
9 General Fund	248.3	340.7	389.9	157.0	92.8
10 HRA	132.3	109.6	110.0	110.2	93.7
11 Total Capital Expenditure	380.6	450.3	499.9	267.2	186.5
<b>Capital Financing Requirement (CFR)</b>					
12 General Fund CFR	1,198.4	1,218.4	1,326.4	1,329.8	1,312.4
13 HRA CFR	529.2	529.3	550.8	571.9	588.6
14 Total Capital Financing Requirement	1,727.6	1,747.7	1,877.2	1,901.7	1,901.0
<b>PRUDENCE</b>					
<b>Net borrowing and the capital financing requirement:</b>					
15 net borrowing	1,437.8	1,447.3	1,650.1	1,745.8	1,824.5
16 Capital Financing Requirement in year 3 (as above)	1,731.5	1,901.0	1,901.0	1,901.0	1,901.0
17 does forecast net borrowing exceed year 3 CFR?	No	No	No	No	No
<b>EXTERNAL DEBT</b>					
<b>Authorised limit for external debt</b>					
	<b>Limit</b>	<b>Forecast Max</b>	<b>Limit</b>	<b>Forecast Limit</b>	<b>Forecast Limit</b>
18 Authorised limit for borrowing	1,751	1,543	2,320	2,370	2,377
19 + authorised limit for other long term liabilities	48	48	47	47	46
20 = authorised limit for debt	1,799	1,591	2,367	2,417	2,423
<b>Operational boundary for external debt</b>					
	<b>Boundary</b>	<b>Forecast Max</b>	<b>Boundary</b>	<b>Forecast Boundary</b>	<b>Forecast Boundary</b>
21 Operational boundary for borrowing	1,451	1,543	1,651	1,746	1,825
22 + Operational boundary for other long term liabilities	38	38	37	37	36
23 = Operational boundary for external debt	1,489	1,581	1,688	1,783	1,861

<b>TREASURY MANAGEMENT</b>					
	<b>06/07</b>	<b>06/07</b>	<b>07/08</b>	<b>08/09</b>	<b>09/10</b>
	<b>Indicators</b>	<b>Forecast</b>	<b>Indicators</b>	<b>Indicators</b>	<b>Indicators</b>
		<b>Q3 Monitor</b>			
<b>CIPFA Treasury Management Code</b>					
24	Has the authority adopted the TM Code?	Yes	Yes	Yes	Yes
<b>Interest rate exposures</b>					
		<b>Limit</b>	<b>Forecast</b>	<b>Limit</b>	<b>Limit</b>
25	upper limit on fixed rate exposures	130%	122%	130%	130%
26	upper limit on variable rate exposures	35%	6%	35%	35%
<b>Maturity structure of borrowing</b>					
(lower limit and upper limit)					
27	under 12 months	0% to 35%	12%	0% to 35%	0% to 35%
28	12 months to within 24 months	0% to 35%	5%	0% to 35%	0% to 35%
29	24 months to within 5 years	0% to 30%	6%	0% to 30%	0% to 30%
30	5 years to within 10years	0% to 50%	12%	0% to 50%	0% to 50%
31	10 years & above	25% to 80%	65%	25% to 80%	25% to 80%
<b>investments longer than 364 days</b>					
upper limit on amounts maturing in:					
		<b>Limit</b>	<b>Forecast</b>	<b>Limit</b>	<b>Limit</b>
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
34	1-2 years	100	nil	100	100
35	2-3 years	50	nil	50	50
36	3-5 years	30	nil	30	30
37	later	-	nil	-	-

**Prudential indicators 2007/08 – interpretation**

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

**Ratio of financing costs to net revenue stream**

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

**Effect on Council Tax**

This indicator represents the interest and repayment costs arising from programmed prudential borrowing expressed as the impact on Band D Council Tax. This impact has been accommodated within the Medium Term Financial Strategy and assumed Council Tax increases up to 2009/10.

**Effect on housing rents**

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

**Capital Expenditure**

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

**The Capital Financing Requirement (CFR)**

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

**Net Borrowing**

This indicator is based on the forecast peak net debt in each year.

**The authorised limit for debt**

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

**The 'operational boundary' for debt**

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

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

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

**Affordability, eg Implications for Council Tax**

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

**Prudence and Sustainability, eg implications for external borrowing**

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

**Value for money, eg option appraisal**

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

**Stewardship of assets, eg asset management planning**

The Asset Management planning process for 2007/08 and beyond is reported in Chapter 3 of this budget report.

**Service objectives, eg strategic planning for the authority**

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

**Practicality, eg achievement of the forward plan**

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

**BIRMINGHAM CITY COUNCIL****TREASURY MANAGEMENT POLICY****1. Background**

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

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

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

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

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

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

2.3 Effective treasury management will provide support towards the achievement of the City Council's business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.<sup>6</sup>

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

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

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6 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:		
	<b>2007/08</b>	<b>2008/09</b>	<b>2009/10</b>
upper limit on fixed rate exposures	130%	130%	130%
upper limit on variable rate exposures	35%	35%	35%

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

		<b>Forecast Year end 2006/07</b>
	lower and upper limits:	
under 12 months	0% to 35% of fixed rate borrowing	12%
12 to 24 months	0% to 35%	5%
24 months to 5 years	0% to 30%	6%
5 to 10 years	0% to 50%	12%
10 years and above	25% to 80%	65%

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

## **Investment Strategy for temporarily surplus cash**

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

3.4

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

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

3.6 Credit ratings are monitored on an ongoing basis on information from the Council's Treasury Management advisers, and the Council's lending list is updated accordingly when a rating changes.

3.7 Lending of City Council funds by its appointed investment managers is not subject to the above restrictions, provided that their arrangements for assessing creditworthiness and exposure limits have been agreed by the Director of Corporate Finance (Note: investment managers are not currently being used).

## **Investment maturity**

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

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

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

**Prudential indicator – principal sums invested longer than 364 days**

Upper limit on total sums invested beyond 364 days:

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

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

**4. Reporting and delegation**

- 4.1 A Treasury Management Strategy report is presented as part of the annual budget to the Cabinet and the Council before the start of each financial year, and an Annual Review report is produced after the year end, in accordance with the CIPFA Treasury Code. The Strategy for 2007/08 forms Chapter 6 of the Budget Report.
- 4.2 The City Council has delegated responsibility for treasury management decisions to the Director of Corporate Finance as part of its Delegations to Officers. The Director or his deputy reports every half year to the Cabinet on the decisions taken under delegated treasury management powers.
- 4.3 The Director of Corporate Finance maintains statements of Treasury Management Practices in accordance with the Code. These have previously been agreed with the Cabinet Member responsible for Finance:

TMP1 Treasury risk management



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

**BUDGET RISK ASSESSMENT**

Risk		Impact	Likelihood	Management Control
1	Adverse changes in levels of Housing Subsidy	M	H	Position kept under close review and active response to government consultations.
2	Non-delivery of elements of the Efficiency Programme, including Business Transformation savings	M	M	The Programme includes savings developed using proposals from managers; these are subject to a rigorous project management and a rigorous review process. Business Transformation programmes are making use of significant project management expertise and are subject to strict governance arrangements.
3	Inflationary and budget pressures exceed amount provided to re-price budget	M	M	Prudent inflation estimates have been based on latest forecasts and known pressures included within budget
4	Managing the implications of large schemes/contracts and other strategies.	M	M	Arrangements made to ensure that decisions based on full and complete information, that risks managed proactively and with robust project management controls
5	Changes in funding regimes for specific government grants	M	M	Specific changes have been fed into Directorate budgets and will be kept under review. In appropriate cases provision has been included in the MTFS.
6	Securing Sure Start funding	M	M	Funding secure up to 2008, and active dialogue with government to secure resources. Multi-agency working to oversee work of Children's Centres.
7	Failure to secure capital receipts to fund investment plans	M	M	Regular monitoring of progress against targets, and plans/financing revised in light of actual position. Streamlined processes established for delivery.
8	Changes to proper accounting practice with adverse impact.	M	L	Close contact established with national bodies and external advisors.

	<b>Risk</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Management Control</b>
9	Impact of actuarial valuation of Pension Fund;	M	L	Incremental increases in funding rate built into forward plan.
10	Formula Grant less than assumed	M	L	The 2007/08 position is certain. Prudent assumptions have been made in the MTFS and the position will be reviewed during 2007/08.
11	Clawback of grant following audit work	L-M	M	Careful management of projects in line with grant conditions, including requirement for business cases.
12	Implementation of Single Status agreement	L-M	M	The programme is being managed and provision has been made for financial implications
13	Supporting People Programme: managing impact of changed eligibility criteria	L-M	M	A package of measures which includes a review of eligibility criteria and grant conditions, contract inspections.
14	Inadequate reserves balances and contingencies	L-M	L-M	Resources have been assigned with the aim of providing adequate cover for such items and this will continue to be addressed in the MTFS. The budgetary position will be closely monitored in 2007/08.
15	Changes in demography affecting service demands	L-M	L	Budget assumptions based on detailed projections of demographic change. Active budgetary control to keep position under control.
16	Clawback of grant from City Council as Accountable Body	L	M	Projects kept under close review, and corrective actions identified where necessary.
17	Collection Fund deficit	L	L	Close monitoring of collection rate throughout the year - improvements being implemented
18	Attainment of income targets	L	L	The Council has a rigorous budget monitoring system which will be used to manage these risks.
19	Inadequate provision made for new legislative requirements	L	L	Budget includes financial impact of known legislative changes.
20	Interest Rates change adversely	L	L	Risks managed through robust Treasury Management Strategy. Prudent assumptions made based on external advice. Both high and low rates offer opportunities.

	<b>Risk</b>	<b>Impact</b>	<b>Likeli- hood</b>	<b>Management Control</b>
21	Delayed delivery of Capital Programme thus prejudicing external funding	L	L	The Council has a structured capital programme with robust management and monitoring arrangements, and this is being further enhanced through the Business Transformation Programme.