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## TRADING ORGANISATIONS – 2007/2008 BUDGETS

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### REPORT OF THE CHIEF FINANCE OFFICER

#### 1. PURPOSE OF THE REPORT.

- 1.1 This report details all the council's trading organisations and their 2007/2008 budgets in accordance with Finance Procedure Rules. The report also outlines policies in respect of the use of any retained surpluses of the trading organisations.

#### 2. SUMMARY

- 2.1 In accordance with Finance Procedure Rules, the budgets for trading organisations are submitted to Cabinet for approval.
- 2.2 There are currently 15 trading organisations operating within the Council, of which 10 are within the Resources Department, 4 in Regeneration and Culture and 1 in Housing. Finance Procedure Rules specifically provide for these organisations, and there are separate rules for their management, which recognise the quasi-trading environment in which they operate.
- 2.3 It is fundamental that the trading organisations break-even overall. For 2006/07, some traded services budgeted to deliver surpluses reflecting efficiency savings made as part of the 2006/07 budget. This is again the case in 2007/08 where some traded services will deliver efficiencies resulting in a reduced cost of the service. These traders will continue to charge at previously agreed rates however the cost of such services is expected to reduce. In future years it is intended to clawback these savings from departmental budgets commensurate with reductions in charges. Some traders are also budgeting for surpluses to be generated from additional external work to contribute to departmental efficiency savings.
- 2.4 The proportional retention of surpluses by host departments is also subject to the use of such surpluses being agreed by Cabinet. The policy of each department is set out in the supporting information.

#### 3. RECOMMENDATIONS TO CABINET

- 3.1 The Cabinet is recommended to:

- (1) Approve the 2007/2008 budgets for the Council's trading organisations;

- (2) Note the proposed policies in respect of the use of retained surpluses for each department;
- (3) Amend the determinations to Finance Procedure Rules allowing the Resources and Regeneration & Culture departments to retain budgeted surpluses as detailed in paragraph 2.2 of the supporting information.

**4. FINANCIAL AND LEGAL IMPLICATIONS**

- 4.1 This report is concerned solely with financial issues.
- 4.2 Finance Procedure Rules within the Council's Constitution provide that the Schedule of Determinations to the Finance Procedure Rules can be varied by Cabinet. The schedule of determinations includes the proportion of surpluses which departments can keep.

**5. OTHER IMPLICATIONS**

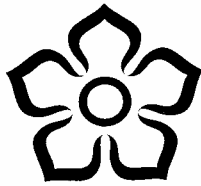
<u>Other implications</u>	<u>Yes/No</u>	<u>Paragraph referred</u>
Equal Opportunities Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

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Date: 24/05/07

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<b>Key Decision</b>	No
<b>Reason</b>	N/A
<b>Appeared in Forward Plan</b>	N/A
<b>Executive or Council Decision</b>	Executive (Cabinet)



Leicester  
City Council

CABINET

25<sup>th</sup> JUNE 2007

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#### SUPPORTING INFORMATION

##### 1. BACKGROUND

- 1.1 Trading organisations are services provided to users on a basis other than a straightforward recharge of cost, such as a quoted price or a schedule of rates. The Council operates a number of trading organisations and these are detailed further below.
- 1.2 Prior to the beginning of each year, the relevant director sets a budget for each trading organisation in accordance with a time scale and guidance given by the Chief Finance Officer.
- 1.3 The budget shall be set to ensure that the trading organisation breaks even (i.e. neither makes a loss nor aims to charge clients more than the cost of its activities). In 2007/08, a number of traded services within the Resources and Regeneration & Culture Departments (denoted with \* in Appendix A) have budgeted to achieve a year-end surplus. This mostly reflects efficiency savings that are planned to be achieved in these services thereby reducing their overall cost. Whilst these changes are being implemented, service departments will not see the benefit of a reduction in costs due to technical accounting arrangements and therefore the service provider will produce a surplus. In future years, chargeable rates will be reduced and the appropriate level of savings will be clawed back from departmental budgets. If however the surplus is achieved through additional external work, no claw back of budgets will be required.
- 1.4 Details of the estimated turnover for each trading unit are shown at Appendix A. Service departments will be charged in accordance with agreements for services that have been negotiated as part of the 2007/08 budget process.
- 1.5 Directors responsible for trading organisations are required to ensure that each organisation achieves its budgeted return. It is possible for surpluses to be achieved (over and above those budgeted for) where demand varies and/or external work is commissioned. Section 2 sets out the level at which surpluses may be retained and section 3 identifies the departmental policies relating to any such surpluses.

## **2. RETAINED SURPLUSES**

2.1 The existing retention rules are:

Regeneration & Culture and Resources Departments

- aggregate of all surpluses : retention of 50%

Housing

- Housing Maintenance DSO : retention of 100%

2.2 For 2007/08, the determinations for Finance Procedure Rules set out values of sums to be retained in full by traded services within the Resources and Regeneration & Culture Departments. This recognises the requirement of traded services to contribute to the department's efficiency savings. In working through the detail of delivering their revenue strategies, particularly relating to the delivery of efficiency savings, the original amounts approved by Council at its meeting on 21<sup>st</sup> February 2007 have subsequently increased. The revised level of budgeted surpluses for the relevant traded services are as follows:

Legal Services	£20,000
Property Services	£125,000
Financial Services	£34,000
Democratic Services	£35,000
Highways	£200,000
Catering	£10,000
Transport fleet	£50,000

Approval is required to rectify this position.

## **3. POLICIES IN RESPECT OF RETAINED SURPLUSES.**

3.1 The traded services provided by 3 departments are as follows:

### Resources

I.C.T Services \*  
Legal Services  
Job shop  
Post room  
Temporary Staffing Agency  
Payroll  
Customer accounts  
Cashiers  
Creativity works  
Property Services – Projects

\* The I.C.T trader is now much smaller following the implementation of the efficiency review as part of the Business Improvement Programme (BIP). Those elements of the I.C.T division that remain traded are I.T training and commissioning.

### Regeneration and Culture

City Catering  
 City Highways  
 Operational Transport  
 City Transport Fleet

### Housing

Housing Maintenance

3.2 Each Corporate Director has set out their policy for the use of any retained surpluses (as required by Finance Procedure Rules) as follows:

TRADED SERVICE	POLICY FOR THE USE OF RETAINED SURPLUSES
<ul style="list-style-type: none"> <li>▪ Housing Maintenance DSO</li> </ul>	<p>To be used as a revenue contribution to capital spending. This has already been approved by Council (25/01/07) as part of the Housing Capital Programme 2007/08.</p>
<ul style="list-style-type: none"> <li>▪ Resources Department – all Trading Units</li> </ul>	<p>The department reviews any generated surpluses on an individual basis. The relevant trading unit must provide a business case to the Corporate Director setting out the intended purpose for any retained surplus, which would generally focus on reinvestment into the service. However, this is dependent upon the overall departmental budget position.</p>
<ul style="list-style-type: none"> <li>▪ Regeneration and Culture Department – all Trading Units</li> </ul>	<p>The department reviews any generated surpluses against business plans and service pressures. The use of any such surpluses would generally be focused on reinvestment and service delivery within the relevant traded services, however this is viewed within the context of delivering the departmental budget strategy. In the 2007/08 departmental revenue strategy three of the current traders (Highways, Catering and Fleet) were targeted to contribute to the Department's efficiency savings.</p>

#### **4. DETAILS OF CONSULTATION**

- 4.1 All departmental Heads of Finance and the Head of Legal Services have been consulted in the preparation of this report.

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Date: 24/05/07

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<b>Trading Services</b>	<b>2007/2008 Turnover £</b>
<b>Resources Department</b>	
I.C.T. Services	386,500
*Legal Services	3,532,400
*Job Shop	138,000
*Post room	595,300
*Standby Register	3,335,000
Payroll	935,300
Customer Accounts	973,700
*Cashiers	598,300
* Creativity Works	1,833,000
*Property Services – Projects	4,817,500
<b>Regeneration &amp; Culture</b>	
*City Catering	6,944,000
*City Highways	7,579,000
Operational Transport	5,006,000
*City Transport Fleet	7,138,000

\* services budgeted to achieve a surplus

**The above budgets represent charges made  
"above the line" in Service Department budgets.**

<b>Trading Services</b>	<b>2007/2008 Turnover £</b>
<b>Housing Department</b>	
Housing Maintenance	24,545,000

**The above budget represents the total  
operational expenditure for Housing  
Maintenance.**