

TRADING ORGANISATIONS – 2005/2006 BUDGETS

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF THE REPORT.

- 1.1 This report details all the council's trading organisations and their 2005/2006 budgets. The report also proposes an update to the schedule of determinations to Finance Procedure Rules, which governs the percentage of surpluses the trading organisations are allowed to retain.

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. Any surplus generated is shared between the relevant department and the general reserve on a ratio determined by Cabinet. This report contains a proposed amendment to the existing ratios.
- 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 2005/2006 budgets for the Council's trading organisations;
 - (2) Approve the revised level of surplus retention of:

- housing maintenance 100%
 - other organisations 50%
- (3) Subject to the approval of (2) above, amend the schedule of determinations to the Finance Procedure Rules;
- (4) Note the proposed policies in respect of the use of retained surpluses for each department.

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

5. OTHER IMPLICATIONS

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

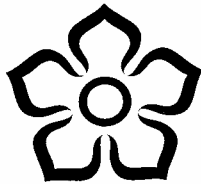
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Date: 08/04/05

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CHIEF FINANCE OFFICER

DECISION STATUS

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



Leicester
City Council

CABINET

16th MAY 2005

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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), except in a few limited circumstances. Appendix A to the supporting information details the estimated overall expenditure for each trading unit, for which an equal level of income has also been budgeted for. Service departments will be charged in accordance with agreements for services that have been negotiated as part of the 2005/06 budget process.
- 1.4 Directors responsible for trading organisations shall ensure that each organisation achieves its budgeted return. It is possible for surpluses to be achieved 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 percentages for the retention of surpluses vary between departments, based on (a) the level of aggregate surplus achieved by the department, (b) the type of traded service – i.e. former blue collar and white collar defined activities and (c) the client funding source – i.e. general fund and Housing Revenue Account (HRA).

2.2 The existing retention rules are:

Regeneration & Culture

- o surplus up to £125,000 retention of 45%
- o surplus between £125,000 and £175,000 retention of 50%
- o surplus greater than £175,000 retention of 60%

Resources, Access & Diversity

- o all surpluses retention of 25%

Housing

- o Housing Maintenance DSO retention of 100%

2.3 The Strategic Resources Group, which consists of a senior officer representative for each department, has considered this item and recommends that the retention of surplus levels are rationalised. Therefore, it is proposed that all traded organisations within the general fund are allowed to retain 50% of any surplus they generate (with 50% transferring to the general reserve).

2.4 The recommendation proposed in 2.3 relates solely to trading organisations within the general fund. Currently the Housing Maintenance DSO retains 100% of its surpluses. This is due to the majority of its income being generated from the Housing Revenue Account (HRA), which is a statutory ring-fenced account. All surpluses are used to support the housing capital programme. No change to this is proposed.

3. POLICIES IN RESPECT OF RETAINED SURPLUSES.

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

Resources, Access & Diversity

- I.C.T Services (including I.T training)
- Legal Services
- Job shop
- Post room
- Standby register
- Payroll
- Customer accounts
- Cashiers
- Creativity works
- Property Services – Projects

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">▪ Housing Maintenance DSO	To be used as a revenue contribution to capital spending. This has already been approved by Council (27/01/05) as part of the Housing Capital Programme 2005/06.
<ul style="list-style-type: none">▪ Resources, Access & Diversity Department – all Trading Units	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.
<ul style="list-style-type: none">▪ Regeneration and Culture Department – all Trading Units	The department reviews any generated surpluses against business plans and service pressures. The use of any such surpluses is focused on reinvestment and service delivery within the relevant traded services.

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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Trading Services	2005/2006 Expenditure £
Resources Access & Diversity Department	
I.C.T. Services	6,490,200
Legal Services	3,284,700
Job Shop	126,700
Post room	548,500
Standby Register	152,900
Payroll	1,002,000
Customer Accounts	876,400
Cashiers	557,400
Creativity Works	2,823,200
Property Services – Projects	3,737,000
Regeneration & Culture	
City Catering	7,560,000
City Highways	9,823,400
Operational Transport	6,178,000
City Transport Fleet	6,736,500

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

Trading Services	2005/2006 Expenditure £
Housing Department	
Housing Maintenance	24,176,000

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