

TRADING ORGANISATIONS – 2006/2007 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 2006/2007 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 have budgeted to deliver surpluses. This reflects efficiency savings that have been made as part of the 2006/07 budget. For this year the traders will continue to charge at previously agreed rates however the cost of such services are expected to be reduced. In future years it is intended to clawback these savings from departmental budgets commensurate with reductions in charges.
- 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 2006/2007 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 Creativity Works to retain £10,000 (in full) of any surplus generated (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

5. OTHER IMPLICATIONS

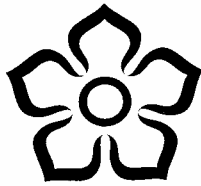
<u>Other implications</u>	<u>Yes/No</u>	<u>Paragraph referred</u>
Equal Opportunities Policy	No	-
Sustainable and Environmental	No	-
Crime and Disorder	No	-
Human Rights Act	No	-
Elderly/People on Low Income	No	-

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Date: 03/04/06

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DECISION STATUS

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



Leicester
City Council

CABINET

15th MAY 2006

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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). For 2006/07, circumstances are different in that a number of traded services within the Resources Department (denoted with * in Appendix A) have budgeted to achieve a year-end surplus. This 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.
- 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 2006/07 budget process.
- 1.5 Directors responsible for trading organisations shall 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 percentage retention of surpluses was harmonised last year. The existing retention rules are:

Regeneration & Culture and Resources Departments

- o aggregate of all surpluses : retention of 50%

Housing

- o Housing Maintenance DSO : retention of 100%

- 2.2 For 2006/07, the determinations for Finance Procedure Rules set out values of sums to be retained in full by traded services within the Resources Department. This recognised the interim accounting arrangements for support service savings approved as part of the 2006/07 budget process. Creativity Works was omitted from this list although they are required to generate a saving of £10,000. 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 (including I.T training) *

Legal Services *

Job shop *

Post room *

Temporary Staffing Agency *

Payroll

Customer accounts

Cashiers *

Creativity works *

Property Services – Projects *

(* services budgeting for a surplus)

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 	<p>To be used as a revenue contribution to capital spending. This has already been approved by Council (26/01/06) as part of the Housing Capital Programme 2006/07.</p>
<ul style="list-style-type: none"> ▪ Resources Department – all Trading Units 	<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.</p>
<ul style="list-style-type: none"> ▪ Regeneration and Culture Department – all Trading Units 	<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.</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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Trading Services	2006/2007 Turnover £
Resources Department	
I.C.T. Services	6,637,000
Legal Services	3,504,900
Job Shop	132,900
Post room	584,800
Standby Register	3,207,400
Payroll	913,700
Customer Accounts	919,200
Cashiers	585,900
Creativity Works	2,187,600
Property Services – Projects	4,700,000
Regeneration & Culture	
City Catering	7,411,100
City Highways	8,625,300
Operational Transport	7,860,100
City Transport Fleet	7,131,000

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

Trading Services	2006/2007 Turnover £
Housing Department	
Housing Maintenance	24,718,000

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