



Leicester
City Council

CABINET

12th May 2008

TRADING ORGANISATIONS – 2008/2009 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 2008/2009 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 Adults and 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 at least break-even overall. It is also now integral to most traded services within departments to budget to deliver surpluses. This reflects their contribution to departmental efficiency savings proposed as part of the budget process. Most commonly this is achieved through delivering a reduced cost of the service whilst the trader continues to charge at previously agreed rates. 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 2008/2009 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 5.2 of the supporting information.

4. BACKGROUND

- 4.1 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.
- 4.2 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.
- 4.3 The budget is normally 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 2008/09, a number of traded services within the Resources and Regeneration & Culture Departments (identified in paragraph 5.2) 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.
- 4.4 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 2008/09 budget process.
- 4.5 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 5 sets out the level at which surpluses may be retained and section 6 identifies the departmental policies relating to any such surpluses.

5. RETAINED SURPLUSES

- 5.1 The existing retention rules are:

Regeneration & Culture and Resources Departments

- aggregate of all surpluses : retention of 50%

Housing

- Housing Maintenance DSO : retention of 100%

- 5.2 For 2008/09, 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 level of budgeted surpluses for the relevant traded services are as follows:

Legal Services	£66,000
Property Services	£125,000
Financial Services	£26,100
Democratic Services	£46,000
Business Improvement	£8,700
Highways	£200,000
Transport fleet	£50,000

6. POLICIES IN RESPECT OF RETAINED SURPLUSES.

6.1 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

Regeneration and Culture

City Catering
City Highways
Operational Transport
City Transport Fleet

Housing

Housing Maintenance

6.2 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 data-bbox="347 197 791 235">▪ Housing Maintenance DSO <li data-bbox="347 383 823 454">▪ Resources Department – all Trading Units <li data-bbox="347 748 823 853">▪ Regeneration and Culture Department – all Trading Units 	<p data-bbox="847 197 1485 344">To be used as a revenue contribution to capital spending. This has already been approved by Council (24/01/08) as part of the Housing Capital Programme 2008/09.</p> <p data-bbox="847 383 1485 712">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> <p data-bbox="847 748 1485 1180">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 2008/09 departmental revenue strategy three of the current traders (Highways and Transport Fleet) were targeted to contribute to the Department's efficiency savings.</p>

7. **FINANCIAL AND LEGAL IMPLICATIONS**

- 7.1 This report is concerned solely with financial issues.
- 7.2 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.
- 7.3 There are no legal implications and this has been confirmed by the Head of Legal Services (Peter Nicholls).

8. 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	-

9. DETAILS OF CONSULTATION

- 9.1 All departmental Heads of Finance have been consulted in the preparation of this report.

Author: Alison Greenhill
Principal Accountant
Ext. 7421

Date: 07/04/08

MARK NOBLE
CHIEF FINANCE OFFICER

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

Trading Services	2008/2009 Turnover £
Resources Department	
I.C.T. Services	361,400
*Legal Services	3,619,700
*Job Shop	140,600
*Post room	610,800
*Standby Register	3,344,500
Payroll	919,800
Customer Accounts	1,088,700
*Cashiers	610,000
*Creativity Works	1,357,000
*Property Services – Projects	4,945,200
Regeneration & Culture	
City Catering	7,376,000
*City Highways	8,488,000
Operational Transport	4,877,000
*City Transport Fleet	7,240,000

* services budgeted to achieve a surplus

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

Trading Services	2008/2009 Turnover £
Housing Department	
Housing Maintenance	25,095,000

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