



Leicester
City Council

WARDS AFFECTED:
ALL WARDS (CORPORATE ISSUE)

CABINET

15th October 2007

BASE BUDGET PREPARATION 2008/09

REPORT OF THE CHIEF FINANCE OFFICER

1. Purpose of Report

This report explains the process by which the Council's 2008/09 base budget is being prepared, and summarises the principles supporting this process.

2. Summary

- 2.1 The first step in agreeing the 2008/09 revenue budget is to prepare a rolled forward base budget. This is in most respects a mechanical exercise: it expresses the financial impact of decisions previously taken by the Council, at 2008/09 prices and does not anticipate any later decisions the Council may take about the budget. Unusually, however, it is proposed to restrict the amount of inflation added to some types of spending this year, for reasons explained below.
- 2.2. The Authority has adopted a "cash-limited" approach to budgeting. Each department is set a cash limit for its base budget, reflecting assumptions made on inflation and other factors requiring to be taken into account. **Each department's base budget must be prepared within this cash limit.** Any budget pressures identified by departments which cannot be contained within the cash limit will lead to proposals for service developments, which will need to be dealt with in the context of those departments' budget strategies.
- 2.3 Having agreed cash limits the base budget should be completed by December. Cash limits for each department are shown at Appendix A, and the changes between 2007/08 and 2008/09 are summarised below:-

Changes in Cash limits from 2007/08 to 2008/09

ITEM	£'000
Net budget 2007/08 (Service Departments)	215,065.8
Full Year Effects	(4,996.0)
Inflation	4,186.4
Other changes	544.5
Virement	(500.0)

Budget 2008/09 (Service Departments)	214,300.7

- 2.4 Members are asked to note that the cash limits issued to each department do not constitute the whole of the Council's revenue budget, as there are certain corporate items which are managed centrally. The 2007/08 budget shown in appendix A can be balanced back to the table on page 9 of the Council's budget book as follows:

	£'000
Service department budgets	215,065.8
Corporate budgets	8,758.7
Net recharges	(3,024.6)
Capital charges	19,266.1

	<u>240,066.0</u>

3. Details of Framework for Base Budget Preparation

3.1 The key points of the framework are:

- The base budget is prepared on a "volume standstill": no adjustment will be made for demographic or other changes to client groups which must be dealt with through departments' budget strategies;
- The full year effects of previously approved budget reductions and growth will be incorporated in the base budget (i.e. where an approved change to the budget was time-limited, or has greater effect in 2008/09 than in 2007/08);
- An allowance for inflation has been added to the base budget based on the following assumptions:

⇒ teachers' salaries, NI and pension costs:	2.75%
⇒ other salaries, NI and pension costs:	2.75%
⇒ contracted running costs only (including levies from external organisations):	2.5%
⇒ income (exc. Government Grants):	2.5%

The inflation provision also recognises the employee element of internally traded services contained within departmental running costs budgets;

- Pay inflation is a provisional figure, set in advance of the 2007 pay award;
- Running cost inflation has been restricted to certain categories of expenditure only, being:
 - where a significant contractual obligation exists requiring the authority to pay an increased cost directly related to inflation;
 - where running costs are matched by grant income, therefore requiring inflation to be applied to maintain a nil overall cost;
 - to certain departmental budgets which are under considerable pressure due to market demands (respite residential care, transport, foster care payments, community care);
 - National non-domestic rates

For all other running cost budgets, no provision for inflation has been made. This reflects our continuing drive to seek savings through improved procurement practices, although it is accepted that this will not be possible in all cases. It is, nonetheless, a means of releasing funds for corporate priorities in the forthcoming budget.

- The cash targets do not reflect the cost implications of the outcome of job evaluation for which there is a corporate provision. This will be allocated to departments in line with the decision of Cabinet on 23rd July 2007.
- Allowance is made for sundry other items, shown in the “other changes” line in the table. These include:-
 - an allowance of £0.4m for an increase in the level of landfill tax;
 - on-going revenue costs of 0.1m arising from new policy developments agreed by Cabinet on 3rd September 2007.
- Virement has taken place between departments since the 2007/08 budget was set and reflects the transfer of responsibility or funding for services between departments. Further virements will occur as details of service transfers are finalised. There is no overall effect on the General Fund budget as a consequence of such transfers.

4. Recommendations

4.1 Cabinet is asked to:

- i) endorse the framework for base budget preparation;
- ii) approve the cash limits for each department;
- iii) authorise the Chief Finance Officer to change the provision for pay in the light of better information which may emerge.

5. Financial and Legal Implications

- 5.1 The report outlines the framework for base budget preparation and the resulting base budget for departmental service spending.
- 5.2 There are no additional legal implications. Peter Nicholls, Service Director, has been consulted in preparation of the report.

6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References within Report
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	No	
Elderly and People on Low Incomes	No	
Human Rights Act	No	

7. Background Papers

General Fund Budget and Council Tax 2007/08; report to the Council 21/2/07 and accompanying budget book.

8. Details of Consultation

Heads of Finance in all Departments have been consulted about the calculation of the cash targets.

9. Report Author/Officer to contact:

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DECISION STATUS

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

CASH LIMITS FOR BASE BUDGET PREPARATION 2008/09

DEPARTMENT	Original Base 2007/08	Full Year Effects	Inflation Provision	Other Changes	Virements	Original Base 2008/09
	£'000	£'000	£'000	£'000	£'000	£'000
Children & Young People	54,781.9	(596.0)	1,284.1			55,470.0
Children & Young People – Dedicated Schools Grant (DSG)	(1,905.0)		(47.6)			(1,952.6)
Housing	6,039.3	(204.0)	69.3		65.0	5,969.6
Regeneration & Culture	60,030.1	(4,315.0)	824.3	511.0		57,050.4
Resources	28,025.7	(46.0)	380.3	33.5	(500.0)	27,893.5
Adult & Community Services	68,093.8	165.0	1,676.0		(65.0)	69,869.8
TOTAL	215,065.8	(4,996.0)	4,186.4	544.5	(500.0)	214,300.7