

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

CABINET

23 September 2002

BASE BUDGET PREPARATION 2003/04

Report of the Chief Financial Officer

1. Purpose of Report

This report explains the process by which the Council's 2003/04 base budget is being prepared, and summarises the principles supporting this process.

2. Summary

- 2.1 The first step in agreeing the 2003/04 revenue budget is to prepare a rolled forward base budget. This is entirely a mechanical exercise: it expresses the financial impact of decisions previously taken by the Council, at 2003/04 prices and does not anticipate any later decisions the Council may take about the budget. As in previous years, the Chief Financial Officer has established the framework for base budget preparation, and these principles are summarised in the attached supporting information.
- 2.2 As for 2002/03 the Authority is adopting 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 department's budget strategies.
- 2.3 There are areas of uncertainty at this stage that are likely to result in further changes to departmental cash targets, such as the impact of free nursing care, the transfer of some specific education grants to general grant and a potential increase in teachers' pension costs. These adjustments will be made when their full implications are known.
- 2.4 The cash targets assume that the current pay proposals for non-teaching staff (amounting to 7.8% over two years) will be accepted. Further change may be required if this is varied.
- 2.5 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 2002/03 and 2003/04 are summarised below:-

Changes in Cash limits from 2002/03 to 2003/04

ITEM	£'000
Net Direct budget 2002/03 (Service Departments)	295,404.3
Full Year Effects	(1,072.0)
Inflation	10,082.4
Pay Under Provision (2002 award)	1,108.1
National Insurance	1,087.9
Pensions	536.0
Other changes	(86.6)

Budget 2003/04 (Service Departments)	307,060.1

2.5 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 2002/03 budget shown in appendix A can be balanced back to the table on page 8 of the Council's budget book as follows:

	£'000
Service committee budgets	295,404
Adj. For Commercial Services	212
Corporate budgets	8,326
Net recharges	(1,796)
Capital charges	10,259

	312,405

3. **Recommendations**

3.1 Cabinet is asked to:

- i) endorse the framework for base budget preparation;
- ii) approve the cash limits for each department.

4. **Financial and Legal Implications**

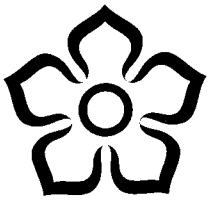
4.1 The report outlines the framework for base budget preparation and the resulting base budget for departmental service spending. The overall forecast budgetary position for 2003/04 and 2004/05 is covered in a separate report to this cabinet meeting.

5 **Report Author/Officer to contact:**

Julian Allen, Financial Strategy, Ext.7454

DECISION STATUS

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



Leicester
City Council

**WARDS AFFECTED:
ALL WARDS (CORPORATE ISSUE)**

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

CABINET

23 September 2002

BASE BUDGET PREPARATION 2003/04

1. Purpose of the Report

- 1.1 The report provides background information on the framework for preparation of the 2003/04 base budget.

2. Details of Framework for Base Budget Preparation

- 2.1 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 at this stage;
- 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 2003/04 than in 2002/03);
- an allowance for inflation has been added to the base budget based on the following assumptions:

⇒ teachers' salaries, NI and pension costs:	3.5%
⇒ other salaries, NI and pension costs (reflecting the proposed national award) – lower paid staff will receive 4.5%	3.5%
⇒ other running costs (including levies from external organisations):	2.1%
⇒ income (exc. Government Grants):	2.1%

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

- no allowance is made for Officers' pay increments. Departments are expected to fund these through savings made by natural turnover of staff;
- allowance has been made for the costs in 2003/04 of the proposed pay award for 2002, to the extent that this is under-recognised in departmental budgets;
- an increase in the level of employer's national insurance contributions has resulted in an increase to the base budget of £1.1m;

- following a review of the County Council superannuation fund by the actuaries, there has been an increase in employer's contributions which has been phased in over three years. The employer's contribution increased to 210% of employee's contributions in 2002/03, and will increase to 220% in 2003/04 and 230% in 2004/05. The increase in 2003/04 will add £0.5m to the base budget;
- allowance is made for sundry other items, shown in the "other changes" line in the Table. These include:-
 - an allowance of £0.2m for reductions in rental income arising from disposals of property required to finance the Capital Programme;
 - an allowance of £0.1m for an increase in the level of landfill tax;
 - reductions of £0.4m arising from a number of reviews of client / contractor relationships;
- Virement has taken place between departments since the 2002/03 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.

3. Other Implications

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

4. Background Papers

General Fund Budget and Council Tax 2002/03; report to the Council 6/3/02 and accompanying budget book.

5. Details of Consultation

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

CASH LIMITS FOR BASE BUDGET PREPARATION 2003/04

DEPARTMENT	Original Base 2002/03	Full Year Effects	Inflation Provision	Pay Under- Provision	Pensions	National Insurance	Other changes	Virements	Original base 2003/04
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cultural Serv. & Neigh. Renewal	18,267.4	103.3	640.9	130.6	45.9	54.5	0.0	0.0	19,242.6
Chief Executives	2,594.6	(140.0)	70.3	9.5	6.1	7.6	0.0	(26.0)	2,522.1
Commercial Services	(211.8)	(13.3)	3.2	0.0	1.5	1.8	0.0	96.7	(121.9)
Education	150,970.2	(100.0)	5,229.5	331.5	161.8	631.8	0.0	20.0	157,244.8
Environment & Regeneration	32,482.2	(0.6)	1,042.9	146.7	58.5	68.8	39.4	6.0	33,843.9
Housing (General Fund)	8,080.5	(22.4)	333.5	73.1	31.9	38.4	0.0	0.0	8,535.0
Social Services	64,925.7	(610.0)	2,206.1	329.0	158.2	191.0	0.0	0.0	67,200.0
Resources, Access & Diversity	18,295.5	(289.0)	556.0	87.7	72.1	94.0	(126.0)	(96.7)	18,593.6
	295,404.3	(1,072.0)	10,082.4	1,108.1	536.0	1,087.9	(86.6)	0.0	307,060.1