

CABINET

22 September 2003

BASE BUDGET PREPARATION 2004/05

REPORT OF THE CHIEF FINANCE OFFICER

1. PURPOSE OF REPORT

This report explains the process by which the Council's 2004/05 base budget is being prepared, and summarises the principles supporting this process.

2. SUMMARY

- 2.1 The first step in agreeing the 2004/05 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 2004/05 prices and does not anticipate any later decisions the Council may take about the budget. As in previous years, the Chief Finance Officer has established the framework for base budget preparation, and these principles are summarised in the attached supporting information.
- 2.2. As for 2003/04 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 transfer of the Social Services children's grant to general grant. These adjustments will be made when their full implications are known.
- 2.4 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 2003/04 and 2004/05 are summarised below:-

Changes in Cash limits from 2003/04 to 2004/05

ITEM	£'000
Service departments' 2003/04 budgets	324,047.7
Full Year Effects of decisions taken in 2003/04	(1,353.8)
Inflation	10,442.1
Virements from Corporate budgets	493.0
Pensions increases	576.5
Other changes	434.9

Budget 2004/05 (Service Departments)	334,640.4

- 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 2003/04 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	324,047
Corporate budgets	9,507
Net recharges	(3,074)
Capital charges	12,314

Total General Fund Budget 2003/04	342,794

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 IMPLICATIONS

- 4.1 The report outlines the framework for base budget preparation and the resulting base budget for departmental service spending.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications in this report. Peter Nicholls, Head of Legal Services has been consulted in the preparation of this report.

6. REPORT AUTHOR

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DECISION STATUS

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

BASE BUDGET PREPARATION 2004/05

SUPPORTING INFORMATION

1. Purpose of the Report

- 1.1 The report provides background information on the framework for preparation of the 2004/05 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 2004/05 than in 2003/04); The main element of this was fall out of a one-off sum of £1.1m awarded to Social Services in 2003/04.
- an allowance for inflation has been added to the base budget based on the following assumptions:

⇒ teachers' salaries:	3.5%
⇒ other salaries:	3.25%
⇒ 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;
- 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 employees' contributions in 2002/03; 220% in 2003/04 and will increase to 230% in 2004/05. The increase in 2004/05 will add £0.6m 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;
 - an allowance of £0.1m for the estimated increase in housing benefit client costs above the standard level of inflation;
- Virement has taken place between departments since the 2003/04 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 Policy	No		
Sustainable and Environmental	No		
Crime and Disorder	No		
Elderly and People on Low Incomes	No		
Human Rights Act	No		

4. Background Papers

General Fund Budget and Council Tax 2003/04; report to the Council 5/3/03 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 2004/05

DEPARTMENT	Original Base 2003/04	Full Year Effects	Inflation Provision	Pensions	Other changes	Virements	Original base 2004/05
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cultural Serv. & Neigh. Renewal	15,628.6	(15.0)	557.8	37.7	0.0	1,552.4	17,761.5
Chief Executives	2,499.0	(41.2)	67.8	7.0	0.0	10.3	2,542.9
Education - Schools Block	141,359.2	0.0	4,746.8	112.1	0.0	0.0	146,218.1
Education - LEA Block	31,210.9	20.5	1,032.9	75.1	0.0	157.1	32,496.5
Environment & Regeneration	35,129.4	28.5	899.1	61.0	128.0	(1,639.3)	34,606.7
Housing (General Fund)	9,222.5	(28.6)	359.0	47.5	73.9	23.6	9,697.9
Social Services	73,955.7	(1,100.0)	2,270.4	165.2	0.0	62.5	75,353.8
Resources, Access & Diversity	15,042.4	(218.0)	508.4	70.9	233.0	326.4	15,963.0
	324,047.7	(1,353.8)	10,442.1	576.5	434.9	493.0	334,640.4