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ASE BUDGET PREPARATION 2006/07

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REPORT OF THE CHIEF FINANCE OFFICER

1. **Purpose of Report**

This report explains the process by which the Council's 2006/07 base budget is being prepared, and summarises the principles supporting this process.

2. **Summary**

- 2.1 The first step in agreeing the 2006/07 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 2006/07 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 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 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. These include services presently supported by specific government grant which are likely to transfer into mainstream funding and vice versa. By far the most significant is the £160m the Council spends on schools which will cease to be funded by revenue support grant, and will instead be funded by "Dedicated Schools Grant". The details of this transfer are not yet known. The new Dedicated Schools Grant will significantly reduce the Council's net budget but it is not intended to result in a reduction in council tax. Other expected changes include residential allowances which will affect Social Care and Health. These adjustments to cash targets 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 2005/06 and 2006/07 are summarised below:-

**Changes in Cash limits from 2005/06 to 2006/07**

<b>ITEM</b>	<b>£'000</b>
Net budget 2005/06 (Service Departments)	362,154.0
Full Year Effects	(4,272.7)
Inflation	10,427.5
Other changes	361.4
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Budget 2006/07 (Service Departments)	<b>368,669.9</b>

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 2005/06 budget shown in appendix A can be balanced back to the table on page 11 of the Council's budget book as follows:

	£'000
Service department budgets	362,154.0
Corporate budgets	8,616.8
Net recharges	(3,597.0)
Capital charges	14,600.0
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	<u>381,773.8</u>

2.6 Members will be aware of the Integrated Services Review, which is developing the organisational structure for the new departments of Children's and Adults' Services and is the subject of a separate report on your agenda. The base budget will be prepared for the presently existing departments, which will be disaggregated and transferred to the new departments as and when the new structures are agreed. Maintaining appropriate control over the transfers will be a prime consideration of the Integrated Services Review.

### 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.

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

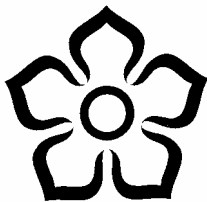
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### DECISION STATUS

<b>Key Decision</b>	No
<b>Reason</b>	N/A

<b>Appeared in Forward Plan</b>	N/A
<b>Executive or Council Decision</b>	Executive (Cabinet):



Leicester  
City Council

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

**CABINET**

**26 September 2005**

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**BASE BUDGET PREPARATION 2006/07**

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**SUPPORTING INFORMATION**

**1. Purpose of the Report**

- 1.1 The report provides background information on the framework for preparation of the 2006/07 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 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 2006/07 than in 2005/06);
- An allowance for inflation has been added to the base budget based on the following assumptions:
  - ⇒ teachers’ salaries, NI and pension costs: 3%
  - ⇒ other salaries, NI and pension costs: 2.95%
  - ⇒ other running costs (including levies from external organisations): 2.25%
  - ⇒ income (exc. Government Grants): 2.25%

Unusually, the inflation factors used for pay reflect agreed pay awards rather than estimates (as multi-year pay deals have been negotiated). However, the non teachers pay award for 2006/07 is the higher of 2.95% or the level of RPI inflation in October. RPI inflation is currently 2.9%

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 is made for sundry other items, shown in the “other changes” line in the Table. These include:-
  - an allowance of £0.2m for lease costs relating to Wellington House;
  - an allowance of £0.2m for an increase in the level of landfill tax;
- Virement has taken place between departments since the 2005/06 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 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	

### 4. Background Papers

General Fund Budget and Council Tax 2005/06; report to the Council 23/2/05 and accompanying budget book.

### 5. Details of Consultation

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

### 6. Report Author/Officer to contact:

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**CASH LIMITS FOR BASE BUDGET PREPARATION 2006/07**

<b>DEPARTMENT</b>	<b>Original Base 2005/06</b>	<b>Full Year Effects</b>	<b>Inflation Provision</b>	<b>Other Changes</b>	<b>Virements</b>	<b>Original Base 2006/07</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Chief Executive's	2,431.0	0.0	65.4		(0.6)	2,495.8
Education – Schools Block	158,145.2	0.0	4,580.5		0.0	162,725.7
Education – LEA Block	34,379.6	(3,634.0)	899.6		(10.4)	31,634.8
Housing	7,080.3	(14.0)	302.3		(14.3)	7,354.3
Regeneration & Culture	53,322.6	(1,498.0)	1,428.3	158.0	(16.9)	53,394.0
Resources, Access & Diversity	18,708.4	(606.7)	564.6	203.4	57.8	18,927.5
Social Care & Health	88,086.9	1,480.0	2,586.5		(15.6)	92,137.8
	362,154.0	(4,272.7)	10,427.2	361.4	0.0	368,669.9