

Business Plan and Budget 2011/12

Purpose of report

For discussion.

Summary

This paper presents an update on the LG Group business plan and provides information on the preliminary budget for the LG Group for 2011/12, allocated across the individual organisations in the Group. The Group business plan and budget will be finalised over the coming weeks once the outcome of the work currently in progress to achieve a substantial reduction in employee numbers across the LG Group has been assessed and presented for final approval to the May Executive.

Recommendations

Members are asked to note the update on the Group business plan and budget for 2011/12.

Action

An update on the final business plan and programme plans for the LG Group to be presented to the next meeting of the Improvement Board, to include an overview of the improvement offer for the Group.

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Business Plan and Budget 2011/12

Background

1. At its meeting in January, Executive agreed the 2011/12 business plan for the LG Group, building on the priorities in the RSG prospectus and setting out a radically re-focused offer of support to councils with significantly reduced funding.
2. A preliminary budget for the LG Group for 2011/12 has been developed as part of the business planning process. This has been agreed by the Executive and is also being presented to the individual company boards of the organisations in the LG Group in advance of the new financial year, to provide LG Group managers with a “license to operate” from April.
3. The LG Group budget will be finalised over the coming weeks, once the outcome of the work currently in progress to achieve a substantial reduction in employee numbers across the LG Group has been assessed and in particular the transition costs of moving to the new structure can be accurately determined.
4. The aim is for the Group business plan and budget to reflect the integrated approach to managing the LG Group that is being developed through the *Getting Closer* programme and the new organisational arrangements that are currently being implemented. Given that the company structure of the central bodies is being retained, there is still a need for business plans and budgets to be drawn up for the individual organisations in the LG Group - including the LGID board - for governance purposes, to demonstrate clear accountability to the individual company boards and the LGA Resources Panel. These individual business plans and budgets will in effect be sub-sets of the Group business plan and budget.
5. The 2011/12 budget for the LG Group, allocated across the individual organisations comprising the LG Group, will be presented for final approval to the next meeting of the Executive in May and also the individual company boards, along with a detailed budget book for the LG Group and the individual organisations in the Group.

LG Group Business Plan 2011/12

6. As part of the *Getting Closer* change programme, since 2009/10 the Executive has established one set of politically directed priorities in an annual business plan for the LG Group. This is central to achieving the core objectives of *Getting Closer* agreed by members in 2009:
 - 6.1 Councils should have more influence over LG Group priorities and feel more connected
 - 6.2 Strong, co-ordinated political direction of the Group, to ensure priorities are based on the changing needs of councils and that resources across the Group are allocated to these priorities
 - 6.3 Better coordination and elimination of duplication across the Group, to deliver greater value for money to councils.
7. At its meeting in January, Executive agreed the 2011/12 business plan for the LG Group. This was also presented to the January meeting of the Improvement Board. The new organisational arrangements for the Group, which are currently being consulted on with employees and which were presented to Executive in December, are designed to deliver this strategy, taking account also of the significantly reduced funding base of the LG Group. The Group business plan is now being used as the basis for our internal communication on the vision for the LG Group and the rationale for the proposed changes, as explained in the update on *Getting Closer* which is also presented to this meeting of the Improvement Board.
8. Since January, work has been underway to develop the programme plans that will enable us to deliver the priorities in the business plan. Discussions on the key policy and improvement priorities for the year ahead have been held with each of the LG Group programme boards. Work has also been underway on a number of other priorities identified in the business plan, including the key improvement offers underpinning our approach to supporting sector self-regulation, and a number of important cross-cutting themes including Local Government Finance and Devolution and Decentralisation.
9. It is proposed that this more detailed work on the business plan will be finalised at the end of April along with work on the final budget for 2011/12, involving people who have been appointed to the new structure. An update on the final business plan and programme plans for the LG Group will be presented to the next meeting of the Improvement Board – this will include an overview of the improvement offer for the Group.

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The 2011-12 Budget – LG Group

10. At LG Group level, a preliminary budget has been developed to ensure that the proposed organisational structure is sustainable based on our funding streams, and also to test that there are sufficient resources to deliver the priorities set out in the 2011/12 business plan.
11. This preliminary budget is based on the following assumptions:
 - 11.1 a 13% reduction in subscriptions for the LGA
 - 11.2 a 21% reduction in RSG, reflecting total RSG of £32.5m for 2011/12, allocated to the individual companies in proportion to the current spread of RSG
 - 11.3 the detailed salaries costings of the proposed structure
 - 11.4 detailed modelling of overheads for the Group, with substantial efficiencies targeted
 - 11.5 provision for £3.4m of additional pension contributions across the Group
 - 11.6 non-pay budgets for each company determined as the balancing figure after taking into account salaries costs and overheads.
12. The preliminary budget for 2011/12 is included at **Appendix 1**. It allocates budget according the broad priority headings set out in the LG Group business plan, and to each organisation in the LG Group in line with the principles set out in paragraph 11 above.
13. Members will be aware that the LG Group issued detailed consultation proposals to staff on 30 November, setting out changes to the future organisational structure and staffing of the Group. Under these proposals, the number of posts across the Group will reduce from 447 to 269 (a reduction of just under 40%). We are on track for the new structure to be fully implemented early in 2011/12 with appointments to the new structure being made in April.
14. Until the individual appointments to the new structure are made in April, it will not be possible accurately to determine the transition costs in 2011/12 of moving to the new structure. These will comprise redundancy payments to employees who are not appointed to the new structure along with their salary payments in the notice period April – July 2011. We currently estimate that these transition costs will be in the region of £7.1m for the LG Group as a whole, subject to a margin of around plus or minus £0.5m either side of this central estimate. Of this amount, £2.9m represents the cost of voluntary redundancies that have already been agreed, and where individuals have either left the Group already or have firmly agreed leaving dates early in 2011-12. It is proposed that the balance of transition cost in 2011-12 should be funded from the Group's reserves.

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15. As at 31 March 2010, the reserves (excluding pension deficits) of the principal LG Group organisations totalled £17.8m, with combined cash balances of 25.6m. Over the period to 31 March 2011, most parts of the Group have been seeking to conserve cash and resources ahead of what will be a very difficult few years, so it is unlikely that the March 2011 levels of reserves and cash will be materially lower than these figures. Taking into account the existing reserves totals and cash balances, the transition is therefore expected to be affordable for the Group.
16. The proposed figures for additional pension contributions totalling £3.4m across the LG Group companies will be confirmed with the individual company boards at their next meetings. These additional contributions are necessary as a result of the 2010 actuarial revaluations. As the accounts of the various Group entities make clear, the pension schemes are all underfunded to varying degrees, and the resulting deficits have to be made good, normally over a 15 year period. The relevant issues have been discussed in detail by the Group Audit and Scrutiny Panel, which has reviewed the management of the Group pension risk, and by the Group Resources Panel, which has considered the pension position in the light of the Group's overall investment strategy.

Next steps

17. The following further work is currently underway to inform the final business plan and budget for 2011/12 which will be presented to Executive and the individual company boards in May:
 - 17.1 Once appointments are made to the new organisational structure in April we will be able to determine the allocation of staff costs company by company, enabling us to confirm the budgets for the individual organisations in the LG Group.
 - 17.2 This will also enable us to determine exactly the overall transition and redundancy costs for the Group as a whole and for the individual organisations.
 - 17.3 Final agreement on the level of funding for the three top-slice bodies outside the LG Group which formerly received RSG top-slice will have been reached. Here, it has been suggested that 2011-12 funding levels should be around 50% of previous amounts. The three bodies – National Foundation for Educational Research (NFER), the National Institute of Adult Continuing Education (NIACE) and the National Youth Agency (NYA) - are developing proposals for the work that they would do for the Group on that basis, and it appears at present that agreement of that

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funding level is likely to be regarded as satisfactory to the Children and Young People's Board, who act as the main customer of the work on behalf of the Group. This work is now well advanced, and it appears likely that in overall terms good value and tighter control over what work is done will be achieved.

- 17.4 A number of negotiations for significant grant-funded programmes for 2011/12 have yet to be finalised, in particular for improvement support for children's and adults services. The outcome of these discussions is likely to be known when the final budget is presented in May when all grant-funded programmes will be included in the budget. So far the following grant-funded programmes have been confirmed for 2011/12:

The Ageing Well programme - £1.5m
The Healthy Communities programme - £1.0m
The Planning Advisory Service - £3m

- 17.5 Detailed work is also currently underway on the appropriate non-pay allocation required to deliver the Group business plan, taking into account the priorities identified by the LG Group's Programme Boards.

Recommendation

18. Members are asked to note progress with the Group business plan and budget for 2011/12.