



# LG Group Budget Book 2011-12 to 2013-14

for LG Group Executive – 19 May 2011

## Summary

1. In 2011/12, for the first time, an annual budget has been developed for the LG Group as a whole. This is part of the transformation programme, through which the political leadership and management of the five organisations in the LG Group – the LGA, LG Improvement and Development, LG Employers, LG Regulation and LG Leadership – is being integrated and co-ordinated, to deliver greater value for money for councils.
2. The 2011/12 LG Group budget has been driven by the business strategy for the Group which is set out in the Group's annual business plan and which was agreed by the LG Group Executive in March 2011. This has been developed following consultation to take account of the changing needs of councils against a background of significantly reduced public spending and an exceptionally tough financial settlement for local government.
3. The 2011/12 budget also takes account of the reduced funding base of the Group – from nearly £100m in 2010/11 to expected income of just over £50m in 2011/12. This reduction is itself a direct consequence of the general tightening of public sector spending. Taking into account feedback from member authorities, LGA subscriptions have been set at levels that overall will be likely to raise 11% less income than in 2010/11. RSG topslice funding has been reduced by 21% in 2011/12 and grants for specific programmes are significantly reduced. We also expect the demand from councils for paid-for services such as conferences and events and leadership programmes to fall over the coming year.
4. The Group's business priorities for 2011/12, and also our reduced funding base, are reflected in a new organisational structure, due to come fully into effect from June 2011. The new structure has been designed to direct staffing and other resources to priority areas of work in line with the steer provided by members at Executive and through the LG Group's programme boards.
5. In addition, the 2011/12 budget assumes that substantial efficiency savings are achieved across the Group from a reduction in the fixed cost of the Liberata contract, the letting of Layden House which will be vacated by the LG Group after May; and administrative savings.
6. Transition costs in the region of £7m are estimated during 2011/12 in the move to the new structure. These will be funded out of reserves across the Group, leaving reserves of about £10m. Given the scale of the changes, robust budget and risk management systems are being put in place in the transition to the new operating arrangements from the start of the new financial year.
7. An overview of the Group budget for 2011/12 is set out at Appendix A, along with a summary of the position for each of the companies in the Group at Appendix B.

## Context

8. Local government is facing the most radical changes in a decade. The economic downturn means there is less money for local government. As part of its public expenditure policy, government grants to councils are reducing by about 30% which will affect the way every citizen is served.
9. Councils are having to manage big opportunities and risks in the local economy, promoting business investment and improving local labour and housing markets. Renewing private sector growth will be vital so that new businesses are developed. Climate change, population movement, social change and an ageing society are also challenging councils operationally and financially.
10. In May 2010 the political landscape changed with the formation of a coalition government. The government is looking for the public sector to be transformed, increasingly commissioning and facilitating services which are delivered by other organisations or communities themselves.
11. Government policy also means that councils will have to exercise democratic leadership at the heart of a new set of relationships between the citizen and the state including education, health, adult social care, and with the voluntary and community sector, police and fire, regulatory services and planning.
12. The LG Group's offer to councils as set out in the 2011/12 business plan is driven by what councils have told they want from the LG Group, and is designed to help councils thrive and adapt to these changes and where possible improve the quality of life for local residents.
13. The economic context also has direct consequences for the LG Group's own finances which are reflected in the 2011/12 budget and our financial strategy for the next four years:
  - a 38% reduction in RSG topslice by 2013/14
  - councils under pressure to reduce discretionary spending - including LGA subscriptions
  - a reduction in the number and value of grant-funded programmes
  - a fall in demand for directly paid for services such as conferences and leadership programmes
  - interest rates at historically low levels - reducing earnings on cash balances
  - pressure on LG Group pension funds, as earnings on equities are potentially depressed, along with the need to make good pension deficits through a programme of payments of significant additional contributions
  - a 1% increase in employer's national insurance from April 2011 with further possible increases
  - uncertainties in the wider economy including possible future increases both in inflation and in taxation.

## The LG Group's Strategy and Priorities for 2011/12

14. As part of the LG Group's transformation programme, for each of the last two years the Executive has established one set of politically directed priorities for the Group in the LG Group business plan. This is central to achieving the core objectives agreed by members in 2009:

- Councils should have more influence over LG Group priorities and feel more connected
- 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
- Better coordination and elimination of duplication across the Group, to deliver greater value for money to councils.

15. In January 2012, Executive agreed a strategy and high level priorities for the LG Group for 2011/12, which are set out in the 2011/12 business plan and summarised in the vision statement below:

### **Vision statement for the LG Group**

We are here to support, promote and improve local government.

Local government is facing the most radical changes, as well as the most significant opportunities, in a decade. We will fight local government's corner and support councils through extremely challenging times by focusing on our two top priorities:

- representing and advocating for local government and making the case for greater devolution
- helping councils tackle their challenges and take advantage of new opportunities to deliver better value for money services.

This is how we will help councils achieve the outcomes described in our RSG prospectus, based on what they told us is important when we consulted them during 2010, and for which we will receive top-slice funding over the next four years:

- local budgets and accountability
- strong political leadership
- improved local productivity
- strong local economies
- improved local performance and value for money
- transformed workforce.

In doing this we will exceed councils' expectations and strengthen local government's reputation.

Like councils, we are making big financial savings and redoubling our efforts to improve the clarity, relevance and quality of our offer whilst making major improvements in our efficiency.

16. The new organisational arrangements for the Group, which are being implemented through a restructuring exercise, are designed to deliver this strategy, taking account also of the significantly reduced funding base of the LG Group.
17. The LG Group's strategic risk register, attached at Appendix C, identifies the key risks associated with delivering this strategy and the actions being taken to mitigate those risks.

### LG Group Income

18. The LG Group sees a dramatic reduction in its income in 2011/12, with further reductions anticipated over the next four years, from nearly £100m in 2010/11 to expected income of just over £50m in 2011/12. A summary of the Group's income is included at Appendix B.

### Subscriptions

19. In recent years subscription income has been on a declining trend, with a real terms reduction in LGA membership subscription income of some 35% over the last six years.
20. Major reforms to the structure of the membership subscription were put in place from April 2010 resulting in a simplified subscription structure and a 10% reduction in income from £14.5m to £13.1m in the 2010/11 financial year.
21. In November 2010, members agreed the overall strategy of a further reduction of around 20% in membership subscription over the next three years in response to the financial challenges that member authorities face. This is in line with the overall reduction in Formula Grant, which taken cumulatively gives a 21.8% reduction over the period. A prompt payment discount of 2.5% was also agreed by members for 2011/12.
22. Given the 10% reduction in subscription income in 2010/11, the strategy of a further reduction of 20% over the next three years is considered a properly realistic response, given that authorities' grants have increased in recent years, whilst the LGA was holding or reducing subscription levels; and that authorities' income including council tax is only likely to fall by a single figure percentage amount over the next four years.
23. Given the large element of front-loading of grant cuts, it has been agreed that membership subscriptions are set at levels which will be likely to raise around 11% less income than in 2011/12, with the benefits of the reductions distributed broadly evenly between different groups of authorities. This reduction is in line with the overall reduction in Formula Grant in 2011/12.

24. The assumption is that further reductions in subscriptions in 2012/13 and 2013/14 will be in line with the overall decrease in formula grant. A four year projection of subscription income is presented below. This takes account of authorities which have moved out of membership in 2011/12, the prompt payment discount, the finance discounts allowed to London Boroughs and Metropolitan Boroughs and the special arrangement for Passenger Transport Authorities' subscriptions.

<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
£12.3m	£10.8m	£10.2m	£9.7m	£9.7m

#### Top-sliced funds

25. The LG Group has been successful in securing continued RSG topslice, having made the case in the RSG prospectus submitted to CLG in September 2010. The prospectus set out the outcomes the LG Group will deliver for this funding and is a core component of the LG Group's strategy and business plan for 2011/12.

26. RSG topslice is however being significantly reduced, by a total of 33% over the four years to 2014/15.

<b>2010/11</b>	<b>2011/12</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
£41.30m	£32.50m	£29.25m	£27.50m	£27.50m

27. In awarding top-slice, Government agreed to remove the centrally-imposed restrictions on how topslice funding is provided to the organisations within the LG Group, allowing local government itself to decide what support it requires nationally and how best to organise to deliver that support.

28. For 2011/12, the overall reduction in RSG topslice is 21%. Of the £32.5m topslice awarded for 2011/12, £2.5m has been allocated to Local Partnerships (reduced from £2.95m in 2010/11 – a reduction of 15%). A total of £1.6m has also been allocated to the other organisations that stand outside the LG Group: the National Foundation for Educational Research (NFER), the National Institute of Adult Continuing Education (NIACE) and the National Youth Agency (NYA). These organisations were previously designated as central bodies and received total topslice of £3.5m in 2010/11 – they have therefore been subject to an overall reduction of 54% in their funding for 2011/12. Work has been underway with all four organisations to ensure that their RSG funded work in 2011/12 supports the outcomes for local government described in the RSG prospectus and complements the work of the LG Group itself.

29. The remaining topslice funding of £28.4m is being used to fund LG Group pay, non-pay and overhead budgets in the new structure. Because the company structures have been maintained in 2011/12, costs have been allocated to the five organisations in the Group in line with their core objectives, with RSG then being allocated to cover those costs to ensure that all costs are covered at company level. However, staffing and other resources are being managed as if they were one organisation through a fully integrated management structure.
30. Welsh RSG totalling £0.5m has been awarded to the Group, at the same level as 2010/11. This is to fund the improvement and workforce services provided by the Group.

#### Ring-fenced funding

31. A reduction of over 50% is anticipated in grant-funded programmes in 2011/12, reflecting the overall tightening of government spending.
32. So far we have secured the following funding for 2011/12:
- the Ageing Well programme – £1.5m secured for 2011/12, as well as funding carried forward from 2010/11
  - the Healthy Communities programme – £1.6m to run to October 2011 carried forward from 2010/11
  - Planning Advisory Service - £3m for 2011/12 now confirmed as the first of three further years of the programme
  - Knowledge Hub – grant-funding of £500K carried forward from 2010/11.
33. Discussions are also underway in the following areas, although final agreement has yet to be reached:

#### *Children's Services*

- £13.5m DfE funding to commission support for children's services' improvement including safeguarding peer reviews

#### *Community Wellbeing*

- DH funded programme for sector-led support in adult social care
- DH funded programme on Health and Social Care Bill implementation

#### *Economy and Transport*

- Highways Efficiency Programme

#### *Culture, Tourism and Sport*

- Sport England - possible £50k for Olympic and Paralympic legacy
- Museums Renaissance Programme – possible arm's length role for LG Group

#### *Productivity*

- Customer Insight Programme
- CLG Capital Assets pilots.

These programmes will be included in the 2011/12 and budget as the arrangements are finalised.

34. The Group also receives funding, paid to LGE, for specific workforce services including:

- Police Negotiations – grant-in-aid from the Home Office of £268k
- Pensions – contributions from local government pension schemes of £768k
- Sixth Form Colleges – contributions of £419k

35. Other ring-fenced activity will be undertaken by the LG Group in 2011/12 on a cost-recovery basis, including the continuing legal action on behalf of local government for the Icelandic Bank Debt Recovery (£500k). The costs of the Local Government Challenge Competition are also completely covered by sponsorship (70K)

36. To date, a number of different approaches to overhead recovery have been adopted for grant-funded and other ring-fenced work across the Group. During 2011/12 work will be undertaken to adopt a consistent policy for overhead recovery, with a view to securing a 20% contribution to overheads for all ring-fenced work.

#### Other income

37. The other main source of income for the Group is from conferences and events. Conference income is expected to be in the region of £2.3m in 2011/12. This includes income of £800k from the Adult Social Care conference which the LG Group runs every other year. The budget allows for the expected surplus of £400k from this conference to be spread over two years, into 2012/13. Overall the level of conference income is expected to reduce from previous years, reflecting the pressure on councils' discretionary spend. The LG Group will continue to run a comprehensive programme of events for 2011/12 as a major plank of its engagement with local government.

38. Priority will also be given during 2011/12 to exploiting the commercial opportunities presented as a result of the LG Group's investment in the Knowledge Hub; and also delivering direct, paid for services to councils which are in line with the Group's core service offers, but which are not able to be funded out of RSG topslice.

39. Interest on cash balances is expected to earn the LG Group about £120k in 2011/12. Average cash balances across the Group for the year are expected to be in region of £15m - taking into account severance payments in the first quarter - on which we expect to earn interest of 0.75%.

40. Cash balances are being invested in the line with the Treasury Management policy recently reviewed by both the LGA Resources Panel and the LG Group Audit and Scrutiny Panel, in which the emphasis is maintained on placing deposits in very highly rated institutions. For 2011/12 it has been agreed that the counterparty list should be amended to clarify that investment may be made in



sterling denominated Treasury Bills or UK gilts or sterling denominated securities issued or guaranteed by the UK government.

#### Employee costs

41. Detailed consultation proposals were issued to employees on 30 November 2010, 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 from 1 June 2010.
42. The new staffing structure has been driven by what councils told us is important and is designed to ensure we can deliver the priorities set out in the LG Group business plan with a lower funding base by:
- bringing together policy and improvement staff into one flexible, more efficient delivery team, to ensure we have a world-class lobbying function underpinned by our direct work with councils on the ground
  - maintaining the current balance between pay and non-pay budgets so we have the flexibility to commission external support and expertise, particularly from local government itself
  - stopping some areas of work, for example the Local Innovation Award Scheme, and making significant savings in other areas, for example, the administrative processes in the Peer Clearing House, the National Graduate Development Programme, and our work on local government regulation - so that resources can be directed to our priorities
  - prioritising direct delivery posts over administrative posts, resulting in a sizeable reduction in the number of support posts.

#### Operational costs - Non-pay costs

43. During January, initial proposals were developed by senior managers across the LG Group on the key programme areas identified in the business plan, in line with the steers on lobbying and improvement priorities provided by the LG Group programme boards.
44. Since January, these proposals have been further refined and developed and are summarised at Appendix D. These priorities have resulted in a revised set of non-pay proposals reflecting the steer from the Group Programme Boards, and which have now been confirmed with the senior managers appointed to roles in the new structure.
45. Following a steer from the LGA's Resources Panel, non-pay budgets for the political group offices have been maintained at the level of 2010/11 and in line with the political balance for 2010/11, in line with the approach taken in previous years.

## Fixed costs

46. The proposed budget includes a saving of £1.5m on the total fixed overheads for the Group which are currently £17m – see Appendix E. This is a very ambitious target. Detailed contract negotiations are now underway with Liberata to bring down the price of the contract which currently costs the Group £7.7m per annum. The focus is on reducing costs in high spend areas such as ICT, but we are still some months away from securing a final outcome on this.
47. Additional rental income is also anticipated for Layden House which will be vacated by the Group in May. However, we are advised that in the current market, tenants expect an initial rent free period and that this may be necessary to secure a deal.
48. The proposed figures for additional pension contributions totalling £3.7m across the LG Group companies have been confirmed with the individual company boards. 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 LG Group Audit and Scrutiny Panel, which has reviewed the management of the Group pension risk, and by the LGA Resources Panel, which has considered the pension position in the light of the Group's overall investment strategy.
49. More detailed work on the potential to achieve the proposed saving in fixed costs will be undertaken in the first quarter of 2011/12, and a formal report made to members at that stage.

## Transition Costs

50. Significant transition costs will also be incurred across the Group in the first quarter of 2011/12 as we move to the new lower level of operations. 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. More detailed modelling of these costs will be undertaken in May as appointments in the new structure are finalised.

51. 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.

#### Four year financial strategy for the LG Group

52. The proposed budget for 2011/12 needs to be understood in the context of the overall financial strategy for the LG Group for the four years to 2014/15. This is set out at Appendix F.
53. This shows that the current levels of pay and non-pay activity can be maintained over the next four years, even in the face of declining subscription and RSG topslice, by the following means:
- Continuing to secure additional grant funding and ring-fenced monies for specific programmes and securing a 20% contribution to overheads from these
  - Maintaining the current level of income from conferences and events
  - Securing full rental and recharges for the whole of Layden House
  - Exploiting new commercial opportunities, for example through the Knowledge Hub, to generate income of £1m
  - Securing the Geoplace dividend of £1.0m and £1.2m in 2013/14 and 2014/15— Geoplace is a Joint Venture in which the LG Group has invested with Ordnance Survey
  - Achieving a reduction in the Liberata fixed fee in proportion to the reduction in the Group's core funding - subscriptions and RSG topslice
  - Achieving a reduction in other fixed costs, also in proportion to the reduction in the LG Group's core funding.
54. This is a challenging but achievable agenda, which is now being taken forward as a priority in the first quarter of 2011/12.

## Conclusion

55. The proposed budget for the Group for 2011/12 marks a significant step forward in presenting for the first time a fully integrated financial plan for the Group, in line with the organisational changes which are bringing the different entities of the LG Group into one operation.
56. Considerable work has already been undertaken to put in place a structure and operating arrangements that will enable the LG Group to deliver its strategy and business priorities for 2011/12 with a significantly reduced funding base. This work will need to be further consolidated during 2011/12 to ensure that the efficiencies flowing from the reorganisation are fully realised.
57. The financial strategy for the next four years shows the remaining challenges for the LG Group as its core funding base of membership subscriptions and RSG top-slice continues to decline. In particular, a rigorous programme of work now needs to be undertaken to ensure that fixed overhead costs reduce in line with the overall reduction in core funding.