



**LGA Budget Book
2012-13**

for Executive – 15 March 2012

Summary

1. This is the second year for which a consolidated budget has been developed for the LGA and its related organisations. This reflects the full integration of the management and operations of the LGA, LG Improvement and Development (LGID), LG Employers (LGE), LG Regulation (LGR) and LG Leadership (LGL), to deliver greater value for money for councils.
2. The budget for 2012-13 has been driven by the strategy for the LGA and the priorities set out in the annual business plan. This has been developed to take account of councils' top priorities against a background of significantly reduced public spending and an exceptionally tough financial settlement for local government.
3. The 2012-13 budget also takes account of the reduced funding base of the LGA and its related organisations – from nearly £100m in 2010-11 to core income of just over £50m from 2011-12. Taking into account feedback from member authorities, LGA subscriptions have been set at levels that overall will be likely to raise 9% less income than in 2010-11 as part of a planned reduction since 2006. RSG topslice funding has also been reduced by 10% in 2012-13 following a 20% reduction last year. This has resulted in a reduction in core funding of nearly £4m in 2012-13 as compared with 2011-12.
4. Over the last year, the LGA has taken significant steps to manage within this reduced funding base, reducing the number of core posts from 447 to 269. The £7m one-off costs arising from this change have been covered in previous financial years, so there is no further impact on the 2012-13 budget.
5. The 2012-13 budget takes account of the £0.3m efficiency savings that have already been achieved for the LGA's outsourced support services. Additional rental income is also being earned on Layden House following the move of all LGA employees into Local Government House in May 2011. Further reductions in the LGA's overheads are however required given the overall reduction in size of the LGA. Negotiations are currently underway with the service provider to ensure these are delivered over the course of the next year.
6. The LGA's 4-year financial strategy is included at **Appendix A**. An overview of the LGA's budget for 2012-13 is set out at **Appendix B**, along with a summary of the position for each of the companies in the Group at **Appendix C**.

Context

7. 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.

8. 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.
9. 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.
10. 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.
11. Our offer to councils - as set out in the LGA's business plan for 2012-13 - is driven by what councils have told they want from us, and is designed to help councils thrive and adapt to these changes and where possible improve the quality of life for local residents.
12. The economic context also has direct consequences for the LG Group's own finances which are reflected in the 2012-13 budget and our financial strategy for the next three years:
 - a 38% reduction in RSG topslice by 2013-14
 - councils under pressure to reduce discretionary spend - 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 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
 - uncertainties in the wider economy including possible future increases both in inflation and in taxation.

The LGA's financial strategy

13. The medium-term financial strategy for the LGA and its related companies – LGID, LGE, LGR and LGL – is set out at **Appendix A**.

14. This shows that the current levels of pay and non-pay activity can be maintained over the next three years, even in the face of declining subscription income and RSG topslice, by the following means:
- 14.1 Continuing to secure additional grant funding and ring-fenced monies for specific programmes and securing an estimated £1.5m contribution to overheads from these
 - 14.2 Continuing to secure income from direct services such as conferences and events and leadership programmes
 - 14.3 Securing full rental and recharges for the whole of Layden House
 - 14.4 Exploiting new commercial opportunities, for example through the Knowledge Hub
 - 14.5 Securing the Geoplace dividend of £0.2m, £1.2m and £1.5m in 2012/13, 2013/14 and 2014/15– Geoplace is a Joint Venture in which the LG Group has invested with Ordnance Survey
 - 14.6 Engaging in a contract re-negotiation with Liberata to secure significant savings in overhead, at least commensurate with the overall reduction in the size of the LGA.
15. This is a challenging but achievable agenda, which is now being taken forward as a priority during 2012-13. In addition, the LGA will need to start preliminary discussions on the future of RSG topslice in the next spending round from 2015-16, which is now only three years away.

2012-13 Budget proposals

Income

16. Following a reduction of over £10m (19%) in core funding in 2011/12 from the previous year, the LGA faces a further reduction of nearly £4m in core funding in 2012/13 as a result of the planned £1m reduction in subscription income and the agreed reduction of £2.7m in RSG topslice.

LGA Subscriptions – planned reduction from £10.8m to £9.8m

17. In recent years subscription income has been on a declining trend as part of a deliberate strategy of reducing costs to LGA members, with a real terms reduction in LGA membership subscription income of 35% since 2006. This has included major reforms to the structure of the membership subscription which were put in place from April 2010, resulting in a simplified subscription structure. In November 2010, members agreed the overall strategy of a further reduction of around 20% in membership subscription over the following three years in response to the financial challenges faced by member authorities, in line with the overall reduction in Formula Grant. A prompt payment discount was also agreed by members for 2011-12.

18. Members have now agreed the subscription level for 2012-13, delivering the promised further 20% reduction in subscriptions by 2013-14 from the 2010-11 baseline of £12.3m. This will result in subscription income of £9.8m. This includes subscription income of £240k from the Welsh LGA on behalf of Welsh authorities. Given that the majority of reduction in subscriptions has now been achieved, reductions in 2013-14 and 2014-15 will be at more modest levels.

2010/11	2011/12	2012/13	2013/14	2014/15
£12.3m	£10.8m	£9.8m	£9.7m	£9.7m

19. For 2012-13 we have included a provision of £250k to allow for likelihood that a proportion of the 8 councils currently on notice (the total value of their subscriptions is £400k), will follow through with their stated intention of leaving membership.

RSG Topslice – projected to reduce from £28.4m to £25.7m

20. The LGA has been successful in securing continued RSG top-slice for the current spending round, having made the case in the RSG prospectus submitted to CLG in September 2010. The prospectus set out the outcomes the LGA will deliver for this funding and is a core component of the LGA's strategy.

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

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

22. RSG is being reduced by 10% in 2012-13 and by a further 6% in 2013-14. Gross RSG in 2012-13 will therefore be £29.25m, out of which £2.1m will be paid to Local Partnerships (a reduction of 16% on 2011-12) and the following amounts to the three organisations that were formerly specified bodies:

	2011-12	2012-13
National Foundation for Educational Research	350	200
National Youth Agency	900	900
National Institute for Adult Continuing Education	350	350
Total	£1.6m	£1.45m

23. Since 2011-12, when RSG has been paid to these organisations via the LGA rather than direct from government, work has been underway to establish a commissioning relationship with them and to ensure their work supports the LGA's priorities.
24. In awarding top-slice, Government agreed to remove the centrally-imposed restrictions on how topslice funding is provided to the organisations directly associated with the LGA, allowing local government itself to decide what support it requires nationally and how best to organise to deliver that support. LGID formally receives RSG topslice on behalf of the LGA.
25. The individual company structures have been maintained in spite of the new organisational arrangements for the LGA because of the ongoing pension liabilities of these organisations and the current restrictions on transferring employees between pension schemes. Employees' employment contracts are therefore continuing to be held with the organisation that employed them before the new integrated organisational arrangements were implemented. RSG will be allocated to each company to ensure that these employment costs, and the associated overhead costs, are covered. In the proposed budget for 2012-13, programme budgets for improvement work, and workforce, which are funded out of RSG, have also been allocated to LGID and LGE respectively.
26. The allocation of RSG to the individual companies is set out at **Appendix C**. RSG will be allocated to cover all the costs identified in paragraph 26 above, to ensure that each company breaks even. This financial arrangement which is the approach taken in 2011-12, does not affect the actual operations of the LGA. Staffing and other resources will continue to be managed as if they were one organisation through a fully integrated management structure.

Ring-fenced funding

27. Income from grant-funded and other ring-fenced programmes is holding out well, in spite of concerns that this might be under pressure as result of the squeeze on government spending. Our ring-fenced programmes fall into the categories below.
28. **Grant-funded programmes** – income from grant-funded programmes is projected to be about £12m. So far we have secured the following funding for 2012-13:

- 28.1 £8.0m – Children's Services Improvement Programme
- 28.2 £2.65m – Planning Advisory Service
- 28.3 £0.37m – Health and Wellbeing Programme

29. We also expect funding to be carried forward from 2011-12 from a significant number of grant-funded programmes, including Third Sector Commissioning and the Adult Sector Led Improvement programme.

30. **Workforce programmes** – we also receive funding, paid to LGE, for specific workforce services including:

30.1 Police Negotiations – grant-in-aid from the Home Office of £265k

30.2 Pensions – contributions from local government pension schemes of £700k

31. **Legal actions** - other ring-fenced activity will be undertaken by the LGA in 2012-13 on a cost-recovery basis, including the continuing legal action on behalf of local government for the Icelandic Bank Debt Recovery; and the actions on Academies Funding and Property Searches.

32. To date, a number of different approaches to overhead recovery have been adopted for grant-funded and other ring-fenced work. From 2012-13 we will adopt a consistent policy for overhead recovery.

Other income

33. Another source of income for the LGA is from direct services to councils and sponsorship. In 2012-13 this is expected to include income from conferences and events, from the Knowledge Hub, and also from the LGA's leadership programmes.

34. Conference income is expected to be in the region of £1.4m in 2012-13 in line with the experience of 2011-12, and taking account of the fact that the LGA will not be running the Adult Social Care conference this year (the LGA runs this on alternate years). The LGA will continue to run a comprehensive programme of events for 2012-13 as a major plank of its engagement with councils. The decision as to whether to charge for events is taken on a case by case basis, taking into account the conference market generally, the likely demand and also the LGA's priorities for working with its members.

35. Priority will also be given during 2012-13 to exploiting the commercial opportunities presented as a result of our investment in the Knowledge Hub. Income of £200k is projected, with the potential to increase this in future years as the Knowledge Hub becomes established.

36. We will continue to charge councils for some services, including our leadership programmes for individuals and the National Graduate Development programme, which are only partly subsidised, and direct support on workforce issues.

37. Interest on cash balances is expected to earn over £100k in 2012-13. Average cash balances for the year are expected to be in region of £18m. Cash balances are being invested in the line with the Treasury Management policy recently reviewed by both the Resources Panel, in which the emphasis is maintained on placing deposits in very highly rated institutions.

Expenditure

Employee costs

38. Following a full consultation exercise, from 1 June 2011 the number of core posts across the LGA and its related organisation was reduced from 447 to 269 - a reduction of just under 40%. This staffing reduction was in response to the significant reduction in core funding which came into effect from 2011-12.
39. The new integrated structure was designed to deliver the LGA's priorities with a lower funding base by:
- 39.1 bringing together policy and improvement staff into a flexible delivery team
 - 39.2 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
 - 39.3 prioritising direct delivery posts over administrative and back office posts, resulting in a sizeable reduction in the number of support posts.
40. The staffing budget for 2012-13 is based on our current core staffing commitments, which are projected to be £15.8m. This assumes a vacancy factor of 4%.
41. Additional posts for employees working on grant-funded programmes will be covered by the funding for those programmes.

Operational costs - Non-pay costs

42. The available budget for programme costs is £9.8m in 2012-13. Budget proposals have been developed by senior managers to enable them to deliver the priorities set out in the LGA's business plan for 2012-13, in line with the steers on lobbying and improvement priorities provided by the LGA boards. However, budget submissions have exceeded the available budget. An initial allocation of half the available budget has therefore been made to these areas, with further work to be completed by the end of May to agree a set of programme proposals that align with the priorities in the business plan and are within the available budget.
43. The Resources Panel will review and agree the final proposals for programme budgets before the end of the first quarter once this review and challenge process has been completed by the Strategic Management Team. The Resources Panel will be involved in overseeing these budgets in particular during the year, to ensure that programmes are delivered according to plan.

44. This budget covers the budget for Organisational Governance, including the Political Group Offices, which is being maintained at the same level as for 2011-12 at £210k; and also the Communications budget, which is being reduced from £3.2m in 2011-12 to £2.4m in 2012-13 in the light of the actual pattern of spend.

Other costs

45. The LGA's overheads, excluding additional pension costs, are £11.7m. This includes the net cost to the LGA of £6.8m for the Liberata contract. Detailed contract negotiations are now underway with Liberata to bring down the price of the contract. An initial annual price reduction in the region of £250k has recently been agreed in relation to volumetric changes under the pricing mechanism in the contract. The LGA has made clear to Liberata that it requires further significant reductions in its overhead costs given the reduction in size of its operations, and an independent benchmarking review is now underway to inform this negotiation. The LGA's overheads are currently the subject of a scrutiny review being carried out by the Audit and Scrutiny Panel, who in particular are overseeing the Liberata contract re-negotiation.

46. Additional rental income of £0.7m has been secured in 2012-13 for Layden House which was vacated by the LGA in May, and which is now being let in its entirety to external tenants.

47. The budgeted figures for additional pension contributions totalling £3.7m across the LGA and its related companies have been confirmed with the individual company boards. These additional contributions are necessary as a result of the 2010 actuarial revaluations. As the audited annual accounts of the various 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 Audit and Scrutiny Panel has reviewed the management of this pension risk, as has the Resources Panel, which has considered the pension position in the light of the LGA's overall investment strategy. The LGA's strategy on reducing its pension deficit will be revisited by Resources Panel in 2012-13. Additional pension costs of £0.9m are also incurred in relation to past employees.

Conclusion

48. The proposed budget for 2012-13 continues the direction of travel of last year, by ensuring that the LGA's priorities are delivered within the available resources.
49. However, the financial strategy for the next three years shows the remaining challenges for the LGA as its core funding base from membership subscriptions and RSG top-slice continues to reduce.
50. Work needs to continue on focusing and refining the LGA's priorities and delivery, so that its added value is evident, and the core funding provided through subscriptions and RSG topslice continues to be supported by councils.
51. A rigorous programme of work also now needs to be undertaken to ensure that fixed overhead costs reduce in line with the overall reduction in core funding. The LGA needs to exploit new commercial opportunities, for example through the development of electronic services such as the Knowledge Hub.