

LGA Budget Book 2013-14

for Executive – 14 March 2013

Summary

1. This is the third 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, the IDeA, the Leadership Centre and the LGA's property companies. Local Government Employers (LGE) and LACORS are no longer included in this arrangement as their operations along with all their assets and liabilities are due to be fully transferred to the LGA and IDeA from 1 April 2013, as part of the streamlining of the LGA's governance arrangements.
2. The 2013-14 budget has been driven by the strategy for the LGA and the priorities set out in the annual business plan. The business plan recognises that the high level priorities identified for 2012-13 are still broadly relevant for 2013-14 and that there is value in having a settled set of priorities for the organisation, particularly at this stage in the political cycle. We have taken the opportunity, however, to bring our priorities into even sharper focus. The top three priorities from last year's business plan are retained – Growth, Funding, Public Service Reform, and Sector-Led Improvement – with the Efficiency and Productivity theme being merged mainly into Public Service Reform. The fifth priority from last year's business plan, Sector-Led Improvement is now presented as our on-going core offer.
3. In 2013-14 the LGA's core funding will reduce by £2 million – about 4% of turnover – because of a reduction in RSG topslice of 6% and a reduction in subscription income of £400k because of changes including a new loyalty discount. This reflects the significant reduction in the LGA's core funding in the current spending review period which has meant that turnover has nearly halved since 2010-11 and which has led to fundamental changes in the operations of the LGA and its associated companies with a reduction in the number of employees from 447 to the current level of 288.
4. We expect the reduction in core funding in 2013-14 to be more-or-less offset by the expected dividend of £1.2 million from Geoplace, which we will receive for the first time, and anticipated savings on the Liberata service arising from the recent contract re-negotiation, which will exceed £1m.
5. We can therefore be said to have a stand-still budget for 2013-14. The budget proposals set out below show that securing a balanced budget will be challenging but achievable.
6. The LGA is likely to experience a further reduction in RSG topslice for £1.52 million in 2014-15. This was announced in December 2012 as part of the provisional Local Government Finance Settlement. Over the next six months, proposals will be developed for the 2014-15 business planning and budgeting round to ensure we achieve a balanced budget.
7. The LGA's financial strategy for the two remaining years of this spending review period is included at **Appendix A**. The detailed budget for 2013-14 for the integrated operations of the LGA and its associated companies is set out at **Appendix B**, along with the budget for each organisation at **Appendix C**.

Context

8. The economic context has had direct consequences for the LGA's finances and is reflected in our current financial strategy:
 - 8.1 a 38% reduction in RSG topslice over the current spending review period;
 - 8.2 councils under pressure to reduce discretionary spending - including LGA subscriptions;
 - 8.3 a reduction in the number and value of grant-funded programmes;
 - 8.4 a fall in demand for directly paid for services such as conferences and leadership programmes;
 - 8.5 interest rates at historically low levels - reducing earnings on cash balances;
 - 8.6 pressure on our 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; and
 - 8.7 uncertainties in the wider economy including possible future increases in both in inflation and in taxation.
9. The medium-term financial strategy for the LGA and its associated companies – IDeA, the Leadership Centre and the LGA's property companies – for the current spending review period up to and including 2014-15 is set out at **Appendix A**. This shows that a significant reduction in income – about £6 million - is anticipated in 2013-14 as compared with the current year. This is due mainly to a projected reduction of nearly £5 million in the number and value of grant-funded programmes. A 5% reduction in core income is also projected, in view of the current strategy on subscriptions and also a further reduction in RSG topslice from 2013-14.
10. The financial projection shows that the current levels of pay and non-pay activity can be maintained for a further two years, even in the face of declining subscription income and RSG topslice, by the following means:
 - 10.1 The contract renegotiation with Liberata to achieve further significant savings.
 - 10.2 Securing full rental and recharges for the whole of Layden House.
 - 10,3 Securing the Geoplace dividend of £1.2 million and £1.5 million in 2013-14 and 2014-15 – Geoplace is a Joint Venture in which we have invested in Ordnance Survey.
11. The picture beyond 2014-15 is uncertain as we enter the next spending review period. At this point RSG topslice will need to be renegotiated. The LGA will want to review its strategy on subscriptions from that point in view of the overall funding settlement for local government and the affordability of membership for councils. A number of different financial scenarios are therefore currently being worked up to model the impact of different levels of funding on the LGA's current operations which will be developed with members over the coming year.

2013-14 Budget Proposals

Income

12. Following a reduction of over £10 million (19%) in core funding in 2012-13 from the previous year, the LGA faces a further reduction of nearly £6 million in funding in 2013-14 as a result of a projected reduction in grant income of £4.8 million, the planned £0.4 million reduction in subscription income, and the reduction of £1.7 million in RSG topslice. This is offset by a new source of income – the anticipated dividend of £1.2 million from Geoplace.

LGA Subscriptions – planned reduction from £10.0 million to £9.6 million

13. 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. 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 and a 10% reduction in income from £14.5 million to £13.1 million in the 2010-11 financial year.
14. 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. 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.
15. The further changes to subscriptions for 2013-14 which have now been agreed are likely to result in a reduction in subscriptions income of £400k and these are taken into account in the financial forecast.

2010/11	2011/12	2012/13	2013/14	2014/15
£12.3m	£10.8m	£10.0m	£9.6m	£9.6m

16. Although nine authorities are currently on notice to leave the LGA in 2013-14 our current assessment is that most, if not all of them will continue in membership and that therefore no provision for loss of subscription income will be necessary.
17. The Welsh LGA corporate subscription of £300k on behalf of Welsh councils is projected to continue.
18. The subscriptions budget takes account of an annual discount of £800k in recognition of a £6.2 million loan from Association of Metropolitan Authorities (AMA). LGA members that were formerly members of the AMA receive a discount on their membership subscriptions of £7,965 per annum.

RSG Topslice – projected to reduce from £29.2 million to £27.5 million

18. We were successful in securing continued topslice for four years from 2011-12, 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. RSG topslice is however being significantly reduced, by a total of 37% over the four years of the spending review period, taking into account the latest government announcement on RSG topslice for 2014-15.

2010-11	2011-12	2012-13	2013-14	2014-15
£41.30m	£32.50m	£29.25m	£27.50m	£25.98m

19. In awarding top-slice, government agreed to remove the centrally-imposed restrictions on how topslice funding is provided, allowing local government itself to decide what support it requires nationally and how best to organise to deliver that support. The IDeA now receives all the topslice direct and distributes this to the other organisations associated with the LGA.
20. Before 2011-12, RSG topslice was paid direct by government to four organisations specified under the Local Government Finance Act 1988: Local Partnerships and three education bodies – the National Institute of Adult & Continuing Education (NIACE), the National Foundation for Educational Research (NFER) and the National Youth Agency (NYA). Over the last two years, the LGA has reduced the amount of RSG paid to these organisations in line with the overall reduction in RSG.
21. For 2013-14, it has been agreed with Local Partnerships that they will be awarded RSG topslice of £1.9 million. This has been reduced from £2.1 million in 2012-13 and £2.95 million in 2010-11 in line with the overall reduction in RSG topslice.
22. The allocation of RSG topslice to NIACE is overseen by the Economy and Transport Board which is proposing that this should be reduced from £350k by 25% to £262.5k in 2013-14, and by 50% to £175k in 2014-15, with the expectation that this funding should cease after that point.
23. The allocations for NFER and the NYA are overseen by the LGA's Children and Young People's Board. In developing proposals for 2013-14 the CYP Board is proposing to move research on education and youth services to a fully commissioned basis, and to reserve £800k in 2013-14 from the amount previously paid as grants to NFER and NYA for this purpose. Transitional funding arrangements are currently being negotiated with NYA to mitigate the impact of this change to their funding.

Item 7

24. The proposed funding for NIACE, NFER and NYA is summarised in the table below:

	2011-12	2012-13	2013-14
National Institute for Adult Continuing Education	350	350	262.5
National Foundation for Educational Research	550	550	Full commissioning basis
National Youth Agency	900	900	Full commissioning basis
Total	£1,800k	£1,800k	£262.5k plus budget of £800k to commission research in relation to Youth and Education Services

25. The individual organisational structures of the LGA and the IDeA in spite of the new integrated organisational arrangements for the LGA, because of the decision to keep the IDeA as the separate service delivery arm of the LGA. 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 organisation to ensure that these employment costs, and the associated overhead costs, are covered. In the proposed budget for 2013-14. Programme budgets for improvement and workforce services, which are funded out of RSG, have also been allocated to the IDeA. RSG is also allocated to the Leadership Centre, which continues as part of the LGA "group" of organisations, to cover its overhead costs. The Leadership Centre does not have any direct employees.
26. Full budgets for each of the individual organisations delivering the LGA's business plan – the LGA, the IDeA, the Leadership Centre and the LGA's property companies – are set out at **Appendix C**. These show the allocation of RSG to cover all the employment and associated overhead costs, and also operational costs, to ensure that each company breaks even. This financial arrangement, which is the approach taken since 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.
27. Local Government Employers (LGE) and LACORS are no longer included in this arrangement as their operations along with all their assets and liabilities are due to be fully transferred to the LGA and IDeA from 1 April 2013, as part of the streamlining of the LGA's governance arrangements.
28. In addition to the RSG topslice awarded for direct services to English local authorities, the Welsh Assembly awards topslice of £323k in recognition of the work undertaken by the LGA with regard to national pay negotiations.

Ring-fenced funding – projected to reduce from £16.3 million to £11.5 million

29. Income from **grant-funded and other ring-fenced programmes** is projected to be £4.8 million lower than the previous year at £11.5 million, reflecting a general reduction in additional funding for separately commissioned programmes. The two largest programmes, the Children's Improvement Programme and the Planning Advisory Service are continuing at the same level as this year, as well as the separately funded programmes for Police Negotiations and Pensions. The contribution to overheads (or operating surplus) from grant-funded programmes is however expected to be in line with that generated for this year at £1.3 million.
30. Other ring-fenced activity will be undertaken by the LGA on a cost-recovery basis, including the continuing legal action on behalf of local government for the Icelandic Bank Debt Recovery and the action on Property Searches.

Income from direct services – maintained at £3.2 million

31. Income from direct services is projected to be broadly in line with 2012-13. As well as income from Conferences and Events (projected to be £1.8 million), this includes projected income of £1.4 million for our other direct services to councils including our leadership programmes, some peer challenge offers, and a number of subscription services including workforce advice and our e-benchmarking service (formerly known as the ESD Toolkit and soon to be rebranded as LG Inform +).

Rental income – projected to increase from £1.2 million to £1.3 million

32. Rental income is projected to increase marginally to £1.3 million in 2013-14 to reflect the fact that Layden House is now fully occupied by external tenants, with Liberata's move this year into Local Government House.

Other income – projected to reduce from £0.5 million to £0.4 million

33. Other income is projected to stay broadly at current levels. This includes interest on cash balances which is expected to earn about £100k at current interest levels. Average cash balances for the LGA and its associated companies are expected to be in the region of £14 million on which we expect to earn interest of 0.75%. Cash balances are invested in line with the Treasury Management policy which is overseen by Resources Panel. The emphasis is on placing deposits in very highly rated institutions.

Geoplace dividend - £1.2 million received for the first time in 2013-14

34. Our investment in the Geoplace Joint Venture with Ordnance Survey will provide us with a dividend of £1.2 million for the first time. As the final part of its strategy of divesting itself of the programmes of work previously undertaken by Local Government Information House (LGIH), in March 2011 IDeA entered into a joint venture – Geoplace LLP – with Ordnance Survey to develop a single national addressing product. Having paid the initial consideration for the acquisition of £4.7 million, LGIH was liable to pay additional deferred consideration of £2 million on the first anniversary of the acquisition and £1.25 million on the second anniversary of the acquisition (March 2013), after which it will be entitled to annual dividends in the region of £1 million per annum from 2013-14.

Expenditure

35. Expenditure is being managed in line with income to achieve a balanced budget. We are able to maintain our core operating costs at the level of 2012-13 because of a reduction of over £1 million in the Liberata charge. Grant-funded expenditure will reduce however, in line with the overall reduction in grant-funding for 2013-14.

Employee costs – projected to increase from £16.0 million to £16.8 million

36. The basic assumption is that the number of posts funded out of the LGA's core funding will remain steady in 2013-14, at the level set through the reorganisation two years ago. The overall increase in employee costs in 2013-14 is partly due to the fact that a number of posts that were previously vacant following the restructuring have now been filled and also a reduction in the use of consultants. The increase also includes about £200k covering both the award of an annual increment at the end of 2012-13 and also provision for a pay award which will depend on the national negotiations for local government. The budget assumes a vacancy factor of 4%.
37. Additional posts for employees working on grant-funded programmes will be covered by the funding for those programmes.

Grants to other organisations – projected to reduce from £3.6 million to £2.4 million

38. The reduction in grants to other organisations is due mainly to the changed arrangements for NFER and the NYA, set out in paragraph 23 above.
39. In addition to the £1.9 million for Local Partnerships and £262.5k for NIACE mentioned in paragraphs 21 and 22 above, the LGA pays a grant of £195k to the Centre for Public Scrutiny (CfPS). Work is underway with CfPS to ensure that its services support the objectives of the LGA. CfPS also benefits from being located in Local Government House and for access to the LGA's shared support services for which they make a financial contribution.

Programme costs – projected to increase from £9.3 million to £11.7 million

40. The budget of £11.7 million for non-pay costs in 2013-14 broadly reflects the original allocation to programme budgets following the organisational changes that were made in 2011-12. Programme budgets are allocated to enable teams to procure the services and support that are required to enable them to achieve the objectives set out in the LGA's annual business plan.
41. Broadly, these non-pay budgets have been allocated in line with the budgets for 2012-13, reflecting the fact that our business plan priorities for 2013-14 are in line with those for 2012-13.

Item 7

42. The following changes have however been made to the allocation of these budgets for 2013-14:
- 42.1 The Member Services budget has been increased by 10% to £1,110k to reflect the increased number of members from 2012.
 - 42.2 In view of the projected underspend on programme budgets for the current year, initial budget allocations to Directorates have been based on actual spend for 2012-13.
 - 42.3 The balance of unallocated budget of £2,262k will be held as a central contingency to be deployed during the year through a quarterly review led by the Strategic Management Team, as additional spending priorities beyond this original allocation are identified. The assumption is that these will align with the priorities identified in the 2013-14 business plan, but this also provides the opportunity to respond to new and emerging priorities. Where priorities have not already been identified in the business plan, member sign-off will also be required.
43. A full performance framework will be developed before the start of the new financial year, showing the planning allocation of resources to deliver the objectives in the business plan, and reporting back on the LGA's delivery and impact.

Ring-fenced programmes – projected to reduce from £15.6 million to £10.2 million in line with income

44. As stated above, the costs associated with grant-funded and other ring-fenced programmes will be covered by the additional income from these programmes.
45. The expectation is that a significant contribution to overheads of £1.3 million is also generated, reflecting the hosting costs to the LGA of these programmes.

Liberata – net costs projected to reduce from £6.4 million to £5.3 million

46. The LGA entered into a 10 year fixed price agreement with Liberata in May 2008 to provide a range of back-office services. We have recently renegotiated the contract with a view to achieving a significant reduction in overheads. The opportunity is also being taken, four years into the contract, to review the contract specification in the light of the LGA's changing requirements and in particular the fact that the LGA is now considerably smaller than when the contract was let.
47. We therefore expect to achieve net savings of £1.1 million to the LGA in 2013-14 on the Liberata contract. This will be achieved by the following means:
- 47.1 A scaling back of a range of services as set out in the Heads of Terms agreement, to achieve total annual savings of £925k by 2014-15.
 - 47.2 Demand reduction in the areas of Catering and Print & Design to achieve savings of £110k in 2013-14.

47.3 Direct management of a number of areas of expenditure previously managed by Liberata, for example postage and desk-top printing to achieve annual savings of £45k.

48. An internal campaign is now underway with LGA employees to secure their support for these changes and ensure that the target savings are achieved.

Additional pension contributions – projected to increase from £3.7 million to £3.9 million

49. Additional annual pension contributions totalling £3.9 million are necessary as a result of the 2010 actuarial revaluations. This has increased by £0.2 million over 2012-13. 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.

50. Additional pension payments of £0.9 million are also made in respect of unfunded pension liabilities for former employees. The LGA's practice over recent years have been to ensure that pension liabilities are fully funded for all departing employees.

Property costs – projected to increase from £2.4 million to £2.6 million

51. We incur loan and mortgage repayments, rates and maintenance costs for Local Government House and Layden House totalling £2.6 million. As indicated by the rental income in the financial strategy, we receive rental income from a range of tenants in both buildings to offset some of these costs. The rental income from the external tenants in both buildings offsets some of these costs.

52. The budget is being increased in 2013-14 to take account of the costs to be incurred as part of the planned maintenance programme for the two buildings. This includes replacement of the air conditioning system at Layden House. This expenditure is overseen by the Boards of the LGA's two property companies, LGA (Properties) Ltd for Local Government House, and LGMB for Layden House. The proposed budget for each of these companies is included at **Appendix C**.

53. A survey is currently being carried out on both properties to enable us to review the current ten year repairs and maintenance programme for both properties and for this to feed into our medium term financial strategy.

Other overheads – projected to reduce from £1.5 million to £1.3 million

54. This includes a range of corporate expenses such as the rent on our Brussels office, insurance, bank charges, external and internal audit, irrecoverable VAT, recruitment and learning and development.

55. For 2013-14 a £100k budget has been included for ICT development projects including a new Committee Management System, a Conferences and Events Booking system and new procurement software. Business cases have been developed which demonstrate that efficiency savings will be achieved in 2013-14 through this investment. These have been reviewed by the ICT Strategy Board which has recommended these ICT developments to the Strategic Management Team.

Additional call on Reserves

56. Two areas of activity will draw on prior operating surpluses (reserves) in 2013-14:
- 56.1 The Leadership Centre - at 31 March 2012, the Leadership Centre had reserves of £1.1 million and these are projected to be £1.0 million at 31 March 2013. The Leadership Centre Board has recently agreed its budget for 2013-14 in which the draw down from reserves is expected to be £310k bringing reserves down to an estimated £695k by March 2014.
 - 56.2 Pensions Secretariat – the LGA holds operating surpluses of £305k on behalf of the Pensions Secretariat and in 2013-14 these will be drawn down by an additional £77k.

Conclusion and next steps

57. The medium-term financial strategy and provisional budget for next year show that securing a balanced budget for 2013-14 and beyond is a challenging but achievable given the new lower cost base of the LGA following the renegotiation of the Liberata contract.
58. Work will be undertaken over the next six months on scenarios beyond 2015-16 modelling different outcomes with regard to the LGA's core funding of subscriptions and RSG topslice. This will inform the development of the LGA's overall strategy along with its medium-term financial strategy.