



LGA Budget Book 2014-15

for Executive – 20th March 2014

Summary

1. A consolidated budget has been developed for the LGA, the IDeA and the LGA's property companies reflecting the full integration of the management and operations of these organisations. Local Government Employers (LGE) and LACORS are no longer included in this arrangement as their operations along with all their assets and liabilities were fully transferred to the LGA and IDeA from 1 April 2013, as part of the streamlining of the LGA's governance arrangements. The Leadership Centre was formerly included, but it has been agreed that its independence from the LGA will now be recognised.
2. The 2014-15 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 the last two years are still broadly relevant for 2014-15 and that there is value in having a settled set of priorities for the organisation, particularly at this stage in the political cycle.
3. In 2014-15 the LGA's core funding is broadly at the same level as 2013-14 apart from an increase of £0.5m in RSG topslice – about 1% of turnover. This should be set in the context of the significant reduction in the LGA's core funding in the current spending review period. This has meant that turnover has nearly halved since 2010-11 resulting in fundamental changes in the operations of the LGA and its associated companies with a reduction in the total number of employees from 447 to the current level of 290.
4. We can therefore be said to have a stand-still budget for 2014-15 as compared with the previous year. The budget proposals set out below show that following measures taken in 2013-14 in response to the last minute reduction of £2m in RSG topslice, there is sufficient funding to meet next year's priorities as set out in the business plan.
5. The LGA's financial strategy for the next two years is summarised at **Appendix A**; the overall budget for 2013-14 at **Appendix B**; along with the budget for each organisation at **Appendix C**.

Context

6. The economic situation has had direct consequences for the LGA's finances:
 - 6.1 a 38% reduction in RSG topslice over the current spending review period
 - 6.2 councils under pressure to reduce discretionary spending - including LGA subscriptions
 - 6.3 a reduction in the number and value of grant-funded programmes
 - 6.4 a fall in demand for directly paid for services such as conferences and leadership programmes
 - 6.5 interest rates at historically low levels - reducing earnings on cash balances.

7. Along with concerns about pressures on income and expenditure over the medium term, the LGA faces particular challenges with regard to its pension funds. As with many hundreds of organisations in the public and private sectors, the LGA and its associated company the IDeA, are operating with significant pension deficits – valued at £70.1m as at March 2013 following the latest triennial valuation. The LGA is therefore focusing on increasing the value of its property assets – Local Government House and Layden House – to offset this deficit, along with making good pension deficits through by means of significant additional contributions.
8. The financial projections for the next two years show that the current levels of pay and non-pay activity can be maintained for a further two years, if the government fulfils its stated commitment to provide RSG topslice of £23.8m in 2015/16.
9. Given that the picture beyond 2015-16 is uncertain, over the last six months the LGA has been developing its medium-term financial strategy which, as it currently stands, can be summarised as:
 - 9.1 securing RSG topslice income for the four years from 2015/16
 - 9.2 reducing overhead costs, particularly in relation to the Liberata contract for back office services and accommodation costs for Local Government House
 - 9.3 ensuring that additional pension contribution payments for the both the LGA and IDeA are affordable
 - 9.4 managing and investing in our property assets – Local Government House and Layden House – to increase their capital value, increase rental income and reduce operating costs
 - 9.5 developing a commercial strategy to increase its annual income through the development of new commercial services.

2013-14 Budget Proposals

Income

10. Following a reduction of over £15m (19%) in income over the last two years, the LGA faces a further reduction in income of £4.7m in 2014/15. This is mainly due to the reduction in grant-funded programmes from £13.1m to £9.5m.

LGA Subscriptions – maintained at £9.7m

11. Members have agreed that the LGA's subscriptions for 2014/15 should be based on the structure for the previous year. This means that the LGA's subscription income will be maintained at the same level as 2013/14, provided the number of councils who leave membership does not significantly increase. At the time of writing this report, 14 councils were on notice to withdraw from 1 April 2014, although this number is expected to reduce significantly before the start of the new financial year. 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 is necessary.

12. The decision to maintain subscriptions at their current level needs to be understood in the context of decisions which have resulted in a real terms reduction in LGA membership subscription income of some 35% over the last six years. This a 10% reduction in income from £14.5m to £13.1m in the 2010-11 financial year and 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 was in line with the overall reduction in Formula Grant, which taken cumulatively gives a 21.8% reduction over the period.
13. A prompt payment discount of 2.5% was also agreed by members for 2011/12. A further loyalty discount of 2.5% which took effect from 2013/14 resulted in a reduction in subscriptions income of £400k.

2010/11	2011/12	2012/13	2013/14	2014/15
£12.3m	£10.8m	£10.0m	£9.7m	£9.6m

14. The LGA currently has six integrated Transport Authorities in associated membership. By April 2014 most will cease to be separate authorities and will instead become part of the new combined authorities. Given these changes, and following discussions with ITA representatives, the separate scheme for ITAs along with our contribution to the Passenger Transport Executive Group (PTEG) will end on 31 March. This will result in a decrease of £83k in subscription income.
15. The Welsh LGA corporate subscription of £300k on behalf of Welsh councils is projected to continue.
16. The subscriptions budget takes account of an annual discount of £800k in recognition of a £6.2m 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 increase from £25.5m to £26.0m

17. We were successful in securing continued RSG topslice for four years from 2011-12, having made the case in the RSG prospectus submitted to CLG. The prospectus set out the outcomes the LGA will deliver for this funding. RSG topslice was however significantly reduced - by a total of 37% over the four years of the spending review period. In 2013/14 there was a further last minute reduction of £2m in RSG topslice. However RSG topslice for 2014/15 is being maintained at the level promised in the original settlement.

2010-11	2011-12	2012-13	2013-14	2014-15
£41.30m	£32.50m	£29.25m	£25.50m	£25.98m

18. 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 therefore now receives all the topslice direct and distributes this to the other organisations associated with the LGA.

19. 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.
20. The LGA's Leadership Board agreed in October 2013 to a reduction in LGA funding for Local Partnerships to £1.7m on 2014/15 and £1.5m in 2015/16 subject to there being no further reduction in RSG funding.
21. 2013/14 was the final year in which RSG topslice was paid as a grant to NIACE. The allocations for NFER and the NYA are overseen by the LGA's Children and Young People's Board and from 2013/14 research on education and youth services from these organisations was moved to a fully commissioned basis.
22. The individual company structures of the LGA and the IDeA have been retained in spite of the new integrated organisational arrangements for the LGA. RSG will be allocated by the IDeA to the LGA to ensure that employment and other costs associated with delivering improvement support to councils, are funded. The detailed company budgets at **Appendix C** show this allocation. This arrangement is supported by the Service Level Agreement between the LGA and the IDeA included at **Appendix D**.
23. In 2013/14 RSG topslice of £15k was paid to the Leadership Centre to cover its corporate costs. RSG topslice will not be paid to the Leadership Centre from 2014/15 in view of its agreed independence from the LGA.
24. 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 £13.1m to £9.5m

25. Income from **grant-funded and other ring-fenced programmes** is projected to be £3.9m lower than the previous year at £9.5m. This is due to a reduction in the grant from the Children's Workforce Development Council and the cessation of grants for the Children's Improvement Programme, One Public Estate and Open Data.
26. The LGA continues successfully to attract funding for other programmes, specifically: the Planning Advisory Service (£2.3m); Sector-Led Support – Adult Services (£0.8m); Care and Support Reform (£1.0m); Health Improvement Support (£2.0m); and Winterbourne View (£2.0m). The contribution to overheads (or operating surplus) from grant-funded programmes is projected to be maintained at £0.7m.
27. Other ring-fenced activity will be undertaken by the LGA on a cost-recovery basis, including the action on Property Searches and the Pensions Secretariat.

Income from direct services – reduced from £3.6 to £2.3m

28. Income from direct services is projected to be broadly in line with 2013-14. The reduction from 2013/14 is mainly due to the fact that the LGA organises the National Children's and Adults conference in alternate years. This earns the LGA income of £700k and is next due to be held in 2015/16.
29. As well as income from Conferences and Events (projected to be £1.2m), this includes projected income of £1.1m 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 - LG InformPlus.
30. As part of the LGA's Commercial Review, work will be undertaken in the first quarter of 2014/15 to determine whether income can be increased from existing services such as the LGA's conferences and events and leadership programmes, through increased charges or increased sales.

Rental income – maintained at £1.4m

31. Rental income is projected to stay at current levels in 2014-15 to reflect the fact that Layden House is now fully occupied by external tenants.
32. Proposals for a major refurbishment of Layden House are currently being considered by members, which if agreed will require vacant possession from 2016. Up to this point, the aim will be to maximise rentals under the current rental agreements.
33. Similarly, a full review of Local Government House will be undertaken in the first quarter of 2014/15, to ensure that its commercial potential is fully exploited. Decisions taken here may result in an increase in rental income over the medium term.

Investment income – maintained at £0.2m

34. Interest on cash balances is expected to earn about £200k at current interest levels. Average cash balances for the LGA and its associated companies are expected to be in the region of £14m 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 the LGA's Leadership Board. The emphasis is on placing deposits in very highly rated institutions. Although we expect interest rates to increase over the medium term as markets improve generally, investment income is projected to be static for the year ahead.

Geoplace dividend – projected to increase from £1.2m to £1.5m

35. Our investment in the Geoplace Joint Venture with Ordnance Survey is projected to provide us with a dividend of £1.5m. 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 £4.7m, LGIH paid additional deferred consideration of £2m on the first anniversary of the acquisition and £1.25m on the second anniversary of the acquisition (March 2013), after which it was entitled to annual dividends in the region of £1m per annum from 2013-14.

Expenditure

36. Expenditure is being managed in line with income to achieve a balanced budget. Our core operating costs have reduced overall as compared with 2013/14 because of action taken at the start 2013/14 following the announcement of the reduction in RSG funding. This resulted in a reduction in core posts and other cost reduction measures, for example the disposal of KHUB.

Employee costs – projected to reduce from £15.5m to £13.9m

37. The number of posts funded out of the LGA's core funding has reduced by 40 over the past year as a result of changes made in 2013 following the £2m reduction in RSG topslice funding. These changes resulted in 20 people leaving the LGA with one-off costs of £0.5m.
38. The pay budget for 2014/15 takes account of the award of an annual increment and also a pay award which will depend on the national negotiations for local government. Provision has also been made for the increased employer pension costs arising from automatic enrolment. The budget assumes a vacancy factor of 4%.
39. 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 £3.6m to £2.4m

40. The reduction in grants to other organisations is due mainly to the changed arrangements for NIACE, set out in paragraph 21 above.
41. In addition to the £1.7m for Local Partnerships mentioned in paragraph 20 above, the LGA pays a grant of to the Centre for Public Scrutiny (CfPS). At its meeting in September 2013, Leadership Board agreed to a 10% reduction in the funding of CfPS from 2014/15, bringing this to £171k. Work is underway with CfPS to ensure that its services support the objectives of the LGA. As for Local Partnerships, 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 reduce from £8.6m to £8.0m

42. The budget of £8.0m for non-pay costs in 2014/15 is based broadly on the allocations for 2013/14. Programme budgets have been 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 business plan.
43. Programme budgets were reduced by £900k at the start of 2013/14 as part of the planned cost reduction measures in response to the cut in RSG topslice. The further reduction for 2014/15 is mainly due to the fact the National Children's and Adults conference is not due to take place in 2014/15. The costs associated with this conference are £540k.
44. A full performance framework will be developed before the start of the new financial year, showing the allocation of programme budgets to deliver the objectives in the business plan, and reporting back on the LGA's delivery and impact.
45. Unallocated funding of £2.3m has been set aside for special projects which will be allocated in-year, in line with the steer from members.

Expenditure on ring-fenced programmes – projected to reduce from £12.4m to £8.8m in line with income

46. As stated above, the costs associated with grant-funded and other ring-fenced programmes will be covered by the additional income from these programmes.
47. The expectation is that a significant contribution to overheads of £0.7m is also generated, reflecting the hosting costs to the LGA of these programmes.
48. The LGA's commercial review has identified the need to review overhead recharges to grant-funded programmes to ensure a consistent and optimal approach to cost recovery. This work will be undertaken in the first quarter of 2014/15.

Liberata – net costs projected to reduce from £5.6m to £5.2m

49. The LGA entered into a 10 year fixed price agreement with Liberata in May 2008 to provide a range of back-office services. We renegotiated the contract in 2013 with a view to achieving a significant reduction in overheads and at that point agreed savings of over £1m. These have now largely been implemented through a combination of one-off changes in the way services are provided along with closer management of demand-led costs such as catering and print and design.
50. The reduction in Liberata costs for 2014/15 reflects the fact that the LGA will benefit from the full-year savings of changes from the contract renegotiation that were introduced part-way through 2013/14.

Additional pension contributions – projected to increase from £3.9m to £4.7m

51. Additional annual pension contributions totalling £4.7m are necessary as a result of the 2013 actuarial revaluations. In spite of initial concerns that the actuarial valuations could lead to an unaffordable increase in additional contributions, we have negotiated a favourable outcome, particularly in relation to the LGA.
52. Additional pension payments of £0.9m are also made in respect of unfunded pension liabilities for former employees. The LGA's practice over recent years has been to ensure that pension liabilities are fully funded for all departing employees.

Property costs – projected to increase from £2.6m to £3.6m

53. We are projecting to incur loan and mortgage repayments, rates and maintenance costs for Local Government House and Layden House totalling £3.6m. As indicated above, we receive rental income from a range of tenants in both buildings to offset some of these costs.
54. The budget is being increased in 2014-15 mainly to take account of the costs to be incurred as part of the planned maintenance programme for Local Government House. This expenditure is overseen by the Board of the LGA's property company, LGA (Properties) Ltd. A survey is will be undertaken in the first quarter of 2014/15 to ensure that the LGA is exploiting the commercial potential of Local Government House and help plan for the future with regard to investment in the building.

55. The proposed budget for this property company and also that of LGMB which owns Layden House is included at **Appendix C**. Proposals to refurbish Layden House are currently being considered by members which if agreed will mean that significant expenditure on this property will be deferred until 2016.

Other overheads – projected to reduce from £1.7m to £1.4m

56. 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, employee development and ICT development costs.
57. The reduction is due mainly to one-off costs of £330k associated with the Liberata contract changes incurred in 2013/14,

Additional call on Reserves

58. Pensions Secretariat – the LGA holds operating surpluses of £300k on behalf of the Pensions Secretariat and in 2014-15 these will be drawn down by an additional £128k.

Conclusion and next steps

59. The medium-term financial strategy and provisional budget for next year show that securing a balanced budget for the two years to 2015/16 is achievable given the RSG topslice funding agreed to the end of this period and also the cost reduction measures taken over the last two years.
60. Work will continue on the longer-term elements of the LGA's financial strategy, as set out above, to ensure the financial sustainability of the LGA for the long term beyond this.