

## **LGA Business Plan and Budget – 2015/16**

### **Purpose of report**

For review and direction.

### **Summary**

Leadership Board is asked to provide a steer on the high level priorities for 2015/16 as the basis for the LGA's business planning process which is due to get underway over the autumn. A summary of options for members to consider is included at paragraph 6 below.

Alongside this, Leadership Board is asked to note the outline budget for 2015/16.

More detailed work on the LGA's priorities for 2015/16 will be undertaken over the coming weeks, prior to a draft business plan and budget being presented to Leadership Board in January. The final business plan and budget for 2015/16 will be agreed by Executive in March 2015, in advance of the new financial year.

### **Recommendation**

That the Leadership Board:

- considers the discussion paper included at **Appendix A**, and provides a steer on the LGA's positioning and priorities for 2015/16, as the basis for more detailed work on next year's business plan
- agrees the budget framework for 2014/15 at **Appendix B**, prior to a more detailed budget being presented to Leadership Board with a draft business plan in January.

### **Action**

For the 2015/16 business plan and budget to be worked up in more detail and presented to the January Leadership Board meeting.

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## **Business Plan and Budget – 2015/16**

### **Introduction**

1. This paper asks members for a steer on the high level priorities for 2015/16, as the basis for the LGA's business plan for next year. This will be developed over the coming weeks into a more detailed set of proposals, with input from the LGA Boards.
2. The aim is to bring the next iteration of the business plan back to Leadership Board in January, prior to this being signed off along with the annual budget at the March Executive.

### **Background**

3. The current business plan identifies three high level priorities for the LGA:
  - 3.1 **Funding for local government** – reform of the finance system so councils have confidence their financing is sustainable and fair, opportunities to raise more funds locally, and greater ability to promote collective working across local public services
  - 3.2 **Economic growth, jobs and housing** – councils are recognised as central to revitalising local economies
  - 3.3 **Public service reform** – independent councils are at the centre and seen to be at the centre, of public service reform, delivering more effective services for local people and holding other providers to account.

The business plan also describes our core services to councils which are driven by our belief in **sector-led improvement**.

4. These priorities were originally developed in 2011. We have the opportunity, as we enter a General Election year, to reposition and develop a clear and compelling strategy for the LGA in view of recent developments. A key question is whether our three top priorities adequately express our strategy; and how we might want to change and shape them in the light of what our members want and need from us, and the current political landscape.
5. A paper is included at **Appendix A**, to inform a discussion on these questions at this meeting and enable members agree – at a high level – on the appropriate approach for the LGA for 2015/16 and beyond.

6. The analysis in the discussion paper suggests that we might want to review our strategic priorities in one of three ways:
- 6.1 stick with what we have, since the issues remain and we have not yet finished the debate on what reforms are needed to make it possible to live with austerity sustainably;
  - 6.2 replace the economic priority with a slightly larger number of service/quality of life issues; this risks diluting our focus but would show we had understood the need to address in particular the service issues where councils are most exposed to ill-considered policy change;
  - 6.3 replace the current list of three things with two: funding and English devolution, with the latter in effect capturing the whole set of narratives about reform and localisation of services, and local growth.

#### **Budget 2015/16**

7. A preliminary overview of the budget for 2015/16 is also presented at **Appendix B**, along with the latest assessment of our financial position for the three years beyond that. The outline budget takes account of recent developments – for example the triennial pension valuation and plans for the LGA’s two properties.
8. The outline budget is based broadly on the LGA’s current operating model. In spite of the known reduction in RSG topslice in 2015/16, this moves us from the projected operating surplus of £0.7m for 2014/15 to a projected contingency of £2.4m in 2015/16.
9. A number of additional budget pressures have been identified for next year:

Confirmed reduction in RSG topslice to £23.8m	2,200
Reduction in contribution to overheads from ring-fenced programmes – this is an estimate only. Early indications are that grant-funding may be maintained at current levels.	300
Reduction in dividends – the dividend from Local Partnerships in 2014/15 is assumed to be a one-off.	300
Salary increments/pay awards – assumes a 1% cost of living increase.	200
	3,000

10. However, these are offset by the following savings/changes to the baseline position:

Increase in income from direct services – mainly due to income from the Children’s and Adults conference, which we receive in alternate years.	800
Pension costs – reduction in pension deficit contribution payment. One-off advance payment of £1.9m in 2014/15 will result in lower annual payments in 2015/16 and 2016/17.	2,800
Reduction in property costs – expenditure on Local Government House continues to be significant to implement EC Harris proposals, but falls from £1.3m to £0.8m given that major spend on windows will take place in 2014/15	500
Reduction in RSG payments to Local Partnerships and the Centre for Public Scrutiny in line with reduction in RSG topslice – already agreed in principle by Leadership Board.	300
Reduction in overhead costs as part of a planned efficiency programme.	300
	4,700

11. Beyond these identified changes to the baseline, the following budget risks have also been identified for 2014/15:

11.1 Possible further reductions in grant-funding.

11.2 LGA membership – 13 councils are currently on notice to withdraw from membership in 2015/16. The risk is assessed as being up to a £450k reduction in income.

12 All these figures will be subject to further refinement over the coming weeks and will be used as the basis for the detailed budget proposals to be presented to Leadership Board in January.

**Appendix A**

**LGA STRATEGIC PRIORITIES – DISCUSSION PAPER**

The LGA's current strategic priorities are

- Funding for Local Government;
- Economic Growth, Jobs and Housing; and
- Public Service Reform.

This captures the LGA strategy of the time they were first drafted early in this Parliament. That strategy was based on an understanding that the government at that point cared almost exclusively about repairing the public finances and restoring the economy to growth. The risks that created for councils were

- (i) that they would bear the brunt of spending cuts without having the local flexibility to manage their impact; and
- (ii) that the government would ride roughshod over local priorities with nationally-directed growth initiatives.

Members decided to defend councils against those risks by arguing that the only way the government could sensibly impose drastic cuts on public service budgets was to radically reform the way those services were provided, in a devolutionary way; and to highlight at a time of economic crisis the crucial contribution councils could make to returning the economy to growth (and thus helping improve the fiscal position with higher tax revenues too).

That strategy has been moderately successful. Major policy wins to which it has led include:

- devolving public health
- health/care integration and the Better Care Fund (although this is still contested by vested interests in the health sector)
- the success of community budgets/public service transformation as a narrative (although actual progress has been slow and patchy)
- the council-led Troubled Families Programme
- City and Growth Deals (disappointing as the content has been)
- Business rate devolution (half-cooked as that has been so far).

On the other hand, councils have still taken swingeing spending cuts, public service remains heavily centralised, and it is not clear whether the government sees LEPs as a reinforcement or a rival to councils.

## **Priorities for 2015 onwards**

From one perspective, then, our strategic priorities reflect a job half-done and are therefore still relevant and lively. But it is worth considering how the issues and risks facing councils have moved on during this Parliament and what the national political imperatives are likely to be in 2015.

Over the 2015-20 Parliament, public spending will have to fall by roughly as much as it has in this Parliament if the declared deficit objective of either of the parties likely to lead a government is to be met. The Conservative party has also committed itself to extending protection for the health budget, and Labour to increasing health spending: taken together with inevitable increases in welfare and debt interest spending, this means council budgets are once again not only exposed to cuts, but to larger cuts than the average for the public sector.

A number of aspects of the fiscal squeeze will be different after 2015, though. Firstly, the need for cuts is unlikely to be a matter of debate. A constructive willingness to trade cuts against reform is therefore likely to buy less negotiating leverage next time round (always assuming we think it bought much in 2010). Secondly, though, the pressure on some Whitehall departments' running costs may become critical, meaning that they may be much readier for radical reform options than they have been so far. Thirdly, the cuts of this Parliament have already exposed a differential between councils: with the sector as a whole likely to approach a self-funding balance by the end of the decade, differences in financial stress between places and types of councils will become more apparent, which means that distribution may be as urgent an issue as the total of funding. Finally, public willingness to accept the effect of cuts may fall as people perceive an improvement in general economic conditions, particularly if the effect is felt in the form of failure in critical services.

Although the economic recovery is fragile and Britain remains very exposed to external shocks, the growth position is nothing like as desperate as it was when we first drew up our current strategic priorities. Today's big national political imperatives are being driven by the devolution debate opened up by the Scottish referendum (which disproportionately affects Labour politics), by a revival of debates about Europe and immigration (which disproportionately affects the Conservatives), and by a number of quality of life issues of which the affordability of housing is probably the most pressing.

A political debate about English devolution presents a golden opportunity for councils to make the case for liberating local democratic decision-making from its shackles of the last forty years. Potentially, there is a direct link here with our past argument that public service reform is a necessary condition of spending cuts, with devolved services offering a better chance of making savings while mitigating their effect on outcomes. Devolution is also the vehicle for taking the half-written stories of city/growth deals and community budgets to a clear conclusion that drives real change. The LGA potentially has a natural role in leading that debate. Councils are also in pole position to lead a revival in housebuilding, and the current reviews being carried out by Sir Michael Lyons and Keith House and Natalie Elphicke are likely to argue just that.

There are, however, headline issues directly relating to key council services that will not drive the overall political story of the next Parliament, but are ripe for national policy initiatives and have huge reputational risks to councils. Care for the old and child protection are the two with most impact.

## **Conclusion**

Council funding and the impact of cuts on services are as important an issue as they were when we last set strategic priorities, although the dynamics have changed. The issue of English devolution has the power to reframe the debate about reforming and localising money and services. A more granular set of quality of life and service issues has arguably replaced a simple dash for growth as an imperative for councils to make their case to government.

This might lead us to review our strategic priorities in one of three ways:

- (i) stick with what we have, since the issues remain and we have not yet finished the debate on what reforms are needed to make it possible to live with austerity sustainably;
- (ii) replace the economic priority with a slightly larger number of service/quality of life issues; this risks diluting our focus but would show we had understood the need to address in particular the service issues where councils are most exposed to ill-considered policy change;
- (iii) replace the current list of three things with two: funding and English devolution, with the latter in effect capturing the whole set of narratives about reform and localisation of services, and local growth.