



LGA Budget Book 2015-16

for Executive – 5th March 2015

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.
2. The 2015-16 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 four years are still broadly relevant for 2015-16 – with the addition of “Devolution” as a strategic priority - and there is value in having a settled set of priorities for the organisation, particularly at this stage in the political cycle and before the outcome of the General Election is known.
3. In 2015-16 the LGA's core funding is broadly at the same level as 2014-15 apart from a decrease of £2.6m in RSG topslice – about 5% of turnover. This is part of the significant reduction in the LGA's core funding since 2010 - turnover has nearly halved over this period 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 around 300.
4. This reduction in RSG topslice as compared with 2014/15 can be managed without adversely impacting on current staffing levels or operational budgets and there is sufficient funding to meet next year's priorities as set out in the business plan.
5. However, separately from this budget paper, members are being asked to consider a set of proposals to ensure the operational and financial sustainability of the LGA over the medium term. Once these have been agreed, adjustments will be made to the LGA's financial projections and also the budget for 2015/16, using the budgets set out here as a baseline.
5. The LGA's financial strategy for the next two years is summarised at **Appendix A**; the overall budget for 2015-16 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 43% reduction in RSG topslice over the last five years.
 - 6.2 councils under pressure to reduce discretionary spending - including LGA subscriptions
 - 6.3 a fall in demand for directly paid for services such as conferences and leadership programmes
 - 6.4 interest rates at historically low levels, reducing our 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 £70m as at March 2013 following the latest triennial valuation; and at £92m in the 2013/14 financial accounts. 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. Although RSG topslice funding of £23.4m has been confirmed for 2015/16 the picture beyond the next General Election is uncertain. Given this, the LGA has been developing its medium-term financial strategy which, as it currently stands, can be summarised as:
 - 8.1 securing RSG topslice income for 2016-17 and beyond through continued dialogue with CLG on the benefits of sector-led improvement and the LGA’s central role in delivering this.
 - 8.2 reducing overhead costs, in particular following the decision to terminate the Liberata contract from January 2016.
 - 8.3 ensuring that additional pension contribution payments for the both the LGA and IDeA are affordable.
 - 8.4 managing and investing in our property assets – Local Government House and Layden House – to increase their capital value and rental income, and reduce operating costs.
 - 8.5 developing a commercial strategy to increase its annual income through the development of new commercial services.

2015-16 Budget Proposals

LGA Subscriptions – maintain at £9.5m

11. Members have agreed that the LGA’s subscriptions for 2015/16 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 2014/15, provided the number of councils who leave membership does not significantly increase. At the time of writing this report, 6 councils were on notice to withdraw from 1 April 2015, although this number is expected to reduce further 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 reduction in LGA membership subscription income of some 35% over the last six years. This mirrors the overall reduction in Formula Grant.

13. A prompt payment discount of 2.5% was agreed by members for 2011/12. A further loyalty discount of 2.5% which took effect from 2013/14 resulted in a reduction in subscription income of £400k.

| 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 |
|---------|---------|---------|---------|---------|---------|
| £12.3m | £10.8m | £10.0m | £9.7m | £9.6m | £9.5m |

14. The Welsh LGA corporate subscription of £300k on behalf of Welsh councils is projected to continue.
15. The subscriptions budget takes account of an annual discount of £500k 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 – decrease from £26.0m to £23.4m

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. In 2013/14 there was a further last minute reduction of £2m in RSG topslice for the year, although RSG topslice was maintained at the previously agreed level in the following year.
18. We have been successful in securing CLG's agreement to RSG topslice of £23.4m for 2015/6 representing an overall reduction of over 43% over the last five years. CLG has indicated that there may be a review of the arrangements for funding and delivering improvement support for local government over the coming year. Work is therefore underway to ensure that the LGA is able to respond to any changes and that its financial sustainability for the medium term is assured.

| 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---------|---------|---------|---------|---------|---------|
| £41.30m | £32.50m | £29.25m | £25.50m | £25.98m | £23.38m |

19. The individual company structures of the LGA and the IDeA have been retained in spite of the new integrated organisational arrangements for the LGA because of the complexities of merging an unincorporated association, the LGA, with a company limited by guarantee, the IDeA, and the associated pension challenges. 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**.

Ring-fenced funding – projected to reduce from £14.8m to £9.1m

20. The LGA continues successfully to attract funding for other programmes. For 2015/16 the most significant grants are:
- 20.1 Care & Health Programmes (£5.2m)

- 20.2 the Planning Advisory Service (£2.0m);
 - 20.3 Safeguarding Peer Challenge (£0.5m)
 - 20.4 One Public Estate (£0.4m)
 - 20.5 Amenity Assets (£0.1m)
21. Although the known level of grant income for 2015/16 has decreased compared with 2014/15, we expect in-year awards of grants will be made after the start of the financial year, as has been the case in previous years. The contribution to overheads - or operating surplus - from grant-funded programmes is projected to be in line with this year's contribution of £1.0m.
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 – increase from £2.9m to £3.2m

28. Income from direct services is projected to be broadly in line with 2014-15. The increase from 2014-15 is mainly due to the fact that the LGA organises the National Children's and Adults conference in alternate years.
29. As well as income from Conferences and Events (projected to be £1.8m), this includes projected income of £1.4m 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 is being undertaken 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 – reduce from £1.4m to £1.3m

31. Rental income from Local Government House and Layden House is projected to be maintained in 2015-16. The slight reduction reflects the Boundary Commission's departure from Layden House from May 2015 at the end of their five year lease.
32. Proposals for a major refurbishment of Layden House are currently underway which will require vacant possession from April 2016. Up to this point, the aim will be to maximise rentals under the current rental agreements.
33. Similarly, following the options appraisal of Local Government House, refurbishment work will be commissioned in 2015-16, to ensure that its commercial potential is fully exploited. Decisions taken here should result in an increase in rental income over the medium term.

Investment income – maintain 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 £20m 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 – maintain at £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.
36. 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 is entitled to annual dividends in the region of £1m per annum from 2013-14.

Expenditure

Employee costs – projected to increase from £14.7m to £15.8m

37. The pay budget for 2015-16 takes account of the award of an annual increment and also a pay award of 2.2%. The budget assumes a vacancy factor of 4% and is based on the current core staff establishment. However the number of posts is likely to be reduced significantly during 2015/16 – as part of the proposals to ensure the financial sustainability.
38. Additional posts for employees working on grant-funded programmes will be covered by the funding for those programmes.

Grants to other bodies –reduce from £1.9m to £1.7m

40. The reduction in grants to other organisations is due to an agreed reduction from £1.7m to £1.5m for Local Partnerships; and a grant of £171k to the Centre for Public Scrutiny (CfPS). Both of these grants are funded out of RSG topslice.
41. Both Local Partnerships and the CfPS also benefit from being located in Local Government House and for access to the LGA's shared support services for which they make a financial contribution, although this does not cover the full cost of the services received. Discussions are underway with both organisations on future arrangements for accommodation and back office services, following the termination of the Liberata contract.

Programme costs – reduce from £8.9m to £7.5m

42. The proposed budget of £7.5m for non-pay costs in 2015-16 is based broadly on the projected spend for 2014-15 – apart from the one-off £0.5m investment in 2014/15 in the Municipal Bond Agency. 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 for 2015-16.
43. A full performance framework has been developed, showing the allocation of programme budgets to deliver the objectives in the business plan, and to enable reporting back on the LGA's delivery and impact.

45. Unallocated funding of £2.5m 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 £13.5m to £8.1m 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 £1.0m will be generated, reflecting the hosting costs to the LGA of these programmes.

Liberata – maintain at £5.4m

48. 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 annual savings of over £1m which were achieved.
49. In January 2015, the LGA gave Liberata 12 months' notice (as required under the contract) of its intention to terminate the contract for convenience.
50. Work is now underway to ensure the smooth transition to new arrangements which will involve the services currently being provided by Liberata – Print & Design, Facilities, Finance, HR and ICT – being brought back in-house or re-procured. The additional project management costs associated with this work have been included in the budget presented here. There may however be additional costs linked to staffing changes arising from the contract termination. These will be presented to members once specific proposals for the LGA's back office services have been developed.
51. Although we expect to make significant savings from terminating the Liberata contract in 2015-16 - as previously presented to members in the business case for early termination – we do not expect these to be realised until 2016/17, given that the contract will run until the end of January 2016. We have therefore included the full cost of the Liberata contract in this year's budget. More detailed financial modelling will be undertaken over the coming months to determine what savings will be realised during 2015/16 and in future years.

Additional pension contributions – decrease from £6.2m to £3.3m

51. The decrease in additional annual pension contributions is due to an upfront payment being made in 2014/15 of £2.9m to the Merseyside Pension Fund for the following three years. The additional payment due to Camden Pension Fund for 2015-16 is £2.4m.
52. Additional pension payments of £0.9m are also made in respect of unfunded pension liabilities for former employees. (The LGA's practice in recent years has been to ensure that pension liabilities are fully funded for all departing employees.)

Property costs – maintain at £2.9m

53. We are projecting to incur interest payments, rates and maintenance costs for Local Government House and Layden House totalling £2.9m. As indicated above, we

receive rental income from a range of tenants in both buildings to offset some of these costs.

54. In addition, capital expenditure of £0.9m is expected to be incurred as part of the planned maintenance programme for Local Government House.
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 finalised - significant expenditure on refurbishing this property will be deferred until 2016.

Conclusion

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