

Leaders' Committee

London Councils Grants Scheme - Item no: 9 Budget Proposals 2015/16

Report by: Frank Smith **Job title:** Director of Corporate Resources
Date: 9 December 2014
Contact Officer: Frank Smith
Telephone: 020 7934 9700 **Email:** Frank.smith@londoncouncils.gov.uk

Summary This report considers the proposed budget for the Grants Scheme for 2015/16 and makes a recommendation to the Committee on the appropriate level to recommend to constituent councils for approval. These proposals were considered by the Grants Committee at its meeting on 26 November. The Grants Committee agreed to recommend that the Leaders' Committee approve these proposals.

Recommendations The Leaders' Committee is asked to agree:

- an overall level of expenditure of £10.5 million for the Grants Scheme in 2015/16 (inclusive of £2.5 million gross ESF programme, which includes a sum of £500,000 to fund all existing commissions for the period April to June 2015);
- that taking into account the application of £1.25 million ESF grant and a transfer of £250,000 from reserves, borough contributions for 2015/16 should be £9 million, the same as for the current year;
- that further to the recommendations above, constituent councils be informed of the Committee's recommendation and be reminded that further to the Order issued by the Secretary of State for the Environment under Section 48 (4A) of the Local Government Act 1985, if the constituent councils have not reached agreement by the two-thirds majority specified before 1 February 2015 they shall be deemed to have approved expenditure of an amount equal to the amount approved for the preceding financial year (i.e. £10 million);
- that constituent councils be advised that the apportionment of contributions for 2015/16 will be based on the ONS mid-year population estimates for June 2013; and
- that subject to the approval of an overall level of expenditure, the Committee agrees to set aside a provision of £555,000 for costs incurred by London Councils in providing staff and other support

services to ensure delivery of the Committee's programme of approved commissions, including ESF administration of £120,000.

London Councils Grants Scheme - Budget Proposals 2015/16

Introduction

1. This report details the indicative overall budget requirement for the London Boroughs Grants Scheme for 2015/16 of £10.5 million, comprising:
 - The cost of the borough scheme of priority, pan-London commissioned services of £8 million, which includes the cost of administering the borough scheme, equating to £435,000 or 5.44% (4.44% excluding central recharges) of the proposed grants programme of £8 million plus the membership subscriptions for boroughs for London Funders of £60,000; and
 - The gross cost of the ESF programme of £2.5 million, including £120,000 administration costs, offset by ESF grant of £1.25 million and a transfer from reserves of £250,000, leaving a net cost of £1 million to be funded by boroughs.
2. The proposed total expenditure budget of £10.5 million will be funded by borough contribution of £9 million, ESF grant income of £1.25 million and a transfer from reserves of £250,000. The proposed borough contribution of £9 million remains at the same level as for the current year.
3. The Leaders' Committee will need to reach a view on both the appropriate overall level of expenditure and to recommend the budget to constituent Councils.

Approval of Expenditure

4. The statutory basis of the Grants Scheme is Section 48, Local Government Act 1985. Constituent councils agreed to some changes to the operation of the Scheme as part of the establishment of the new ALG on 1 April 2000: these changes mean that the budget for the London Councils Grants Scheme must be approved by the London Councils Leaders' Committee. This will need to happen before any budget that is recommended to constituent councils by the Grants Committee can be formally referred to them as a basis for consideration in their respective council chambers.

5. The budget proposals contained in this report were considered by the Grants Committee at its meeting on 26 November and the recommendations of the Grants Committee are reflected in this report. If Leaders do not accept the recommendations of the Grants Committee, and instead agree to recommend a different budget figure to Boroughs, the Grants Committee will need to meet urgently to consider the implications for the Grants programme.

6. Section 48(3) of the Local Government Act 1985 requires that at least two-thirds of the constituent councils in Greater London must approve the proposed overall level of expenditure on grants to voluntary organisations and other costs incurred in “the making of grants”. This is not a decision that can be delegated to the Grants Committee although that Committee is able to make decisions with regard to allocation of that expenditure once overall expenditure has been approved. This means that when the Committee decides on an overall level of expenditure, subject to the agreement of the London Councils Leaders’ Committee, it will recommend it to the London Boroughs and the Cities of London and Westminster and at least 22 of them must agree through their respective decision-making arrangements to ratify and give effect to that overall level of expenditure. Once 22 councils have given their approval, the overall level of expenditure and contributions to it are binding on all constituent councils.

Timing of Decisions

7. The Committee needs to make its recommendation in good time so that constituent councils are able to consider the budget proposal within their own decision-making arrangements and make a response within the timescales laid down for the Scheme. The Scheme approved by the boroughs provides that constituent councils shall be asked to agree to the Committee's recommended level of overall expenditure not later than the third Friday in January, in this case 16 January 2015. All constituent councils will have received copies of this report and will be informed of the Committee's recommendation as to overall expenditure for next year, once the decision has been taken.

8. The City of London Corporation has been the Designated Council for the Scheme since 1 February 2004. Bearing in mind the issues raised above, it is essential for the Committee make a recommendation today, to provide sufficient time for constituent councils to consider the matter before the 1 February deadline, and enable the City of London Corporation to approve the levy on constituent councils by the deadline of 15 February 2015.
9. In the event that constituent councils are unable to reach agreement by the two-thirds majority required on an overall level of expenditure before 1 February 2015 the Secretary of State for Communities and Local Government has powers to intervene and set the budget at the same level as the preceding year. Section 105 of the Local Government Finance Act 1992 inserted a new sub-section (4A) into section 48 of the Local Government Act 1985 which states that:

"4A. The Secretary of State may by order provide that if -

- *a scheme requires the total expenditure to be incurred under the scheme in any financial year _*
 - *in the making of grants; and*
 - *in the discharging by the designated council of its functions under the scheme, to be approved in accordance with the scheme by some or all of the constituent councils; and*
- *the total expenditure to be incurred in any financial year is not approved as required by the scheme before such date as may be specified in relation to that financial year in the order, the constituent councils shall be deemed, subject to any order which has been or may be made under subsection (5) below, all to have given their approval for that financial year to total expenditure of an amount equal to the amount that was approved or, as the case may be, deemed to have been approved for the preceding financial year".*

Contributions by constituent councils

10. Section 48(3) of the 1985 Act provides that the amount of contributions to the London Councils Grants Scheme shall be determined so that expenditure is borne by constituent councils in proportion to the population of their respective areas. Section 48(4) of the 1985 Act states that the population of any area shall be the number estimated by the Registrar-General and certified by him to the Secretary of State.

11. Under The Levying Bodies (General) Regulations 1992, arrangements made under section 48 of the 1985 Act (and also section 88) use total resident population as the means of apportionment and it is no longer necessary for the Registrar General to certify the estimates. The Regulations came into force on 11 December 1992. Regulation 6(8) is of particular importance, stating that:

"A levying body shall secure that the expenses to be met by levies issued by it under these Regulations by reference to the relevant precepting power conferred by section 48 or 88 of the Local Government Act 1985 are borne by the relevant authorities in a proportion calculated by reference to the total resident population of the area of each relevant authority on 30th June in the financial year beginning two years before the beginning of the financial year in respect of which the levy is issued, as estimated by the Registrar General."

12. The Designated Council is defined as a levying body further to Sections 74 and 117 of the Local Government Finance Act 1988, which means that the levy will have to be approved formally at a meeting of the Court of Common Council of the Designated Council before the payment requests are sent to constituent councils. The Court of Common Council will consider this matter before the deadline of 15 February 2015. The Levying Bodies (General) Regulations 1992 then require the approved levy to be sent out to constituent councils by 15 February in any year. The term levy refers both to the total contributions from constituent councils and to the apportionment of that total between them.

Summary Timetable

13. To summarise, the timetable for the approval of the budget for 2015/16 is expected to be as follows:

Date	Action
20 November 2014	London Councils Executive considered the overall budget and subscription proposals for London Councils for 2015/16.
26 November 2014	Grants Committee considered proposed budget and borough contributions for 2015/16 and makes recommendations to Constituent Councils, subject to approval of Leaders' Committee
9 December 2014	This meeting is asked to approve the level of budget and borough contributions for 2015/16, as recommended by the Grants Committee on 26 November
10-12 December 2014	Constituent Councils formally notified of the approved level of budget and borough contributions for 2015/16
15 December 2014 – 31 January 2015	Constituent Councils to individually ratify the overall level of expenditure for 2015/16 through their respective decision-making arrangements
1-15 February 2015	The City of London Corporation, as the Designated Councils for the Grants Scheme, approves the levy for 2015/16 on Constituent Councils
15 February 2015	Constituent Councils informed of level of approved expenditure and borough contributions for 2015/16

Budget Proposal for 2015/16

14. Appendix A to this report sets out detailed information relating to the proposed budget for 2014/15. The budget assumes:

- A core, pan-London scheme of commissioned services to meet service priorities agreed by the Grants Committee of £7.565 million, which includes the membership subscriptions for boroughs for London Funders of £60,000;
- An additional gross sum of £2.38 million relating to the ESF commissioned services programme. A sum of £1.88 million relates to the new ESF programme due to start in the summer of 2015 under new funding arrangements managed by the LEP. In addition, at its meeting on 26 November, the Grants Committee agreed that the Leaders' Committee, in advance of the start of the new ESF programme, approve a sum of £500,000 to continue the 10 existing ESF commissions for the period April-June 2015;
- An indicative gross grant payments budget of £9.945 million, compared to £9.48 million for the current year.

- In addition to the indicative gross grant payments budget of £9.945 million, the proposal includes a provision for the administration of commissions of £555,000. This is split between the administration of the S.48 commissions of £435,000, which equates to 5.4% (or 4.4% excluding central recharges) of the boroughs commissioning budget of £8 million and reflects the actual cost of the current monitoring arrangements that came into effect in April 2013. For the £2 million gross S.48/ESF commissions, administration amounts to £120,000, or 5.99%, which reflect the more complex monitoring arrangements of the ESF commissions.
- The proposed total programme of commissions of £10.5 million will be funded by ESF grant income of £1.25 million, a transfer from reserves of £250,000 and borough contributions of £9 million, the same level as for the current financial year.

15. In making this proposal, the Committee asked Leaders' Committee to note its view that projects are:

- Effective (meeting or exceeding targets and record on equality and diversity is strong);
- Economic (no overspends and underspends swiftly redirected); and
- Efficient (projects have to compete for funding and operate with management fee caps. Programme management expense has to be controlled).

Administration of Commissions

16. The staffing costs figures within the proposed 2015/16 budget options reflects all of these posts, together with the apportionment of time spent on Grants Committee activities by other London Councils staff, such as Grants Committee servicing and Public Affairs. The staffing budget also includes a £10,000 provision for maternity cover and the vacancy level of 2%.

17. In terms of dedicated staff, the overall number of staff is 5.06 fte posts (5.11fte 2013/14) split between the S.48 programme of 4.20 fte posts (4.25) and 0.86 fte posts (0.87) dealing with the ESF programme.

18. In addition, an apportionment of time spent by Corporate Resources, Corporate Governance other than Committee Servicing, the Chief Executive's office, and London Councils Political Advisors are included in the central recharges figure for supporting the Committee's functions, as well as a notional rental figure for office space occupied at Southwark Street. As detailed in the report on the financial results for 2013/14 that was presented to this Committee in July 2014, a change in London Councils accounting policies for recharging central overhead costs during 2013/14 has led to an increase in overall costs charged to the Committee, which for 2015/16 is estimated to be £16,000. The purpose of the review was to establish a methodology for apportioning central cost in a more relevant and equitable manner that is free from the risk of cross subsidisation of funding streams and externally funded projects. This revised methodology was tested and signed off as fit for purpose by the external auditors during the course of the audit of the 2013/14 accounts, which was concluded in September 2014.
19. All estimates of administration expenditure levels have previously been based upon a threshold of 5% of the budget for payments to commissions in respect of the borough funded S.48 scheme, as agreed by Grants Committee in the review of non-grants expenditure levels conducted in early 2009. However, it is clear from a review of staffing costs during 2013/14 and in the current year that it is becoming increasingly difficult to contain all administrative costs within the 5% envelope, especially after the introduction of the new monitoring arrangements were introduced in April 2013 and the increase in recharges, as detailed in paragraph 18 above. As a result, it is proposed to vire £35,000 of uncommitted funds from the S.48 budget for payments to commissions to cover the estimated shortfall in administrative costs. This leads to a proposed administration costs for the S.48 payments of £435,000 for 2015/16, compared to £400,000 for the current year, which equates to 5.44% of the proposed £8 million programme. If central recharge costs of £80,000 are excluded, the amount reduces to £355,000, or 4.44%.
20. For the ESF programme, the claimable amount is limited to 5.99% of the total budget as stated in the DwP EPMU guidelines, equating to £120,000. Total administration costs for 2015/16 are, therefore, estimated to be £555,000, compared to £520,000 for 2014/15.

ESF Grant Income

21. The proposed budget includes gross expenditure of £2.5 million on activities commissioned under London Councils approved priorities, including administration costs of £120,000, which attracts grant income at 50% as a consequence of London Councils status as one of London's ESF co-financing bodies, thus reducing the net cost of this activity to £1.25 million. Both the gross expenditure and the ESF income it attracts are reflected in Appendix A.

Use of Reserves

22. Audited reserves at the end of March 2014 were £1.95 million, inclusive of £773,000 relating to the ESF commissions. The projected position on Grants Committee reserves is shown in the table below.

	Borough	ESF	Total
	£000	£000	£000
Audited reserves as at 1 April 2014	1,177	773	1,950
One-off payment to boroughs 2014/15	(800)	-	(800)
Projected transfer from reserves in 2014/15	-	(103)	(103)
Projected surplus/(deficit) for the year	52	-	52
Projected reserves as at 31 March 2015	429	670	1,099
Proposed use of reserves in setting 2015/16 budget	-	(250)	(250)
Projected residual reserves	429	420	849
Indicative total expenditure 2015/16	8,000	2,500	10,500
Forecast reserves as a % of indicative expenditure	5.4	16.8	8.1

23. Following discussions at the Grants Executive meeting in September 2013, it was agreed that it would be appropriate to retain a minimum level of reserves £300,000 to support the future S.48 borough programme of approximately £8 million. This equates to 3.75% of the programme value. The projected residual level of reserves as at 31 March 2015, of £429,000, or 5.4% of the borough programme, therefore, clearly achieves this revised reserves benchmark. For the ESF programme, reserves attributable to this area of the programme continue to accumulate due to slippage and are therefore likely to be fully utilised in the subsequent years – effectively acting as an earmarked reserve, so benchmarking a desirable level of future reserves is not appropriate. However, during 2015/16, members will be asked to give some consideration as to how the residual S.48/ESF reserves should be applied once all transactions relating to the 2013-15 commissions are finalised in the summer of 2015, before the start of the new ESF funding arrangements that have been devolved to the LEP.

24. As detailed paragraph 14, the Grants Committee has proposed that funding continue for the 10 existing ESF commissions for a further quarter, covering the period April-June 2015. The Leaders' Committee is asked to agree this proposal.

Borough Contributions

25. Paragraphs 10 to 12 of this report set out the legal position relating to contributions payable by constituent councils to the London Councils Grants Scheme. Contributions for 2015/16 have been calculated using the ONS mid-year population estimates for June 2013 and are set out in Appendix B.

Other Issues

26. The Committee wished Leaders' Committee to note its view that the brand of the programme need to evolve to reflect the changes that have occurred to a more modern, competitive and conditional programme.

27. In addition, the Committee wished Leaders' Committee to note that it recognised a clear need for stronger relationships between the programme and boroughs. The Committee agreed to the establishment of a task-and-finish group of London Councils and borough officers and project managers to make proposals on this by March 2015.

Summary

28. This report recommends the proposed budget for the Grants Scheme for 2015/16 and makes a recommendation on the appropriate level to recommend to constituent councils for approval. Specifically, the report proposes an overall level of expenditure in 2015/16 of £10.5 million, which requires borough contributions of £9 million (refer to Appendix B). These proposals were considered by the Grants Committee at its meeting on 26 November. The Grants Committee agreed to recommend that the Leaders' Committee approves these proposals.

Recommendations

29. The London Councils Leaders' Committee is asked to approve:

- an overall level of expenditure of £10.5 million for the Grants Scheme in 2015/16 (inclusive of £2.5 million gross ESF programme, which includes a sum of £500,000 to fund all existing commissions for the period April to June 2015);
- that taking into account the application of £1.25 million ESF grant and a transfer of £250,000 from reserves, borough contributions for 2015/16 should be £9 million, the same base level as for the current year;
- that further to the recommendations above, constituent councils be informed of the Committee's recommendation and be reminded that further to the Order issued by the Secretary of State for the Environment under Section 48 (4A) of the Local Government Act 1985, if the constituent councils have not reached agreement by the two-thirds majority specified before 1 February 2015 they shall be deemed to have approved expenditure of an amount equal to the amount approved for the preceding financial year (i.e. £10 million);
- that constituent councils be advised that the apportionment of contributions for 2015/16 will be based on the ONS mid-year population estimates for June 2013; and
- that subject to the approval of an overall level of expenditure, the Committee agrees to set aside a provision of £555,000 for costs incurred by London Councils in providing staff and other support services to ensure delivery of the Committee's programme of approved commissions, including ESF administration of £120,000.

Appendices

Appendix A – Proposed revenue income and expenditure budget 2015/16;

Appendix B – Proposed borough subscriptions 2015/16;

Background Papers

Grants Committee Budget Working Papers 2014/15 and 2015/16;

Grants Committee Final Accounts Working Papers 2013/14;

Grants Committee Revenue Budget Forecast Working Papers 2014/15; and

London Councils Consolidated Budget Working Papers 2014/15 and 2015/16.