

Consumer Focus Board

Paper 6.2

Title: 2012/13 Budget

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Author: Mike O'Connor and Graham Clark

Attachments: Appendix A – Strategic principles

1 Issue

- 1.1 We have been told by BIS that our budget for working outside of energy and post will be cut next year by between £0.6m and £1.3m. In addition we expect to lose £300,000 in overhead contribution from NSMC and a further £200,000 contribution due to the decision of the Scottish Government to move project funding from Consumer Focus Scotland to other organisations given our probable demise.
- 1.2 We do not expect to know our final budget until the end of 2011. It is prudent to consider what we would do in the worst case, i.e. a £1.8m cut.

2 Recommendation

- 2.1 The Board is asked to consider the strategic principles on budget reductions at Annex A. They are as discussed by the Board in December 2010 but with updated figures.

3 Discussion

- 3.1 Like many public bodies, we are in a difficult position and we will have to make difficult decisions. In addition we are faced with uncertainty:

Government has not confirmed our abolition but the greater uncertainty is around which organisations will take on which parts of our functions;

We have been told to plan on the basis of abolition in April 2013 but the timing may vary.

- 3.2 In these circumstances we are asking the Board to note the uncertainties and consider again the principles they agreed to deal with the last round of budget cuts. In relation to the balance between staff and programme we would recommend favouring staff as programme spend in 2012/13 may not yield fruitful results within our lifetime and we cannot know that those who may succeed would make use of any results.

4 Background

- 4.1 It is a striking fact that BIS have reduced the funding we receive for working outside of post every year since Consumer Focus was created. As a result of these decisions, the “shape” of the organisation has changed.

Share of resources	2009/10	2012/13 – worst case
Energy	39%	50%
Post	25%	27%
Rest of the economy	36%	23%

4.2 In 2011/12 we will receive £12.744m from BIS. This consists of two hypothecated streams for energy and post raised from industry levies, and a tax funded stream which is not hypothecated. In this paper we call this last element “rest of the economy – RoE although we could spend this money on post or energy. We have been told that our post and energy income will be stable in nominal terms but that the RoE stream will be cut in 2012/13.

4.3 It should be noted that a cut in our RoE funding will also mean that we have less to spend on energy and post. This is because our overhead costs, e.g. rent, are funded from all three streams in proportion, i.e. our rent is currently funded in the proportions of our three funding streams, i.e. 45% funded by energy money, 30% by RoE funds and 25% by post. Where we cannot cut overhead costs, e.g. we cannot cut our rent in the short term, these costs will still have to be met next year. If our RoE budget is cut, it changes the ratio and a higher proportion has to be met by energy and post and is therefore not available to fund staff or programme work in this area. If our RoE budget is cut by £1.3m our funding ratios become 50:27:23.

4.4 The possible position is as follows:

	£m	£m	£m	£m
	2009/10	2010/11	2011/12	2012/13
Energy	6.5	5.746	5.774	5.774
Post	4.25	3.006	3.124	3.124
RoE	6	5.113	3.846	3.246 - 2.246
Total	16.75	13.886	12.774	12.144 – 11.144

4.5 When the Board considered cuts to this year’s budget they considered a set of principles as at Annex A (figures have been updated to reflect this year’s situation).

5 Issues

Costs of redundancy

5.1 We have c150 staff whose posts at some point over the next 18 months will either be made redundant or transferred to other organisations – assuming we are abolished. We do not know how many or which posts will be in either group and therefore what redundancy costs we will face. We have been told by BIS that there are funds available in 2011/12 and 2012/13 for the costs of transition, including making posts redundant, i.e. compensation under the Principal Civil Service Compensation Scheme. BIS will look to Consumer Focus to cover redundancies from its existing budget allocation. If we have the funds to cover redundancy, we should do so and we will only be able to make a bid for those costs we cannot cover.

- 5.2 BIS may help with transition costs but they could ask us to meet all the costs of redundancy from the funds we have been granted, either 2011/12 funds or 2012/13 funds. If we run a redundancy scheme, and we would need Cabinet Office approval to do so, we are obliged to run a voluntary scheme first before moving to a compulsory scheme. The compensation under a voluntary scheme can be up to 21 months salary and under a compulsory scheme up to 12 months. The relative costs of such a scheme in relation to our expected 18 months income are clear. However what we not know, and I suspect we will not know for some time, is how many, and which, posts will be made redundant, or the corollary, how many posts will transfer.
- 5.3 We have pressed hard to get such information and recently we received some indicative numbers from the Citizens Advice service but they can only be indicative and recent changes give us cause to place even less reliance on them than we were able to.
- 5.4 The earlier we take action, the more we will be able to fund it from our own resources but the earlier it will reduce our capacity to deliver on our remit. We must also not do anything which would be TUPE avoidance, i.e. making a post redundant without good cause which later would have been transferred to an organisation taking over a relevant function.
- 5.5 In conclusion, depending on Government decisions and the decisions of those who take on our work, we may be faced with significant redundancy costs. We will continue to press others for decisions.

6 Where can we save money?

Areas of activity

- 6.1 We can divide our costs into five areas.
- A Work which is 100% funded from our energy income. This amounts to £2.5m.
 - B Work which is 100% funded by our post income. This amounts to £1.3m.
 - C Work which is funded by two or more streams. This amounts to £2.6m.
 - D Work which is 100% funded by RoE money, e.g. our work on Financial Services. This amounts to £0.9m.
 - E Fixed costs. These amount to £5.5m this year of which RoE money contributes £1.7m, i.e. 30%.
- 6.2 Cutting A or B will not help save against RoE budgets. Cutting E will help but only by the share that they are funded by RoE. Some, e.g. rent, are difficult if not impossible to cut in the short term. Cutting C may help if it is RoE funded but if it is, it may also mean that we are delivering less on energy or post, e.g. some posts are funded by RoE and energy and we may not be able to cut half a post. Cutting D helps as it is 100% RoE funded.

7 Options

- 7.1 We can save:
- £370,000 by not filling vacancies;
 - £125,000 by ceasing to be a member of BEUC and Consumers International;

£350,000 by ceasing all RoE programme spend, e.g. consumer empowerment, financial services and elements of programmes in Scotland and Wales;

£200,000 in corporate services savings;

£293,000 in depreciation and legacy property.

This would mean that we would still have to find £462,000. This would involve redundancies or the early termination of fixed term contract staff.

8 Early reduction of functions

- 8.1 If 2012/13 is to be the last year of the organisation's life, one way in which we could save money is to close down some functions early. For example, rather than cut function X by 25% and run it until April 2013, we could run it at 100% till December 2012. This would have the advantage of continuing at full capacity and avoiding cuts albeit by exiting the field earlier. It would also give earlier certainty to the staff concerned although this is a two edged sword. Such action would make most sense in areas which are not going to be taken on by other organisations and it would also help avoid any perception of TUPE avoidance.

Strategic Principles

Potential impact

We need to either achieve meaningful results ourselves from ongoing and new projects in the remaining time we have, or be able to work in partnership with others who can take things forward after Consumer Focus is wound up. For example, if a White Paper is scheduled in an area of consumer interest we might be justified in carrying out some work which inform the debate and potentially lead to a beneficial outcome for consumers. We may not need to limit our time horizon if we can work with CitA, CAS or other relevant partners and could hand over a body of work to others.

We will not start work or continue work we cannot finish or where we will not achieve meaningful results in the time left, unless we have assurance from partners (who can take things forward) that they will find the work useful.

Critical mass

Parliament has given Consumer Focus a very wide remit. However in cutting our tax funded budget we are restricted in what we can do outside these two markets. This cut is compounded by the potential loss of critical skills from the organisation where vacant posts cannot be filled. We need to be realistic in terms of how much we can achieve in future on non post and energy issues. Rather than spread our resources thinly across all our existing areas following a budget cut we may need to exit from some areas.

Where we do not have critical mass to maintain a meaningful work programme in a policy area or economic sector we should exit that area of work

Distribution of reductions

We work at a GB level, in Wales and Scotland and for postal matters in Northern Ireland. Our work in Scotland and Wales is more dependent on BIS funding than the rest of Consumer Focus. Looking at Consumer Focus Wales and Consumer Focus Scotland, excluding GB functions based in Scotland and Wales such as EHU and CFI and work not funded through BIS, the situation is as follows:

	£K	£K	£K	£K
	Energy	RoE	Post	Total
CFS	451	378	167	996
CFW	213	281	231	725
Rest of CF	5,110	3,187	2,726	11,023

Overall 30% of our funding is for work on the rest of the economy but this varies across the UK. A pro rata reduction would mean reductions in 2012/13 as follows.

	£K	£K
	£1.1m cut*	£1.8 cut
CFS	£86	£141
CFW	£63	£102
Rest of CF	£951	£1,557

£0.6m RoE cut plus £300,000 NSMC loss and £200,000 Scottish Government loss.

The Board's guidance is sought on whether cuts in BIS funded budgets should be applied pro rata in relation to size of current BIS funding stream or whether an alternative approach should be adopted in order to retain critical mass.

The balance between external work and staff costs

Much of our work is done by a combination of staff and work which we commission externally. We need the people to do the work. If we lose people, and reasons to stay are not as strong as they were, we may find it difficult to replace them. We need a strong evidence base if we are to be effective and commissioning research is an important way of securing such evidence. Currently the staff cost to budget for commissioned work ratio is about two to one.

We should maintain a reasonable balance between staff costs and the ability to commission external work

Stakeholder feedback

With significantly reduced resources we would need to prioritise our work and be cognisant of the Government's desire to avoid duplication and confusion as we transition to new arrangements. We should listen carefully to stakeholder feedback, especially to those bodies who will inherit our functions, about work we should and shouldn't do over the coming year or so and reflect it in our prioritisation.

We should give higher priority to work that is widely supported by external stakeholders

Ensuring compliance with proper governance

We need to ensure we retain enough resource to ensure proper governance until our final wind up: this includes finance systems and controls, audit, management and HR processes and Board oversight.

Essential governance systems and structures must be maintained

Keeping our staff motivated

We face a very challenging situation in terms of maintaining momentum of work and in terms of staff morale. In making budget cuts we will need to take staff with us as far as possible and build a relevant and motivating programme which is communicated clearly internally and externally.

We will aim to minimise the risk that staff become unfocused and demotivated.

Strategic capacity

We need to retain our ability to engage and respond effectively to the changing consumer landscape agenda and new developments over the coming months. The Board will play an important role here, as will the senior executive team. Resource will be needed for managing the transition alongside other affected bodies.

We will maintain a strong position of influence on the changing consumer landscape.

Relevance to public policy agendas

We will achieve more impact if we relate our plans and resources to the agendas of Governments in London, Edinburgh, and Cardiff so our work is seen as relevant to the wider public policy debate.

Work which is relevant to the wider public policy agenda will be given higher priority than other work