

Revenue Budget 2010/11 - 2012/13

The Lothian Valuation Joint Board

5th February 2010

1 Purpose of report

The purpose of this report is to present to the Board a three year revenue budget for the period 2010/11 to 2012/13, including indicative savings targets for 2011/12 and 2012/13.

2 Background

- 2.1 The 2009/10 revenue budget approved by the Board at its meeting in February 2009 recognised the uncertainty around funding from 2010/11, with the Board approving indicative budgets only beyond 2009/10.
- 2.2 The indicative budgets acknowledged the potential requirement for additional efficiency savings, but no specific savings were included given the uncertainty as to where any public sector savings requirements would fall. At its meeting on 26th June, 2009 a further report to the Board noted the potential financial challenges facing the Board beyond 2009/10 given the national economic position.

3 Local Government Finance Settlement

- 3.1 On 26th November, 2009, the Scottish Government announced its budget proposals for 2010/11. As anticipated, the Scottish budget includes a reduction in funding to Local Government, as a result of the Budget Announcement in 2009, which confirmed the requirement for additional efficiency savings.
- 3.2 The Local Government share of the £521m additional Scotland wide efficiencies requirement for 2010/11 has now been confirmed as £174m, of which £131m is a reduction in the general revenue grant allocation and £43m, a general capital grant reduction. Nationally, it is proposed that the funding reduction be distributed on the basis of the latest Grant Aided Expenditure (GAE) Shares.
- 3.3 Applying the methodology of distributing the funding reduction on the basis of GAE shares results in the Lothian Valuation Joint Board receiving an estimated share of the national savings target in respect of the general revenue grant of £90,000.

3.4 In a recent paper prepared by the Centre for Public Policy for Regions and commissioned by SOLACE and Local Government Directors of Finance, real term reductions in the Scottish Government's budget of 8.5% are forecast over the spending review period 2011/12 to 2013/14. Taking into account independent forecasts of cumulative growth in UK Gross Domestic Product (GDP) over the same period results in a prudent assumption of a real term reduction in the Scottish Budget of 12%. Equating this to an annual savings target would require incremental public sector cash savings of 4% over each year of the next Spending Review. For Lothian Valuation Joint Board, an estimate of the incremental savings target would be £0.255m in 2011/12, £0.245m in 2012/13 and £0.235m in 2013/14, based on the 2010/11 proposed budget.

4 Proposed Budget 2010/11

4.1 The proposed budget for 2010/11 totals £6,373,717 a reduction of £53,789 (0.84%) from the approved budget for 2009/10 of £6,427,506.

4.2 The analysis of budget change shown at Appendix 1 details movement between the approved budget for 2009/10 and the proposed budget for 2010/11.

4.3 Key budget provision within the base budget include:

- (a) pay awards of 1% and uplifts for increments and superannuation costs totalling £87,791. This includes an increase of £24,000 in respect of the actuarial valuation at 31st March, 2008 which set the appropriate employer's rates to meet future year pension commitments. The 2009/10 budgeted rate was 20% and the rates for the three year budget period are: 2010/11 20.5%, 2011/12 21% and an estimated increase to 21.5% for 2012/13. The next actuarial valuation is due in March 2011.
- (b) a reduction to the employee budget in respect of an increase in the staff turnover factor amounting to £42,009; and non filling of staff vacancies totalling £71,457.
- (c) the budget provision for pension strain and added years costs in respect of the organisational review is no longer required and results in a final year saving of £106,181.
- (d) additional provision has been made for rates revaluation £20,000; legal fees £15,500 to reflect an increased requirement to resort to courts for appeal hearings; and postages £60,000 in respect of increased stages 2 and 3 canvass costs and an increase in postage costs.
- (e) a £7,000 reduction in interest receivable to reflect lower interest rates.
- (f) a £17,000 reduction in Central Support Costs.
- (g) a general reduction in running costs £7,433.

- 4.4 The proposed revenue budget of £6,373,717 represents a decrease in budgeted expenditure of £121,728 (1.9%) from the indicative 2010/11 budget of £6,495,445 approved by the Board at its meeting on 6th February, 2009. This reduction exceeds the savings target of £90,000 referred to in paragraph 3.3 above.

5 Indicative Revenue Budget 2011 - 2013

- 5.1 As noted at paragraph 3.4, significant savings targets are forecast for the public sector from 2011. Given the degree of uncertainty around public sector finances for 2011/12 and beyond, it has been necessary to prepare the Board's revenue budget for 2011/12 and 2012/13 at a high level at this stage. Budget preparation for these years have taken into account the forecast level of savings which will require to be met from the Board's revenue budget in the event that the anticipated savings required of public services are applied equally across all services.
- 5.2 In anticipation of the requirement to plan for the level of savings identified, the Assessor has commenced a process of service review. This will seek to protect front-line services, while delivering efficiency savings required by the Board.
- 5.3 The Assessor has prepared a three-year service plan which aims to integrate the direction of the service over the next three years with the revenue budget. The service plan is included elsewhere on this agenda. Over the coming years the focus will be on improving service delivery and creating efficiencies through improved work practices and procedures.
- 5.4 General budgetary uplifts within the indicative budgets include pay awards at 1% for 2011/12 and 2% for 2012/13; increases for anticipated increments and superannuation; and an uplift for rates. There are also savings in respect of non-filling of staff vacancies within the two years.
- 5.5 In 2011/12, the lease agreement in respect of the new premises requires a rent review with effect from 1st January, 2012, this is estimated to be £12,500 in 2011/12, with the full year effect of £37,500 in 2012/13. In addition, the requirement to pay excess travel in respect of the move to the Board's new offices ceases from 2011/12. This results in a reduction in budgetary provision of £11,300.
- 5.6 Given this, the proposed base budget for 2011/12 is £6,417,265, an increase of £43,548 (0.68%) over the proposed budget of £6,373,717 for 2010/11.
- 5.7 The indicative revenue budget for 2011/12 of £6,417,265 represents a decrease in budgeted expenditure of £269,233 (4.03%) from the indicative 2011/12 budget of £6,686,498 approved by the Board at its meeting on 6th February, 2009. Although this reduction meets the estimated savings target of £0.255m as referred to in paragraph 3.4 above, greater clarity will be required when developing the 2011/12 revenue budget, as to whether this level of saving is sufficient.

- 5.8 The proposed base budget for 2012/13 is £6,580,091, an increase of £162,826 (2.54%) from the proposed budget of £6,417,265 for 2011/12. Given the potential savings targets at paragraph 3.4, options to address the potential budget gap will require to be developed.
- 5.9 A summary of the proposed three-year budget for 2010/11 - 2012/13, showing budget movements between year, is shown in Appendix 3.
- 5.10 Costs incurred by the Lothian Valuation Joint Board are apportioned to constituent councils in accordance with the number of dwellings valued for Council Tax and the number of non-domestic rateable subjects in each area. The apportionments for the three year period 2010/11 - 2012/13 are based on the constituent Councils shares of relevant GAE lines in the Finance Circular 01/2008 and confirmed in the Finance Settlement for 2010/11.
- 5.11 The requisitions which would be made to constituent authorities should the Board approve the budgets for 2010/2011 - 2012/13 at the levels presented are shown in Appendix 4. The figures for 2011/12 and 2012/13 are indicative only.

6 Budget Flexibility and Risk Analysis

- 6.1 The Board has the ability to carry forward unspent requisitions made by constituent authorities in any one year as creditors and thereby enable the Board to provide for a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, and a contingency to cushion the impact of unexpected events or emergencies.
- 6.2 As noted by the Board at its meeting on 7th December, 2009 to consider the Final Accounts for 2008/09, there are no unspent requisitions carried forward to 2009/10. The Board also noted at this meeting that the 2009/10 outturn is projected to be £119,000 below budget. This will be addressed when the Board meets to consider the final accounts in June 2010.
- 6.3 A detailed risk analysis has been undertaken as part of the 2010-2013 budget process. This has identified a number of potential risks inherent in the budget process and these are summarised below. Not all of these risks, however, can be quantified:
- (i) Pay Awards - a 1% uplift in pay awards equates to an increase of £43,848 per annum;
 - (ii) The Electoral Administration Act 2006 place additional duties upon Electoral Registration Officers, particularly as regards efforts to maximise registration. Following presentations by the Convenor of the Interim Elections Management Board it has been necessary to develop a strategy towards promoting registration at annual canvass and during the run up to elections. While a balance requires to be struck between promotional activities and budget resources there are considerable pressures to annually review such activities with a view to maximising registration.

- (iii) Listed below are recent and pending changes to Electoral Registration legislation that may lead to significant additional costs being incurred:
- There is now a greater likelihood that a General Election or Referendum could be called during the annual canvass period. Should that occur there would be additional costs in respect of staff costs due to the increased processing required in a short timeframe.
 - There is pending legislation that may change the annual canvass from a household declaration to an individual one. This would be combined with the collection of Personal Identifier information. This would lead to significant increases in postal charges possibly in the region of two to three times the current expenditure. In addition printing and stationery costs would rise.
 - Year on year there is an increasing use of postal voting by the electorate. This causes an additional burden on postal expenditure.
- (iv) Local Government Finance Review - this could potentially take effect in 2012/13 with the financial consequences dependant on any changes to local taxes introduced by the Scottish Government.
- (v) The 2010 Revaluation Roll shall be published on the 1st April 2010. Ratepayers shall have until 30th September to lodge appeals against the stated rateable values. As a result, and following recent trends, it is reasonable to assume that there shall be greater than normal activity of the Valuation Appeal Committee during 2010/11 through to 2013/14. There may also be increased activity for the Lands Tribunal for Scotland and the Lands Valuation Appeal Court. As many cases involve complex subjects and legal interpretation it can be anticipated that the need for legal representation at such hearings shall increase.
- (vi) As part of the commitment to Modernising Government it has been agreed with the Scottish Government that, throughout Scotland, summary valuations reflecting the proposed 2010 Revaluation shall be available on the internet via the Scottish Assessors Association website. While the costs associated with this are already accounted for, primarily through the Modernising Government Fund, the level of public reaction and the number of enquiries that may be received could be considerable. This may lead to additional costs reflected in staff time.

6.4 If required, representations will be made to the Scottish Government for recognition of any spending pressures arising from consultation on the possible replacement of Council Tax, and similarly representation shall be made to the Ministry of Justice in respect of Electoral registration changes.

- 6.5 The Board's Standing Orders allow the Assessor to vire money between one budget head and another, always providing that the total approved budget is not overspent or expected to be overspent. This allows the Assessor to take corrective action to respond to emerging pressures and to redirect any budget underspends to service priorities within each financial year.
- 6.6 The Board has an established track record of managing expenditure pressures within its budgetary provision. Close monitoring of the financial position of the Board will be maintained taking account of financial risks inherent in the budget process.

7 Recommendations

The Board is requested to:

- i) approve the proposed budget for 2010/11 and agree the Treasurer be authorised to requisition the individual constituent councils for amounts as follows:

| Constituent Council | Requisition 2010/11 £ |
|----------------------------|--------------------------------------|
| City of Edinburgh | 3,924,299 |
| Midlothian | 576,821 |
| East Lothian | 700,471 |
| West Lothian | 1,172,126 |
| Total | <u>6,373,717</u> |

- ii) note the indicative budgets as set out in Appendix 3;
- iii) note the savings targets for 2011/12 and 2012/13 as set out in paragraph 3.4;
- iv) note the risks identified in paragraph 6.3.

D. McGougan
D. McGougan,
 Treasurer.
 28th January 2010.

| | |
|--------------------------|---|
| Appendices | 1 - 4 |
| Contact/tel | Ian Knowles: 0131 469 3173 |
| Background papers | Held at offices of the Treasurer and the Assessor |

ANALYSIS OF BUDGET CHANGE

2010/2011

APPENDIX 1

LOTHIAN VALUATION JOINT BOARD

ANALYSIS OF BUDGET CHANGE 2010/2011

| | £ | £ | £ | %age Change on 2009/2010 Approved Budget |
|---|---|----------------|------------------|---|
| APPROVED BUDGET 2009/2010 | | | 6,427,506 | |
| 1 Price Changes | | | | |
| 2010/11 Pay awards | | | | |
| 1.1 APTC April 2010 pay award. (1% from 1 April 2010) | | | 43,848 | 0.68% |
| 2 Inescapable Growth | | | | |
| 2.1 Salary increments | | 19,943 | | |
| 2.2 Revised actuarial valuation | | <u>24,000</u> | | |
| | | | 43,943 | 0.68% |
| 3 Other Growth/Reductions | | | | |
| 3.1 Rates revaluation | | 20,000 | | |
| 3.2 Reduction in interest receivable | | 7,000 | | |
| 3.3 Legal fees | | 15,500 | | |
| 3.4 Postages | | 60,000 | | |
| 3.5 Ministry of Justice Grant | | 23,345 | | |
| 3.6 Reduction in computer equipment (financed by grant) | | (23,345) | | |
| 3.7 Non filling of staff vacancies | | (71,457) | | |
| 3.8 Organisational review - reduction in early retirement payments. | | (106,181) | | |
| 3.9 Increase in staff turnover factor | | (42,009) | | |
| 3.10 Reduction in central support costs | | (17,000) | | |
| 3.11 Minor budget realignment (net) | | <u>(7,433)</u> | | |
| | | | (141,580) | (2.20%) |
| PROPOSED BUDGET 2010/2011 | | | <u>6,373,717</u> | <u>(0.84%)</u> |
| PROPOSED BUDGET 2010/2011. DECREASE ON 2009/2010 | | | | (53,789) |
| PROPOSED BUDGET 2010/2011. % AGE DECREASE ON 2009/2010 | | | | (0.84%) |

SUBJECTIVE ANALYSIS

2010/2011

LOTHIAN VALUATION JOINT BOARD

APPENDIX 2

SUMMARY

| 2009/10 | | 2010/11 |
|-----------|-------------------------------------|-----------|
| | Employee Costs | |
| 3,640,293 | Salaries and Wages | 3,595,394 |
| 705,391 | Superannuation | 721,971 |
| 280,274 | National Insurance | 272,918 |
| 6,773 | Allowances | 6,773 |
| 227,181 | Pension Costs | 121,000 |
| 4,859,912 | | 4,718,056 |
| | Premises costs | |
| 45,000 | Repairs and Maintenance | 47,500 |
| 57,000 | Energy Costs | 57,000 |
| 310,200 | Rents | 310,200 |
| 184,000 | Rates | 204,000 |
| 13,000 | Water | 15,500 |
| 32,000 | Cleaning | 34,000 |
| 641,200 | | 668,200 |
| | Transport Costs | |
| 600 | Fuel | 600 |
| 2,300 | Vehicle Hire | 2,300 |
| 8,500 | Vehicle Insurance | 9,300 |
| 128,926 | Public Transport | 130,668 |
| 140,326 | | 142,868 |
| | Supplies and Services | |
| 44,000 | Operational Equipment and Materials | 44,000 |
| 500 | Clothing and Laundry | 1,000 |
| 58,000 | Printing and Stationery | 55,000 |
| 10,000 | Advertising | 15,000 |
| 24,500 | Legal Fees | 40,000 |
| 15,400 | Telephone Charges | 15,400 |
| 239,345 | Computer Equipment | 216,000 |
| 200,000 | Postages | 260,000 |
| 39,000 | Conference and Subsistence | 32,000 |
| 23,832 | Insurance | 25,000 |
| 3,000 | Subscriptions | 3,000 |
| 16,250 | Miscellaneous Expenses | 16,550 |
| 673,827 | | 722,950 |
| | Third Party Payments | |
| 38,443 | External Contractors | 34,500 |
| 45,000 | Other Agencies | 45,000 |
| 83,443 | | 79,500 |
| | Support Services | |
| 96,000 | Central Support Costs | 80,000 |
| 8,800 | Service Level Agreements | 7,800 |
| 104,800 | | 87,800 |
| 6,503,508 | Gross Expenditure | 6,419,374 |
| | Income | |
| 42,657 | Customer and Client Receipts | 42,657 |
| 23,345 | Ministry of Justice Grant | 0 |
| 10,000 | Interest on Revenue Balances | 3,000 |
| 76,002 | | 45,657 |
| 6,427,506 | Net Expenditure | 6,373,717 |

THREE YEAR PLAN
2010/2011 to 2012/2013

LOTHIAN VALUATION JOINT BOARD

APPENDIX 3

ANALYSIS OF BUDGET CHANGE

2010/11 BUDGET

THREE YEAR PLAN 2010/2011 to 2012/2013

| | 2010/2011 | | 2011/2012 | | 2012/2013 |
|------------------------------|---|--------------------------|---|--------------------------|---|
| | Proposed Budget at Outturn Prices Year 1 | 2011/2012 Adjustments | Indicative Budget at Outturn Prices Year 2 | 2012/2013 Adjustments | Indicative Budget at Outturn Prices Year 3 |
| | £ | £ | £ | £ | £ |
| SERVICE FUNCTION | | | | | |
| Employee Costs | 4,718,056 | 32,748 | 4,750,804 | 112,626 | 4,863,430 |
| Premises Costs | 668,200 | 20,500 | 688,700 | 45,500 | 734,200 |
| Transport Costs | 142,868 | (10,900) | 131,968 | 2,700 | 134,668 |
| Supplies and Services Costs | 722,950 | 1,000 | 723,950 | 1,000 | 724,950 |
| Third Party Payments | 79,500 | 0 | 79,500 | 0 | 79,500 |
| Support Services | 87,800 | 1,200 | 89,000 | 2,000 | 91,000 |
| GROSS EXPENDITURE | 6,419,374 | 44,548 | 6,463,922 | 163,826 | 6,627,748 |
| INCOME | | | | | |
| Customer and Client Receipts | (42,657) | 0 | (42,657) | 0 | (42,657) |
| Interest on Revenue Balances | (3,000) | (1,000) | (4,000) | (1,000) | (5,000) |
| NET EXPENDITURE | 6,373,717 | 43,548 | 6,417,265 | 162,826 | 6,580,091 |

| | | |
|--------------------------------------|---------------|----------------|
| Pay awards | 44,526 | 89,903 |
| Staff vacancies | (50,946) | (24,476) |
| Increments | 16,568 | 22,569 |
| Redundancy costs | 3,600 | 3,630 |
| Actuarial valuation - superannuation | 19,000 | 21,000 |
| Rent | 12,500 | 37,500 |
| Rates | 8,000 | 8,000 |
| Staff travel | (11,300) | 2,300 |
| Vehicle insurance | 400 | 400 |
| Central Support Costs | 1,200 | 2,000 |
| | <u>43,548</u> | <u>162,826</u> |

REQUISITIONS FROM CONSTITUENT AUTHORITIES

2010/11 to 2012/13

APPENDIX 4

REQUISITIONS FROM
CONSTITUENT AUTHORITIES

PROPOSED BUDGET 2010/2011 YEAR 1

| | Total £ | Edinburgh £ | Mid £ | East £ | West £ |
|--------------------------------|------------------|------------------|----------------|----------------|------------------|
| 2009/2010 Requisitions | 6,427,506 | 3,957,416 | 581,689 | 706,383 | 1,182,018 |
| 2010/2011 Requisitions | 6,373,717 | 3,924,299 | 576,821 | 700,471 | 1,172,126 |
| Increase/(Decrease) | (53,789) | (33,117) | (4,868) | (5,912) | (9,892) |
| Increase/(Decrease) Percentage | (0.84%) | (0.84%) | (0.84%) | (0.84%) | (0.84%) |
| GAE Percentage (Per 2007/08) | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |
| Requisition Percentage | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |

INDICATIVE BUDGET 2011/2012 YEAR 2

| | Total £ | Edinburgh £ | Mid £ | East £ | West £ |
|--------------------------------|------------------|------------------|----------------|----------------|------------------|
| 2010/2011 Requisitions | 6,373,717 | 3,924,299 | 576,821 | 700,471 | 1,172,126 |
| 2011/2012 Requisitions | 6,417,265 | 3,951,111 | 580,762 | 705,257 | 1,180,135 |
| Increase/(Decrease) | 43,548 | 26,812 | 3,941 | 4,786 | 8,009 |
| Increase/(Decrease) Percentage | 0.68% | 0.68% | 0.68% | 0.68% | 0.68% |
| GAE Percentage (Per 2007/08) | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |
| Requisition Percentage | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |

INDICATIVE BUDGET 2012/2013 YEAR 3

| | Total £ | Edinburgh £ | Mid £ | East £ | West £ |
|--------------------------------|------------------|------------------|----------------|----------------|------------------|
| 2011/2012 Requisitions | 6,417,265 | 3,951,111 | 580,762 | 705,257 | 1,180,135 |
| 2012/2013 Requisitions | 6,580,091 | 4,051,363 | 595,498 | 723,152 | 1,210,078 |
| Increase/(Decrease) | 162,826 | 100,252 | 14,736 | 17,895 | 29,943 |
| Increase/(Decrease) Percentage | 2.54% | 2.54% | 2.54% | 2.54% | 2.54% |
| GAE Percentage (Per 2007/08) | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |
| Requisition Percentage | 100.00% | 61.57% | 9.05% | 10.99% | 18.39% |