

Revenue Budget 2016/17

8th February 2016

1 Purpose of report

The purpose of this report is to present the revenue budget for 2016/17 for approval. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

2 Summary

- 2.1 The Board is requested to approve a budget for 2016/17 of £6.482m. This budget is to be funded through a flat-cash requisition of £6.118m and a maximum drawdown from the general reserve of £0.364m. The level of drawdown may reduce subject to confirmation of Individual Electoral Registration grant funding for 2016/17 from the Cabinet Office.
- 2.2 The requisition for the past four years has been held at £6.118m. The budget has increased from that approved for 2015/16 (£6.118m) due to increased expenditure arising from Individual Electoral Registration (IER). The ongoing financial pressure arising from IER has been subject to numerous reports to the Board, further details are provided in paragraph 5.1.

	£'000
Budget 2016/17	6,482
Drawdown from reserve	(364)
Requisition 2016/17	6,118

- 2.3 The Assessor and ERO and the Treasurer recognise the need to move towards a sustainable budget position for 2017/18; the above provides a managed position for 2016/17. Detail to support a managed position is provided in paragraph 3. Further work requires to be undertaken by the Assessor and ERO to identify options to move to a sustainable budget 2017/18.
- 2.4 Although the Cabinet Office has intimated to the Assessor and ERO that IER funding is likely to be provided for 2016/17 there has been no official confirmation at this stage. Therefore no IER grant has been built in to the 2016/17 budget. Any additional grant subsequently received after the Board has considered the 2016/17 budget could negate the need or reduce the level of drawdown from the general reserve.
- 2.5 The table below estimates a closing reserve position at 31st March 2017 of £0.240m based on the 2015/16 budget update presented to the Board in November 2015 and 2016/17 proposed budget.

General reserve	£'000
Balance March 2015	(596)
VERA (3) exit costs 2015/16 ¹	87
2015/16 requisition under spend ²	(95)
Draft budget shortfall 2016/17	364
Estimated closing balance 31.03.17	(240)

¹ pension strain costs revised from November 2015 report.

² based on outturn position reported to the Board in November 2015.

3 Managed position 2016/17

3.1 The recommendation to adopt a one-year managed position is due to the following key service requirements / risk factors:

- The Assessor and ERO will experience higher demand levels during 2016/17 as a result of the 2016 Scottish Parliament Elections and the 2017 Local Authority Elections. There is also the probability of an EU referendum during 2016/17;
- It will enable further clarity to be received during 2016/17 on the ongoing service/financial requirements of Individual Electoral Registration which is currently under review by the Cabinet Office. It is hoped that the cost pressure of £0.468m currently included in the 2016/17 budget will reduce (no increase is expected as a result of the ongoing IER review);
- The Assessor and ERO also requires to under-take a full revaluation of non-domestic properties during 2016/17;
- The impact of potential changes to the Council Tax system and service implications should also be better understood 2016/17.

Paragraph 5 provides further detail behind the service requirements / risk factors shown above.

3.2 The Assessor and ERO will require to commence work as soon as possible to assess options to pull the budget in to a sustainable position for 2017/18. Consideration should be given to preparing a report to the Board in autumn 2016 based on 2017/18 budget scenario planning / service impact. It should be noted that, on the assumption that there is no ongoing IER funding from either the Cabinet Office or Scottish Government for 2017/18, that a standstill requisition of £6.118m may be the best case scenario for 2017/18. The Assessor and ERO and the Board should also consider options / implications of reducing the 2017/18 requisition from the current standstill position given the reductions in funding being faced by local authorities 2016/17 and the possibility of further tightening on future year settlements. It would be inevitable that a reduction in budget provision will affect the delivery of statutory duties.

4 Local Government Finance Settlement – Constituent Councils / budget development

4.1 The Scottish Government draft Local Government Finance Settlement has been reduced by approximately 3.5% between 2015/16 and 2016/17. The Board are being requested to approve an effective standstill requisition for 2016/17. Longer-term funding assumptions remain subject to considerable uncertainty, however,

there remains a considerable risk that there will be further cash-reductions in funding provided through the Scottish Block grant for 2017/18 and beyond.

- 4.2 Whilst the development of the Board's budget for 2016/17 has been undertaken recognising the budget restraint being implemented across Scottish local authorities, the Assessor and ERO considers it a risk to service delivery to approve further reductions in staffing beyond those currently built in to the 2016/17 budget. Efficiencies of 4.7% have been built in to the 2016/17 budget, which includes a net reduction of seven posts (6% head count reduction).
- 4.3 As reported in paragraph 2.2, these efficiencies have been off-set by greater financial pressures arising from Individual Electoral Registration (7.6%) and other core budget pressures (3%). The table below provides a summary analysis of budget change from that approved for 2015/16. Detail is shown in Appendix 1.

Summary analysis of change	£'000	£'000	% Change
Efficiencies - core budget ¹		(285)	(4.7%)
Pressures - core budget ²		181	3.0%
<u>Pressures - IER budget</u>			
Permanent canvasser/support assistants	231		
Other costs (mainly postages and printing)	237		
		468	7.6%
Budget shortfall 2016/17		364	5.9%

¹ mainly net reduction of seven posts.

² mainly additional pay award 15/16, increased hours, pay award & increments 16/17.

5 Budget pressures / service risk

5.1 Individual Electoral Registration (IER)

- 5.1.1 The Cabinet Office and the Scottish Government are aware of the ongoing financial pressure to Electoral Registration Officers (ERO's). However no additional funding was included in the draft Local Government Settlement published in December 15 and the Cabinet Office have not yet confirmed the level of grant the Board will receive for 2016/17. Any one-off IER grant from the Cabinet Office for 2016/17 is unlikely to be known until closer to March 16.
- 5.1.2 There are two main elements that contribute to the additional cost included in the 2016/17 budget specifically arising from the statutory requirements of IER; namely **staffing costs and printing/postages**. Background to these costs is provided below;
- **Postage/Printing** - Firstly when either a Household Enquiry Form (HEF) or the Invitation to Register (ITR) application is issued there is a legal requirement, in the event of non-return, to issue two further reminder forms and to follow up with a doorstep visit. All forms must include a reply paid envelope and the issue of these forms is a weekly activity. During the canvass period every household in Lothian receives a HEF. Secondly, the IER process requires the generation of far more printed and posted material. While this requirement is evident throughout the entire IER process, the most obvious is at canvass periods. Pre IER a returned canvass form could be used to inform the ERO of new electors living at an address, along with various options that individuals wished to exercise, for example, postal voting and opt out. Under IER, a returned HEF

indicating new electors requires each of those electors to be issued with an ITR for completion. Additional material also has to be issued should the elector indicate any preference as regards postal voting etc. Both the HEF and ITR forms are in A3 format while the old canvass form was A4 which again increases printing costs.

- **Staffing** - Prior to IER, canvassers were only required for a two month period every year in order to support the annual canvass. The period of canvassing has increased and as a result of IER annual canvasser costs have doubled. A permanent team of Customer Support Assistants has also been set up to deal with increased registration matters arising from IER. The Assessor and ERO will review staffing requirements following any revisions to current IER procedure.

5.1.3 Following meetings of an IER Expert Panel chaired by the Cabinet Office and attended by the Chair of the SAA Electoral Registration Committee, the IER process remains under review. This group of ERO's have been brought together by the Cabinet Office to consider changes to improve the IER process for ERO's, to make improvements to the user journey for electors, and to reduce costs and lower the identified £20m UK wide funding gap. Following consideration of proposals it is the intention to pilot proposed changes within the ERO community. At present no timetable is available but it is unlikely that the effect of any permanent change to IER processes shall have effect during 2016/17. The Board will be updated of outcomes as they arise, including service/financial implications as a result of changes to the current system.

5.2 Revaluation 2017

- 5.2.1 The Scottish Government has requested that the majority of draft rateable values be available to their statisticians by Autumn-2016 at the latest with as many as possible ready by mid-2016. Valuation Notices shall be issued to proprietors, tenants and occupiers of all NDR properties by 31st March 2017 and from then work increases at pace dealing with enquiries and appeals. The previous revaluation saw large numbers of appeals lodged. A risk remains as to what appeal levels shall be recorded during 2017, although it's anticipated that will not significantly impact on the 2016/17 budget.
- 5.2.2 The number of retained professional staff has been decreasing in recent years with two further Valuer and one Technician post removed as part of the 2016/17 budget. Considerable risk would be placed on the 2017 Revaluation and ongoing service delivery, should further staffing reductions take place.

5.3 The Future of Council Tax

- 5.3.1 This represents an area of significant uncertainty. The Scottish Assessors Association (SAA) has contributed to the Scottish Government's Commission on Local Tax reform investigating Council Tax and possible alternatives. Proposals are expected to be brought forward early 2016 to reform the current system, drawing on the evidence considered by the Commission. The timetable for implementation may be very quick. If legislation is in place by the end of 2016 it is possible that a new system could be implemented during 2018.
- 5.3.2 In the event that Assessors are requested to become involved in the valuation for a new or altered local property tax, it can be expected that any additional funding required for implementation and maintenance would be provided by the Scottish Government. This position though also means that it represents a very high risk to consider further reductions in staffing levels for those experienced

professional staff who are currently employed to undertake property valuation. The reduction in knowledge and experience could not be recovered during a short implementation period.

5.4 Other budget risks

- 5.4.1 The possibility of a rent review of the Pentad building during 2016/17. No increase in rental payments has been budgeted.
- 5.4.2 Strategic and operational planning, along with risk management, are already being undertaken by the Assessor and ERO, however, the combination of the major activities referred to in section 5 and the uncertainty of legislation and timetabling results in risk to the Board.

6 Budget Flexibility

- 6.1 The Board has the ability to retain a general reserve; this balance currently stands at £0.596m. As reported at paragraph 2.5, this reserve could drop to £0.240m by 31st March 2017 due to funding of one-off VERA business cases 2015/16 and the drawdown required to support the 2016/17 budget.

7 Proposed Requisition 2016/17 - £6.118m

- 7.1 An analysis of budget change is shown in Appendix 1; the proposed budget for 2016/17 is shown in Appendix 2.

8 Requisition allocation basis between constituent councils

- 8.1 The apportionment of the 2016/17 requisition is based on the constituent council's share of GAE lines in the Local Government Finance Circular No. 6/2014 published in July 2014. Revised GAE allocations will not be known until March 2016. Table 9.1 provides the split per council.

9 Recommendations

- 9.1 The Board is recommended to approve the proposed budget for 2016/17 and the issue of requisition requests from the Treasurer to constituent councils as follows:

Constituent Council	Requisition 2016/17	%
Edinburgh	£3,743,604	61.19%
Midlothian	£560,409	9.16%
East Lothian	£669,309	10.94%
West Lothian	£1,144,678	18.71%
Total	£6,118,000	100.00%

- 9.2 The Board is recommended to approve a reserve drawdown of up to £0.364m to support the 2016/17 budget.
- 9.3 Note that the Assessor and ERO will report to the Board on options to balance the 2017/18 budget in autumn 2016.
- 9.4 Note that any additional IER grant received for 2016/17 will be reported at the earliest Board meeting after formal notification is received from the Cabinet Office.

- 9.5 Note that the Assessor and ERO will update the Board in due course of any changes to IER with service/financial implications.
- 9.6 Note the risks identified in section 5 of the report.

**Hugh Dunn,
Treasurer**

Appendices:	Appendix 1 - Analysis of Budget Change Appendix 2 – Revenue Budget 2016/17 – Subjective Analysis
Contact/Tel:	Mr. T.MacDonald: 0131 469 3078
Background Papers	Held at the Office of Treasurer

Appendix 1 - Analysis of Budget Change

	£'000	£'000	£'000	% Change
APPROVED BUDGET 2015/2016			6,118	
1. Core Budget Movement				
1.1 Efficiencies				
<i>Emps</i> - Removal of 9 posts (6 x leavers and 3 x VERA), off-set by:	(295)			
<i>Emps</i> - 2 x new technical posts	44			
<i>Other</i> - Electricity budget reduced (meters decommissioned)	(17)			
<i>Other</i> - Other minor budget reductions	(17)			
		(285)		(4.7%)
1.2 Pressures:				
<i>Emps</i> - Pay Award (1%) - April 2016	35			
<i>Emps</i> - Salary increments	9			
<i>Emps</i> - Other employee budget adjustments (additional 0.5% pay award 15/16, increased hours, increased employers NI etc)	114			
<i>Other</i> - Telephony budget increased (mainly due to IER requirements)	18			
<i>Other</i> - Rates - estimated increase in poundage	5			
		181		3.0%
2. IER Budget Pressures				
- Additional cost of a permanent canvasser team (12)	112			
- Additional cost of permanent Customer Support Assistants (6)	119			
- Overtime and clothing	17			
- Staff travel costs	13			
- ICT costs	10			
- Additional printing and postage costs	197			
		468		7.6%
3. Reserve drawdown		(364)		(5.9%)
PROPOSED BUDGET 2016/17			6,118	0.0%
Summary of subjective budget movements		£'000		
Employee costs	(93)			
Other core budgets	(11)			
IER	468			
Reserve drawdown required	(364)			
Total		0		

Appendix 2 – Revenue Budget 2016/17 – Subjective Analysis

1. Core budget	Budget 15/16 £'000	Budget 16/17 £'000	Movement £'000
<u>Employee Costs</u>			
Wages and Salaries	3,368	3,276	(92)
Allowances	4	3	(1)
National Insurance	263	270	7
Superannuation	678	665	(13)
Agency Staff	0	6	6
Canvass Staff	127	127	0
Early Retirement Pensions	122	122	0
Pension Deficit Contribution	3	3	0
	4,565	4,472	(93)
<u>Premises Costs</u>			
Rents	305	305	0
Rates	189	194	5
Energy Costs	46	29	(17)
Water Services	20	16	(4)
Cleaning & Domestic Supplies	35	37	2
Building Repairs, Alterations & Maintenance	15	15	0
Grounds Maintenance Costs	8	4	(4)
Premises Insurance	6	5	(1)
	624	605	(19)
<u>Transport Costs</u>			
Public Transport	28	24	(4)
Car Allowances	62	63	1
Contract Hire	4	4	0
Fuel	0	0	0
Transport Insurance	10	10	0
	104	101	(3)
<u>Supplies & Services</u>			
Postages	262	262	0
Computer Equip	212	210	(2)
Printing, Stationery & Gen Office Exp	101	97	(4)
Legal Fees	34	34	0
Equipment, Furniture & Materials	18	21	3
Insurance	21	21	0
Training & Conferences	14	11	(3)
Telephony	22	40	18
Audit Fees	7	7	0
Miscellaneous Expenses	8	5	(3)
Subscriptions	2	2	0
Members Allowances	9	9	0
Clothes, Uniform & Laundry	1	1	0
	711	720	9
<u>Third Party Payments</u>			
Valuation Appeals Committee	60	60	0
Maintenance Contractors	34	34	0
Medical Fees	1	1	0
	95	95	0
<u>Support Services</u>			
Central Support Costs	65	67	2
	65	67	2
<u>Income</u>			
Customer & Client Receipts	(43)	(43)	0
Interest	(3)	(3)	0
	(46)	(46)	0
Total core services	6,118	6,014	(104)

Appendix 2 – Revenue Budget 2016/17 – Subjective Analysis (cont'd)

2. Individual Electoral Registration budget	Budget 15/16 £'000	Budget 16/17 £'000	Movement £'000
Employee Costs			
Wages and Salaries	76	173	97
National Insurance	10	14	4
Superannuation	41	58	17
Indirect Employee Expenses	0	3	3
	127	248	121
Transport Costs			
Public Transport	5	13	8
	5	13	8
Supplies & Services			
Printing and Postages	158	197	39
Computer Equip	15	10	(5)
Miscellaneous Expenses	16	0	(16)
Clothes, Uniform & Laundry	2	0	(2)
	191	207	16
Income			
Cabinet Office Grant	(323)	0	323
	(323)	0	323
Total Individual Electoral Registration	0	468	468
3. Total budget 2016/17	6,118	6,482	364

Funded by	Budget 15/16 £'000	Budget 16/17 £'000	Movement £'000
Requisition	(6,118)	(6,118)	0
Reserve drawdown	0	(364)	(364)
Total	(6,118)	(6,482)	(364)