

Revenue Budget 2019/20

4th February 2019

1 Purpose of report

The purpose of this report is to present the revenue budget for 2019/20 for approval. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

2 Revenue Budget 2019/20

2.1 On 5th February 2018, LVJB approved a one-year budget for 2018/19 of £5.847m. This represented a reduction of £0.271m (-4.4%) from 2017/18.

2.2 The Assessor and ERO undertook a Transformation and Cultural Change Programme review during 2017/18, resulting in sustainable savings.

2.3 The Board approved a new organisational structure in February 2018. The 2019/20 budget has been developed on this structure.

2.4 Revenue budget planning for 2019/20 includes:

- provision of £0.163m for inescapable employee cost pressures for pay award (estimated at 3%) and increments;
- compensating employee turnover savings of £0.163m – effectively an efficiency saving of 2.79%.

2.5 The 2019/20 budget assumes no change from the 18/19 budget of £5.847m, prior to inclusion of new statutory burdens to deliver recommendations of the Barclay Review.

2.6 The Local Government Finance Settlement includes an indicative national allocation of £3.3 million for Barclay implementation costs. It is anticipated that Barclay Review implementation funding allocated in the Settlement will be passed to the Board with full-year effect estimated at £0.4m.

3 Recommendations of Barclay Review of NNDR

3.1 The enacting primary legislation to support the recommendations of the Barclay Review is scheduled to be adopted by 1st April 2020. The Barclay Review and Scottish Government acknowledged that Assessors shall face additional workloads and consequent funding issues due to the recommendations; in particular the move from five yearly revaluations to a three-yearly cycle and the disposal of resulting appeals.

- 3.2 The draft Local Government Settlement for 2019/20 presented to the Scottish Parliament on 12th December included £3.3m nationally for implementation of recommendations of the Barclay Review.
- 3.3 The full-year effect of Barclay Review implementation costs for the Board is currently estimated at £0.4m per annum. The Assessor will revise resourcing requirements for inclusion in the medium-term financial plan.
- 3.4 National distribution of the additional Barclay resource will be referred to the Settlement and Distribution Group (SDG) for decision. The SDG is next due to meet on 7th February 2019. Recommendations made by the SDG will require decision by Council Leaders at their next meeting on 22nd February 2019.
- 3.5 A future update will be provided to the Board on the SDG's consideration of distribution and allocation of Barclay Review funding included in the Local Government Settlement. At this stage, it is recommended that the Board agree to the principle that funding allocated in the Settlement to the Board's constituent councils for Barclay Review implementation will be fully passed onto the Board by means of a supplementary requisition during 2019/20.

4. Individual Electoral Registration (IER)

- 4.1 The Board has a statutory responsibility to undertake Individual Electoral Registration (IER). The Cabinet Office has stated its commitment to fund IER until 31st March 2020.
- 4.2 The 2018/19 budget assumes that all costs will be met by ring-fenced grant from the Cabinet Office. The 2018/19 forecast assumes a carry-forward of £0.367m of Cabinet Office grant to 2019/20.
- 4.3 The IER process remains under review. The funding of IER costs beyond March 2020 and options to reduce cost through procedural change will be subject of further discussion with the Cabinet Office.

5. Forecasts to 31st March 2019 – Core Budget

- 5.1 The projected outturn is a forecast under spend of £0.080m, mainly due to an under spend on employee costs following the Transformation Change programme and appointments to posts for part-year only.

6. General Reserve / Risk

- 6.1 The Board has approved maintaining a minimum General Reserve level of 3% of annual requisition - £0.175m.
- 6.2 On the 3rd September 2018, the Board approved the use of the reserve to fund Barclay ICT development costs and career progression increments. These costs were estimated at £0.197m over three years. Further revisions to this figure will be reported to the Board as the requirements arising from the Barclay Review of NDR are implemented.
- 6.3 The Board's General Reserve balance is currently £0.798m. Commitments against this are estimated at £0.197m per paragraph 6.2. The uncommitted General Reserve balance is £0.601m.

6.4 Subject to approval of the Board, this would become £0.681m, if the forecast underspend for 2018/19 of £0.080m is achieved and transferred to General Reserve.

6.5 An update on the forecast outturn for 2018/19 is reported separately on this agenda.

6.6 The key financial risks facing the Board summarised below include:

Individual Electoral Registration – budget risk £0.270m

6.6.1 The 2017/18 cost was £0.269m. As noted at paragraph 4.1, the Cabinet Office will provide ring-fenced grant to meet this cost in 2019/20. The Cabinet Office and Electoral Commission acknowledge that significant changes are required to further modernise the registration process and introduce savings into, primarily the annual canvass process. Pilot exercises have informed proposed changes which shall, subject to final consultation, be implemented for the 2020 annual canvass. Modelling of these proposals is ongoing with an expectation that costs shall reduce. The Cabinet Office is expected to announce the final model during 2019/20, therefore at this stage a definitive statement on the likely financial impact is not available. A risk therefore remains that additional costs shall be incurred following the formal introduction of the new annual canvass procedure and the removal of ring-fenced Cabinet Office grant funding.

Barclay Review of NNDR – budget risk approximately £0.4m

6.6.2 The estimate of additional full-year cost for the Board is approximately £0.4m per annum. Failure to receive Scottish Government funding shall impact on the ability to deliver the required changes. Funding has been provided in the Financial Settlement and the allocation to the Board for 2019/20 will be confirmed by the end of February.

Inescapable Employee Growth (incl. Annual cost of Pay Awards and Increments) – budget risk £0.163m

6.6.3 The current estimate for 2019/20 is £0.163m. In previous years the Board had contained growth using vacancy control. During 2019/20 the Board plans to contain these costs within budget, but there is a risk that employee turnover is less than anticipated. The long term risk of having to fund the cost of inescapable employee growth is a significant ongoing financial issue that the Board requires to consider. Inescapable growth includes career progression increments which the Board approved to fund through the Reserve. The figure included within the 19/20 budget relating to this is £0.017m.

Pension deficit and annual employer pension rate contributions

6.6.4 The Board has agreed a three-year contribution stability mechanism with Lothian Pension Fund, with the Board's contribution rate to March 2021 increasing by no more than 0.5% per annum. The current deficit repayment to March 2021 is £3,100 per annum. A financial risk exists that this will change following the next actuarial valuation. The next actuarial valuation is due on 31 March 2020. The financial risk will therefore apply to the 2021/22 budget.

Elections/Referendums – budget risk £0.050m

- 6.6.5 The possibility of either elections or referendums being called within short timetables, or dual electoral events occurring within a year is a financial risk in terms of staff overtime or the use of short term temporary staff to meet the demand placed on the electoral registration process at this time. During 2017, when a double election event took place, £0.045m was spent on staff overtime.

Ongoing Organisational Transformation and Change

- 6.6.6 The 2017/18 Transformation Programme was achieved by use of the Board's VERA policy and supported by use of £0.471m of the Board's General Reserve. The Transformation Programme is ongoing, with further investigation into key processes and service delivery methodology in progress. This may facilitate further opportunities to review staffing levels in the years ahead, with a potential for further employee severance costs.

Leaving the European Union – budget risk unquantifiable at this stage

- 6.6.7 Dependent on the nature of the UK departure from the European Union it is possible that annual values achieved within the non-domestic property sector may fall. Should that be the case, and the fall is significant, this may give rise to the right of appeal against rateable values appearing in the Valuation Roll. The receipt of large volumes of appeals, in addition to existing workloads in respect of appeals received following the 2017 Revaluation, would have significant impact on available staff resources. This would give rise to additional overtime to deal with appeal volumes and/or to ensure other essential Valuation Roll activities were carried out.

6.6.8 Council Tax – budget risk unquantifiable at this stage

The position regarding the future of Council Tax remains unclear. However, it should be noted that over time the resource deployed to undertake key Council Tax activities has been refined to such an extent that any major legislative change to Council Tax that impacted on the Board is unlikely to be consumed within current budgetary provision.

- 6.7 The Board will be provided regular updates on the risks outlines above as part of the meeting cycle during 2019/20.

7. Financial Planning 2020 to 2025

- 7.1 A medium-term financial plan is being developed for the period to 2024/25.
- 7.2 Assumptions currently used are:
- 7.2.1 Pay award at 3.5% for 2018/19 then 3% annually thereafter, core employee increments at an annual rate of c£40,000, career progression increments at an annual rate of c£37,000 (from 2020/21) and pension fund contribution increases of 0.5% from 2021/22;
- 7.2.2 Cost of implementing the recommendations of the Barclay Review will be met from additional resources provided in the Local Government Settlement which will required to be passed to the Board as part of the requisition process from constituent councils;

- 7.2.3 Cost of maintaining delivery of IER from 2020/21 met by the Board. Given the uncertainty as to the final model of delivery cost estimates require to be refined following process evaluation outcomes from the Cabinet Office. The position on Grant funding also requires to be confirmed.
- 7.3 Financial planning estimates will continue to be developed and shared with constituent council Heads of Finance, prior to reporting the Medium-term Financial Plan to the Board in April 2019.
- 7.4 Given the financial risks described at Section 6, it is recommended the Board continue to develop risk mitigation measures under-written by the General Reserve balance.

8. Requisition allocation basis between constituent councils

- 8.1 The requisition for 2019/20 will require to be a two-stage process. Initial requisition will be requested from constituent councils to cover the cost of the core budget 2019/20. A further requisition will then be required following distribution of the funding included in the Local Government Settlement for implementing the recommendations of the Barclay Review as allocated through the SDG to the Board's constituent councils. The Board and Heads of Finance within the Constituent Councils will be notified of this requisition as soon as this information is available.

Core budget requisition

- 8.2 The apportionment of the core budget 2019/20 requisition is based on the constituent councils share of GAE lines in the Scottish Government's 2018/19 Green Book. The 2019/20 figures are not available currently. The overall core requisition sum of £5,847,281 will remain unchanged from 2018/19.

COUNCIL	REQUISITION 19/20	%
EDINBURGH	£3,583,799	61.29%
MIDLOTHIAN	£534,441	9.14%
EAST LOTHIAN	£625,659	10.70%
WEST LOTHIAN	£1,103,382	18.87%
TOTAL	£5,847,281	100.00%

9 Recommendations

The Board is recommended to:

- 9.1 Approve the proposed budget for 2019/20 and the issue of requisition from the Treasurer to constituent councils per Section 8.
- 9.2 Recommend that funding included in the Local Government Settlement for implementing the recommendations of the Barclay Review and allocated through the SDG be fully passed onto the Board by means of a supplementary requisition during 2019/20.

- 9.3 Note that a medium-term (five year) financial plan will be presented to the Board in April 2019.
- 9.4 Note that the Assessor and ERO will update the Board during 2019/20 of any changes to Barclay / IER with service/financial implications, both within the medium-term financial plan and the quarterly Board cycle.
- 9.5 Continue to develop risk mitigation measures to address the financial risks identified in Section 6, under-written by the General Reserve balance.

**Hugh Dunn,
Treasurer**

Appendices:

Contact/Tel:

Background papers:

Appendix 1 - Analysis of Budget Change

Appendix 2 - Revenue Budget 2019/20

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Held at the Office of Treasurer

Appendix 1 - Analysis of Budget Change

	£'000	£'000	£'000	% Change
BUDGET 2018/19			£5,847	
<u>1. Core Budget Movement</u>				
<u>Employee budget - annual pressures</u>				
Pay Award	£120			
Increments / Inflation	£40			
Pension rate increase	£6			
NI increase	£3			
Career progression	£17			
Growth / (Reduction)	<u>(£23)</u>			
		£163		2.79%
Employee turnover factor		(£163)		(2.79%)
TOTAL CORE BUDGET MOVEMENTS			£0	0.0%
<u>2. IER Budget</u>				
<u>Employee budget - changes</u>				
· Permanent canvassers - reduction in FTE	(£15)			
Total employee cost budget (saving) / pressure			(£15)	(0.26%)
Cabinet Office Grant adjustment			£15	0.26%
PROPOSED BUDGET 2019/20			£5,847	0.0%

Appendix 2 – Revenue Budget 2019/20 – Subjective Analysis

Subjective analysis	Budget 2019/20
<u>Employee Costs</u>	£'000
Wages and Salaries	3,247
National Insurance	330
Superannuation	703
Canvassing costs	127
Early retirement pension costs	120
Agency Staff (cleaning)	6
Allowances	3
Pension deficit repayment	3
Turnover factor	(163)
	4,376
<u>Premises Costs</u>	
Rents	305
Rates	116
Cleaning & Domestic Supplies	35
Energy Costs	29
Water Services	16
Building Repairs, Alterations & Maintenance	11
Premises Insurance	5
Grounds Maintenance Costs	4
	521
<u>Transport Costs</u>	
Car Allowances	63
Staff transport costs (canvassing, surveys etc)	23
Transport Insurance	10
	96
<u>Supplies & Services</u>	
Postages, ICT and Telephony	566
Printing, Stationery & Gen Office Expenditure	87
Miscellaneous Expenses (incl. Insurance and Audit fee)	31
Legal fees	30
Equipment, Furniture & Materials	14
Training and conferences	11
Convener/Vice Convener remuneration	9
Subscriptions	2
Clothes, Uniform & Laundry	1
	751
<u>Third Party Payments</u>	
Valuation Appeals Committee fees	50
Facilities costs (security, maintenance etc)	30
Private Contractors (medical fees etc)	2
	82
<u>Support Services</u>	
CEC support SLA	67
	67
<u>Income</u>	
Customer & Client Receipts (electoral register sales etc)	(43)
Interest on revenue balances	(3)
	(46)
Total core services	5,847