

Medium Term Financial Plan 2019/20 to 2022/23 – Progress Update

23rd April 2019

1 Purpose of report

This report presents a progress update on development of a medium term financial plan for the Board. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

2 Medium Term Financial Plan 2019/20 to 2022/23

- 2.1 In the 2017/18 Annual Audit Report to Members of Lothian Valuation Joint Board and the Controller of Audit, the Board's external auditor recommended the Board develops a strategic plan which documents the Board's future plans and key challenges.
- 2.2 It was noted the Board has arrangements in place for short term (1year) financial planning, with budgets aligned to its Corporate and Service Plan. However, it was noted the Board does not prepare medium to long-term financial plans due to the uncertainty over future funding allocations.
- 2.3 This report presents a progress update on development of a medium term financial plan.

3 Background

- 3.1 Between 2012/13 and 2018/19, the Board achieved incremental savings of £1.299m to manage cost pressures, which arose through legislative change and inflationary uplift. When approving the 2019/20 revenue budget, further savings of £0.163m were agreed to address pay award and increment cost pressures.
- 3.2 Between 2012/13 and 2017/18, the Board provided services within a 'flat cash' Council requisition of £6.118m.
- 3.3 In February 2018, the Board approved a new organisational structure, following a Transformation Programme, which had four main drivers: - modernisation, process improvement and smarter ways of working, cultural change, and customer focus. The 2018/19 Council requisition was reduced by £0.271m (4.4%) when the Transformation Programme was implemented.
- 3.4 On 4th February 2019, the Board approved a one-year budget for 2019/20 of £5.847m. The 2019/20 budget assumes no change from the 2018/19 Council requisition, prior to inclusion of new statutory burdens to deliver recommendations of the Barclay Review.

Recommendations of Barclay Review

- 3.5 Since 2017, the Board has been preparing for implementing recommendations of the external Barclay Review into Non-Domestic Rating. The enacting primary legislation to support the recommendations of the Review is scheduled to be adopted by 1st April 2020.
- 3.6 The 2019 Local Government Finance Settlement, included funding of £3.3m for implementation of Barclay Review recommendations. Within this sum, there is funding for Assessors implementation costs, which arise principally as a result of the move to a 3-year revaluation cycle and associated appeals process.
- 3.7 The Scottish Assessors Association (SAA) has estimated 2019-20 Scotland-wide implementation costs of £2.6m. £0.153m of this has been allocated to the Board, based on 2019/20 cost projections.
- 3.8 Distribution of the remaining £0.7m from the £3.3m allocation in the Settlement will be subject to future decision by the Scottish Government.
- 3.9 It is anticipated that future Barclay Review implementation funding allocated through the Settlement will be passed to the Board with full-year effect estimated at £0.4m.

Individual Electoral Registration (IER)

- 3.10 The Board has a statutory responsibility to undertake Individual Electoral Registration (IER). IER was introduced in 2014. The Cabinet Office has stated its commitment to fund the additional annual costs associated with IER until 31st March 2020.
- 3.11 The IER process remains under review. Pilot exercises have informed proposed changes which shall, subject to final consultation, be implemented for the 2020 annual canvass. The intended procedural and legislative change to the annual canvass aims to streamline the current process and, apart from improvements to the registration/canvass outcome, create financial savings, to the extent that no additional funding from the Cabinet Office is required. Until the new process is fully established, there remains a risk that additional funding shall be required.
- 3.12 Currently this risk is mitigated in the short term using carry forward of Cabinet Office funding. The funding of IER costs beyond March 2020 and options to reduce cost through procedural change will be the subject of further discussion with the Cabinet Office.

4 Medium Term Financial Plan 2019/20 to 2022/23 – planning assumptions

- 4.1 Development of a medium-term financial plan ought to be fully aligned with the future strategic direction and priorities of the Board. The Board's Corporate and Service Plan set out the priorities for the Board and the commitments that it will seek to deliver.
- 4.2 Projections have been made for the effect of anticipated pay award and other inflationary assumptions, as well as implementation of the recommendations of the Barclay Review and Individual Electoral Registration.

4.3 Council requisition funding is based on continuation of a ‘flat-cash’ position in each of the next four years. The potential is noted, however, for the overall savings requirement to increase should actual funding levels be lower than assumed.

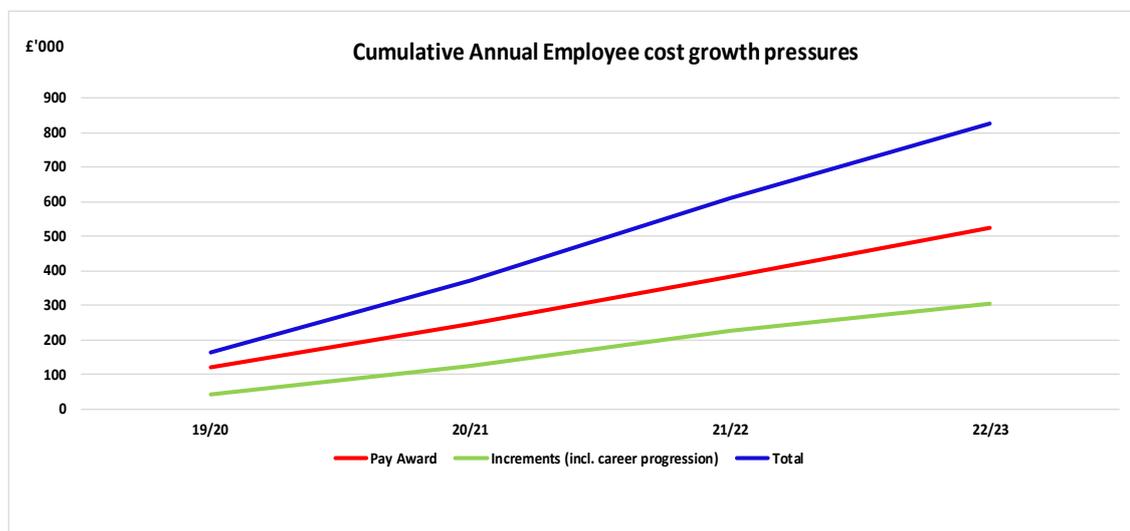
4.4 The principal cost increase assumptions contained within the framework are summarised below:

	2019/20	2020/21	2021/22	2022/23
Expenditure				
Employee pay award	3%	3%	3%	3%
Employee increments estimates	£43,000	£82,000	£103,000	£76,000
Pension Fund contributions	21.8%	21.8%	22.3%	22.8%
Funding				
Council Requisition change	0%	0%	0%	0%

4.5 Inescapable employee cost growth includes the cost of annual pay awards and increments. Pay awards are estimated to increase at 3% per annum, in line with the recently agreed three-year local government pay award. Increments are based on estimated actual additional cost.

4.6 Employer pension contribution rates are confirmed until 2020/21. A full review of contribution rates, including annual deficit repayments will be carried out as part of the 2020 Actuarial Valuation. Prior to confirmation of the outcome of the Actuarial Valuation, contribution rates are estimated to increase by 0.5% per annum.

4.7 Based on these cost increases, employee costs are forecast to increase by £0.827m (14%) from 2019/20 to 2022/23. The graph below illustrates the forecast growth in employee cost.



4.8 Individual Electoral Registration – current annual cost is approximately £0.270m. The Cabinet Office has confirmed ring-fenced grant funding until 2019/20. The Cabinet Office intend to declare the final model during 2019/20. Process change is likely during 2020/21 with full year budget savings/cost implication not being known until 2021/22. The medium-term financial planning assumption is that any unspent IER grant from the Cabinet Office at the end of 2019/20 will be required to fund additional ongoing IER costs until the ‘steady-state’ annual running cost of IER is known.

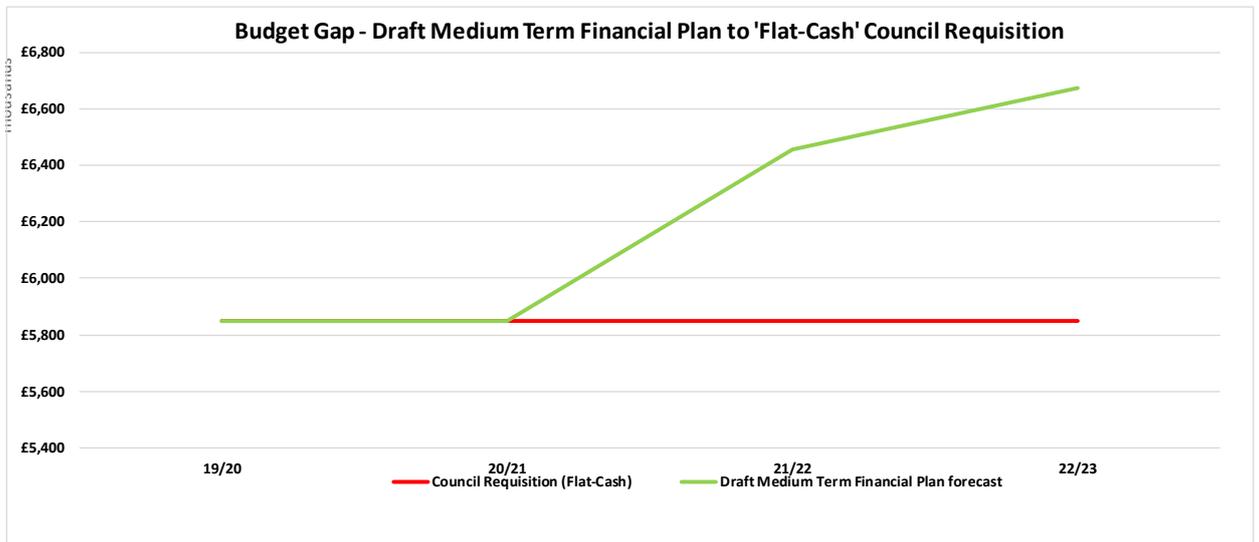
4.9 Barclay Review into Tax Rates for Non-Domestic Properties – the estimate of additional cost for the Board is approximately £0.4m per annum. The medium-

term financial planning assumption is this additional cost will be fully met through Scottish Government funding being passed to the Board through constituent council requisition.

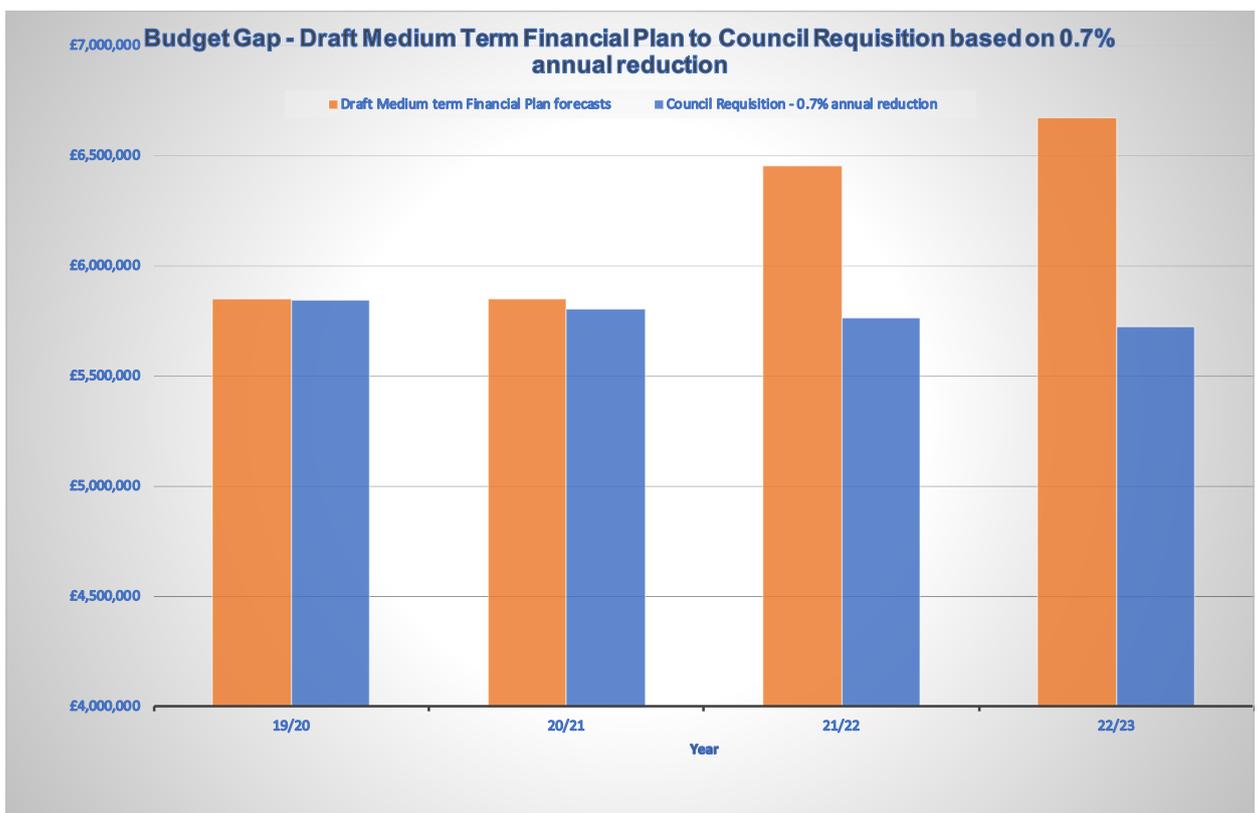
- 4.10 The Transformation Programme is ongoing, with further investigation into key processes and service delivery methodology in progress. A co-dependency exists between the Transformation Programme and the proposed legislative changes in respect of the Review of Non-Domestic Rating and Electoral Registration functions. Within the second phase the headline activities shall be:
- a drive on process modernisation and the application of enhanced ICT to key service deliverables;
 - the application of new technologies to external survey activities allowing the increased effectiveness of resources;
 - enhanced levels of internal communication and support aimed at promoting cultural change goals;
 - the further development of the performance framework providing more effective means of resource deployment, improved ways of working and support to the individual to meet their goals and targets;
 - further development of the training framework providing support to technical and managerial skills sets;
 - the introduction of new stakeholder engagement activities aimed at supporting the key Barclay recommendations.

Pending the outcome of the second phase, the medium-term financial plan assumes no additional costs or savings from the Transformation Programme. Savings in employee costs will only be achieved through the Transformation Programme, as it is essential that any changes in staffing is made in the context of successful delivery of the second phase of activities. Cost savings achieved will be required to address the future cost pressures shown in paragraph 4.4.

- 4.11 Non-employee costs account for 25% of the Board's budget. Since 2012, inflationary pressures and other unavoidable growth has been absorbed through regular reviews of costs to ensure best value for money. Where unavoidable cost increases have occurred, compensating savings from other budget heads have been identified. While a high level of scrutiny already exists in terms of non-employee expenditure, the medium term financial planning assumption is for this scrutiny to continue to create sustainable compensating savings that can mitigate unavoidable cost increases. Cost savings achieved will be required to address unavoidable increases in non-employee costs.
- 4.12 The Board has approved maintaining a minimum General Reserve level of 3% of annual requisition - £0.175m. The Board's General Reserve balance is currently £0.798m. Commitments against this to fund Barclay ICT Implementation costs and career progression increments are estimated at £0.197m. Based on these commitments, the uncommitted General Reserve balance is £0.601m. The medium-term financial plan assumes no further planned drawdown from the unallocated reserve.
- 4.13 Following recommendations of the Scottish Budget Review Group, the Scottish Government has indicated that it will bring forward a three-year funding settlement for local government from 2020/21 onwards. This may give the Board greater clarity to support medium-term financial planning.
- 4.14 Based on the medium-term financial planning assumptions detailed, the graph below illustrates the forecast growth in cost in comparison to forecast funding.



4.15 Pending greater clarity being available around a three-year funding settlement for local government, financial modelling has also been undertaken based on potential future reductions in constituent council requisitions. The graph below shows the impact of an illustrative reduction of a year-on-year reduction of 0.7%. This realises a funding gap of £0.949m (16%) by 2022/23.



4.16 Officers of the Board will continue to keep the accuracy and relevance of all assumptions under review. The Board will also be provided with regular updates during 2019/20 in advance of approving a budget for 2020/21 in February 2020.

5 Conclusion

5.1 The Board is facing competing pressures over the short and medium term. There is a requirement to introduce major legislative changes to key functions, set against unavoidable budget pressures unlikely to be met through sustainable additional funding.

5.2 To protect service delivery, provide the necessary support to introduce functional service change and support the short to medium funding position, the following measures will continue to be implemented:

5.2.1 continuation of the Transformation Programme, allowing periodic review of resource requirements;

5.2.2 continue to drive to make sustainable budget savings;

5.2.3 mitigate unavoidable budget pressures through drawdown from the unallocated reserves.

6 Recommendations

The Board is recommended to note:

6.1 progress on the medium-term financial plan and that further updates will be provided to the Board during 2019/20 in advance of approving a budget for 2020/21;

6.2 future cost savings achieved will be required to address cost pressures as shown in paragraph 4.4

6.3 the Assessor and ERO will update the Board during 2019/20 of any changes to Barclay / IER with service and financial implications, both within the medium-term financial plan and the quarterly Board cycle.

**Hugh Dunn,
Treasurer**

Appendices:
Contact/Tel:
Background papers:

None
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Held at the Office of Treasurer