

10.00am, Monday 24th October 2022

Revenue Budget 2022 - 2027

1. Recommendations

The Board is recommended to note:

- 1.1 the projected outturn position of a budget pressure of £0.212m for 2022/23;
- 1.2 a further update on the 2022/23 budget will be presented to the Board on 30th January 2023;
- 1.3 the updated indicative medium-term financial planning estimates for the period 2023/24 to 2026/27 included at Appendix Two and
- 1.4 the indicative financial planning estimates for 2023/24 to 2026/27 will be the subject of further update to the Board meeting on 30th January 2023.

Hugh Dunn,

Treasurer

Contact: Iain Shaw, Principal Accountant,

Finance and Procurement Division, Corporate Services Directorate, City of Edinburgh Council

E-mail: iain.shaw@edinburgh.gov.uk | Tel: 0131 469 3117

Revenue Budget 2022 - 2027

2. Executive Summary

- 2.1 The forecast is for net expenditure to be £212,000 greater than the 2022/23 budget, based on the position at 31st August 2022.
- 2.2 Indicative financial plans have been updated for the period 2023 to 2027.

3. Background

- 3.1 The Board's Financial Regulations require presentation of quarterly expenditure monitoring statements. This report summarises the projected outturn at 31st March 2023, based on the position at 31st August 2022. The report has been prepared in consultation with the Assessor and ERO.
- 3.2 Following completion of the external audit of the Annual Accounts for 2021/22, the Board's Indicative Financial Plan has been updated.

4. Main Report

Revenue Budget 2022-23

- 4.1 The table below compares projected expenditure for 2022/23 with the approved budget. Based on the position at 31st August 2022, the forecast is for net expenditure to be £212,000 in excess of the approved budget – an increase of £177,000 from the forecast reported to the Board on 5th September.

	Core Budget and Individual Electoral Registration			Non-Domestic Rates Reform Budget			Total		
	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000
Expenditure									
Employee costs	4,408	4,640	232	353	247	(106)	4,761	4,887	126
Premises costs	611	554	(57)	0	0	0	611	554	(57)
Transport costs	51	51	0	0	1	1	51	52	1
Supplies & Services	704	741	37	21	126	105	725	867	142
Third Party Payments	140	140	0	0	0	0	140	140	0
Support Services	67	67	0	0	0	0	67	67	0
Gross Expenditure	5,981	6,193	212	374	374	0	6,355	6,568	212
Income									
Sales, Fees & Charges	(42)	(42)	0	0	0	0	(42)	(42)	0
Interest	(3)	(3)	0	0	0	0	(3)	(3)	0
Total income	(45)	(45)	0	0	0	0	(45)	(45)	0
Net Expenditure	5,936	6,148	212	374	374	0	6,310	6,523	212

- 4.2 The forecast has been updated to reflect:
- 4.2.1 a cost pressure of £0.132m as a consequence of the recent COSLA pay offer to Local Government employees. The Scottish Government has identified additional funding to support the revised pay offer, with further detail awaited on the availability and nature of any associated revenue and capital financial flexibilities. An update on funding for the pay offer will be provided when the Scottish Government formally confirms the funding package for the overall pay settlement;
 - 4.2.2 a reduction of £0.020m in employers National Insurance contributions from November 2022, following the Chancellor's announcement on 23rd September 2022;
 - 4.2.3 property repair costs of £0.021m, following water ingress to the Board's office;
 - 4.2.4 additional Supplies and Services costs of £0.037m, due to increased printing and postage costs.
- 4.3 Previous financial monitoring reports noted the financial risk of pay award in excess of the 2022/23 provision of 3%.
- 4.4 All costs will continue to be the subject of ongoing review for the remainder of 2022/23. At this stage, the forecast anticipates that the budget pressure of £0.212m will require to be met from the unallocated General Reserve.
- 4.5 Constituent councils have funded £374,000 towards the Board's costs of implementing Non-Domestic Rates Reform (NDR) in 2022/23. It is forecast that this funding will be fully spent in 2022/23, with employee and ICT expenditure being incurred.
- 4.6 The approved budget for 2022/23 includes £89,000 for delivery of Individual Electoral Registration (IER). £80,000 will be met from an earmarked reserve and £9,000 from the core budget.
- 4.7 In February 2018 the Board approved a formal reserves policy based on holding a general reserve with a minimum value of 3% of annual requisition (£0.180m). Balances held in excess of 3% require to be reviewed annually in-line with risk and identified commitments.
- 4.8 The Board's audited general reserve balance at 1st April 2022 is £1.450m.
- 4.8.1 £0.148m is earmarked for future costs of NDR Reform;
 - 4.8.2 £0.080m is earmarked for Individual Electoral Registration, as noted at paragraph 4.6;
 - 4.8.3 the non-earmarked reserve balance is £1.222m. This balance includes the minimum reserve balance of £0.180m noted at paragraph 4.7.
- 4.9 Details of financial risks are included at Appendix One.

Treasury Management

- 4.10 The Board's cash management is undertaken by the City of Edinburgh Council. Cash balances are offset by expenditure incurred by the Council on behalf of the Board. Interest on cash balances will be calculated in March 2023.

Indicative Financial Plan 2023 - 2027

- 4.11 The Indicative Financial Plan 2023/24 – 2026/27 approved by the Board on 7th February 2022 has been updated for:
- 4.11.1 an unallocated general reserve at 1st April 2022 of £1.042m – a net increase of £0.173m, following confirmation of the 2021/22 outturn;
 - 4.11.2 the 2022 COSLA pay offer. Pay awards of 3% are included for each year from 2023/24;
 - 4.11.3 a reduction of 1.25% in employers National Insurance contributions, following the Chancellor's announcement of 23rd September 2022;
 - 4.11.4 no employee turnover savings anticipated from 2023/24 (a turnover saving of £0.130m is included in the 2022/23 budget);
 - 4.11.5 an increase in office rental costs and a forecast increase in the rates liability following Revaluation.
- 4.12 The Indicative Financial Plan assumes:
- 4.12.1 a 'flat cash' constituent council requisition of £5.847m in each year. The Council requisition has remained at £5.847m since 2018/19, with the last increase being in 2009/10;
 - 4.12.2 constituent councils continue to fund the additional costs of Non-Domestic Rates Reform implementation, based on funding included in the Local Government Finance Settlement;
 - 4.12.3 full drawdown of Non-Domestic Rates Reform funding from the earmarked balance of £0.148m to meet statutory duties;
 - 4.12.4 no savings currently anticipated from the Board's Transformation Programme;
 - 4.12.5 a full drawdown of the Board's unallocated General Reserve by 2024/25, only leaving the Board's minimum General Reserves balance of £0.180m.
- 4.13 Based on these assumptions, a deficit of £0.790m is forecast from 2024/25.
- 4.14 A summary of the Indicative Financial Plan 2023 to 2027 is presented at Appendix Two.
- 4.15 The Financial Plan will be the subject of ongoing review and development. While the application of reserves to support service delivery offers a potential short-term solution for 2023/24, it does not achieve a sustainable financial plan to address the significant projected funding gap from 2024/25 onwards.

- 4.16 Potential options to develop the budget on a more sustainable basis include:
 - 4.16.1 development of the Board's Transformation Programme to create sustainable employee cost savings in future years;
 - 4.16.2 a review of all non-employee costs, to identify potential savings;
 - 4.16.3 discussion with constituent councils regarding future years' requisition.
- 4.17 Budget estimates will continue to be updated in consultation with the Interim Assessor and ERO to develop a budget for approval by the Board at its meeting on 30th January 2023.

5. Background reading/external references

- 5.1 [Revenue Budget 2022/23 and Indicative Financial Plan 2023/24 - 2026/27](#) – report to Lothian Valuation Joint Board 7th February 2022
- 5.2 [Period 4 Financial Statement 2022/23](#) - report to Lothian Valuation Joint Board 5th September 2022

6. Appendices

- 6.1 Appendix One – Financial Risk Analysis
- 6.2 Appendix Two - Indicative Financial Plan 2023 to 2027

Appendix One – Financial Risk Analysis

Risk	Detail	Mitigation
Pay Award	The 2022/23 revenue budget makes provision for a pay award of 3%. Each additional 1% is estimated to cost £45,000.	Liaison with constituent councils and review of the Board's unallocated General Reserve.
Office Energy costs	Energy budgets are based on full office occupancy and include an uplift for anticipated price increases. Given the current volatility in energy costs, there is a risk of additional cost.	Ongoing tracking of cost. Liaison with City of Edinburgh Council Energy and Sustainability Team.
Funding for additional costs of Non-Domestic Rates Reform	An estimate of the additional cost required was provided to the Scottish Government. Failure to receive the funding required will impact on delivery of Reform changes.	Fully mitigated for 2022/23 - constituent councils have paid the funding of £0.374m, which was included in the Local Government Settlement 2022/23 to the Board.
Cost of Individual Electoral Registration (IER)	Following process change, the Assessor and ERO anticipates the additional cost incurred on IER will require to be met from the core budget from 2023/24. A risk remains that additional costs shall continue to be incurred following the introduction of the annual canvass procedure.	Use of Cabinet Office IER grant funding carried forward from previous years to meet IER costs in 2022/23. Ongoing tracking of cost throughout 2022/23.
Additional costs to deliver services during Coronavirus Pandemic	The Board will continue to track all expenditure incurred during the COVID-19 Pandemic.	Ongoing tracking of cost. Liaison with Scottish Assessor's Association.
Elections/Referendums – budget risk £0.050m	The possibility of either elections or referendums being called within short timescales, 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.	Ongoing tracking of cost throughout 2022/23.
Transformation Change costs	The cost of the Transformation Programme exceeds estimates.	Ongoing tracking and review of cost estimates.
Economic Changes	An increase in the number of rateable value appeals would have a significant impact on staff resources to achieve disposal by the statutory date of 31 December 2023.	Legislative changes being progressed by the Scottish Government may mitigate this risk.
Council Tax Reform	Any major legislative change to Council Tax that impacts on the Board is unlikely to be managed within current budgetary provision.	Ongoing liaison with Scottish Assessor's Association and Scottish Government.

Appendix Two – Indicative Financial Plan 2023 to 2027

	2022/23 Forecast £'000	2023/24 Indicative £'000	2024/25 Indicative £'000	2025/26 Indicative £'000	2026/27 Indicative £'000
Core and IER	6,148	6,561	6,744	6,915	7,089
IER Funding in Reserves	(80)				
Total Requisition	(5,847)	(5,847)	(5,847)	(5,847)	(5,847)
Core shortfall/(surplus)	221	714	897	1,068	1,242
VR - one-off severance/pension strain	0	0	0	0	0
Reserves Drawdown	(221)	(714)	(107)	0	0
NET TOTAL COSTS	0	0	790	1,068	1,242
<i>Budgeted FTE at 31 March</i>	<i>95.64</i>	<i>95.64</i>	<i>95.64</i>	<i>95.64</i>	<i>95.64</i>
<u>Reserve Balances</u>					
General Reserve – opening balance	(1,042)	(821)	(107)	0	0
Forecast General Reserve Drawdown - Core	212	714	107	0	0
Forecast Drawdown – IER	9	0	0	0	0
Unallocated General Reserve - closing	(821)	(107)	0	0	0
Earmarked Reserve – Non- Domestic Rates Reform	(148)	0	0	0	0
Approved Minimum Reserve Balance (3%)	(180)	(180)	(180)	(180)	(180)
Total General Reserves	(1,149)	(287)	(180)	(180)	(180)
Non-Domestic Rates Reform					
Employee Costs	353	376	391	405	421
Supplies and Services	21	7	0	0	0
Total	374	383	391	405	421
Additional Council Requisition	(374)	(383)	(391)	(405)	(421)
<i>Budgeted FTE at 31 March</i>	<i>9.00</i>	<i>9.00</i>	<i>9.00</i>	<i>9.00</i>	<i>9.00</i>