

## Revenue Budget 2017/18 – Financial Planning

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28<sup>th</sup> November 2016

### 1 Purpose of report

- 1.1 The purpose of this report is to provide details of the financial planning being undertaken to present a revenue budget for 2017/18 to the Board for approval in February 2017. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

### 2 Local Government Finance Settlement

- 2.1 The UK Government Autumn Statement is anticipated to be announced on 23 November 2016. As was the case for 2016/17, it is the Scottish Government's intention to issue the Scottish Draft Budget and Local Government Finance Settlement in mid-December, with both announcements on the same day. Scottish Government Ministers have confirmed that the announcement will cover only one year.
- 2.2 The most recent forecast of external council funding (excluding Council Tax) points to a reduction of 3.5% to 5% per year in cash terms over the period to 2020/21. While necessarily based on a range of projections and assumptions, the recently-published Fraser of Allander Institute report on the Scottish Budget 2016 also suggested that the Scottish budget could be cut by between 3% – 4% percent in real terms by 2020-21 and up to 6% under a worst case scenario.
- 2.3 It is not anticipated that the forthcoming Local Government Finance Settlement will make provision for any budget pressures affecting Valuation and Electoral Registration Services.

### 3 Lothian Valuation Joint Board budget 2016/17

- 3.1 Lothian Valuation Joint Board's approved revenue budget for 2016/17 is £6.482m, to meet core statutory duties of compiling, maintaining and dealing with appeals for the Electoral Register, Council Tax Valuation List and Valuation Roll.
- 3.2 The approved budget included costs of £0.468m for Individual Electoral Registration. The Board's 2016/17 budget was approved on the basis of £0.364m drawdown from reserve to meet Individual Electoral Registration (IER) costs in 2016/17.
- 3.3 Following approval of the Board's revenue budget for 2016/17, IER funding of £0.560m was confirmed by the Cabinet Office in April 2016. There is now no requirement to drawdown from the Board's reserve in 2016/17.

<b>Approved Budget 2016/17</b>	<b>Core £'000</b>	<b>IER £'000</b>	<b>Total £'000</b>	<b>%</b>
Employee	4,472	249	4,721	72.8%
Premises	605		605	9.3%
Transport	101	13	114	1.8%
Supplies	720	206	926	14.3%
Third Party	95		95	1.5%
Support	67		67	1.0%
Income	(46)		(46)	-0.7%
<b>Net Budget</b>	<b>6,014</b>	<b>468</b>	<b>6,482</b>	<b>100.0%</b>
<b>Funded by:</b>	Requisition		(6,118)	
	Reserve drawdown		(364)	
	<b>Total Funding</b>		<b>(6,482)</b>	

#### **4 Lothian Valuation Joint Board budget 2017/18**

- 4.1 The Board has maintained a 'flat-cash' requisition of £6.118m for five years from 2012/13 to 2016/17. Budget planning for 2017/18 is being undertaken on the basis of continuation of no change in total council requisition from 2016/17.
- 4.2 For 2017/18, the Board will continue to incur IER costs. In September 2016, the Cabinet Office stated its commitment to fully fund IER until at least the end of the current Parliament. It is anticipated the Board will continue to review IER costs to identify potential process savings and absorption of costs into the core service budget, but it is considered unlikely that all IER costs will be fully contained in the core budget. Financial planning for 2017/18 is based on the Cabinet Office fully funding IER costs in 2017/18, in line with the Cabinet Office commitment.
- 4.3 Financial planning has been undertaken to develop a base budget for the Board for 2017/18, on the basis of continuation of no change in council requisitions and the Cabinet Office fully funding IER costs in 2017/18. The draft budget includes:
- Provision of £68,000 for employee cost pressures of pay award (1%) and increments;
  - Provision of £16,400 for the UK Government's apprenticeship levy. The Chancellor of the Exchequer's Autumn Statement in 2015 confirmed the introduction of an apprenticeship levy for larger employers from April 2017. Payment will be set at 0.5% of each employer's pay bill. The Scottish Government will determine how revenue raised in Scotland is allocated. While it is anticipated that an element of this revenue will be "recycled" to councils, the full sum has been included in the Board's budget planning on a prudent basis;
  - A re-alignment of employee and non-employee cost budgets to address anticipated business needs in 2017/18 and contain the additional costs of pay award, increments and apprenticeship levy.

#### **5 Board Reserves**

- 5.1 The Board has a reserve balance of £748,000 at 31st March 2016. This represents 11.5% of the Board's approved budget for 2016/17.
- 5.2 The Board has under spent against budget each year from 2010/11 to 2015/16. £93,000 of this under spend was used to absorb costs of early release in 2013/14. The remainder of the under spend is retained by the Board as a reserve in order to fund future liabilities in the event of the Board's policy on

voluntary early release being deployed. The following table shows the level of under spend and retained reserve since 2010/11.

<b>Requisition under spend retained</b>	<b>£'000</b>
2010/11	(228)
2011/12	(42)
2012/13	(127)
2013/14	(117)
2014/15	(175)
2015/16	(152)
<b>Total</b>	<b>(841)</b>
Drawdown 2013/14 (2 x leavers)	93
<b>Balance held at 31st March 2016</b>	<b>(748)</b>

- 5.3 The Board will be required to under-write the risk of the Cabinet Office not fully funding IER costs in 2017/18 through use of the Board's reserve. There are currently no other commitments earmarked for use of the reserve.
- 5.4 Audit Scotland's Annual Audit Report for 2015/16, presented to the Board on 5<sup>th</sup> September 2016, highlighted the issue of financial sustainability. Whilst the Board has taken measures to establish a general reserve to increase its flexibility around use of funding, longer term financial plans will be required to demonstrate the continuing financial sustainability of the organisation.
- 5.5 In view of potential funding pressures beyond 2017/18, it may become necessary to consider deploying the Board's policies on voluntary early release (VERA) and the Board may incur significant one-off exit costs, as a consequence. The reserve would be utilised to fund approved VERA cases, in this case. All VERA applications would be subject to business cases based on affordability and service requirements.

## **6 Budget pressures / service risk**

- 6.1 Valuation Notices require to be issued to proprietors, tenants and occupiers of all NDR properties by 31<sup>st</sup> March 2017 and from then work increases to address enquiries and appeals. The previous revaluation saw large numbers of appeals lodged. A risk remains as to what appeal levels shall be recorded during 2017/18.
- 6.2 Whilst the development of the Board's budget for 2017/18 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 reductions in staffing beyond the proposed changes built in to the re-alignment of the 2017/18 employee budget. Efficiencies of 4.7% were built in to the 2016/17 budget, which includes a net reduction of seven posts (6% head count reduction)

## **7 Indicative Requisition**

- 7.1 Indicative requisitions, based on the financial planning assumptions included in this report, are shown in the following table. The apportionment of the 2017/18 indicative requisition is calculated based on each constituent council's share of Grant Aided Expenditure included in the 2016-17 Settlement - Grant Aided Expenditure Green Book.

Constituent Council	Indicative Requisition 2017/18	%
Edinburgh	£3,741,157	61.15%
Midlothian	£562,244	9.19%
East Lothian	£666,862	10.9%
West Lothian	£1,147,737	18.76%
<b>Total</b>	<b>£6,118,000</b>	<b>100.00%</b>

## 8 Recommendations

The Board is recommended to:

- 8.1 note the financial planning assumptions currently being progressed for the 2017/18 revenue budget;
- 8.2 the revenue budget for 2017/18 will be presented to the Board for approval at its meeting of 6<sup>th</sup> February 2017.

**Hugh Dunn,  
Treasurer**

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**Appendices:** Nil

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**Background Papers** Held at the Office of Treasurer