

Revenue Budget 2017/18

6th February 2017

1 Purpose of report

The purpose of this report is to present the revenue budget for 2017/18 for approval. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

2 Summary

- 2.1 Following the report to Lothian Valuation Joint Board meeting of 28th November 2016 [Revenue Budget 2017/18 – Financial Planning](#), further work has been undertaken to develop a revenue budget for 2017/18.
- 2.2 The Board is requested to approve a budget for 2017/18 of £6.118m, funded through a flat-cash requisition of £6.118m. The requisition has been held at £6.118m since 2012/13.
- 2.3 Recognising the financial pressures facing constituent councils and following an assessment of the financial risks facing the Board, it is proposed to give a refund to constituent councils of the equivalent of 3% of requisition (£0.184m), funded from the Board's unallocated Reserve.
- 2.4 The Assessor and ERO intends to commence a service review during 2017/18 in recognition of the need to move towards a sustainable budget position for 2018/19, taking account of the likely financial environment.
- 2.5 The Board will continue to incur Individual Electoral Registration costs (IER) in 2017/18. The Cabinet Office has stated its commitment to fully fund IER until the end of the current Parliament. The revenue budget for 2017/18 is based on the Cabinet Office fully funding IER costs.
- 2.6 The table below estimates a closing reserve position at 31st March 2018 of £0.719m based on the 2016/17 forecast presented to the Board in the report 'Period 9 Financial Statement', elsewhere on this agenda, the proposed 2017/18 revenue budget and refund of unallocated reserve.

General reserve	£'000
Balance March 2016	(749)
2016/17 forecast under spend	(154)
Estimated closing balance 31.03.17	(903)
Proposed Refund to Constituent Councils	184
Estimated closing balance 31.03.18	(719)

3 Revenue Budget 2017/18

3.1 A revenue budget of £6.118 million is proposed for 2017/18. The proposed revenue budget includes:

- Provision of £55,000 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, set at 0.5% of each employer's pay bill;
- A re-alignment of non-employee cost budgets to address anticipated business needs in 2017/18 and contain the additional costs of pay award, increments and apprenticeship levy.

For 2017/18, the Board will continue to incur IER costs, estimated at £0.426m. In September 2016, the Cabinet Office stated its commitment to fully fund IER until at least the end of the current Parliament. 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. The draft revenue budget for 2017/18 is based on the Cabinet Office fully funding IER costs in 2017/18, in line with the Cabinet Office commitment.

The proposed revenue budget for 2017/18 is detailed in Appendices 1 and 2.

3.2 As detailed in the 'Budget Report 2017-2018' by the Assessor and ERO, elsewhere on this agenda, in recognition of the need for financial sustainability, work will commence on a service review following the Local Government elections in May 2017.

4 Local Government Finance Settlement and Constituent Councils budgets

4.1 The draft Local Government Finance Settlement has reduced General Revenue Grant by 3.9% across Scotland, based on a year-on-year comparison of grant funding and excluding funding provided for specific new commitments. The rate of reduction varies from council to council.

4.2 The terms of the Settlement mean that the additional income raised through changes to Council Tax band multipliers (estimated at £110.5m across Scotland) will be retained by the councils, where this income is collected. When this additional income is offset against the reduction in General Revenue Grant, the net reduction in funding in the Settlement is estimated at 2.8% across Scotland, excluding funding provided for specific new commitments.

4.3 Longer-term funding assumptions remain subject to uncertainty. There remains a considerable risk that there will be further cash-reductions in funding provided through the Scottish Block grant for 2018/19 and beyond.

5 Budget pressures and Risk

5.1 Individual Electoral Registration (IER)

5.1.1 In September 2016, the Cabinet Office stated its commitment to fully fund IER until at least the end of the current Parliament and the draft revenue budget for

2017/18 is based on this commitment. There will be an unbudgeted cost to the Board if the costs of IER are not fully funded by the Cabinet Office. Based on the proposed revenue budget for 2017/18, the maximum level of risk is £0.426m.

5.2 Revaluation 2017

- 5.2.1 The previous National Non-Domestic Rates (NNDR) revaluation saw large numbers of appeals lodged. The cost of managing these appeals was contained within the revenue budget of the Board. A risk remains as to what appeal levels shall be recorded during 2017.

5.3 The Future of Council Tax

- 5.3.1 This represents an area of uncertainty. 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.

5.4 Other budget risks

- 5.4.1 Strategic and operational planning, along with risk management, are already being undertaken by the Assessor and ERO. The combination of the major risks referred to in this section and the uncertainty of legislation and timetabling results in ongoing risk to the Board.

6 Unallocated Reserve

- 6.1 The Board has the ability to retain a general reserve; this balance currently stands at £0.749m. As reported in the report 'Period 9 Financial Statement 2016/17' elsewhere on this agenda the reserve is forecast to increase by £0.154m to £0.903m by 31st March 2017. This level of unallocated reserve would represent 14.7% of the Board's proposed net revenue expenditure for 2017/18.
- 6.2 The Board has retained an unallocated Reserve on the basis it may become necessary to consider deploying the Board's policies on voluntary early release (VERA) and incur significant one-off exit costs, as a consequence. The Reserve would be utilised to fund approved VERA cases. All VERA applications are subject to a business case based on affordability and service requirements. Since 2010, the Board has approved two voluntary early release cases with a total cost of £93,000.
- 6.3 It is the responsibility of the Treasurer to advise the Board about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.
- 6.4 Reserves can be held for three main purposes:
- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
 - A contingency to cushion the impact of unexpected events and emergencies;
 - A means of building up funds to meet known or predicted liabilities, for example, costs of voluntary early release schemes.
- 6.5 In order to assess the adequacy of the unallocated reserves, it is necessary to take account of the strategic, operational and financial risks facing the Board. The assessment should take account of controls in place to manage identified

risks together with the overall financial standing of the Board and general arrangements to support effective financial risk management.

- 6.6 Budget pressures and risks are identified in Section 5 of this report. Not all of these risks can be quantified at this stage. Risks are inherent in any budget process. It is essential that risks are monitored regularly and, where necessary, action is taken to control and manage risks.
- 6.7 The Board has an established track record of managing expenditure pressures within its budgetary provision, with services being delivered within the approved revenue budget throughout the existence of the Board.
- 6.8 In the light of identified risks and the established track record of managing expenditure pressures within budget and recognising the financial pressures facing constituent councils, it is proposed to give a refund to constituent councils of the equivalent of 3% of requisition (£0.184m), funded from the Board's unallocated Reserve, effective on 1st April 2017.
- 6.9 If this proposal is approved, it is estimated that the Board's unallocated reserve at 31st March 2018 will be £0.719m. This level of unallocated reserve is still considered to provide adequate assurance for the Board.
- 6.10 The proposed refund for 2017/18, is detailed in the table below:

	Proposed Refund £
City of Edinburgh	112,300
Midlothian	16,800
East Lothian	20,100
West Lothian	34,300
Total	183,500

7 Requisition allocation basis between constituent councils

- 7.1 The apportionment of the 2017/18 requisition is based on the constituent councils share of GAE lines in the Scottish Government's 2016/17 Green Book.

8 Recommendations

- 8.1 The Board is recommended to approve the proposed budget for 2017/18 and the issue of requisition requests from the Treasurer to constituent councils as follows:

Constituent Council	Requisition 2017/18 £	%
Edinburgh	3,741,157	61.19%
Midlothian	562,244	9.16%
East Lothian	666,862	10.94%
West Lothian	1,147,737	18.71%
Total	6,118,000	100.00%

8.2 The Board is recommended to approve a refund of unallocated reserve of £183,500 on 1st April 2017 as follows:

	Proposed Refund £
City of Edinburgh	112,300
Midlothian	16,800
East Lothian	20,100
West Lothian	34,300
Total	183,500

8.3 Note that the Assessor and ERO will report to the Board on development of the Service review during 2017/18;

8.4 Note that the Assessor and ERO will update the Board in due course of any changes to IER with service/financial implications.

8.5 Note the risks identified in section 5 of the report.

**Hugh Dunn,
Treasurer**

Appendices:

Appendix 1 - Analysis of Budget Change
Appendix 2 - Revenue Budget 2017/18

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Background papers:

Held at the Office of Treasurer

Appendix 1 - Analysis of Budget Change

	£'000	£'000	% Change
REVISED BUDGET 2016/17 (CORE)		£6,118	
<u>1. Core Budget Movement</u>			
<u>Employee budget - annual pressures</u>			
Pay Award	£37		
Increments	£18		
Modern Apprenticeship Levy	£17	£72	
Total employee cost budget pressure		£72	1.2%
<u>Efficiencies</u>			
· Reductions in general premises and transport budgets	-£12		
· Reduction in supplies (mainly ICT and Advertising)	-£47		
· Reduction in third party budgets	-£13	-£72	(1.2%)
<u>2. IER Budget</u>			
<u>Pressures:</u>			
· Implementing a permanent canvasser team (12)	£124		
· Employing Customer Support Assistants (4)	£86		
· Printing, Stationery and ICT	£91		
· Postage	£125		
		£426	7.0%
Income (Cabinet Office / Shortfall mitigated by Reserve)		-£426	(7.0%)
<u>3. Requisition</u>			
· One-off refund to Councils (3% Reserve balance at 31st March 2016)	£184		
· Refund to be funded by Reserve	-£184	£0	0.0%
PROPOSED BUDGET 2017/18		£6,118	0.0%

Appendix 2 – Revenue Budget 2016/17 – Subjective Analysis

Core Budget	Budget 16/17 £'000	Budget 17/18 £'000	Movement £'000
Employee Costs			
Wages and Salaries	3,246	3,311	65
National Insurance	330	333	3
Superannuation	660	664	4
Canvass Staff	127	127	0
Unfunded Pensions	122	122	0
Pension Deficit	3	3	0
Allowances	3	3	0
Agency Staff	6	6	0
	4,497	4,569	72
Premises Costs			
Rents	305	305	0
Rates	194	194	0
Cleaning & Domestic Supplies	37	35	-2
Energy Costs	29	29	0
Water Services	16	16	0
Building Repairs, Alterations & Maintenance	15	11	-4
Premises Insurance	5	5	0
Grounds Maintenance Costs	4	4	0
	605	599	-6
Transport Costs			
Car Allowances	63	63	0
Public Transport	24	22	-2
Transport Insurance	10	10	0
Contract Hire & Operating Leases	4	0	-4
Direct Transport Costs	1	1	0
	102	96	-6
Supplies & Services			
Postages	302	299	-3
ICT	246	227	-19
Printing, Stationery & Gen Office Exp	97	87	-10
Telephony	40	40	0
Services	34	30	-4
Expenses	23	20	-3
Insurance	21	21	0
Equipment, Furniture & Materials	21	14	-7
Audit fee	7	7	0
Miscellaneous Expenses	3	3	0
Grants & Subscriptions	2	2	0
Catering	1	0	-1
Clothes, Uniform & Laundry	1	1	0
	798	751	-47
Third Party Payments			
Appeals Committee	60	50	-10
Maintenance Contractors	34	31	-3
Other Agencies	1	1	0
	95	82	-13
Support Services			
Central Support Costs	67	67	0
	67	67	0
Income			
Customer & Client Receipts	-43	-43	0
Interest	-3	-3	0
	-46	-46	0
Total core services	6,118	6,118	0