

Revenue Budget 2018/19

5th February 2018

1 Purpose of report

The purpose of this report is to present the revenue budget for 2018/19 for approval. The report has been prepared in consultation with the Assessor and Electoral Registration Officer.

2 Summary

- 2.1 The Board is requested to approve a one-year budget for 2018/19 of £5.847m. This represents a reduction of £0.271m (-4.4%) from the £6.118m approved for 2017/18.
- 2.2 The Assessor and ERO has undertaken a Transformation and Cultural Change Programme service review during 2017/18, the outcomes have been built in to the 2018/19 budget and the Assessor will update the Board separately on this agenda. The Change Analysis at Appendix 1 details the most significant adjustments in terms of the staffing numbers approved within the 2017/18 budget, these are highlighted below;

Staffing changes from approved budget 2017/18		
	Head count	% reduction / increase
Posts removed		
Depute Assessor	-1	
Voluntary Early Release	-13	
	-14	-14%
Posts added		
IER customer assistants (transferred from IER budget)	4	
Valuation	6	
	10	10%
Net reduction	-4	-4%

- 2.3 The Board will continue to incur Individual Electoral Registration costs (IER) in 2018/19 and the Cabinet Office has stated its commitment to provide IER grant until 31st March 2020. The position on costs/funding from 2020/21 is less certain. The Assessor has embedded four IER posts within the 2018/19 core budget as part of the revised staffing structure. If IER grant is removed from 2020/21 and no alternative funding provided then the Assessor will require to present options to the Board during 2019 to contain the cost (£0.275m for 2018/19).
- 2.4 The table below estimates a closing reserve position at 31st March 2018 of £0.676m based on the 2017/18 forecast presented to the Board previously on this agenda.

General reserve	£'000
Balance 31st March 2017	(1,011)
2017/18 forecast drawdown	335
Estimated closing balance 31st March 2018	(676)

3 Revenue Budget 2018/19

3.1 A revenue budget of £5.847m is proposed for 2018/19. The proposed revenue budget includes inescapable growth:

- Provision of £0.117m for employee cost pressures of pay award (2.4%) and increments.
- Provision of £0.022m for the additional cost of employer pension contributions due to the 0.5% increase from 20.9% to 21.4%, following Lothian Pension Fund Actuarial Review 2017

The Analysis of Budget Change in Appendix 1 details all budget movements from the approved budget 2017/18. The detailed revenue budget for 2018/19 is shown in Appendix 2.

4 Local Government Finance Settlement and Constituent Councils budgets

4.1 The Cabinet Secretary for Finance and the Constitution presented a provisional one-year Local Government Finance Settlement to the Scottish Parliament as part of the 2018/19 Draft Scottish Budget on 14th December. The draft Settlement is subject to consultation until 26th January and adjustments to each council's allocation could arise thereafter. The final settlement was not available at the time of agenda publication.

4.2 Compared on a like-for-like basis and taking account of monies provided in respect of new commitments and/or pressures, the headline year-on-year Scotland-wide decrease (based on the provisional settlement) in revenue funding is around £153m, or 1.6%, of total current funding. The rate of reduction varies from council to council.

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 2019/20 and beyond.

5 General Reserve / Risk

5.1 The Board has the ability to retain a general reserve but does not have a formal reserve policy. The reserve balance at 31st March 2017 was £1.011m and as per paragraph 2.4 is expected to reduce to £0.676m (11.6%) by 31st March 2018; predominantly due to funding of one-off VR exit costs.

5.2 A review of reserves held by other valuation joint boards was undertaken and reported to the Board in September 2017. An action was taken to formalise a reserves policy within the 2018/19 budget report.

5.3 The review carried out and reported in September was based on published annual accounts/budget reports available at that time and concluded that reserves levels and policies were not consistent between Boards. Of the fourteen Assessors in Scotland, four are appointed directly by a single Council and the remaining ten are appointed by Valuation Joint Boards.

Information on reserve levels of the four appointed by a single council was not readily available so the review was based on the ten joint boards.

5.4 The reserves held by these ten joint boards ranged from between 3% – 23% when compared to budgeted expenditure. Five of the Boards did not have a formal reserves policy and for the five that did, reserve levels were maintained within a minimum percentage of total budget. This ranged from a minimum of 2% to 6% depending on each Board's requirement. The level of reserves maintained by each Valuation Board is therefore unique to the level of risk, funding pressures and future financial commitments specific to each Board.

5.5 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.

5.6 CIPFA and the Local Authority Accounting Panel consider that local authorities (including Joint Boards) should establish reserves including the level of those reserves based on the advice of their chief finance officers (the Treasurer). Valuation Boards should make their own judgements on such matters considering all the relevant local circumstances. Such circumstances within Valuation Boards are unique and vary between Board's dependant on business needs and risk factors.

5.7 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.

5.8 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. The Assessor and Electoral Registration Officer has provided detail on risks within his Budget Report 2018-2019 presented separately on this agenda. The key financial and operational risks facing the Board summarised below include;

- **Inescapable growth - annual budget pressure - +£0.1m**
The cost of pay awards and increments for 2018/19 is £0.117m. The Assessor has managed this cost previously through vacancy control. However, the full staffing and service review carried out through the Transformation and Cultural Change Programme and new structure will reduce flexibility on managing this annual cost pressure going forward. Whilst accepting that the structure will be reviewed in conjunction with continuing process review, the option to meet inescapable growth through annual reductions in staffing numbers is not sustainable in the long-term.
- **IER - potential annual budget pressure +£0.3m**
The Cabinet Office has stated its commitment to fully fund IER until at least 31 March 2020. An unbudgeted cost will arise in 2020/21 if the costs of IER are not fully funded by the Cabinet Office through direct grant or through an increase in block grant to the Scottish Government, ring-fenced for this

purpose. Based on the proposed revenue budget for 2018/19, the level of financial risk is approximately £0.275m.

- **Revaluation 2017 - budget pressure unquantifiable at this stage**
The appeal levels are at the highest level following the revaluation. There are financial risks around these appeals including staffing resource/overtime, external legal costs and additional costs relating to the Valuation Appeals Committee.
- **Barclay Review of NDR - budget pressure unquantifiable at this stage**
The recent review gives rise to additional pressures to the Board. Short term pressures may arise from property category investigations and ICT investment relating to changes to the revaluation cycle. As the outcomes and changes to the revaluation process proceed, longer term pressures could be inevitable in terms of staffing resource and on-going support costs.
- **Election/Referendum pressures - budget pressure unquantifiable at this stage (£0.06m unbudgeted overtime incurred 17/18)**
Short-term election/referendum timetables can seldom be fully anticipated. As a result, there is a risk of staffing overtime and support cost pressures should further unplanned elections arise. Whilst these pressures have been managed in the past by vacancy management there will be less flexibility going forward as a result of the Transformation and Cultural Change Programme service review and implementation of a new structure.
- **Future Financial Stability - budget pressure unquantifiable at this stage (£0.5m incurred at first stage of Transformation Programme)**
The Transformation and Cultural Change Programme has achieved its objectives by delivering a comprehensive service and staffing review and delivering savings. Further redesigning of the business model is inevitable and further structural review and VR release costs cannot be ruled out at this stage. In addition, unbudgeted ICT investment/ongoing costs may arise as ICT changes are delivered to support the Transformation Programme. The general reserve requires to be maintained to mitigate the financial risk of future one-off costs until the organisation achieves steady state.
- **Council Tax - budget pressure - unquantifiable at this stage**
This represents an area of uncertainty. Whilst it's anticipated that any changes to the system resulting in additional costs will be funded by the Scottish Government the financial risk associated with change must be regarded as a budget risk.
- **Other budget risks**
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. Not all of these risks can be quantified at this stage. Risks are inherent in any budget process and it is essential that risks are monitored regularly and, where necessary, action is taken to control and manage risks. The Board will continue to be updated during 2018/19 on the performance of the 2018/19 budget.

6 General Reserve / Formal Policy

6.1 Based on the risks highlighted above, it is recommended that the Board approval a formal reserve policy as follows:

- Maintain a minimum general reserve level of 3% based on the annual requisition to mitigate the risks highlighted in paragraph 5.8.
- Retain uncommitted balances within the general reserve in excess of 3% and provide the Board with an annual report in November to support risk/identified commitments against this balance. This will enable the Board to make a decision within the year of budget approval on the requirements for this balance.

6.2 At this stage, it is recommended that the Board retain the balance of uncommitted reserve in excess of 3% until as such time that the Assessor can report on the most significant risks highlighted in paragraph 5.8. The most significant being further one-off exit costs associated with ongoing Transformation Programme service review. The first stage of transformation incurred £0.5m of one-off exit costs. Whilst also accepting that IER may only become an ongoing pressure from 2020/21 further updates are required to the Board of discussions on funding between the Assessor and the Cabinet Office. There is an annual cost pressure of around £0.275m relating to IER.

6.3 The above will require the Assessor to report back during 2018/19 on the performance of the new structure and any options to implement further staffing efficiencies. It is recommended that an update be provided to the Board by November 2018 in advance of preparation of the 2019/20 budget in-line with the proposed Reserves Policy to report on balances held in excess of 3%.

6.4 On the basis that all budget proposals are approved, 17/18 figures outturn on forecast and 18/19 on budget, it is estimated that the Board's unallocated reserve at 31st March 2019 will be £0.676m. This level of unallocated reserve is considered to provide adequate assurance for the Board at this stage.

7 Requisition allocation basis between constituent councils

7.1 The apportionment of the 2018/19 requisition is based on the constituent councils share of GAE lines in the Scottish Government's 2017/18 Green Book. The 2018/19 figures will not be available until March 2018.

8 Recommendations

8.1 The Board is recommended to approve the proposed budget for 2018/19 and the issue of requisition requests from the Treasurer to constituent councils as follows:

Proposed requisition 2018/19	2018/19 £	2018/19 %
The City of Edinburgh	£3,575,028	61.14%
Midlothian Council	£539,704	9.23%
East Lothian Council	£636,184	10.88%
West Lothian Council	£1,096,365	18.75%
Total	£5,847,281	100.00%

- 8.2 The Board is recommended to approve a formal reserves policy based on holding a general reserve with a minimum value of 3% of annual requisition. Balances held in excess of 3% require to be reviewed annually in-line with risk/identified commitments and an update provided to the Board in the November following the budget approval date.
- 8.3 Note that the Assessor and ERO will report to the Board on performance of the service review during 2018/19, including any options to implement further efficiencies through the voluntary early release scheme by November 2018;
- 8.4 Note that the Assessor and ERO will update the Board during 2018/19 of any changes to IER with service/financial implications.
- 8.5 Note the risks identified in section 5 of the report. The Assessor and Treasurer will provide further updates on these in budget update reports throughout 2018/19.

**Hugh Dunn,
Treasurer**

Appendices:

Appendix 1 - Analysis of Budget Change
Appendix 2 - Revenue Budget 2018/19

Contact/Tel:

Mr. T MacDonald: 0131 469 3078

Background papers:

Held at the Office of Treasurer

Appendix 1 - Analysis of Budget Change

	£'000	£'000	£'000	% Change
BUDGET 2017/18			£6,118	
<u>1. Core Budget</u>				
1.1 <u>Employee establishment changes - transformational change</u>				
<u>Posts removed</u>				
· Depute Assessor post removed	(£128)			
· 13 x VR's	(£449)			
		(£577)		
<u>Posts added</u>				
· 4 x CSA posts added to core budget	£89			
· 4 x Trainee valuers	£133			
· 2 x Trainee tech	£45			
		£267		
1.2 <u>Employee budget - budget reductions</u>				
· Remove Government apprenticeship levy	(£16)			
· Staff working reduced hours/minor adjustments	(£21)			
		(£37)		
1.3 <u>Employee budget - annual pressures</u>				
Pay Award	£86			
Increments	£31			
Employer pension contribution rate increase	£22			
Overtime budget increased	£15			
		£154		
Total employee cost budget (saving) / pressure			(£193)	
1.4 <u>Other budget - annual pressures</u>				
Rates inflation		£5		
			£5	
1.5 <u>Efficiencies</u>				
· Rates reduction following 2017 Revaluation		(£83)		
			(£83)	
TOTAL CORE BUDGET MOVEMENTS			(£271)	(4.4%)
<u>2. IER Budget</u>				
2.1 <u>Employee changes</u>				
· 4 x Canvasser posts removed	(£72)			
· 4 x Customer Support Assistants removed	(£89)			
		(£161)		
2.2 <u>Pressures:</u>				
· Pay Award	£5			
· Increments	£2			
· Overtime	£2			
		£9		
Total employee cost budget (saving) / pressure			(£152)	(2.5%)
Income adjustment relating to budget movements above			£152	2.5%
PROPOSED BUDGET 2018/19			£5,847	(4.4%)

Appendix 2 – Revenue Budget 2018/19 – Subjective Analysis

Core Budget	Budget 17/18 £'000	Budget 18/19 £'000	Movement £'000
Employee Costs			
Wages and Salaries	3,311	3,138	-173
National Insurance	333	312	-21
Superannuation	664	667	3
Canvass Staff	127	127	0
Unfunded Pensions	122	120	-2
Pension Deficit	3	3	0
Allowances	3	3	0
Agency Staff	6	6	0
	4,569	4,376	-193
Premises Costs			
Rents	305	305	0
Rates	194	116	-78
Cleaning & Domestic Supplies	35	35	0
Energy Costs	29	29	0
Water Services	16	16	0
Building Repairs, Alterations & Maintenance	11	11	0
Premises Insurance	5	5	0
Grounds Maintenance Costs	4	4	0
	599	521	-78
Transport Costs			
Car Allowances	63	63	0
Public Transport	22	22	0
Transport Insurance	10	10	0
Contract Hire & Operating Leases	0	0	0
Direct Transport Costs	1	1	0
	96	96	0
Supplies & Services			
Postages	299	299	0
ICT	227	227	0
Printing, Stationery & Gen Office Exp	87	87	0
Telephony	40	40	0
Legal Services	30	30	0
Training, Conferences and Members remuneration	20	20	0
Insurance	21	21	0
Equipment, Furniture & Materials	14	14	0
Audit fee	7	7	0
Miscellaneous Expenses	3	3	0
Subscriptions	2	2	0
Catering	0	0	0
Clothes, Uniform & Laundry	1	1	0
	751	751	0
Third Party Payments			
Appeals Committee	50	50	0
Maintenance Contractors	31	31	0
Other Agencies	1	1	0
	82	82	0
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	5,847	-271