

Item 4

Period 6 Financial Statement 2018/19

5th November 2018

1 Purpose of report

This report summarises the projected revenue budget outturn position to 31st March 2019, based on the position at period ending 30th September. The report has been prepared in consultation with the Assessor.

2 Main Report

Projected Revenue Outturn 2018/19 – Core Budget

2.1 The table below compares projected revenue outturn 2018/19 with the budget. The forecast variance, based on the position at 30th September, is an under spend of £0.103m. The under spend has reduced by £0.012m to that reported in September.

| | Core Budget | | | IER Budget | | | Total | | |
|---------------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| | Budget £'000 | Forecast £'000 | Variance £'000 | Budget £'000 | Forecast £'000 | Variance £'000 | Budget £'000 | Forecast £'000 | Variance £'000 |
| <u>Expenditure</u> | | | | | | | | | |
| Employee costs | 4,378 | 4,272 | (106) | 59 | 44 | (15) | 4,437 | 4,316 | (121) |
| Premises costs | 520 | 516 | (4) | 0 | 0 | 0 | 520 | 516 | (4) |
| Transport costs | 96 | 89 | (7) | 0 | 0 | 0 | 96 | 89 | (7) |
| Supplies & Services | 750 | 767 | 17 | 216 | 216 | 0 | 966 | 983 | 17 |
| Third Party Payments | 82 | 79 | (3) | 0 | 331 | 331 | 82 | 410 | 328 |
| Support Services | 67 | 67 | 0 | 0 | 0 | 0 | 67 | 67 | 0 |
| Gross Expenditure | 5,893 | 5,790 | (103) | 275 | 591 | 316 | 6,168 | 6,381 | 213 |
| <u>Income</u> | | | | | | | | | |
| Sales, Fees & Charges | (43) | (43) | 0 | 0 | 0 | 0 | (43) | (43) | 0 |
| IER Grant | 0 | 0 | 0 | (275) | (591) | (316) | (275) | (591) | (316) |
| Interest | (3) | (3) | 0 | 0 | 0 | 0 | (3) | (3) | 0 |
| Total income | (46) | (46) | 0 | (275) | (591) | (316) | (321) | (637) | (316) |
| Net Expenditure | 5,847 | 5,744 | (103) | 0 | 0 | 0 | 5,847 | 5,744 | (103) |

2. Forecasts to 31st March 2019 – Core Budget

2.1 At this stage, the projected outturn indicates a forecast under spend of £0.103m.

2.2 The principal reason for the budget under spend reported is as follows:

- Employee costs - £0.106m under spend – following transformational change and staffing appointments a saving is predicted in relation to vacant posts forecast to be filled part-year only.
- Supplies and Services - £0.017m over spend – mainly in relation to operational equipment maintenance agreements.

3. Individual Electoral Registration (IER)

- 3.1 The 2018/19 budget assumes that all costs will be met by grant from the Cabinet Office. Grant of £0.241m has been received for 2018/19 from the Cabinet Office and unspent grant of £0.350m was carried over from 2017/18. Total grant of £0.591m is therefore currently available to fund IER costs 2018/19. It is not anticipated that costs will exceed grant and for reporting purposes the current forecast assumes a carry-forward to 2019/20 of £0.331m.
- 3.2 The IER process remains under review and a funding commitment until 2019/20 was agreed previously. The funding of these costs beyond this period and options to reduce it through procedural change remain subject to further discussion. The Assessor will provide updates to the Board when they become available.

4. General Reserve / Risk

- 4.1 The Board's general reserve balance currently stands at £0.798m. This does not include the forecast underspend for 2018/19 of £0.103m reported above. A final estimated 2018/19 outturn report will be reported in February 2019.
- 4.2 The Board requires to maintain a minimum general reserve level of 3% based on the annual requisition to mitigate against risk. A minimum reserve balance of £0.175m must therefore be retained at 31st March 2019 with the Board assessing balances held in excess of this as part of this report.
- 4.3 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.
- 4.4 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.
- 4.5 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.
- 4.6 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 key financial and operational risks facing the Board summarised below include:

4.7 **Individual Electoral Registration – budget risk £0.270m**

The Board has been advised previously of the additional costs incurred associated with Individual Electoral Registration. The 2017/18 cost was £0.269m. The Cabinet Office has provided grant to support this additional cost, however grant funding shall cease from 2020/21 onwards. The Cabinet Office and Electoral Commission acknowledge that significant changes are required to both modernise further the registration process and introduce savings into primarily the annual canvass process. Pilot exercises have informed proposed changes which shall, subject to final consultation, be implemented for the 2020 annual canvass. Modelling of these proposals is ongoing with an expectation that costs shall reduce, however at this stage a definitive statement on the likely financial impact is not available, therefore a risk remains that additional costs shall be incurred following the formal introduction of the new annual canvass procedure and the removal of grant funding.

4.8 **Barclay Review of NDR – budget risk £0.3m - £0.4m**

The enacting primary legislation required to support the recommendations arising from the review is scheduled to be adopted by 1st April 2020. At this stage elements of the detailed implementation and the consequences arising require additional clarity. It was acknowledged by the Barclay Review and Scottish Government that Assessor organisations shall face additional workloads and funding issues because of the recommendations. In particular the move from five yearly revaluations to a three-yearly cycle and the disposal of resulting appeals. At this stage discussions are ongoing with COSLA and the Scottish Government regarding the matter of additional funding, however current estimates for LVJB are £0.3m - £0.4m per annum. Failure to receive adequate funding shall impact on the ability to deliver the required changes. The Scottish Government has confirmed it will announce its' draft budget on 12th December. Consequently, the draft Local Government Finance Settlement will not be known until this date, or if the Barclay Review cost pressure has been ring-fenced within Constituent Council allocations for redistribution to the LVJB.

4.9 **Barclay Review – advance development of ICT systems – reserve commitment £0.150m**

On the 3rd September the Board approved the use of the reserve to fund the development of the existing IT system that supports the valuation process. This will involve the employment of additional resource over a fixed period of time to support the move to three yearly revaluations. At this stage, the cost is estimated to be £0.150m over three years.

4.10 **Annual cost of Pay Awards and Increments – budget risk £0.150m**

The Board is required to fund annual pay awards and annual increments. The current estimate for 2019/20 is £0.150m. The ongoing financial constraints within local government require budgetary growth to be consumed. In previous years the Board had contained growth in the main using vacancy control. Following the organisational review in 2017/18, which involved the application of the Board's VERA policy and a restructuring of the staffing structure, a net 4.4% budget saving was achieved for the 2018/19 budget. As a result, in the short term, the ability to absorb annual pay awards and increments is considerably reduced. While every opportunity shall be taken throughout 2019/20 to contain such costs within budget there is a risk that this may not be possible.

4.11 Pension deficit and annual employer pension rate contributions – budget risk unquantifiable at this stage

The Board has agreed a three-year contribution stability mechanism with the Lothian Pension fund. Under the contribution stability mechanism, the Boards contribution rate for the three years to March 2021 will increase by no more than 0.5% per annum. A separate annual pension deficit payment of £3,100 was also agreed for the same period. The next actuarial valuation will be carried out as at 31 March 2020, and a full review of the contribution stability mechanism and annual deficit repayments will be carried out prior to this date. The financial risk will therefore apply to the 2021/22 budget.

4.12 Elections/Referendums – budget risk £0.050m

The possibility of either elections or referendums being called within short timetables, 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 at this time. During 2017/18 when a double election event took place, £0.045m was spent on staff overtime.

4.13 Leaving the European Union – budget risk unquantifiable at this stage

Dependent on the nature of the UK departure from the European Union it is possible that annual values achieved within the non-domestic property sector may fall. Should that be the case, and the fall is significant, this may give rise to the right of appeal against rateable values appearing in the Valuation Roll. The receipt of large volumes of appeals, in addition to existing workloads in respect of appeals received following the 2017 Revaluation, would have significant impact on available staff resources. This would give rise to additional overtime requirements to deal directly with appeal volumes and/or to ensure other essential Valuation Roll activities were carried out.

4.14 Council Tax – budget risk unquantifiable at this stage

The position regarding the future of Council Tax remains unclear. However, it should be noted that over time the resource deployed to undertake key Council Tax activities has been refined to such an extent that any major legislative change to Council Tax that impacted on the Board is unlikely to be consumed within current budgetary provision.

4.15 Ongoing Organisational Transformation and Change – budget risk unquantifiable at this stage

During 2017/18 a Transformation Programme was initiated within the Board. This resulted in the introduction of a revised staffing structure effective from 1st April 2018. This was achieved by the application of the Boards VERA policy and financially **supported by the Board's reserve fund to the extent of £0.471m**. This programme of change is ongoing with further investigations into key processes and service delivery methodology in progress. These changes may give rise to further opportunities to review staffing levels in the years ahead. Any changes that may arise shall require to be financially supported by the Boards reserve fund.

4.16 Career Progression – reserve commitment £0.047m

On the 3rd September the Board approved the use of the reserve to fund the cost of career progression increments in respect of recently appointed trainee staff. This cost is estimated at £0.047m over three years.

4.17 All risks will be reassessed as part of the 2019/20 budget which will be presented to the Board for approval in February 2019.

5 Conclusions

- 5.1 At this stage, there is a projected net under spend of £0.103m relating to Financial Year 2018/19.
- 5.2 On the 3rd September, the Board approved the use of the reserve to fund Barclay ICT development costs and career progression costs. In total these are estimated at £0.197m over three years.
- 5.3. The Board previously approved the use of the reserve to fund staff VR/Strain costs.
- 5.4 Service risk with financial implications to the general reserve have been outlined to the Board in paragraph 4.

6 Recommendations

The Board is recommended to:

- 6.1 Note the projected outturn position for 2018/19;
- 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 provide more certainty on the risks highlighted in paragraph 4.
- 6.3 Note that a further 2018/19 budget update will be presented in February 2019.
- 6.4 Note that the 2019/20 budget will also be presented in February where a further update on risk will be presented to the Board.

**Hugh Dunn,
Treasurer.**