

Period 6 Financial Statement 2019/20

4th November 2019

1 Purpose of report

This report summarises the projected revenue budget outturn position to 31st March 2020, 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 2019/20 – Core Budget

- 2.1 The table below compares projected revenue outturn 2019/20 with the budget. The forecast variance, based on the position at 30th September, is an over spend of £0.017m.

	Core Budget			IER Budget			Total		
	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000	Budget £'000	Forecast £'000	Variance £'000
Expenditure									
Employee costs	4,532	4,547	15	44	45	1	4,576	4,592	16
Premises costs	540	535	(5)	0	0	0	540	535	(5)
Transport costs	76	79	3	0	0	0	76	79	3
Supplies & Services	750	756	6	216	216	0	966	972	6
Third Party Payments	82	80	(2)	0	339	339	82	419	337
Support Services	67	67	0	0	0	0	67	67	0
Gross Expenditure	6,047	6,064	17	260	600	340	6,307	6,664	357
Income									
Sales, Fees & Charges	(43)	(43)	0	0	0	0	(43)	(43)	0
IER Grant	0	0	0	(260)	(600)	(340)	(260)	(600)	(340)
Interest	(3)	(3)	0	0	0	0	(3)	(3)	0
Total Income	(46)	(46)	0	(260)	(600)	(340)	(306)	(646)	(340)
Net Expenditure	6,001	6,018	17	0	0	0	6,001	6,018	17

- 2.2 The over spend has reduced by £0.072m to that reported in September (£0.089m). This primarily relates to recruitment delays whilst a Business Strategy for the Board, including new staffing structure, is developed. The Assessor and ERO will provide a separate report to the Board on this Agenda.

Forecasts to 31st March 2020 – Core Budget

- 2.3 At this stage, the projected outturn indicates a forecast over spend of £0.017m.
- 2.4 The principal reason for the budget over spend relates to employee costs. The Board introduced a turnover factor of £0.163m to balance the 2019/20 budget. This turnover factor is, in the main, being managed through a recruitment pause until the outcome of the Transformation Programme Phase Two and specific projects aimed to deliver on NDR and ER canvass Reform is known. A new staffing structure will be created within an overarching Business Strategy.

Individual Electoral Registration (IER)

- 2.5 The 2019/20 budget assumes that all costs will be met by grant from the Cabinet Office. Grant of £0.228m has been received for 2019/20 from the Cabinet Office and unspent grant of £0.372m was carried over from 2018/19. Total grant of £0.600m is therefore currently available to fund IER costs 2019/20. It is currently forecast that £0.339m of unspent grant will be carried forward to 2020/21.
- 2.6 As reported to the Board previously, the introduction of the IER process has resulted in additional costs to the Board of approx. £0.260m per annum. These costs have so far been fully funded by Cabinet Office grant. The IER process remains under review and grant funding is due to cease from April 2020. The funding of IER costs beyond this period and options to reduce it through procedural change remain ongoing. The Assessor will provide updates to the Board when they become available. The carry-forward of unspent grant 2019/20 will be used to fund unfunded IER costs from April 2020.

3. General Reserve / Risk

- 3.1 The Board's general reserve balance currently stands at £0.897m. This does not include the forecast over spend of £0.017m for 2019/20m reported above. A final estimated 2019/20 outturn report will be reported in February 2020.
- 3.2 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 £0.180m must therefore be retained at 31st March 2020 with the Board assessing balances held in excess of this as part of this report.
- 3.3 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.
- 3.4 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:
- 3.5 **Business Strategy (Transformation Programme Phase Two)**
A separate report will be presented by the Assessor on this agenda. Due to the timing of the programme, Voluntary Early Release (VERA) business cases are not available at this stage and therefore an update cannot be provided to the board in terms of the financial impact 2020/21. The Board will therefore be provided with an update in February 2020. It should be noted that VERA business cases will be approved by both the Assessor and ERO and the Treasurer based on cost/savings tests. The one-off exit costs associated with Transformational change programme will be met through the Board's reserve. **£0.471m** one-off costs arising from phase one of the Transformation Programme were funded from the Board's

- 3.6 Individual Electoral Registration – budget risk £0.270m**
The Board has been advised previously of the additional costs incurred associated with Individual Electoral Registration. The 2019/20 budget is £0.260m and Cabinet Office funding will cease from April 2020. Work is ongoing to reduce this cost however at this stage a definitive statement on the likely financial impact is not available. 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.
- 3.7 Barclay Review of NDR – budget risk £0.3m - £0.4m**
The Board received an additional £0.154m requisition in 2019/20 relating to part-year costs. Full-year cost have previously been estimated at £0.3-£0.4m. Failure to receive adequate annual funding would impact on the Board's ability to deliver the required changes as well as causing a financial pressure. The Board will be updated following issue of draft Local Government Finance Settlements from the Scottish Government.
- 3.8 Turnover factor - £0.163m**
A turnover factor was introduced to balance the 2019/20 budget. Whilst this is in the main being managed this financial year the turnover factor will have to be considered when a new staffing structure is being developed in-line with the Board's Business Strategy.
- 3.9 Annual cost of Pay Awards and Increments – budget risk £0.200m**
The Board is required to fund annual pay awards, annual increments and career development. The current estimate for 2020/21 is £0.200m.
- 3.10 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.
- 3.11 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.
- 3.12 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.

3.13 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.

3.14 All risks will be reassessed as part of the 2020/21 budget which will be presented to the Board for approval in February 2020.

4 Conclusions

4.1 At this stage, there is a projected net over spend of £0.017m relating to Financial Year 2019/20.

4.2 A Business Strategy is being developed by the Assessor and ERO which will include a new staffing structure. Further updates will be provided to the Lothian Valuation Joint Board Governance Group in December and the Board in February 2020.

4.3. The Board previously approved the use of the reserve to fund staff VERA/Strain costs.

4.4 Service risk with financial implications to the general reserve have been outlined to the Board in paragraph 3.

5 Recommendations

The Board is recommended to:

5.1 Note the projected outturn position for 2019/20;

5.2 Note that a further 2019/20 budget update will be presented in February 2020.

5.3 Note the development of a Business Strategy for the Board by the Assessor and ERO.

5.4 Note that the 2020/21 budget will also be presented in February where a further update on risk will be presented to the Board.

**Hugh Dunn,
Treasurer.**

Appendices:	None
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Background Papers:	Held at the Office of Treasurer