

**10.00am, Monday 3rd February 2020**

## **Revenue Budget 2020/21**

### **1. Recommendations**

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The Board is recommended to:

- 1.1 approve the proposed core budget for 2020/21, based on Option 2, as detailed at paragraph 4.10.2 and the issue of 'flat-cash' core budget requisition requests from the Treasurer to constituent councils as detailed at paragraph 4.27;
- 1.2 recommend that funding included in the Local Government Finance Settlement for implementing the recommendations of the Non-Domestic Rates Review be fully passed onto the Board. This may mean a supplementary requisition during 2020/21, dependent on confirmation of funding;
- 1.3 Note the indicative financial planning estimates included at Appendix 1, Option 2 and that these estimates will be subject of further update to the Board during 2020/21 and beyond, as the Board's Transformation Programme is progressed.

**Hugh Dunn,**

**Treasurer**

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## Revenue Budget 2020/21

### 2. Executive Summary

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- 2.1 Revenue budget options have been developed in line with the Board's Transformation Programme, with a recommendation to approve a 'flat-cash' council requisition revenue budget for 2020/21. A further requisition will be issued to meet the additional costs of Non-Domestic Rates Reform in 2020/21; this in line with funding allocated in the Local Government Finance Settlement in 2020/21.
- 2.2 Indicative budget estimates are provided for 2021/22 to 2023/24. These will be subject of ongoing review and development as the Board's Transformation Programme is progressed.

### 3. Background

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- 3.1 This report seeks approval of a revenue budget for 2020/21. The report was prepared in consultation with the Assessor and Electoral Registration Officer (ERO).

### 4. Main Report

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- 4.1 On 4<sup>th</sup> February 2019, the Board approved a one-year core budget for 2019/20 of £5.847m. This represented no change in council requisition from 2018/19.
- 4.2 The Board also approved requisition of additional funding of £0.154m, which was included in the 2019/20 Local Government Finance Settlement for costs of Non-Domestic Rates Reform; this requisition in line with Scottish Government expectations.
- 4.3 Typically by mid-December, the draft Local Government Finance Settlement would be issued by the Scottish Government as part of its draft Budget proposals. This year, UK Government spending plans were put on hold pending the outcome of the UK Parliamentary Election on 12 December 2019. The UK Budget is now scheduled to take place on 11 March 2020.
- 4.4 On 13 January 2020, the Cabinet Secretary for Finance, Economy and Fair Work advised the Scottish Government Finance Committee that budget plans will be announced in advance of the formal UK Government Spending Plans, with a draft Scottish Government Budget announced on 6 February 2020. It is anticipated that a Finance Circular will also be issued on 6 February setting out the draft individual local authority grant allocations.

- 4.5 At the date of issuing this report, it is not known whether draft individual local authority grant allocations will be for one year or whether indicative allocations will be issued for future years.
- 4.6 The proposed budget is for 2020/21. Indicative financial plans are provided for the period 2021 – 2024.
- 4.7 In a report to the Board on 4 November 2019, Business Strategy 2020/21 – 2022/23, the Assessor and ERO provided an update on development of the Board's Business Strategy. The proposed budget is developed following the assumptions in the Strategy, including a 'flat cash' settlement from constituent councils for 2020/21, together with anticipated costs and financial benefits from the Board's Transformation Programme Phase 2, which take effect in 2020/21.
- 4.8 Revenue budget 2020/21 makes provision for £0.175m of inescapable employee cost pressures for pay award (estimated at 3%), increments and removal of 2019/20 employee turnover savings target of £0.163m.
- 4.9 A list of potential employee severance releases through the Board's Voluntary Early Release Arrangement Policy have been identified through the Board's Transformation Programme. All estimates are indicative at this stage and will be subject to future business case evaluation. It is anticipated business cases will be progressed on a phased basis, with updates to the Board by the Assessor and ERO on a regular basis, as part of Transformation Programme updates.
- 4.10 The 2020/21 revenue budget was developed, considering the following options:
- 4.10.1 Option 1: a 'flat cash' council requisition, with inescapable employee cost growth funded by a drawdown from the Board's unallocated reserve. No costs or financial benefits from Transformation Programme;
- 4.10.2 Option 2: Phased implementation of the Board's Transformation Programme between 2020 to 2024, with a 'flat cash' council requisition in 2020/21. Costs and financial benefits from potential 2020/21 leavers through the Board's Transformation Programme included, with the balance of the Board's requirement to fund inescapable employee cost pressure and severance costs met by drawdown from the Board's unallocated reserve;
- 4.10.3 Option 3: Implementation of the Board's Transformation Programme, with contractual commitment given to all employees at 1<sup>st</sup> April 2020 for severance release between 2020 and 2024. This would result in an increase in council requisition of c£1.375m to fund employee severance cost commitments, with the balance of the Board's requirement to fund inescapable employee cost pressure and severance costs met by full drawdown of the Board's unallocated reserve.
- 4.11 The following assumptions were applied:
- 4.11.1 The financial impact on future years were assessed, with indicative estimates made for the period 2021/22 – 2023/24;

- 4.11.2 The Board maintains its minimum unallocated Reserve balance of £0.180m (3%) for the period 2020 - 2024;
- 4.11.3 Local Government Finance Settlement 2019/20 included a national allocation of £2.5 million for Non-Domestic Rate Reform implementation costs, with the Scottish Government's expectation that constituent local authorities pass on their share of these amounts to the Assessor service. The estimates assume the same position will apply to 2020/21 and future years. Additional Barclay Review implementation funding from the Scottish Government for the Board is forecast to be £0.360m for 2020/21;
- 4.11.4 Following process change, the Assessor and ERO anticipates the additional cost incurred on Individual Electoral Registration (IER) will reduce from 2020/21 and be met from the Board's core budget from 2021/22. A phased reduction in cost is estimated for Options 2 and 3;
- 4.11.5 Options 2 and 3 assume a reduction in employee numbers through the Board's Transformation Programme of 19.94 Full Time Equivalent (FTE) – a reduction from 105.05 FTE to 85.11 FTE by 2023/24.
- 4.12 A financial analysis of each option is shown in Appendix 1.
- 4.13 The impact of each option on the Board's budget is summarised below. Options 1 and 2 are based on no increase in council requisition.

**Table 1: Analysis of Budget Development Options**

Option	Unallocated Reserve	FTE by 2023/24	2020/21 Requisition	Indicative Maximum Funding Shortfall
1	Reduced to minimum of £0.180m by 31/03/22	105.05	No change from 2019/20	£1.191m (in 2023/24)
2	Reduced to minimum of £0.180m by 31/03/22	85.11	No change from 2019/20	£1.036m (in 2022/23)
3	Reduced to minimum of £0.180m by 31/03/22	85.11	Increase by £1.375m	£1.375m (in 2020/21)

- 4.14 Option 1 requires no change in council requisition in 2020/21. There would be no financial benefits arising through the Board's Transformation Programme. It is estimated there would be an indicative funding shortfall of £1.191m by 2023/24.
- 4.15 Option 2 requires no change in council requisition in 2020/21. Financial benefits from the Board's Transformation Programme are estimated from 2020/21. It is estimated there would be an indicative funding shortfall of £1.036m by 2022/23.
- 4.16 Option 3 requires an increase of £1.375m in council requisition in 2020/21, due to the Code of Practice on Local Authority Accounting in the United Kingdom requirement to account for severance cost liabilities at the time contractual commitment is given to the employee. Financial benefits from the Board's Transformation Programme are estimated from 2020/21.

- 4.17 Option 1 presents a scenario where no future financial benefits will flow from the Board's Transformation Programme, resulting in an ever-increasing funding shortfall as inescapable employee cost pressures arise.
- 4.18 Option 2 permits the Transformation Programme to be progressed on a phased basis, with a planned release of staff in 2020/21 being progressed and the Assessor providing progress updates to the Board on a regular basis. Option 2 requires no increase in council requisition in 2020/21.
- 4.19 On the basis of adopting a phased approach to the Transformation Programme and the consequent effect on the indicative funding shortfall, it is recommended that the 2020/21 budget is progressed in accordance with Option 2. This approach will allow Board Members to consider progress on the Transformation Programme on a phased basis and detailed Voluntary Early Release Arrangement business cases as they are developed and progressed.
- 4.20 An analysis of change for Option 2 is shown in Appendix 2, with a cost analysis at Appendix 3.
- 4.21 Based on the analysis set out in Appendix 1, it is unlikely that the past eight years of no increase in council requisition can be sustained over the period 2021 to 2024. It is expected that details of future Local Government Finance Settlements will be provided during 2020/21, which will help to determine the future level of resources available and in turn, also enable the Assessor and ERO to determine the future staffing structure of the Service.
- 4.22 The Board's General Reserve balance is estimated to be £0.890m at 1<sup>st</sup> April 2020. The Board has approved maintaining a minimum General Reserve level of 3% of annual requisition - £0.180m. The uncommitted General Reserve balance would therefore be £0.710m.
- 4.23 Subject to Board approval, the proposed revenue budget at Option 2 assumes drawdown of unallocated General Reserve of £0.657m in 2020/21.
- 4.24 The key financial risks facing the Board are summarised in Appendix 4.
- 4.25 The Board will be provided with updates on the financial risks detailed in Appendix 4 throughout 2020/21.
- 4.26 The requisition for 2020/21 may require to be a two-stage process. Initial requisitions will be issued to constituent councils to cover the cost of the core service for 2020/21. If sufficient information is available in the Local Government Finance Settlement, the requisition will also include the additional Scottish Government funding for the costs of implementing Non-Domestic Rates Reform in 2020/21; otherwise an additional requisition for this funding will be issued at a later date and the Board advised of this requisition. Heads of Finance within the constituent councils will be notified as soon as this information is available.
- 4.27 The apportionment of the core budget 2020/21 requisition is based on the constituent councils share of GAE lines in the Scottish Government's 2019/20 Green Book. The 2020/21 figures are not currently available.

<b>COUNCIL</b>	<b>CORE REQUISITION 2020/21</b>	<b>ESTIMATED NON-DOMESTIC RATES REFORM COSTS REQUISITION</b>	<b>TOTAL REQUISITION</b>	<b>%</b>
EDINBURGH	£3,583,799	£220,917	£3,804,716	61.29%
MIDLOTHIAN	£534,441	£32,945	£567,386	9.14%
EAST LOTHIAN	£625,659	£38,568	£664,227	10.70%
WEST LOTHIAN	£1,103,382	£68,016	£1,171,398	18.87%
<b>TOTAL</b>	<b>£5,847,281</b>	<b>£360,446</b>	<b>£6,207,727</b>	<b>100.00%</b>

## **5. Background reading/external references**

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- 5.1 [Business Strategy 2020/21 – 2022/23 – report by the Assessor and ERO - Lothian Valuation Joint Board 4 November 2019](#)

## **6. Appendices**

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- 6.1 Appendix 1 – Analysis of 2020/21 Budget Options
- 6.2 Appendix 2 – Analysis of 2020/21 Budget Change
- 6.3 Appendix 3 - Revenue Budget 2020/21 – Subjective Analysis

## Appendix 1 - Analysis of 2020/21 Budget Options

Option 1 - Flat cash' council requisition. Inescapable employee cost pressure funded by drawdown from reserve	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Core	6,112	6,313	6,518	6,822
IER	204	208	212	216
Total Requisition	(5,847)	(5,847)	(5,847)	(5,847)
<b>Operating shortfall</b>	<b>468</b>	<b>673</b>	<b>882</b>	<b>1,191</b>
VR - one-off severance/pension strain	0	0	0	0
<b>NET TOTAL COSTS</b>	<b>468</b>	<b>673</b>	<b>882</b>	<b>1,191</b>
<b>Use of Reserves</b>				
IER grant carried forward	(204)	(93)	0	0
General Reserve	(264)	(445)	0	0
<b>Net Shortfall/(Surplus)</b>	<b>0</b>	<b>135</b>	<b>882</b>	<b>1,191</b>
<b>FTE at 31 March</b>	<b>105.05</b>	<b>105.05</b>	<b>105.05</b>	<b>105.05</b>
<b>Reserve Balances</b>				
General Reserve – opening balance	(890)	(538)		
IER carry forward – opening balance	(297)			
Approved Minimum Reserve Balance (3%)	180			
IER grant drawdown	204	93		
General Reserve Drawdown	265	445		
Unallocated General Reserve – closing	(538)	0	0	0
<b>Approved Minimum Reserve Balance (3%)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>

Option 2 - Phased implementation of the Board's Transformation Programme, with 'flat cash' council requisition in 2020/21	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Core	6,036	5,933	5,995	5,628
IER	109	0	0	0
Total Requisition	(5,847)	(5,847)	(5,847)	(5,847)
<b>Operating shortfall</b>	<b>298</b>	<b>86</b>	<b>148</b>	<b>(220)</b>
VR - one-off severance/pension strain	467	324	888	216
<b>NET TOTAL COSTS</b>	<b>765</b>	<b>410</b>	<b>1,036</b>	<b>(4)</b>
<b>Use of Reserves</b>				
IER grant carried forward	(109)	(188)	0	0
General Reserve	(657)	(53)	0	0
<b>Net Shortfall/(Surplus)</b>	<b>0</b>	<b>169</b>	<b>1,036</b>	<b>(4)</b>
<b>FTE at 31 March</b>	<b>98.47</b>	<b>93.93</b>	<b>96.93</b>	<b>85.11</b>
<b>Reserve Balances</b>				
General Reserve – opening balance	(890)	(241)		
IER carry forward – opening balance	(297)			
Approved Minimum Reserve Balance (3%)	180			
IER grant drawdown	109	188		
General Reserve Drawdown	657	53		
Unallocated General Reserve - closing	(241)	0	0	0
<b>Approved Minimum Reserve Balance (3%)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>

## Appendix 1 - Analysis of 2020/21 Budget Options (continued)

Option 3 - Phased implementation of the Transformation Programme, with contractual commitment to all employee severances at 1 <sup>st</sup> April 2020	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Core	6,036	5,933	5,995	5,628
IER	109	0	0	0
Total Requisition	(5,847)	(5,847)	(5,847)	(5,847)
<b>Operating shortfall</b>	<b>298</b>	<b>86</b>	<b>148</b>	<b>(220)</b>
VR - one-off severance/pension strain	1,896			
<b>NET TOTAL COSTS</b>	<b>2,194</b>	<b>86</b>	<b>148</b>	<b>(220)</b>
<b>Use of Reserves</b>				
IER grant carried forward	(109)	(86)	(102)	0
General Reserve	(710)	0	0	0
<b>Net Shortfall/(Surplus)</b>	<b>1,375</b>	<b>0</b>	<b>46</b>	<b>(220)</b>
<b>FTE at 31 March</b>	<b>98.47</b>	<b>93.93</b>	<b>96.93</b>	<b>85.11</b>
<b>Reserve Balances</b>				
General Reserve – opening balance	(890)	(188)	(102)	
IER carry forward – opening balance	(297)			
Approved Minimum Reserve Balance (3%)	180			
IER grant drawdown	109	86	102	
General Reserve Drawdown	710			
Unallocated General Reserve - closing	(188)	(102)	0	0
<b>Approved Minimum Reserve Balance (3%)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>	<b>(180)</b>



## Appendix 2 - Analysis of Budget Change – Core, Non-Domestic Rates Reform and Individual Electoral Registration

	£'000	£'000	£'000	% Change
<b>BUDGET 2019/20 (Core and Non-Domestic Rates Reform funding)</b>			<b>6,001</b>	
<b><u>1. Core Budget Movement</u></b>				
<b><u>Employee budget - annual pressures</u></b>				
Pay Award	122			
Increments / Inflation	32			
Pension rate increase	10			
NI increase	11			
Remove 3 vacant posts	(137)			
Remove 19/20 turnover factor	163			
Other growth/(reduction)	<u>(12)</u>			
		<b>189</b>		<b>3.15%</b>
Transformation Change – estimated severance costs		<b>467</b>		<b>7.78%</b>
General Reserve drawdown		<b>(656)</b>		<b>(10.93%)</b>
<b><u>2. Non-Domestic Rates Reform funding</u></b>				
Increase in Council funding per Local Government Finance Settlement			<b>206</b>	<b>3.43%</b>
<b>TOTAL CORE BUDGET MOVEMENTS</b>			<b>206</b>	<b>3.43%</b>
<b><u>3. IER Budget</u></b>				
<b><u>Employee budget - changes</u></b>				
Remove 1.58FTE canvassers	(43)			
Reduce postage/printing costs by 50%	<u>(108)</u>			
		<b>(151)</b>		<b>(2.52%)</b>
Remove Cabinet Office grant funding		<b>260</b>		<b>4.33%</b>
IER grant carry forward drawdown		<b>(109)</b>		<b>(1.82%)</b>
<b>TOTAL IER BUDGET CHANGE</b>			<b>0</b>	<b>0.00%</b>
<b>PROPOSED BUDGET 2020/21</b>			<b>6,207</b>	<b>3.43%</b>

### Appendix 3 – Core Revenue Budget 2020/21 – Subjective Analysis

Subjective analysis	Budget 2020/21
<b>Employee Costs</b>	<b>£'000</b>
Wages and Salaries	3,265
National Insurance	336
Superannuation	707
Canvassing costs	127
Early retirement pension costs	120
Estimated severance costs	467
Agency Staff (cleaning)	6
Allowances	3
Pension deficit repayment	3
<b>Premises Costs</b>	
Rents	305
Rates	116
Cleaning & Domestic Supplies	35
Energy Costs	48
Water Services	16
Building Repairs, Alterations & Maintenance	11
Premises Insurance	5
Grounds Maintenance Costs	4
<b>Transport Costs</b>	
Car Allowances	43
Staff transport costs (canvassing, surveys etc)	23
Transport Insurance	10
<b>Supplies &amp; Services</b>	
Postages, ICT and Telephony	566
Printing, Stationery & Gen Office Expenditure	87
Miscellaneous Expenses (incl. Insurance and Audit fee)	31
Legal fees	30
Equipment, Furniture & Materials	14
Training and conferences	11
Convener/Vice Convener remuneration	9
Subscriptions	2
<b>Third Party Payments</b>	
Valuation Appeals Committee fees	50
Facilities costs (security, maintenance etc)	30
Private Contractors (medical fees etc)	2
<b>Support Services</b>	
CEC support Service Level Agreement	67
<b>Income/Funding</b>	
Customer and Client Receipts	(43)
Interest on revenue balances	(3)
General Reserve Drawdown	(656)
<b>Total core services</b>	<b>5,847</b>

## Appendix 4 – Financial Risk Analysis

Risk	Detail	Mitigation
Funding for Additional costs of Non-Domestic Rates Reform	The estimate provided to the Scottish Government for additional cost for the Board is £0.360m for 2020/21. Failure to receive Scottish Government funding shall impact on the ability to deliver the required changes.	Ongoing liaison with Scottish Assessor's Association, Scottish Government and constituent councils.
Cost of Individual Electoral Registration (IER)	Following process change, the Assessor and ERO anticipates the additional cost incurred on Individual Electoral Registration (IER) will reduce from 2020/21 and be met from the Board's core budget from 2021/22. A risk remains that additional costs shall continue to be incurred following the formal introduction of the new annual canvass procedure and the removal of Cabinet Office grant funding.	Ongoing tracking of cost throughout 2020/21.
Pension deficit and annual employer pension rate contributions	A risk exists that this will change following the next actuarial valuation. The next actuarial valuation is due on 31 March 2020. The financial risk will therefore apply to the 2021/22 budget.	Ongoing review of three-year indicative budget plans.
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.	Ongoing tracking of cost throughout 2020/21.
Costs of Transformation Change	The cost of the Transformation Programme exceeding current cost estimates.	Ongoing tracking and review of cost estimates.
Economic Changes	Annual values achieved within the non-domestic property sector may fall. Should the fall be significant, this may give rise to the right of appeal against rateable values. The receipt of large volumes of appeals would have significant impact on staff resources.	Ongoing tracking of throughout 2020/21.
Council Tax Reform	Any major legislative change to Council Tax that impacted on the Board is unlikely to be managed within current budgetary provision.	Ongoing liaison with Scottish Assessor's Association and Scottish Government.