

REVENUE BUDGET 2018/19

1. Introduction

1.1 This report presents for approval, a revenue budget for 2018/19.

2. Proposed Revenue Budget 2018/19

2.1 Section 3 of the Transport (Scotland) Act requires the constituent councils of a Regional Transport Partnership to meet the net expenses of the Partnership.

2.2 A financial planning report was considered by the Partnership on 19th January 2018. Three financial planning options were identified:

- a 5% reduction of £9,500 in constituent council requisitions;
- no change in constituent council requisitions from 2017/18;
- increase constituent council requisition and progress “Intelligent Centralisation”.

2.3 The Partnership noted the financial planning assumptions being progressed and instructed further options be presented on reductions in constituent council requisition of 10% and 15%.

2.4 The Financial Planning report also noted that a paper should be brought to the first two meetings of 2018 on “Intelligent Centralisation” proposals for 2019/20 and if possible 2018/19. To date, one proposal has been received in respect of “Intelligent Centralisation”; this for modelling and appraisal work. Officers of the Partnership will provide progress updates to future meetings of the Partnership.

2.5 The Scottish Government has advised its grant will be at the same level as 2017/18 - £782,000.

2.6 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 2017. The provisional Settlement was subject to consultation until 26th January 2018 and Scottish Parliamentary approval thereafter.

2.7 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 in the provisional Settlement was around £153m, or 1.6%, of total current funding. The rate of reduction varied from council to council.

2.8 Following consultation and debate by the Scottish Parliament, a re-assessment of the total level of grant funding to councils was made, resulting in an additional £170m being introduced to the Local Government Finance Settlement. While a number of differing comparisons of the relative change in the level of Settlement can be made, receipt of these additional monies

resulted in an overall Scotland-wide year-on-year cash terms increase of about 0.1%.

- 2.9 Longer-term funding assumptions remain subject to uncertainty. There remains a considerable risk that there will be reductions in funding provided through the Scottish Block grant for 2019/20 and beyond.
- 2.10 A base revenue budget with a standstill council requisition of £190,000 has been prepared in consultation with officers of the Partnership. Revenue budget lines have been updated to take account of known cost commitments and savings.
- 2.11 Within the base revenue budget, provision is made for the following:
- An organisation structure of 8.54fte, based on the structure reported by the Partnership Director to Performance and Audit Committee on 17th February 2017. The employee budget includes continuing professional support as referred to in paragraph 2.5 of the Performance and Audit Committee report;
 - Implementation of pay grading structure to mitigate risk of Single Status (Equal Pay) challenges;
 - staff recharges to projects of £136,000;
 - pay award provision of up to 3%, seeking alignment to the Scottish Government public sector pay policy for 2018/19 - £10,249;
 - increment pay provision of up to £5,000;
 - 0.5% increase in employers' pension fund contribution rate, following Lothian Pension Fund actuarial review at 31st March 2017.
- 2.12 A detailed analysis of the base core revenue budget for 2018/19 is shown in Appendix 1, with the base projects budget detailed in Appendix 2.
- 2.13 As instructed by the Partnership at its meeting on 19th January 2018, in addition to the previously identified reduction of 5%, options to achieve reductions of 10% and 15% in council requisitions have been developed in consultation with the Partnership's Head of Programmes.
- 2.14 A 5% reduction in council requisitions is £9,500. It is now anticipated a reduction of £9,500 can be achieved through re-negotiation of the existing contract with Ineo Systrans to host and maintain the server to support Real Time Passenger Information. This follows First East Scotland Limited's move towards 'Ticketer' technology. It is expected that the cost of maintaining the system will reduce and this will be subject to negotiation with Ineo Systrans. There is no change anticipated for users of Real Time Passenger Information.
- 2.15 A 10% reduction in council requisitions is £19,000. It is anticipated a reduction of £19,000 could be achieved through re-negotiation of the existing contract with Ineo Systrans to host and maintain the server to support Real Time Passenger Information, as described at paragraph 2.14. As the contract is subject to re-negotiation, however, a risk remains as to the achievement of the full value of the increased saving. To mitigate this risk, other contract re-procurement opportunities and savings will be developed. Only if it is not possible to realise the full value of the saving through contract re-procurement will alternative mitigating savings be identified to the Partnership during 2018/19 for approval.

- 2.16 A 15% reduction in council requisitions is £27,500. In addition to the contract savings of £19,000 identified at paragraph 2.15, this saving would require a further saving of £9,500, which would be achieved through a reduction in Sustainable Travel expenditure. This would be achieved through a reduction in match funding for Sustainable Travel projects led by constituent councils, universities and colleges and Police Scotland.
- 2.17 At the meeting of SEStran Chief Officers on 15th February 2018, Chief Officers noted the budget options presented and expressed preference for a standstill requisition or at most a 5% reduction, to mitigate potential impacts on progressing the Active Travel agenda.
- 2.18 For the base 2018/19 revenue budget, external income of £281,000 is anticipated to fund 22.4% of proposed expenditure. Scottish Government grant funding would meet 62.4% of proposed expenditure with council contributions funding 15.2% of expenditure. The table below shows the profile of the Partnership's expenditure and income since 2011/12.

SEStran Budget 2011/12 – 2018/19

| | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Core | 467 | 461 | 463 | 465 | 550 | 551 | 478 | 531 |
| Projects | 791 | 709 | 504 | 1,076 | 2,384 | 725 | 510 | 614 |
| RTPI | 110 | 117 | 222 | 286 | 230 | 344 | 339 | 108 |
| Total Budget | 1,368 | 1,287 | 1,189 | 1,827 | 3,164 | 1,620 | 1,327 | 1,253 |
| External Funding | | | | | | | | |
| EU Grants | 313 | 245 | 146 | 233 | 131 | 152 | 95 | 139 |
| Other income | 48 | 60 | 61 | 266 | 1,051 | 486 | 260 | 142 |
| Bus Investment Fund | | | | 346 | 1,000 | 0 | 0 | 0 |
| Total External Funding | 361 | 305 | 207 | 845 | 2,182 | 638 | 355 | 281 |
| Scottish Government | 782 | 782 | 782 | 782 | 782 | 782 | 782 | 782 |
| Council Requisition | 225 | 200 | 200 | 200 | 200 | 200 | 190 | 190 |
| Total Funding | 1,368 | 1,287 | 1,189 | 1,827 | 3,164 | 1,620 | 1,327 | 1,253 |

- 2.19 Risk and contingency planning has been considered as part of the budget development process. A risk assessment is included at Appendix 3.
- 2.20 Under the Transport (Scotland) Act 2005, the Partnership does not have an explicit power to maintain an unallocated general fund reserve, meaning the net expenses of the Partnership can only be funded from grant and requisition income available in each financial year.
- 2.21 Elsewhere on this agenda, the Partnership will be provided with a Standard's Officer Update. There may be potential financial risk to the Partnership budget arising. It is therefore recommended that a 'stand-still requisition' is approved.

- 2.22 If the Partnership seeks to approve a reduction in constituent council requisition, it is recommended that the reduction element of the requisition is held in a contingency by the Partnership, during ongoing assessment of potential financial risks. A refund of requisition will be made in line with the decision of the Partnership once potential financial risks in the 2018/19 revenue budget are fully mitigated or discharged.
- 2.23 All income and expenditure of the Partnership will continue to be monitored closely during 2018/19. If it becomes necessary to transfer funds between headings within the approved revenue budget to meet unanticipated costs in 2018/19, this will be reported as part of the quarterly Financial Performance report presented to each meeting of the Partnership during 2018/19.

3. Revenue Budget - 2019/20 and Later Years

- 3.1 The proposed revenue budget is for the financial year 2018/19 only. Longer-term funding assumptions remain subject to uncertainty. There remains a considerable risk that there will be reductions in funding provided through the Scottish Block grant for 2019/20 and beyond.
- 3.2 Public sector financial resource forecasts will be tracked throughout 2018 and a revenue budget proposal for 2019/20 will be developed for consideration by the Partnership in the autumn of 2018.
- 3.3 Proposals for any “Intelligent Centralisation” of services to deliver financial benefits for 2019/20 and if possible, 2018/19 will continue to be explored with lead transport officials of constituent councils.

4. Recommendations

It is recommended that the Partnership:

- 4.1 note the baseline revenue budget developed for 2018/19, as detailed in Appendices 1 and 2;
- 4.2 note the savings option proposed at paragraph 2.14 to achieve a 5% reduction in constituent councils’ requisition;
- 4.3 note the savings option proposed at paragraph 2.15 to achieve a 10% reduction in constituent councils’ requisition;
- 4.4 note the savings option proposed at paragraph 2.16 to achieve a further 5% reduction leading to a 15% reduction overall in requisition;
- 4.5 approve a core revenue and projects budget for 2018/19 based on a standstill constituent council requisition of £190,000 **or**;
- 4.6 if the Partnership wishes a reduction in constituent council requisitions, to approve either:
- 4.6.1 a 5% reduction in constituent council requisition to £180,500 following a reduction in contract costs; **or**

- 4.6.2 a 10% reduction in constituent council requisition to £171,000 following an increased reduction in contract costs; **or**
- 4.6.3 a 15% reduction in constituent council requisition to £161,500, following a reduction of £19,000 in contract costs and a further £9,500 in Sustainable Travel expenditure.

4.7 Based on the level of requisition approved at either paragraph 4.5 or 4.6, instruct the Treasurer to requisition constituent councils for the relevant amount detailed below:

| Council Note ¹ | 'Stand-still' requisition | Option 1 - 5% reduction in requisition | Option 2 - 10% reduction in requisition | Option 3 - 15% reduction in requisition |
|-------------------------------------|--|---|--|--|
| Clackmannanshire | £6,192 | £5,883 | £5,573 | £5,263 |
| East Lothian | £12,552 | £11,925 | £11,297 | £10,669 |
| Edinburgh | £61,160 | £58,102 | £55,044 | £51,986 |
| Falkirk | £19,220 | £18,259 | £17,298 | £16,337 |
| Fife | £44,658 | £42,425 | £40,192 | £37,959 |
| Midlothian | £10,685 | £10,151 | £9,617 | £9,083 |
| Scottish Borders | £13,811 | £13,121 | £12,430 | £11,739 |
| West Lothian | £21,722 | £20,636 | £19,550 | £18,464 |
| Total | £190,000 | £180,500 | £171,000 | £161,500 |

- 4.8 approve that any reduction from a 'Stand-still' requisition be held in a contingency by the Partnership, during ongoing assessment of potential financial risks. A refund of constituent council requisition will be made in line with the decision of the Partnership in accordance with the relevant amount detailed in the table at paragraph 4.7, once financial risks in the 2018/19 revenue budget are fully mitigated or discharged;
- 4.9 note that financial planning for 2019/20 will be developed throughout 2018 for consideration by the Partnership in autumn 2018;
- 4.10 note that the proposed budget is subject to a number of risks and that all income and expenditure of the Partnership will continue to be monitored closely. If it becomes necessary to transfer funds between headings within the approved revenue budget to meet unanticipated costs in 2018/19, this will be reported as part of the quarterly Financial Performance report presented to each meeting of the Partnership during 2018/19.

5. Background Reading/External References

[Financial Planning 2018/19: Partnership Board, 19 January 2018](#)

[Partnership Staffing Update: Performance and Audit Committee, 17 February 2017](#)

¹ Council requisitions are split according to National Records of Scotland Mid-Year population estimates 2016

Appendices Appendix 1 – Base Core Revenue Budget 2018/19
Appendix 2 – Base Revenue Projects Budget 2018/19
Appendix 3 – Risk Assessment

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| | |
|-----------------------------|--|
| Policy Implications | There are no policy implications arising as a result of this report. |
| Financial Implications | There are no financial implications arising. |
| Equalities Implications | There are no equalities implications arising as a result of this report. |
| Climate Change Implications | There are no climate change implications arising as a result of this report. |

Base Core Revenue Budget 2018/19

Appendix 1

| | Approved 2017/18 | Base 2018/19 | Cost Commitments |
|---|-----------------------------|-------------------------|---|
| | £000 | £000 | |
| Employee Costs | | | |
| Salaries, National Insurance and Pension Fund | 381 | 444 | 8.54 FTE permanent employees |
| | | | |
| Premises Costs | 16 | 16 | Lease for office in Victoria Quay and related costs. |
| | | | |
| Staff Travel | 9 | 9 | |
| | | | |
| Supplies and Services | | | |
| Marketing | 20 | 20 | £10,000 Car Share/£10,000 general marketing and sustainable travel |
| Communications & Computing | 37 | 37 | |
| Hosted Service – Routewise | 53 | 53 | £50,000 saving per annum in total to participating constituent councils |
| Printing/Stationery/Supplies | 10 | 7 | |
| Insurance | 4 | 4 | Employer/employee liability insurance |
| Equipment/Furniture/Materials | 1 | 1 | |
| Training/Conferences | 10 | 10 | |
| Interview Expenses/Advertising | 2 | 2 | |
| Miscellaneous Expenses | 11 | 6 | |
| | | | |

Base Core Revenue Budget 2018/19 (continued)

Appendix 1

| | Approved 2017/18 | Base 2018/19 | Cost Commitments |
|---------------------------------|-----------------------------|-------------------------|--|
| | £'000 | £'000 | |
| Support Services | | | |
| Finance | 25 | 25 | Per Service Level Agreement with City of Edinburgh Council. Preparation of statutory annual accounts, payment of payroll and invoices, debt recovery, banking and cash management, budget preparation, Internal Audit. |
| Legal Services / HR | 7 | 7 | Per contractual agreements with the Partnership's external legal provider and Falkirk Council HR service. |
| | | | |
| Corporate and Democratic | | | |
| Clerks Fees | 15 | 15 | Per Service Level Agreement with City of Edinburgh Council. |
| External Audit Fees | 10 | 10 | |
| Members Expenses | 3 | 1 | Non-Council Members expenses – Partnership meetings. |
| | | | |
| Interest | 1 | 0 | Net cost of borrowing per Partnership's Treasury Management Strategy. |
| | | | |
| Funding | | | |
| Recharges: | | | |
| • EU Projects | (117) | (136) | Recovery of employee costs – Social Car, Share-north, Regio-mob, Surflogh projects. |
| • Sustainable Transport | (20) | 0 | |
| Scottish Government Grant | (288) | (341) | |
| | | | |
| Net Core Expenditure | 190 | 190 | To be met by constituent councils |

Base Project Budget 2018/19

Appendix 2

| | Approved 2017/18 | Base 2018/19 | EU /Other Grant | Net Expenditure | Cost Commitments |
|--------------------------|---------------------|-----------------|--------------------|--------------------|---|
| | £'000 | £'000 | £'000 | £'000 | |
| EU Projects | | | | | |
| Social Car | 0 | 4 | (4) | 0 | EU grant funded project |
| Share-north | 20 | 60 | (30) | 30 | EU grant funded project |
| Regio-mob | 5 | 65 | (55) | 10 | EU grant funded project |
| Surflogh | 0 | 100 | (50) | 50 | EU grant funded project |
| Total | 25 | 229 | (139) | 90 | |
| RTPI | | | | | |
| Maintenance | 226 | 108 | | 108 | First East Scotland Ltd moving to 'Ticketer' technology, with a server required to link operators to Traveline and Real Time Passenger Information system (RTPI). |
| Expansion | 113 | 0 | | 0 | First East Scotland Ltd moving to 'Ticketer' technology. |
| Bus Operators income | (160) | | (42) | (42) | Reduction follows First East Scotland Ltd move to 'Ticketer' technology. |
| Total – RTPI | 179 | 108 | (42) | 66 | |
| Sustainable Travel | 190 | 243 | | 243 | Provision of match funding to constituent councils, universities and colleges, Police Scotland |
| South Tay Park and Ride | 10 | 0 | | 0 | Agreement with TACtran complete. |
| Urban Cycle Networks | 20 | 132 | (100) | 32 | Contractually committed on a year to year basis. Includes funding for Cycling Officer. |
| Equalities Action Forum | 10 | 10 | | 10 | Funding for the Equalities Action Forum is included to fund a minimal level of actions identified by the Forum. |
| Research and Development | 50 | 0 | | 0 | Funding for Rail/Bus Advice, SDP/LDP and RTS Monitoring transferred to Sustainable Travel. |
| Total | 484 | 722 | (281) | 441 | |

Risk Assessment

| Risk Description | Existing Controls |
|--|--|
| Pay awards. The proposed budget assumes provision for a pay award of up to 3% in 2018/19, which is based on alignment with the Scottish Government's public sector pay policy for 2018/19. A 1% increase in pay award uplift equates to an increase in cost of approximately £3,400. | Alignment with Scottish Government Public Sector Pay Policy. |
| The proposed budget does not adequately cover price inflation. | Allowance has been made for specific price inflation and other budgets have been adjusted in line with current demand / forecasts. |
| The deficit on the staff pension fund could lead to increases in the employer's pension contribution. | The Partnership continues to benefit from Lothian Pension Fund's contribution stability mechanism as part of the Fund's strategy to manage potential volatility in employer contribution rates. Following Lothian Pension Fund's Triennial Actuarial Review 2017, proposed Partnership contribution rates are advised until 2020/21. |
| Following the outcome of the EU Referendum, the Partnership is unable to access EU funding. | The Partnership continues to seek alternative funding sources to progress knowledge exchange/transfer and to seek to successfully bid for EU projects following the United Kingdom serving notice under Article 50. |
| Delays in payment of grant by the EU results in additional short-term borrowing costs. | SEStran grant claims for EU funded projects are submitted in compliance with requirements of EU control processes to ensure minimal delay in receipt of payment. Ongoing monitoring of cash flow is undertaken to manage exposure to additional short-term borrowing costs. |
| Current staffing levels cannot be maintained due to funding constraints and the Partnership incurs staff release costs. | The Partnership Director continues to seek additional sources of funding for activities aligned to the Partnership's objectives to supplement resources. |
| Residual financial risk in 2018/19 revenue budget. | Regular monitoring of risks, with action taken by Partnership officers to develop alternative savings measures, including options for development of contingency arrangements, if required and subject to approval by the Partnership. |
| Approved savings options are not delivered. | Regular monitoring of savings implementation, with action taken by Partnership officers to develop alternative measures, if required for approval by the Partnership. |