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**REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 1 NOVEMBER 2019**

**SUBJECT: FINANCIAL PLANNING FOR 2020/21 AND FUTURE YEARS**

**BY: TREASURER TO THE BOARD**

**1. REASON FOR REPORT**

- 1.1 To consider different scenarios that will form the three year Revenue Budget from 2020/21 onwards and to discuss the operational issues facing the Assessor & Electoral Registration Officer (ERO) in the medium to long term.

**2 RECOMMENDATION**

- 2.1 It is recommended that the Board considers and notes the:

- (i) Three year core budget from 2020/21;
- (ii) Various scenarios where the outturn is unpredictable, and the range of upper and lower limits;
- (iii) Operational issues facing the service; and
- (iv) Course of action to be taken ahead of the budget setting meeting in February 2020.

**3. BACKGROUND**

- 3.1 The main issues for the Assessor's service to be addressed in setting the budget are:

- Increased duties and workload for the services arising from implementation of the Barclay review of Non Domestic Rates;
- Level of staff turnover/challenges in recruiting and retaining staff
- Financial uncertainty in key areas, particularly salaries, accommodation and government funding of Individual Electoral Registration
- The current political climate where a snap election and/or referendum are possible.

- 3.2 The Annual Audit Plan 2018/19 was presented to the Board at the meeting on 1 February 2019 by the external auditors to the Board; Audit Scotland. The Plan highlighted the risk of the service not planning for various scenarios, especially when there are so many indefinite variables behind the statutory functions of the service. Medium to long term financial planning for the Assessor's service requires to be developed, taking the emerging issues to the fore and deciding all possible scenarios. Board members should decide which of these should be built into the budget, whilst remaining aware that the nature of the service can have unforeseen pressures.
- 3.3 This report aims to look at different scenarios, using a range of possible outcomes and the impact this has on the budget, and thus requisitions from the three constituent authorities. This will give Board members some key points for discussion and offers the flexibility to create contingency plans. Some of these scenarios will have a financial impact that can be quantified; however other potential issues affecting the service can't be measured so easily.
- 3.4 Appendix 1 shows the core budget for each of the three years ahead, with a separate column for the previously approved NDR reforms budget.

#### **4. CURRENT POSITION**

##### **Non-Domestic Rates Reform**

- 4.1 The budget report in January reported on the impending changes following the Barclay review of the Non-Domestic Rates (NDR) system in Scotland. The Scottish Government decided on three main reforms, two of which have significant implications for the Assessors. The move to a three yearly revaluation cycle from a five year cycle, and the need to resolve all revaluation appeals within the same timeframe has a significant operational impact. As previously explained, the Assessor proposed to recruit undergraduates on a temporary basis in 2019/20 with a view to offering them full time employment from 2020/21. As such, salary costs increments as well as pay awards increase year on year. However, take-up of this opportunity has been disappointing and the Assessor is considering alternative strategies to address the expertise requirements for implementation of the NDR reforms. Additional IT and portal development work will also be required to meet the additional demands for wider and more detailed provision of valuation information along with the anticipated new powers to serve Assessor Information Notices and the resultant operation and administration of a civil penalty regime that are all elements of the new three year revaluation cycle. These figures have been shown in Appendix 1, separate from the core budget.

#### **5. SCENARIOS – optimistic, worst case and mid-point**

The main cost driver for the service is salary and associated costs.

## **Salaries and Recruitment**

- 5.1 The 2019/20 budget for salaries, including on costs, makes up almost 77% of the net expenditure budget of the service. The service is reliant on recruiting and retaining professionals in order to carry out its statutory functions. It is frequently reported that the recruitment of staff and staff turnover is an issue for the service. Due to the competitive nature of salaries in the private sector, it is susceptible to carrying vacancies unfilled for long periods with the attendant negative impact on the in-post employees.
- 5.2 A three year pay award was agreed by COSLA from 2018/19, and the budgeted figures have been updated for 2019/20 and 2020/21. The scenarios for the subsequent two years are shown below, along with the impact on the budget. These figures exclude the NDR posts which are additional posts, explained in paragraph 4.1.

<b>Scenario</b>	<b>Impact on 2021/22 Budget £000</b>	<b>Impact on 2022/23 Budget £000</b>
1% pay award	51	50
2% pay award	85	89
3% pay award	113	123
5% pay award	177	199

The mid-point 3% pay award has been included in Appendix 1 core budget.

- 5.3 Recruitment and vacancy adjustment has been taken from the budget figures
- 5.4 Work is ongoing with the Energy Savings Trust to review the service's grey fleet and as such is not at the reporting stage as of yet.

## **Accommodation**

- 5.5 Moray Council are currently investigating works at the Elgin Office situated on High Street which is shared with the Assessor. There is possibly a boiler replacement to be carried out, insulation works and the heating and ventilation system to be replaced. Along with general redecoration of the premises, the service will have to pay for its share of the costs. At this time there has been no consultation with the Assessor over potential costs. The purpose built Banff office is in need of general decoration, both internal and external, along with some minor structural alterations to increase the capacity for the premises to accommodate disaster recovery IT servers. When quotes are available the Assessor will update.
- 5.6 The office accommodation occupied in Woodhill House is leased out on a ten year basis at £125,000 per annum for rental and service charge of £70,000. There is also expenditure for NDR, water charges, insurance and extraordinary repairs and maintenance. There has been discussion lately that the Assessors

might be moved within the premises to a smaller location, which should mean reduced costs. At the time of this report the latest decision is not known, and so it is proposed to leave the core budget with the existing budgets in place for the next three years. Insurance savings have been confirmed and are reflected in the budget. Any move would require careful planning to permit continuous service delivery and minimise disruption to the service

### **IT and Procurement**

- 5.7 The Procurement Action Plan (PAP) that has been drawn up by the Moray Council Procurement team and the Assessor has identified an estimated contracted spend by the service of around £300,000 per annum, calculated on the basis of past expenditure. Priorities have been set for the coming year and savings have already been achieved in insurance. The IT category is undergoing more detailed assessment, but at this juncture the potential for savings in this budget are to be clarified.
- 5.8 Some IT contracts are purchased in US Dollars, and the impact of exchange rate fluctuations could have an effect on the expenditure. These are a small amount compared to the value of contracts in Sterling, circa 2%, so any change in exchange rates would not have a significant impact.

### **Unplanned Election and Referendum**

- 5.9 The postage budget was reduced this year to £220,000, after looking at trends in postage costs in recent years. In a 'normal' year, i.e. with no election or referendum, the bulk of mailings are Household Enquiry Forms and Invitations to Register, and the total expenditure is expected around £200,000. When an election or referendum is planned, the service would attempt to build this into the financial planning and anticipate the additional budget requirement, along with any other additional costs such as overtime.
- 5.10 With the current political climate, the possibility of an unplanned election is real, putting additional pressure on the resources of the service, and an increase in expenditure. The table below shows the scenarios for such eventualities, and the impact on a £200,000 base budget. An optimistic scenario would be to budget for the base budget of £200,000, meaning a reduction to the 2019/20 budget of £20,000. The mid-point is the current budget position, with no further reduction next year. The third and fourth scenarios are where an election and/or referendum are called at short notice. Broadly speaking an election will generate outgoing mail of between 20,000 and 40,000 items, depending on the type of election, and the overtime would start at £20,000 to £30,000, increasing by two or three times for a major UK Parliamentary election. A referendum would also generate high outgoings of mail, and an Independence Referendum could potentially see overtime as high as £100,000. The core budget in Appendix 1 includes the optimistic budget. This leaves an expectation that the service would have to cope with any spend in excess of this from the general fund.

Scenario	Impact on 2020/21	Impact on 2021/22	Impact on 2022/23
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	<b>Budget £000</b>	<b>Budget £000</b>	<b>Budget £000</b>
Optimistic	(20,000)	(20,000)	(20,000)
Current	0	0	0
UK Election			
- Postage	8,000 - 16,000	8,000 - 16,000	8,000 - 16,000
- Overtime	20,000 - 30,000	20,000 - 30,000	20,000 - 30,000
Referendum			
- Postage	20,000	20,000	20,000
- Overtime	Up to 100,000	Up to 100,000	Up to 100,000

## **Income**

### 5.11 Income IER grant funding

<b>Scenario</b>	<b>Impact on 2020/21 Budget £000</b>	<b>Impact on 2021/22 Budget £000</b>	<b>Impact on 2022/23 Budget £000</b>
Low	0	0	0
Mid-point			
Optimistic	150,000	150,000	150,000

## **6. General Fund**

- 6.1 The General Fund provides the Assessor with the flexibility to investigate and implement any future “Spend to save” projects where one-off expenditure is required in order to deliver future budget savings. The reserve would allow the Assessor to re-invest savings generated by efficiencies and could also be used as a contingency to meet unforeseen costs and assist financial planning by enabling limited budget flexibility between financial years. This limited flexibility may prove invaluable over the next year or so now that the phase of IER is complete and is expected to be incorporated into the day to day business of the service. There is no assurance of how additional costs resulting from the implementation of IER will be funded in the future.
- 6.2 It was agreed by the Board at its meeting on 28 January 2011 (paragraph 4 of the Minute refers) that transfers to the General Fund would be restricted to 3% of the total budget in any one year and that the cumulative balance of the fund would not exceed 5% of the total budget.
- 6.3 The balance of the General Fund at 31 March 2019 was £215,000.
- 6.4 The estimated outturn for 2019/20 is an underspend of £245,000 which would increase the General Fund by £8,000 to £223,000 at 31 March 2020, the maximum permitted. The remaining surplus would be refunded to constituent authorities on approval of the audited accounts.

## **7. Risks**

- 7.1 Accommodating the professional teams that provide the valuation and registration services along with provision of secure and resilient IT facilities is a key aspect of service delivery. The multi-centre approach with low cost devolved centres in Banff and Elgin and a strategy of reducing the more costly floorplate in Aberdeen seeks to maximise resilience, efficiency and benefit from a workforce drawn from the entire Grampian area and beyond. The lack of a capital fund means that the revenue budget may be called upon for capital expenditure items.
- 7.2 Two of the three statutory service strands delivered by the Assessor and the ERO are subject to high levels of uncertainty through active reform agendas being pursued in Westminster and Holyrood. The Non-Domestic Rates (Scotland) Bill is currently at stage 2 in Holyrood and secondary legislation that will have a major bearing on the service with effect from 1 April 2020 has yet to be drafted. The Scottish Elections (Franchise and Representation) Bill, Referendums (Scotland) Bill and Scottish Elections (Reform) Bill are all in Committee stages in the Scottish Parliament and will impact significantly on the registration service. Similarly the UK Government has just laid the Representation of the People (Annual Canvass) (Amendment) Regulations 2019 in draft and similar provisions will be required in Holyrood. A further dimension was added by way of the Queen's address to Parliament on 14 October 2019 that announced the UK Government's new electoral integrity measures that will require the registration service to renew postal voting arrangements on a three year cycle. All of these legislative measures will impact on the service and represent risks to service delivery that the Assessor and ERO must meet.
- 7.3 Finally, one recurring risk that is embedded in the current and future systems of non-domestic property valuation is the reactive nature of the appeals system. As reported on a regular basis by the Assessor in the last year, appeal volumes are at a record level and the rate of disposal, direction and level of challenge and thus demand placed on the service and the attendant costs on the service, and those of the Valuation Appeal Panel must be met by the valuation authority. As these are largely determined by external stakeholders, the capacity to implement mitigation measures is extremely limited.

## **8. Conclusion**

- 8.1 **Preparing the scenarios for the proposed three year Revenue Budget from 2020/21 has been a challenging task, trying to balance the increasing demands placed upon the service against the operational pressures and financial constraints imposed on the public sector.**
- 8.2 **The Assessor has proposed savings where possible, and will continue to look for efficiencies and savings in the budget. Given the current political climate, operational priorities can change rapidly and have vast impact on expenditures, as the scenarios show. The Assessor will manage the service, including the resources required to maintain IER and new**

**burdens on the service with NDR reforms, within the current budget and if necessary, the flexibility afforded by the General Fund balance.**

Author of Report:

Background papers: Held within Accountancy Section, Moray Council