



REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 20 MARCH 2020

SUBJECT: REVENUE BUDGET FOR 2020/21 AND FUTURE YEARS

BY: TREASURER TO THE BOARD

1. REASON FOR REPORT

- 1.1 To consider the three year Revenue Budget from 2020/21 and to agree the requisitions to the three constituent authorities.

2. RECOMMENDATION

2.1 It is recommended that the Board approves the:

- (i) three year budget from 2020/21;**
- (ii) requisitions to the constituent authorities to be set at £4,703,000 as detailed in the table at paragraph 6.2; and**
- (iii) minimum General Fund balance of 2.5% of estimated annual net expenditure.**

2.2 It is recommended that the Board notes the:

- (i) various scenarios where the outturn is unpredictable and the operational issues facing the service; and**
- (ii) requirement for a Repairs and Renewals Fund as an earmarked reserve to provide for the upkeep of accommodation, to be discussed in future reports as certainty develops around accommodation.**

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 Non Domestic Rates (Scotland) Bill;

- Level of staff turnover/challenges in recruiting and retaining staff
 - Key areas of financial uncertainty; in particular, accommodation and government funding of Individual Electoral Registration
- 3.2 Emerging issues for the medium term include accommodation costs, with repairs and maintenance considered necessary at the Elgin and Banff offices. No provisions for these have been made in the 2020/21 budget at this stage, until costs have been obtained.
- 3.3 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.
- 3.4 At the Board meeting on 1 November 2019, a report was presented including a draft three year core budget from 2020/21 for discussion, with a separate column for the NDR reforms budget. The report outlined various scenarios for budget areas where the financial implication is not certain, using a range of upper and lower limits in each case, with the recommended scenario built into the draft budget. The scenarios included salaries and recruitment, accommodation, IT and procurement, and the occurrence of an unplanned election and/or referendum.

4 CURRENT POSITION

Non-Domestic Rates Reform

- 4.1 The Non Domestic Rates (Scotland) Bill was introduced in the Scottish Parliament in March 2019, with an amended version of the Bill being published in December 2019 following Stage 2 amendments. Stage 3 is due to take place in February 2020. There are 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. These changes have a significant operational impact on the service.
- 4.2 Funding to cover the cost of implementing NDR reform was included in the local government settlement for 2019/20 and is expected to be included for 2020/21 onwards. These figures have been shown in APPENDIX 1, alongside the core budget, to distinguish between movements in the current core budget from proposed increases resulting from additional duties from the reform of NDR.
- 4.3 The Assessor intended to recruit undergraduates on a temporary basis in 2019/20 with a view to offering them full time employment from 2020/21. These

salary costs have been included in the NDR reform budget. As previously reported, take up of this opportunity has been disappointing and the Assessor is considering alternative strategies to address the expertise requirements for successful implementation of the NDR reforms. Additional IT and portal development work is also required and there will be ongoing costs to meet the additional demands.

- 4.4 The NDR reform budget reported in November 2019 has been increased by £27,000 up to £364,000. APPENDIX 1 shows the revised budget, which has been adjusted to include annual civil penalty system costs in 2020/21.

Salaries and Recruitment

- 4.5 Salaries, including on costs, make up on average 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 is an issue for the service, and a temporary resolution to covering some vacancies has been the secondment of personnel from other posts. However this results in the substantive post then being unfilled, which is not workable in the long term. Recruitment is continuing to prove difficult due to the competitive salaries available in the private sector.
- 4.6 The 2020/21 employee costs budget includes the pay award of 3% agreed by COSLA. The subsequent two years were budgeted at various scenarios, with a 3% pay award being selected and included in the core budget in APPENDIX 1.
- 4.7 A 5% recruitment and vacancy adjustment has been taken from the budget figures, to incorporate an average level of vacancies and the interval that arises between filling posts. This has been reviewed with Senior Management and has been increased since the report in November.

Accommodation

- 4.8 As reported in November, Moray Council is currently investigating works at the Elgin Office situated on High Street which is shared with the Assessor. At this time there has been no consultation with the Assessor over potential costs. The office is also in need of general repairs and maintenance, including decoration, for which costs are currently being sought. The Banff office is also 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.
- 4.9 One option for funding these works, and future property maintenance costs, is to set up a Repairs and Renewal Fund, which would be an earmarked usable reserve that provides for the upkeep of office accommodation, rather than overspending when incurring unplanned expenditure.
- 4.10 Discussions are still ongoing regarding the Woodhill House reconfiguration with a view to reducing office space and thus costs, although one off costs of furniture and IT may be incurred to achieve this. The core budget includes

existing budgets in place for the next three years. Insurance savings have been confirmed and are reflected in the budget. As matters progress they will be reported separately to the Board with full cost implications.

IT and Procurement

- 4.11 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.

Unplanned Election and Referendum

- 4.12 The postage budget was previously reduced in 2019/20 to £220,000. The scenarios considered in November for the postage budget looked at trends in recent years, specifically quantifying the increase in outgoing mail, and the amount of staff overtime involved during an election period.
- 4.13 The core budget in APPENDIX 1 includes the optimistic budget at £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. This leaves an expectation that the service would have to cope with any spend in excess of this, for an unplanned election or referendum, from the general fund.

Income

- 4.14 The Cabinet Office has given the Board £1,259,000 of funding for the implementation of Individual Electoral Registration (IER) since 2014/15. The Cabinet Office previously indicated that funding would be made available until 2019/20. As no confirmation has been given for any funding allocation beyond 2019/10 it is prudent to assume a nil level of funding going forward, but the staff are still essential to maintain the IER requirements, as required by legislation. This is reflected in the APPENDIX.

Funded from Reserves

- 4.15 The latest 2019/20 Revenue Monitoring report to 31 December 2019 indicates an estimated underspend of £212,000. If the final outturn is an underspend, any surplus goes to the General Fund up to the permitted limit of £223,000, with the balance being refunded to the constituent authorities.
- 4.16 Given the ongoing financial pressures on Councils, in order to ensure no overall increase in the core budget to be requisitioned from constituent authorities, it is proposed that the sum of £130,000 is used from the General Fund to balance the 2020/21 Revenue budget.

5. 2020/21 REVENUE BUDGET PROPOSALS

- 5.1 The proposed 2020/21 Revenue Budget is shown in APPENDIX 1. The proposed budget is an increase of £370,000 (8.3%) from 2019/20, of which £105,000 is an increase in the core budget, and £265,000 for the NDR reform budget, as detailed above in paragraphs 4.1 to 4.4. The total net increase is summarised below, and is separated into core budgets that are controlled by the Board, loss of grant income, and the additional budget for the NDR Reform requirements.

Budget movements 2020/21	£000s
Impact on core budget	
<u>Increases</u>	
Staffing budget – pay awards	90
Property costs	9
Other increases	3
<u>Decreases</u>	
Staffing budget - vacancy management, staff advertising	(106)
Postages	(20)
Other decreases	(1)
Net decrease in core budget	(25)
Budgets not controlled by the Board	
Loss of IER income budget	130
Net increase in budget prior to NDR Reform	105
NDR reform - additional staffing	261
NDR reform – IT and portal costs	4
Total increase in budget from 2019/20 to 2020/21	370

6. REQUISITIONS

- 6.1 The table below shows the requisition for each constituent authority, in order to fund the Board's revenue budget for 2020/21 of £4,703,000.
- 6.2 The constituent authorities have previously agreed that expenditure by the Board should be apportioned between authorities pro rata to the population figures for each council. The population figures used are the latest published by the National Records of Scotland in their Mid-Year Population Estimates, for mid-2018.

	Population	Requisition %	Proposed Requisition 2020/21 £	Requisition 2019/20 £	Increase on 2019/20 Requisition %
Aberdeen City	227,560	38.93	1,830,878	1,741,463	5.1%
Aberdeenshire	261,470	44.73	2,103,652	1,992,730	5.6%
Moray	95,520	16.34	768,470	728,807	5.4%
Total	584,550	100.00	4,703,000	4,463,000	5.4%

6.3 The proposed requisitions of £4,703,000 have decreased from the draft requisitions in November, which totalled £4,880,000.

7. GENERAL FUND

7.1 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.

7.2 The balance of the General Fund at 31 March 2019 was £215,000.

7.3 The estimated outturn for 2019/20 is an underspend of £212,000, of which £8,000 would increase General Fund to £223,000, the maximum permitted, at 31 March 2020. The remaining surplus would be refunded to constituent authorities on approval of the audited accounts.

7.4 The proposal to create an NDR Reform Reserve has been presented to this Board at this meeting, in the Revenue Monitoring Statement for the period 1 April to 31 December 2019. The earmarked reserve would cover slippage across the financial years. Any balance on this reserve, when NDR reform is fully implemented, would be returned to the constituent authorities.

7.5 Going forward we would seek to create a Repairs and Renewals Fund as an earmarked reserve to provide for the upkeep of accommodation. This will be discussed with the Board at a future date, as certainty develops around accommodation.

8. RISKS

8.1 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. There are emerging budget pressures relating to accommodation repairs and maintenance, which will be reported on as they crystallise.

- 8.2 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 whilst the UK Government has the Representation of the People (Annual Canvass) (Amendment) Regulations 2019 in place, similar provisions have yet to be made in Holyrood. Provisions are also anticipated requiring the registration service to renew postal voting arrangements on a three year cycle as opposed to the existing five 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.
- 8.3 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.
- 8.4 Finally, it is considered that a minimum General Fund balance should be maintained, at 2.5% of the annual net expenditure. This level would be an adequate level to cover the costs of one unexpected electoral event. Taking into account the risk profile of the Joint Board, using reserves to fund core revenue budget will lead to an increased risk of future obligations being funded from reserves.

9. CONCLUSION

- 9.1 **Preparing the proposed Revenue Budget for 2020/21 has been a challenging task, trying to balance the increasing demands made upon the service against the financial constraints imposed on the public sector.**
- 9.2 **The Assessor has proposed savings where possible and, by looking staffing resources and trends, has increased the vacancy management factor within the core staffing budget. They will continue to look for efficiencies and savings in the budget.**
- 9.3 **The Assessor will manage the service, including the resources required to maintain IER and new burdens on the service with NDR reforms, within the proposed budget and if necessary, the flexibility afforded by the General Fund balance.**

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Background papers:	Held within Accountancy Section, Moray Council