



REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 1 FEBRUARY 2019

SUBJECT: REVENUE BUDGET FOR 2019/20

BY: TREASURER TO THE BOARD

1. REASON FOR REPORT

- 1.1 To consider the Revenue Budget for 2019/20 and to agree the 2019/20 requisitions to the three constituent authorities.

2. RECOMMENDATION

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

- (i) changing legislation framework within which the Assessor's services work as set out in paragraph 3.2; and
- (ii) level of uncertainty regarding key expenditure assumptions as set out in Section 4 of this report.

- 2.2 It is recommended that the Board approves the:-

- (i) budget for 2019/20 is set at £4,463,000 as detailed in APPENDIX 1, which includes £99,000 to meet the additional demands of the NDR reform; and
- (ii) requisitions to the constituent authorities for 2019/20 are set at £4,463,000 as detailed in the table at paragraph 6.2.

3. Background

- 3.1 The main issues for the Assessor's service to be addressed in setting the budget for 2019/20 budget are:

- Increased duties and workload for the services arising from implementation of recommendations from the Barclay review of Non Domestic Rates;

- Key areas of financial uncertainty, in particular salary increases and government funding.

Medium term Financial Planning for the Assessor's service requires to be developed, taking these issues into account and addressing the potential for efficiency savings. Emerging issues for the medium term include accommodation costs, with repairs and maintenance anticipated to be required for the Banff office and a boiler refurbishment at the Elgin office. No provision for these have been made in the indicative budget figures for 2020/21.

Non-Domestic Rates Reform

- 3.2 The Barclay review group was set up to make recommendations to reform the Non-Domestic Rates (NDR) system in Scotland. Scottish Government has considered the findings of the review and decided on various reforms to the NDR system. There are three main reforms, two of which have significant implications for the working of the Assessor's service. The recommendation with most impact on the Assessors is the move to a three yearly revaluation cycle from a five year cycle, and the need to dispose of all revaluation appeals within that same timeframe. This is a major task and it is imperative that the proposals are implemented effectively and with minimum disruption to the creation and ongoing maintenance of the valuation rolls by the Assessor. The second is the reform of the appeals process aimed at reducing appeal volumes, and greater levels of transparency and consistency by Assessors, in itself another substantial pressure on the service. The third reform is the introduction of a Business Growth Accelerator model. This should not present significant additional pressure to the Assessor in setting up internal processes to manage the new provisions, but is likely to incur costs for the constituent authorities for ICT system amendments.
- 3.3 The Scottish Assessors Association submitted a funding request via COSLA to meet the cost of implementing NDR reform, and in total £3.3 million was included in the local government settlement announced in December 2018. The distribution of this additional funding to local authorities has yet to be agreed.
- 3.4 The Assessor proposes to recruit undergraduates on a temporary basis in the summer months of 2019/20 with a view to offering them full time employment from 2020/21. This proposal takes into account the potential availability of qualified staff and also seeks to minimise the cost of implementation. Additional IT and portal development work will be required to meet the additional demands for wider and more detailed provision of valuation information with the three year revaluation cycle. These additional costs have been included in the budget in **APPENDIX 1**.
- 3.5 The table below summaries the 2019/20 and 2020/21 estimated costs to implement NDR reforms by the Grampian Assessor. These figures have been incorporated into the expenditure budgets in Appendix 1, with a separate line shown for the impact on requisitions:

	2019/20 £000	2020/21 £000
Trainee Valuers	39	114
Valuers		90
Admin		95
Sub Total	39	299
Portal	10	10
IT Systems	50	50
Total	99	359

4. Budget Variables

- 4.1 It is good practice for local government bodies to plan for a range of scenarios, and the Board's external auditors, Audit Scotland, expect the Board to look at alternative budget scenarios as part of their budget preparation process. The main areas of uncertainty within the budget are the level of anticipated pay award and the level of expected government funding. Various levels of pay award and grant funding have been reviewed during the budget setting process for 2019/20 and looking forward to 2020/21.
- 4.2 In December 2017, the Scottish Government set out their Public Sector Pay Policy (PSP) for 2018/19 and it was this scenario that was approved by the Board to include in the budget for 2018/19. The key features of the 2018/19 Pay Policy were: providing a minimum increase of 3% for those who earn £30,000 or less; a limit of up to 2% for those earning above £30,000 and below £80,000; limiting the maximum pay increase for those earning £80,000 or more to £1,600. This proposal was rejected and, at the time of writing this report, the pay award for 2018/19 is still under negotiation, with the latest proposal being a 3.5% increase on pay grades up to £80,000 and the £1,600 flat rate above that, and 3.0% in the two subsequent years 2019/20 and 2020/21.
- 4.3 The table below summarises the different scenarios, assuming the pay award mentioned in 3.7 for 2018/19, and annual increments where expected.

Scenario	Impact on 2019/20 Budget £000	Impact on 2020/21 Budget £000
2.5% pay award	104	99
3.0% pay award	121	118
3.5% pay award	139	136

- 4.4 At this time, the actual pay awards for 2018/19 and thereafter will be are not agreed. Salary increases for 2018/19 have been calculated at the rates contained in the latest pay offer currently under consideration. A 3.0% pay award for 2019/20 is included within the draft budget for 2019/20 and a 3.0% pay award has been included in the indicative budget for 2020/21, in accordance with Scottish Government Public Sector Pay Policy. This policy is not mandatory for the Assessors service.
- 4.5 The second key area of uncertainty relates to the level of government funding towards the costs of Individual Electoral Registration (IER). Since 2014/15, the Cabinet Office has given the Board £1,107,000 in funding for the implementation of IER. The amount includes both the initial allocations made by the Cabinet Office and additional sums for specific costs e.g. for maximising registration and software development. The level of funding is undefined in future years, although the Cabinet Office has previously indicated that funding will be made available until 2019/20. The Assessor has not been informed of the level of government funding for 2019/20. Past trends have been considered when preparing this budget and the level of initial grant funding has been decreasing at a consistent rate as IER becomes embedded in the routine work of the service. In 2015/16 the funding was £207,576, reducing to £174,142 in 2016/17 and £151,000 in 2017/18. In 2018/19 the grant was £102,835, however a further justification led bid has been submitted to the Cabinet Office for £57,000. It has not been approved at the time of writing this report, but it was assumed to be successful when considering future funding scenarios, below. The best case scenario for 2019/20 is that funding will not decrease from 2018/19 initial award plus the justification led bid. It is considered likely that the level of direct funding will decrease. A mid-point position has been adopted for the purposes of the 2019/20 budget, and a grant figure of £130,000 has been included. It is expected that this may be made up of the initial grant plus a later justification led bid towards the end of the financial year.
- 4.6 The table below summarises the different scenarios.

Scenario	Impact	2019/20 £000	2020/21 £000
Optimistic	No reduction in funding (including JLB)	160	130
Mid Point	Reduction by similar amount as previous year	130	100
Pessimistic	Reduction to 2/3 of previous year	100	70

- 4.7 The main income to the Board is generated by requisitions to the constituent authorities. The level of funding made available to the constituent authorities to fund NDR reform is unknown at this time. Funding will not be ring-fenced and there will be additional costs of NDR reform to be met from this funding.

- 4.8 Costs of core ICT systems and accommodation are also significant costs to the Assessor's services, which require to be considered as part of a medium term financial plan for the services. Accommodation issues in particular require to be addressed as there are emerging requirements for expenditure at both Banff and Elgin offices (see paragraph 3.1) and an options appraisal exercise requires to be carried out prior to incorporating requirements into the budget. Current estimates of the costs of repairs and maintenance required at Banff are £20,000.

5. **2019/20 Revenue Budget Proposals**

- 5.1 The proposed 2019/20 Revenue Budget is shown in **APPENDIX 1**. The proposed budget is an increase of £171,000 (4%) which includes the additional £99,000 for NDR reform, detailed above in paragraph 3.5. The increase attributable to core budget prior to NDR reform is £72,000 (1.7%) The total net increase is summarised below and described in detail in paragraphs 5.2 to 5.17:

Budget amendments	£000s
<u>Increases</u>	
Staffing budget – pay awards, vacancy management	138
Increase in IT budget	12
Other minor increases	7
<u>Decreases/Additional income</u>	
Removal of apprenticeship levy	(13)
Postages budget reduction	(60)
Increase in government grant	(5)
Sales and other income	(7)
Net increase in budget prior to NDR reform additionality	72
NDR reform budget - Staffing	39
NDR reform budget - IT and portal costs	60
Total increase in budget	171

- 5.2 As noted at paragraph 3.8, pay awards have been estimated at 3.0% pay award for 2019/20 and the indicative 2020/21 budget. These amounts, plus adjustments for anniversary increments where appropriate, has resulted in a proposed increase to the salaries budget of £209,000. These have been based on top of the pay award calculated for 2018/19 in paragraph 3.7.
- 5.3 The ongoing challenge of filling vacancies has previously been highlighted to the Board. The full staffing establishment is budgeted for in Employee costs along with a vacancy management provision of £75,000, which recognises that there is normally a gap between a post being vacated and then

subsequently refilled. This provision has been consolidated within the employee costs budget.

- 5.4 The Joint Board now has its own payroll reference with the HMRC and is no longer liable for an apprenticeship levy, introduced in 2017/18. The £13,000 budget has been removed.
- 5.5 Overall the proposed Employee Costs total increases by £164,000.
- 5.6 Accommodation budgets remain the same as in 2018/19. Non Domestic Rates (NDR) for Woodhill House and the Elgin office are being charged separately to the service charge and are anticipated to increase by 3%. The rental of £125,000 and service charge of £70,000 are agreed for Woodhill House, with an additional element for a repairs and maintenance charge at Woodhill House. The service charge for Elgin is not expected to require a budget increase. The budget for Energy costs has been maintained at 2018/19 level, based on current actuals.
- 5.7 Overall the proposed Property Costs budget has not changed.
- 5.8 Staff travel and transport costs have increased by £2,000 based on current expenditure levels and service requirements.
- 5.9 Within the Supplies and Services budgets there are various proposals; with both increases and reductions in budget. Equipment and furniture will reduce to £2,000 based on a contract that wasn't renewed in 2018/19. This is now on the Procurement Action Plan and the budget may need reinstated in future years.
- 5.10 The proposed budget for Postages reflects the current expenditure and trends in recent years. In a 'normal' year i.e. with no major election or referendum taking place, the total postage costs are estimated at £200,000. With an election and/or referendum, annual postages could be as high as £280,000. Given this wide range and the uncertain political climate the 2019/20 budget is proposed at £220,000, a reduction of £60,000, but at a level that may be capable of being managed by the service if underspends arise elsewhere.
- 5.11 An increase in the advertising budget is proposed, to fund Grampian's share of an annual campaign across Scotland.
- 5.12 The most significant increase within Supplies and Services relates to the budget for IT Maintenance and Support. An estimation of £50,000 for IT system requirements to tackle the NDR reforms, as detailed in paragraph 3.5, has been included in the budget. An additional £10,000 budget is required for software licence costs for the recently procured Electoral Management System (EMS), and inflationary increases for existing contracts have also been budgeted for.
- 5.13 As highlighted to the Board at previous meetings, the budget for the Valuation Appeals Committee (VAC) costs and expenses is complex to predict. Costs

vary depending on what hearings proceed to VAC hearings, the Lands Tribunal for Scotland and the Lands Valuation Appeal Court. Another stated case as in 2017/18 which incurred significant fees is not anticipated but certainly cannot be ruled out. Similarly there is no certainty in terms of further VAC secretary or counsel's fees. As such, the budget is proposed to remain at the 2018/19 level.

- 5.14 Specialist Services cover the Scottish Assessors' Association portal costs, the external audit fee proposed by Audit Scotland and the fee payable to the pension fund for the calculation of the pensions disclosure required in the Annual Accounts. An additional £10,000 has been included for the portal costs expected as part of the NDR reforms.
- 5.15 Overall the proposed Supplies and Services increase totals £16,000.
- 5.16 The proposed Lead Authority Charge budget remains at £57,000.
- 5.17 In total, the income of the service is expected to increase by £11,000. The proposed budget for income from the sale of electoral registers has been increased to reflect trends. The anticipated level of Government funding has been considered at paragraph 3.10 and the proposed budget of £130,000 is an increase in budget from 2018/19 but takes into account the reasonable possibility of claiming additional funds through a justification led bid.
- 5.18 This results in a net Expenditure budget of £4,463,000 for 2019/20 reflecting current level of service, pay awards and additional expenditure requirements.
- 5.19 An indicative budget for 2020/21 is also included at **APPENDIX 1**. The effect of a 3.0% pay award is included for illustrative purposes. All other budgets have been held at the 2019/20 proposed level with the exception of the requirements to implement NDR reform. The indicative budget for 2020/21 is £369,000 higher than the proposed budget for 2019/20, of which £260,000 relates to NDR reform.

6. Risks

- 6.1 Whilst considering the 2019/20 budget, the two most significant risks relate to the level of the 2019/20 and future pay awards and the level of Government funding towards the costs of IER.
- 6.2 Salary costs, including essential user mileage, represent 78% of total net expenditure and if the pay award is higher than the budgeted rates, this would have a significant effect on total spend.
- 6.3 The level of Government funding is also unknown at the time of writing this report, although trends would indicate that the initial amount will be reduced from the 2018/19 level, with the potential to submit a further claim later in the year. If the total amount received is less than the budget amount, this would also increase the net expenditure of the service. As experienced in 2018/19, the initial grant was lower than budgeted, but the Assessor has submitted a

fully justified bid for additional costs incurred but not covered by the initial grant alone. The actual outcome of this bid will be reported to the Board at a future meeting.

- 6.4 No allowance for general inflation has been made within the budget.
- 6.4 If the actual outturn net expenditure for 2018/19 is as currently estimated at £4,148,000, there will be a surplus generated of £144,000.
- 6.5 Taking all of this into consideration, it is not recommended to budget for using General Fund Reserves when setting the 2019/20 budget which sets the requisition required to be funded by the constituent authorities at £4,463,000.

7. 2019/20 Requisitions

- 7.1 In the table below, the requisition required from each constituent authority is calculated in order to fund the Board's revenue budget for 2019/20 of £4,463,000.
- 7.2 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 those published by the National Records of Scotland in their Mid-Year Population Estimates, Mid-2017.

	Population	Requisition %	Proposed Requisition 2019/20 £	Requisition 2018/19 £	Percentage increase on 2018/19 Requisitions %
Aberdeen City	228,800	39.02	1,741,463	1,676,884	3.9
Aberdeen-shire	261,800	44.65	1,992,730	1,913,803	4.1
Moray	95,780	16.33	728,808	701,313	3.9
TOTAL	586,380	100.00	4,463,001	4,292,000	4.0

8. General Fund

- 8.1 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 transition

phase of IER is complete and should be seen as business as usual. There is no assurance of how additional costs resulting from the successful implementation of IER will be funded in the future.

- 8.2 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.
- 8.3 The balance on the General Fund at 31 March 2018 was £153,000.
- 8.4 The estimated outturn for 2018/19 is an underspend of £144,000 which will increase the General Fund by £62,000 to £215,000 at 31 March 2019, the maximum permitted. The remaining surplus of £82,000 would be refunded to constituent authorities on approval of the audited accounts.

9. Capital Fund

- 9.1 The Capital Fund was established in 2002/03 using the Board's share from the sale of Woodhill House. After returning £400,000 to constituent authorities in 2010/11, the balance of the fund at 1 April 2018 was £55,000, following £18,000 of capital expenditure in 2017/18 on a new telephone system at Woodhill House. The remaining balance is expected to be fully used for the capital costs of the new Electoral Management System that was procured and established this current financial year.

10. Conclusion

- 10.1 **Preparing the proposed Revenue Budget for 2019/20 has been a challenging task, trying to balance the increasing demands made upon the service against the financial constraints imposed on the public sector.**
- 10.2 **The Assessor has proposed savings where possible, based on regular operations, and no exceptional circumstances. Given the current political climate can change rapidly, the Assessor will manage the service, including the resources required to maintain IER, within the constraints of the current budget and, if necessary, the flexibility afforded by the General Fund balance.**

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Background Papers: Held in Accountancy section, Moray Council