



REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 5 FEBRUARY 2021

SUBJECT: REVENUE BUDGET FOR 2021/22 AND FUTURE YEARS

BY: TREASURER TO THE BOARD

1. REASON FOR REPORT

1.1 To consider the three year Revenue Budget from 2021/22 and to agree the requisitions to the three constituent authorities.

2. RECOMMENDATIONS

2.1 It is recommended that the Board approves:

- (i)** Three year Revenue Budget from 2021//22;
- (ii)** Requisitions to the constituent authorities to be set at £4,725,000 as detailed in the table at paragraph 6.3; and
- (iii)** Minimum General Fund balance of 2.5% of estimated annual net expenditure.
- (iv)** The sum of £117,000 to be used from the General Fund to balance the 2021/22 Revenue budget
- (v)** The release of £91,000 from the NDR Reform reserve to cover slippage which will now be incurred in 2021/22.

2.2 It is recommended that the Board notes the:

- (i)** Scenarios where the outturn is unpredictable and consequent financial risk and the operational issues facing the service.
- (ii)** Balance of the NDR Reform reserve currently at £91,000, which is not included in the Revenue budget but may be required to cover slippage from 2019/20.

3. **BACKGROUND**

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

- The pressures that the coronavirus outbreak has had on the operations of the organisation; mainly in recruitment of staff and delays in implementation of NDR reform, and in increased level of valuation appeals;
- The impact that the immediate response to the pandemic will have on the long term operations of the service;
- Level of staff turnover/challenges in recruiting and retaining staff;
- Financial uncertainty in key areas, particularly salaries and accommodation.

3.2 At the Board meeting on 6 November 2020, a report was presented including a draft three year core budget from 2021/22 for discussion. The report included the NDR Reform budget, identified separately in the Appendix, and outlined various scenarios for the pay award, with the mid-point scenario built into the draft budget. Other areas for discussion included salaries and recruitment, accommodation, other costs, and income from grant funding.

3.3 Due to the uncertainty regarding pay awards, and the substantial share employee costs have of the revenue budget, every 1% of pay award has a significant effect on the net expenditure. It is more appropriate that the balance of risk is borne by the constituent authorities than by the Board as they have more resilience to cope with such margins. To illustrate, the figures in the table below show the impact of a 1% pay award (£51,000) as the percentage against the Total Estimated Expenditure (TEE) for each constituent authority, and the GVJB estimated net expenditure in 2020/21. The TEE figures are from Local Government finance circular 12/2020. This highlights the importance of flexibility in requisitions from authorities. Despite this significant elements of risk continue to be borne by the Board and these are highlighted throughout the report. In particular paragraphs 4.4 - 4.6 of this report discuss pay awards in more detail and what is included in the proposed budget.

	Total Estimated Expenditure (TEE) £m	1% pay award 2021/22 £0.051m	% of TEE
Aberdeen City	466.128	0.051	0.01%
Aberdeenshire	582.832	0.051	0.01%
Moray	212.057	0.051	0.02%
GVJB	3.993	0.051	1.28%

4. CURRENT POSITION

Non-Domestic Rates Reform

- 4.1 The Non-Domestic Rates (Scotland) Act 2020 Act received Royal Assent on 11 March 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 is included within the local government settlement, and these have been shown in APPENDIX 1, alongside the core budget, to distinguish between movements in the current core budget.
- 4.3 Any unspent NDR Reform budget goes to the earmarked reserve and is used to cover expenditure in future years. The current balance in the reserve is £91,000. The budget for 2021/22 is the originally planned budget for the year and does not include slippage expected from 2020/21. The release of the £91,000 reserve has been built into the budget for 2021/22 to cover slippage from previous years.

Salaries and Recruitment

- 4.4 Salaries and employers' on-costs make up approximately 76% of the net expenditure budget of the service. The service is reliant on recruiting and retaining professional staff in order to carry out its statutory functions. It is reported in the budget monitoring report to this Board meeting how the Covid-19 pandemic has intensified the staffing pressures, as vacancies lie unfilled for long periods, and recruitment has been brought to a near standstill, although current plans are to return to a full establishment in early 2021, or as near to that as is feasible
- 4.5 Due to the increased level of vacancies this year, and the time it takes to fill posts, the vacancy adjustment for 2021/22 has been increased from 5% to 10%, reducing the core budget by a further £185,000. There is a risk associated with this assumption, as the service aims to get back to a full staffing complement.
- 4.6 Pay awards for 2021/22 and future years have not yet been agreed. The impact of a range of possible awards is noted below. The projected budget includes provision for the mid-point assumption of 2.5% which might have been considered to be the mid-point of the scenarios. However, the recent SJC pay claim received by COSLA casts doubt on that. The pay claim is detailed and complex in what will be an iterative process. As can be seen from the table below a 1% variance in pay award has an impact of approximately £40,000 in salary costs in each successive year. These figures are for core budget posts only, excluding the NDR posts, which are in addition.

Scenario	Impact on 2021/22 budget £000	Impact on 2022/23 budget £000	Impact on 2022/23 budget £000
1% pay award	51	52	52
2% pay award	88	90	92
2.5% pay award	106	109	111
3% pay award	125	129	133
5% pay award	199	209	219

- 4.7 Since the pandemic staff have been working primarily from home, following Scottish Government guidance. As what was a response to an emergency turns into a more settled “new normal,” consideration should be given to whether some form of recompense should be made to employees working from home and incurring additional expenditure such as additional heating during the winter months. This is currently being explored with HR and will be brought back to Board if it progresses.

Accommodation

- 4.8 Prior to the pandemic the Assessor was in discussions with staff from Aberdeenshire Council about a potential re-configuration of Woodhill House, including a reduced footprint for the service. These discussions have recommenced and a draft Heads of Terms for the proposed lease has been received, which would result in a reduced rental charge and associated costs for the service. Even with the restrictions imposed by social distancing requirements, a reduced footprint seems feasible, with additional resilience provided by the lower cost satellite offices in Elgin and Banff. The full year savings, taken by comparing the 2020/21 budget and the proposed budget is shown in the table below.

Woodhill House budgets	Proposed £000	Current £000
Rent	45	125
Service Charge	90	70
Rates	54	73
Total	189	268

- 4.9 The proposed terms would result in a full year budget reduction of £79,000. Although not formalised yet, the proposed budget includes the saving for part of the year, to allow time for decanting to the new office space, and allowing for any part year costs payable to Aberdeenshire Council for the existing offices. Full year savings have been taken from 2022/23.

IT and procurement

- 4.10 As previously reported, the Procurement Action Plan (PAP) that has been drawn up by the Moray Council Procurement team and the Assessor 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, and discussions between the Assessor and Aberdeenshire Council are progressing well but at this juncture the potential for savings in this budget are to be clarified. The service's database software requires to be upgraded and one off software costs of £37,000 will likely fall in April 2021. These have been included in the budget.

Other costs

- 4.11 Postage is a significant cost to the service. The report to the Board in November 2020 stated that the budget would be reviewed for possible savings. Given the hybrid nature of the printing and postage services that are purchased from suppliers, it has been agreed that these budgets lines would be better combined. This will better represent the operations and budget monitoring of the service. The proposed budgets include no additional budget requirement for 2021/22.
- 4.12 Staff travel costs arise from staff travelling to site inspections. Recent changes in working practices to obtaining relevant evidence from sources other than visual inspection – such as building warrants, completion certificates – has led to a reduction in travel costs. The proposed budget shows a reduction of £20,000 relating to this, which also contributes towards Carbon Reduction, at a time when that is a high priority for public bodies.
- 4.13 The service has a minimal budget for furniture and equipment. There is a need to review this as part of the review of support for employees now working at home. It is envisaged that any additional requirement would be covered from savings made elsewhere in the budget. There may also be the requirement to replace furniture in the relocated offices in Woodhill House, which is not currently budgeted for.
- 4.14 There has been a significant increase in valuation appeals following the response to the pandemic. This creates additional workload for staff and also has cost implications. An overspend of £27,000 is forecast for 2020/21 at this stage. No increase is included in the proposed budgets. This is clearly a risk to the Board, but the financial risk is considered to be manageable given the size relative to the Board's total budget.

Income from Grant funding

- 4.16 The Cabinet Office has given the Board a total of £1,327,000 of funding for the implementation of Individual Electoral Registration (IER) during the years from 2014/15 to 2020/21. The Cabinet Office previously indicated that funding would only be made available to 2019/20, and no funding was budgeted for 2020/21. An allocation of £34,000 was later awarded. Once again no allocation has been indicated for future years and so it is prudent to assume a nil level of funding for 2021/22 and beyond.

Reserves

4.17 The budget for 2020/21 included £130,000 funding from general reserves. Due to the impact of the pandemic and to additional grant funding secured, expenditure is forecast to be significantly below budget. Consequently it is not expected that any reserves will be required to balance the spend in 2020/21 and reserves at 31 March 2021 will remain at the maximum approved level of £223,000. At its meeting on 3 March 2020 the Board approved that a minimum general reserve of 2.5% of estimated annual net expenditure would be maintained. The proposed 2021/22 budget shows net core expenditure of £4.2 million, this equates to a minimum general reserve of £106,000. The Board therefore has flexibility to use up to £117,000 to cushion the impact of inflation on its budget for 2021/22. This has been shown in the Appendix. Given the level of uncertainty over pay awards, the quantification of risk summarised in paragraph 4.18 below and the observations on balance of risk referred to in paragraph 3.3 the Board may consider it prudent to reduce the planned use of reserves.

Risks

4.18 Various financial risks have been identified throughout the report and are summarised here for ease of reference. It should be noted that the total risk identified exceeds the maximum general reserve permitted to be held.

Risk	Para ref	Potential impact £000s
Above average vacancy factor	4.5	185
Insufficient allowance for pay award (5%)	4.6	93
Valuation appeals	4.14	27
Total		305

4.19 There are also risks arising from changing service requirements, which can also affect the financial requirements of the service.

5 BUDGET PROPOSALS 2021/22

5.1 The proposed 2021/22 Revenue Budget is shown in Appendix 1. The proposed net expenditure budget is an increase of £22,000 from 2020/21, of which £67,000 is a decrease in the core budget, offset by an increase in NDR Reform budget of £89,000. The total net increase is summarised below, and is separated into core budgets that are controlled by the Board, and the additional budget for the NDR Reform requirements.

Budget movements 2021/22	£000s

Impact on core budget	
<u>Increases</u>	
Staffing budget – pay awards, additional pensions	109
Software - one off costs	37
Other	6
<u>Decreases</u>	
Staffing budget – vacancy management, training, travel	(180)
Property Costs - inc Woodhill House relocation savings	(52)
Funding from reserves reduction	13
Net decrease in core budget	(67)
NDR reform - additional staffing	51
NDR reform – IT costs	38
Total increase in budget from 2020/21 to 2021/22	(22)

6 REQUISITIONS

- 6.1 The table below shows the requisition for each constituent authority, in order to fund the Board’s revenue budget for 2021/22 of £4,725,000.
- 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-2019.
- 6.3 The proposed requisitions of £4,725,000 have increased by £10,000 from the draft requisitions outlined in November, which totalled £4,735,000.

	Population	Requisition %	Proposed Requisition 2021/22 £	Requisition 2020/21 £	Increase on 2020/21 Requisition %
Aberdeen City	228,670	39.04	1,844,640	1,830,878	0.75%
Aberdeenshire	261,210	44.60	2,107,350	2,103,652	0.18%
Moray	95,820	16.36	773,010	768,470	0.59%
Total	585,700	100.00	4,725,000	4,703,000	0.47%

7 CONCLUSION

- 7.1 Preparing the three year Revenue Budget has been a challenging task, trying to balance the increasing demands made upon the service against the financial constraints imposed on the public sector.**
- 7.2 The Assessor has proposed savings and efficiencies where possible, and by looking at staff resources, has increased the vacancy management factor within the core staffing budget. Senior Management will continue to look for efficiencies and savings in the budget.**
- 7.3 The sum of £117,000 is used from the General Fund to balance the 2021/22 Revenue budget and £91,000 is released from the NDR Reform reserve.**
- 7.4 There is potential to use general reserves to cushion the impact of increased budgets, where these cannot be covered by savings. However, this should be balanced against the potential risks to the Board identified in this report.**

Author of Report: Susan Souter
Background papers: Held within Accountancy Section, Moray Council
Ref: