



REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 6 NOVEMBER 2020

SUBJECT: FINANCIAL PLANNING FOR 2021/22 AND FUTURE YEARS

BY: TREASURER TO THE BOARD

1. REASON FOR REPORT

- 1.1 To consider the indicative budgets that will form the three year Revenue Budget from 2021/22 onwards, and to discuss the operational issues facing the Assessor & Electoral Registration Officer (ERO) in the medium to long term.

2. RECOMMENDATIONS

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

- (i) Current indicative three year core budget from 2021/22 to 2023/24 and that this will be further adjusted during the preparation of the draft budget for 2021/22;**
- (ii) Various scenarios which would impact on the budget and the range of potential assumptions and risks;**
- (iii) Operational issues facing the service; and**
- (iv) Actions to be taken ahead of the budget setting meeting in February 2021.**

2.2 It is recommended that the Board approves that the Assessor continues discussions of the future occupancy of Woodhill House with a view to reduce the service's footprint in the building and therefore the cost of the lease.

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, accommodation

3.2 At its meeting on 20 March 2020, the Board agreed the Revenue Budget for 2020/21 (paragraph 3 of the Minute refers) and approved that the requisitions to constituent authorities should be set at £4,703,000. An indicative budget for the following two years was also presented to the Board, and it is proposed that this is the starting point for the budget process ahead of the meeting to approve the budget in February 2021.

4. CURRENT POSITION

4.1 The Revenue Monitoring report, in a separate report to this Board meeting, gives more detailed explanation of the impact that the response to the pandemic has had on the service, from postponed implementation of legislation by Scottish Government to delays in recruitment by the service. Until the full impact of the pandemic is known, any changes in budget requirements or savings cannot be accurately identified and financial planning for the next three years will continue to be developed over the coming months.

4.2 **APPENDIX 1** shows the current indicative core budget for each of the three years ahead, with a separate column showing the previously approved NDR reforms budget.

Salaries and Recruitment

4.3 The main cost driver for the services is salaries and associated costs. 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 routinely 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, the service is susceptible to carrying vacancies unfilled for long periods with an attendant negative impact on in-post employees and performance. The pandemic has also increased the staffing pressures as vacancies lie unfilled for long periods.

4.4 The budget for 2020/21 includes a 5% recruitment and vacancy adjustment in the budget, to incorporate an average level of vacancies and the interval that arises between filling posts. Recruitment has slowed this year because of the pandemic, although current plans are to return to a full establishment by the end of the year, or as near to that as is feasible. Due to the increased level of vacancies this year, and the time it takes to fill posts, the vacancy adjustment in 2021/22 has been increased from 5% to 10%, reducing the core budget by a further £97,000. There is a risk associated with this assumption, as the service aims to have a full staffing complement by the end of March.

- 4.5 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 near mid-point assumption of 3% has been included, as per the indicative budget presented in March 2020. As can be seen from the table below a 1% variance in pay award has an impact of around £50,000 in salary costs in each successive year. These figures are for core budget posts only, excluding the NDR posts, which are additional.

| Scenario | Impact on 2021/22 budget £000 | Impact on 2022/23 budget £000 | Impact on 2022/23 budget £000 |
|-----------------|--|--|--|
| 1% pay award | 51 | 50 | 55 |
| 2% pay award | 85 | 89 | 94 |
| 3% pay award | 117 | 127 | 134 |
| 5% pay award | 183 | 207 | 219 |

- 4.6 Since the pandemic lockdown commenced 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 will be explored as part of the finalisation of the budget proposals for 2020/21.

Accommodation

- 4.7 The financial planning report considered by the Board in November 2019 included various issues related to accommodation. The Board has a share with Moray Council of premises in Elgin and owns purpose built accommodation in Banff. The Board also leases office accommodation in Woodhill House in Aberdeen. Consideration has been given to the appropriateness of this office estate for the needs of the service. 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, resulting in a reduced rental charge. These discussions were paused but have recently recommenced. 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.

Other costs

- 4.8 Postage is a significant cost to the service. When the budget for 2020/21 was set it was agreed to set the postage budget at what was estimated to be the level of expenditure incurred in a year without an election or referendum. Estimated additional expenditure for an electoral event ranged from £8,000 to £16,000 for a UK election to £20,000 for a referendum. In the ordinary run of events there would be an election to Scottish Government in May 2021. If the base budget is correct then an addition the budget would be required in that

financial year. However, expenditure to date is well below budget to date and whereas that in large part results from lockdown the trend in recent years has been a reduction in expenditure on postage largely through adoption of digital communications wherever possible. Accordingly the current indicative budgets include no additional budget requirement for 2021/22 and this budget line will be reviewed for possible savings prior to draft budgets being prepared for the Board in February 2021.

- 4.9 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 current indicative budgets show a reduction of £20,000 relating to this, which also contributes towards Carbon Reduction, as a time when that is a high priority for public bodies.
- 4.10 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 working at home mentioned in paragraph 4.6. It is envisaged that any additional requirement would be covered from savings made elsewhere in the budget. This will be quantified as part of the preparation of the draft budget.
- 4.11 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 current indicative 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.
- 4.12 The ICT maintenance and support budget is a significant component of the cost of supplies and services. It is intended to explore potential ways of reducing this cost. No cost savings are envisaged in the short term however.

Grant funding

- 4.13 The Cabinet Office has given the Board a total of £1,293,000 of funding for the implementation of Individual Electoral Registration (IER) during the years from 2014/15 to 2019/20. The Cabinet Office previously indicated that funding would only be made available to 2019/20, and no funding was budgeted in the current year. 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 beyond 2020/21

Funding from Reserves

- 4.14 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 current indicative budget shows net core expenditure of £4.4 million, this implies a minimum general reserve of £110,000. The Board therefore has flexibility to use up to £113,000 to cushion the impact of inflation on its budget for 2021/22.

Risks

- 4.15 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 | 4.4 | 97 |
| Insufficient allowance for pay award | 4.5 | 100 |
| Postage re election | 4.8 | 20 |
| Valuation appeals | 4.11 | 27 |
| | | |
| Total | | 244 |

- 4.16 There are also risks arising from changing service requirements which can also impact on the financial requirements of the service.

5. CONCLUSION

- 5.1 **The current indicative three year budget is in the process of being adjusted to reflect the impact of the pandemic, estimated pay awards, potential efficiencies and other means of cost reduction.**
- 5.2 **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.**

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 Background papers: Held within Accountancy Section, Moray Council
 Ref: