



REPORT TO: GRAMPIAN VALUATION JOINT BOARD ON 5 NOVEMBER 2021

SUBJECT: FINANCIAL PLANNING FOR 2022/23 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 2022/23 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:

- (i) Current indicative three year core budget from 2022/23 and that this will be further adjusted during the preparation of the Revenue Budget for 2022/23;**
- (ii) Various scenarios which could impact on the revenue 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 2022.**

3. BACKGROUND

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

- The continuing pressures that the coronavirus outbreak has had on the operations of the organisation
- Implementation of NDR reform
- 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 5 February 2021, the Board agreed the Revenue Budget for 2021/22 (paragraph 4 of the Minute refers) and approved that the requisitions to constituent authorities should be set at £4,842,000. An indicative budget for the following two years was also presented, and it is proposed that this is the starting point for the budget process ahead of the meeting to approve the budget in February 2022.

4. CURRENT POSITION

- 4.1 The Revenue Monitoring report to 30 September 2021, in a separate report to this Board meeting, describes the impact that the response to the pandemic has had on the service, alongside other recurring issues. Until the full impact of these issues are known, any changes in budget requirements or savings cannot be accurately identified but will continue to be developed and built into financial planning over the coming months. These are discussed in more detail below.
- 4.2 **APPENDIX 1** shows the current indicative core budget for each of the three years ahead. 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.

5. BUDGET PROPOSALS 2022/23

Salaries and Recruitment

- 5.1 Salaries and employers' on-costs make up approximately 75% 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 regularly reported in the budget monitoring report to the Board that the recruitment of staff is a difficulty for the service, primarily due to the competitive nature of salaries in the private sector, but the Covid-19 pandemic has also intensified staffing pressures. Recruitment is now underway again and successful appointments have recently been made at all levels.
- 5.2 The budget for 2022/23 includes a 10% recruitment and vacancy adjustment in the budget, to incorporate an average level of vacancies and the interval that arises between filling posts. There is a risk associated with this concept, however, as the service aims to have a full staffing complement.
- 5.3 Pay awards for 2021/22 and future years have not yet been agreed, and the budget for 2021/22 already includes a provisional 2.5% pay award. As there has been no further indication of this year's pay award, the basis for future years will use the current budget as the starting point.
- 5.4 The impact of a range of possible pay awards is shown in the table below. These figures are for core posts only, excluding the NDR posts, and are before any vacancy factor has been deducted. National Insurance rates are changing with effect from 1 April 2022 but this change has been omitted from the figures

in the table in order to show the effect of the pay award only. However, for information, a 2% pay award can expect to see an additional £37,000 increase in employers contributions budgeted for 2022/23. As can be seen in the table below, a 1% variance in pay award has an impact on around £38,000 in salary costs in each of the next three years, with a 5% pay award ranging from £190,000 to £206,000 per annum. The mid point assumption of 2% has been included in the indicative budget presented in Appendix 1.

Scenario	Impact on 2022/23 budget £000	Impact on 2023/24 budget £000	Impact on 2024/25 budget £000
1% pay award	37	38	38
2% pay award	74	76	78
5% pay award	190	196	206

Accommodation

- 5.5 Mentioned in the budget monitoring report to this Board, the move to a new office suite within Woodhill House has been delayed and reconfiguration works are yet to commence at the time of writing this report. The 2021/22 budget already includes part year savings for the new office accommodation and the estimated outturn figure assumes no move will happen this financial year. Therefore an overspend is forecast as the current rental and service charges will continue until the relocation. The draft Heads of Terms for the proposed lease has been received, and it is currently anticipated that the move, which would result in a reduced rental charge and associated costs for the service, could take place early in the next financial year. The full year savings, taken by comparing the 2021/22 budget and the proposed budget is shown in the table below.

Woodhill House budgets	Proposed £000	Current £000
Rent	22	65
Service Charge	90	85
Rates	57	56
Refurbishment costs (one off)	18	-
Total	187	206

- 5.6 The proposed terms would result in a budget reduction of £19,000 in 2022/23, including the one off refurbishment costs, which will more than likely be higher than the originally quoted figure. With additional resilience provided by the lower cost satellite offices in Elgin and Banff, future savings are possible.

IT and procurement

- 5.7 As referred to in the revenue monitoring report, the Assessor has been working with Aberdeenshire Council with the prospect of moving to a Service Level Agreement where Aberdeenshire will provide ongoing IT support services to the

Valuation Board. They have proposed an agreement for shared IT services using, where possible, existing Aberdeenshire infrastructure and provided costings for the board; £79,711 per annum with initial start-up costs of £45,750.

- 5.8 There is still some work to be carried out to establish what other costs would have to be paid for by the board, e.g. specialised software licensing and support. The vacant IT Manager post would be removed from the establishment as a result of the change and other IT budget savings are currently being explored. It is hoped that this development will progress before the end of the financial year, and the preliminary costs have been built into the 2022/23 budget going forward. The financial implications are shown in the table below.

	2022/23 £000
Removal of IT Manager Post (saving)	(70,000)
System Costs (annual cost)	79,711
Startup Costs (one off cost)	45,750

Other costs

- 5.9 Staff travel costs arise from staff travelling to site inspections. Recent changes in working practices to obtain relevant information from sources other than visual inspection – such as building warrants, completion certificates – has led to a reduction in travel costs. Although this shift has produced benefits, there will be an increased requirement for physical inspections during 2022/23 in preparation for the 2023 Revaluation and the associated NDR reforms. The proposed budget is therefore unchanged from 2021/22.
- 5.10 The service has a minimal budget for furniture and equipment. There may be the requirement to replace furniture in the relocated offices in Woodhill House, which is not currently budgeted for.
- 5.11 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. No overspend is forecast for 2021/22 at this stage. No increase is included in the proposed budgets as the legislative position regarding material change of circumstances appeals due to Covid-19 and the change in appeal regulations is still uncertain. 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

- 5.12 The Cabinet Office has given the Board a total of £1,361,000 of funding for the implementation of Individual Electoral Registration (IER) during the years from 2014/15 to 2020/21. The Cabinet Office has previously confirmed that no further funding will be given and must be absorbed in core budgets.

Reserves

- 5.13 It is not expected that any reserves will be required to balance spend in 2022/23 and reserves at 31 March 2022 will remain at the maximum approved level of £235,000. 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. Based on the proposed 2022/23 estimated net expenditure of £4.2 million, this equates to a minimum general reserve of £106,000. The Board therefore has flexibility to use up to £129,000 to cushion the impact of inflation on its budget for 2022/23. Given the level of uncertainty over pay awards, the quantification of risk summarised in paragraph 5.15 below and the observations on balance of risk referred to in paragraph 3.1 the Board may consider it prudent to reduce the planned use of reserves.
- 5.14 The Scottish Government require any unspent/uncommitted NDR Reform funding for 2021/22 to be repaid. The current balance in the reserve is £143,000. The budget for 2022/23 is the originally planned budget for the year included within the local government settlement.

Risks

- 5.15 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 (5% to 10%)	5.2	184
Insufficient allowance for pay award (5%)	5.4	116
Woodhill House relocation doesn't go ahead	5.5	79
Valuation appeals	5.11	15
Total		394

- 5.16 There are also risks arising from changing service requirements, which can also affect the financial requirements of the service.
- 5.17 The proposed 2022/23 Revenue Budget is shown in Appendix 1. The proposed net expenditure budget is a decrease of £82,000 from 2021/22, of which £38,000 is an increase in the core budget, and a decrease of £120,000 in NDR Reform budget, with removal of the £91,000 funded from NDR reserves. The total net increase in requisitions is £9,000 and is summarised below, separated into core budgets that are controlled by the Board, and the budget for the NDR Reform requirements.

Budget movements 2022/23	£000s
Impact on core budget	
<u>Increases</u>	
Staffing budget – pay awards, NI change	111
Training	3

Energy Costs – Banff Office	2
IT Maintenance and Support (from IT Manager post saving)	70
Decreases	
Staffing budget – post savings, vacancy management	(129)
Property Costs - inc Woodhill House relocation savings	(19)
Net increase in core budget	38
NDR reform – reduction in staffing and travel costs	(8)
NDR reform – reduction in other costs	(112)
NDR reform use of reserves	91
Total increase in requisitions from 2021/22 to 2022/23	9

6 REQUISITIONS

- 6.1 The table below shows the requisition for each constituent authority, in order to fund the Board’s revenue budget for 2022/23 of £4,851,000.
- 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-2020.
- 6.3 The proposed requisitions of £4,851,000 are an increase in the 2021/22 requisitions by £9,000 in total.

	Population	Requisition %	Proposed Requisition 2022/23 £	Requisition 2021/22 £	Increase on 2021/22 Requisition %
Aberdeen City	229,060	39.12	1,897,651	1,890,317	0.39%
Aberdeenshire	260,780	44.54	2,160,437	2,159,532	0.42%
Moray	95,710	16.34	792,912	792,151	0.09%
Total	585,550	100.00	4,851,000	4,842,000	0.19%

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 in addition to giving up a senior post as a saving, has maintained the vacancy management factor within the core staffing budget. Senior Management will continue to look for efficiencies and savings in the budget.**
- 7.3 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: