

Report to:	Lanarkshire Valuation Joint Board
Date of Meeting:	5 March 2018
Report by:	Treasurer to Lanarkshire Valuation Joint Board

Subject:	Financial Strategy 2019/20 to 2021/22 and Longer Term Outlook
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ provide a Financial Strategy for Lanarkshire Valuation Joint Board over the medium term for years 2019/20 to 2021/22 and provide a longer term outlook for a 5 year period to 2023/24.
- ◆ provide a Reserves Strategy for Lanarkshire Valuation Joint Board.

2. Recommendation(s)

2.1. The Board is asked to approve the following recommendation(s):-

- (1) that the Financial Strategy outlined in the report, be approved.

3. Background

- 3.1. Audit Scotland have recommended that Lanarkshire Valuation Joint Board prepare a medium / long term financial plan. Now that the 2018/19 Revenue Budget has been set, it is appropriate to provide a proposed strategy for 2019/20 to 2021/22, along with an outlook towards the longer term for the years to 2023/24.
- 3.2. Section 4 of this report sets the scene for the medium term financial strategy by reminding members of the 2018/19 budget.
- 3.3. Section 5 provides the 3 year expenditure strategy while section 6 summarises how any funding shortfall will be managed.
- 3.4. Section 7 of the report provides an insight into a longer term Strategy and Section 8 details the future strategy for Reserves.

4. Lanarkshire Valuation Joint Board Revenue Budget 2018/19

- 4.1. The Board's Revenue Budget for 2018/19 has been set at £4.108m. Details of the 2018/19 Budget are shown in Appendix 1 for reference.
- 4.2. Funding comes from 2 main sources:
- South Lanarkshire Council and North Lanarkshire Council provide funding via requisition payments. For 2018/19, these total £3.626m.
 - Individual Electoral Registration (IER) funding from the Cabinet Office has been received in years 2013/14 to 2017/18. While no indicative allocations have been provided for 2018/19, £0.312m has been assumed, similar to 2017/18.

- The expenditure budget of £4.108m is balanced by the use of Reserves (£0.170m). The Reserves at the end of 2018/19 are anticipated to be £0.045m.

5. Budget Strategy Assumptions – Expenditure

- 5.1. This section details the assumptions being made to the budgets for 2019/20 to 2021/22.
- 5.2. **Pay Strategy:** Negotiations are ongoing to finalise the pay award for 2018/19. This may include a multi-year agreement, however, until the outcome of the negotiations are complete, estimates have been included in the Strategy reflecting the Public Sector Pay Policy. As these national discussions are not yet final, this presents a risk to the Strategy.
- 5.3. **Recruitment:** Trends over recent years are showing that recruitment and retention of qualified Valuers is becoming difficult for the Board. To maintain the number of Valuation employees required to carry out the workload, the Board has employed a number of Trainee Valuers and Trainee Technicians. The effect of this move has been a reduction in employee salary costs since 2016/17, however, going forward from the current year, trainee employees will be due annual increments and PDR increases. This is included in the Strategy.
- 5.4. **Overtime and Temporary Staff:** The 2019/20 budget includes an increase to Employee Costs of £0.005m for temporary staff and overtime based on the actual expenditure outturn for 2017/18 and continuing trend for this budget requirement.
- 5.5. **Taking account of all pay pressures above, the following has been added to the budget: 2019/20 £0.099m; 2020/21 £0.100m; 2021/22 £0.099m.**
- 5.6. **Property Strategy:** The current lease between South Lanarkshire Council and Hamilton Academicals Football Club expires in May 2021. The budget for Property Costs continues, as would be normal practice, however, the Board will work with South Lanarkshire Council Property Services for options beyond May 2021. This may result in savings moving forward.
- 5.7. **Valuation Appeal Panel / Engaging Counsel:** Valuation Appeal Panel expenses and Engaging Counsel budgets were increased into 2018/19 to reflect anticipated costs of activity. This was based on the significant level of appeals received following the recent non domestic rate Revaluation. The same level of budget is expected to be required into 2019/20 to 2021/22.
- 5.8. **Price Increases:** The Strategy assumes minor increases in prices in Postages, Information Technology, Central Administration and the contribution made to the Scottish Assessors Association Portal. **The following has been added to the Strategy: 2019/20 £0.009m; 2020/21 £0.009m; 2021/22 £0.009m.**
- 5.9. **Other Budget Adjustments:** As Trainee Valuers and Trainee Technicians progress through their courses, training costs will reduce. The approved budget for 2018/19 includes training costs of £0.006 which should not be required in 2019/20 – 2021/22. **The amount of £0.006m has been removed from the Strategy in each of the 3 years.**

5.10. **Proposed Management of Expenditure Strategy:** Sections 5.1 to 5.9 above show an increase to the Strategy of 2019/20 £0.102m, 2020/21 £0.109m and 2021/22 £0.108m. **It is proposed that the Board generate efficiencies to manage these pressures in each of the 3 years.** This is the same approach as has been taken in recent years. This equates to 2% of the budget and the Board would be required to meet this target in each of the 3 years.

5.11. **Summary of Expenditure Strategy 2019/20 to 2021/22**

5.11.1. Taking account of the current base budget and the commitments identified in the Expenditure Strategy noted in section 5 above, Table 1 details the budget gap across the years of this Strategy.

Table 1 – Expenditure Strategy 2019/20 to 2021/22

Revenue Budget Strategy	2018/19	2019/20	2020/21	2021/22
Estimated Income	£	£	£	£
Council Requisition Payment	3.626	3.626	3.626	3.626
Anticipated IER Cabinet Office Funding	0.312	0.312	0.312	0.312
Reserves (section 6.1)	0.170	0.045	-	-
Total Estimated Income	4.108	3.983	3.938	3.938
Base Expenditure Budget	4.108	4.108	4.108	4.108
Pay Strategy and Recruitment (section 5.2 – 5.5)		0.099	0.100	0.099
Price Increases (section 5.8)		0.009	0.009	0.009
Other Budget Adjustments (section 5.9)		(0.006)	0.000	0.000
Total Expenditure		4.210	4.217	4.216
Efficiency Savings Required (section 5.10)		(0.102)	(0.109)	(0.108)
Revised Expenditure Budget (after efficiency savings)		4.108	4.108	4.108
Resultant Funding Shortfall		0.125	0.170	0.170

6. Managing Funding Shortfall

6.1. In recent years, the Requisition payments made by the two councils have not covered the Board's costs, with Reserves being used to manage the budget. For 2018/19, the estimated use of Reserves is £0.170m, leaving £0.045m to be carried into 2019/20.

6.2. **Requisition Payments:** In recent years, the Board has managed its budget through the use of available reserves. As such, the requisitions from councils have been lower than the Budget set. For 2018/19, this shortfall in requisitions is £0.170m. Moving forward, these reserves will not be available and therefore, it is proposed that both North and South Lanarkshire Councils increase the level of funding to meet the

shortfall: **this equates to an increase of £0.125m into 2019/20 (£0.063m per council) and then by another £0.045m into 2020/21 (£0.023m per council).** It is expected that government funding for councils may reduce over this timeframe, however, it is not planned to pass this reduction on to the Board through this Strategy.

- 6.3. **Property Strategy:** As detailed in paragraph 5.6, the current office accommodation provision ends in May 2021. Accommodation will be reviewed and the outcome of this may identify savings in 2021/22, which may reduce the level of increased requisition payments required by North and South Lanarkshire Councils.
- 6.4. Table 2, shows the budget gap identified in Table 1 at 5.12, and takes into account the proposed funding solutions above.

Table 2 – Managing the Budget Shortfall

	2018/19	2019/20	2020/21	2021/22
	£	£	£	£
Revised Expenditure Budget (from Table 1)	4.108	4.108	4.108	4.108
Funding				
Council Requisition Payment (section 6.3)	3.626	3.751	3.796	3.796
IER Cabinet Office Funding	0.312	0.312	0.312	0.312
Reserves (section 5.9)	0.170	0.045	-	-
Total Estimated Income	4.108	4.108	4.108	4.108

- 6.5. Table 2 confirms that the Board has the same budget available to spend in each year of the 3 year strategy period.
- 6.6. The table also shows the proposed Requisition payments to be made by North and South Lanarkshire Councils in the years 2019/20 to 2021/22.
- 7. Strategy 2022/23 to 2023/24**
- 7.1. In addition to looking at a medium term Financial Strategy to 2021/22, it is considered best practice to consider the longer term outlook, and present a picture of what the Board could be facing over the next 5 years.
- 7.2. In section 5, the uncertainties around pay awards and recruitment have been discussed and these are only likely to continue. In addition, Income received from the Cabinet Office is not guaranteed for future years, therefore, it is difficult at this time to predict the requirement for future efficiency savings and/or potential increases to Requisition payments going forward.
- 7.3. This uncertainty makes planning for future years difficult, and any estimation of funding over this time period will require to be updated regularly. Longer term planning can only give a general indication of the financial position going forward.

- 7.4. The Valuation Joint Boards (Scotland) Order 1995 notes that any “expenses incurred by the Board shall be defrayed by its constituent authorities”. In order to meet this requirement, the Revenue Budget for each coming year will be presented to the Board following discussions between the Assessor and Electoral Registration Officer, the Treasurer and both councils, to ensure any pressures and funding solutions available are considered.
- 7.5. **Barclay Review:** It is anticipated that there will be an impact on expenditure levels in the coming years as a result of the Barclay Review. The biggest impact will be resourcing three yearly revaluations together with the tone date moving from two years pre a revaluation to one, however, this cannot be quantified as yet and no account has been taken in the Budget Strategy. Work is underway with the Scottish Assessors’ Association to identify costs.

8. Reserves – Future Strategy

- 8.1. It is the responsibility of the Treasurer of the Lanarkshire Valuation Joint Board to advise the Board on the level of Reserves it should hold and to ensure that there are clear protocols for their establishment and use.
- 8.2. There is no prescribed minimum or maximum level of Reserves which should be held by a Joint Board. However, it is appropriate that the Board hold some monies in reserve which can be utilised as and when the need arises in any financial year. To facilitate this, notwithstanding the position as detailed in Table 3 below, any underspends which may arise in year, will be transferred to Reserves at the end of the financial year. This gives the Board flexibility in managing its budget across years.
- 8.3. As a body that is funded by requisitions from councils under the direction of the Board, the Board will manage its budget in year with any risk items identified to the Treasurer as required. Any budget pressures and funding solution would be considered by the Assessor and Electoral Registration Officer and the Treasurer.
- 8.4. Table 3 shows the current level of Reserves available to the Board and the proposed utilisation to manage budgets in 2017/18 and 2018/19. The remaining balance in 2019/20 will contribute to the budget shortfall but not cover all of the gap.

Table 3 – Reserves Position

	2017/18	2018/19	2019/20	2020/21	2021/22
Opening Balance	0.276	0.215	0.045	0.000	0.000
Proposed utilisation of Reserves	0.061	0.170	0.045	0.000	0.000
Closing Balance	0.215	0.045	0.000	0.000	0.000

9. Employee Implications

- 9.1. There are no direct employee implications from this paper.

10. Financial Implications

- 10.1. Through the addition of items including pay increases, price increases and other budget adjustments as detailed at section 5, there is a requirement to make savings in 2019/20 to 2021/22 of £0.102m, £0.108m and £0.108m.

11. Other Implications

- 11.1. The paper clearly identifies a number of key risks affecting the finances of the Board and clearly states the assumptions made in relation to each risk.
- 11.2. The Financial Strategy is a way of managing a number of key risks which directly impact on the money available to deliver the Board's objectives. As detailed in the report, there is no certainty on the level of funding that will be received over the life of this Strategy. This Strategy is based on the best economic information and advice we have, however, it is accepted that these are assumption.
- 11.3 There are no implications for sustainability in terms of the information contained in this report.

12. Equality Impact Assessment and Consultation Arrangements

- 12.1. There is no requirement to carry out an impact assessment in terms of the proposals contained within this report.
- 12.2. There is also no requirement to undertake any consultation in relation to the content of this report.

Paul Manning
Treasurer

9 February 2018

Previous References

- ◆ None

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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Lanarkshire Valuation Joint Board

Revenue Budget 2018/2019

Description	2018/19 Required Budget £m
Employee Costs	2.849
Property Costs	0.325
Supplies and Services	0.083
Administration Costs	0.824
Payments to Other Bodies	0.024
Financing Charges	0.010
Gross Expenditure	4.115
Income	(0.007)
Net Expenditure	4.108
 Net Expenditure Budget Funded by :	
Requisition from North Lanarkshire Council	(1.813)
Requisition from South Lanarkshire Council	(1.813)
IER Funding – Cabinet Office	(0.312)
Reserves (monies c/f from previous years)	(0.170)
 Net Budget	 0.000