

Report

Report to:	Lanarkshire Valuation Joint Board
Date of Meeting:	27 June 2022
Report by:	Treasurer to Lanarkshire Valuation Joint Board

Subject:	Financial Strategy 2023/2024 to 2025/2026
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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 2023/2024 to 2025/2026
- ◆ 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. A revised medium-term financial strategy for 2021/2022 to 2023/2024 was presented to the Board in December 2020. This detailed the planned approach to managing the Board's budget over the coming years and explained the planned use of Reserves until end 2023/2024.
- 3.2. This strategy was based on using £0.175 million of Reserves in its final year and acknowledged that as the reliance on the use of Reserves is not sustainable in the longer term, the Board were required to make efficiency savings of £0.175 million over the next three years, to cover the use of Reserves after 2023/2024.
- 3.3. Following the 2021/2022 financial year-end, there will be a balance on Reserves of £1.479 million for use in 2022/2023 and beyond. This is the position on which the Medium-Term Strategy will be based. The significant Reserves position mainly reflects the difficulties in recruitment and retention of staff, particularly across the years of the pandemic, and necessitates a review of the Strategy.
- 3.4. Scottish Government Barclay funding has been allocated to the Board in recent years and there is an agreed allocation for 2022/2023. Due to the timing of the confirmation, the Barclay funding was not reflected in the approved budget for 2022/2023, however, it will be added to the budget in a separate report to this meeting. The value for 2022/2023 is £0.698 million. The level of funding beyond 2022/2023 is unknown and there is still a level of uncertainty regarding the future funding of the Barclay recommendations and the timescales for these. As such, an estimation will be made regarding the spend and income associated with the Barclay implementation. This will be reflected in the Board's Medium-Term Strategy.

- 3.5. The purpose of this paper is to present a new Medium-Term Strategy for the Board's Budget, following completion of the 2021/2022 year-end and the setting of the 2022/2023 Budget. In relation to the Board's budget strategy, the continued increase in workload across all three key business areas of the Board (Non-Domestic Valuation, Council Tax Valuation and Electoral Registration) mean that ways of maintaining service delivery and compliance with statutory duties of the Assessor and Electoral Registration Officer, against a backdrop of budgetary pressures, continue to be reviewed and are reflected in the strategy proposed in this paper.
- 3.6. Section 4 provides a reminder of the 2022/2023 Budget as the starting point for the Medium-Term Strategy, including the level of Reserves available for 2022/2023 and beyond. Section 5 will detail the Strategy for the Medium Term from 2023/2024 to 2025/2026.

4. **2022/2023 Budget and Reserves Position**

- 4.1. The Board's budget for 2022/2023 was approved by the Board on 6 December 2021. This budget excluded the additional funding provided for the implementation of the Barclay Review and any related spend, however, this has now been notified to councils and is included in Table 1. The details of this and budget movements are included in a separate report to this meeting (Revenue Budget Monitoring 2022/2023). This will be the starting point for the Medium-Term Strategy for financial years 2023/2024 to 2025/2026.
- 4.2. Table 1 summarises 2022/2023 budget including the funding from Contributions and Reserves.

Table 1 – 2022/2023 Budget

	Base £m	Barclay & Budget Movement £m	Total £m
2022/2023 Expenditure Budget	3.665	0.600	4.265
Funded By:			
2022/23 Contributions	3.472	0.733	4.205
2022/23 Use of Reserves	0.193	(0.133)	0.060
2022/2023 Income Budget	3.665	0.600	4.265

- 4.3. As noted in Table 1, Reserves of £0.060 million are being used as part of the Board's funding in 2022/2023. At the end of financial year 2021/2022, the balance on Reserves is £1.479 million. Taking into account the use of £0.060 million in 2022/2023 will leave £1.419 million for future years. This equates to 33% of the Board's annual budget for 2022/2023.
- #### 5. **Medium Term Financial Strategy – 2023/2024 to 2025/2026**
- 5.1. As noted in section 4.3, following the final year end position for 2021/2022 and the use of Reserves for the 2022/2023 Budget Strategy, there is a balance of £1.419 million available in Reserves. This is a significant level of reserves, however, the strategy detailed in the paragraphs below will demonstrate how these reserves will be used, and why this level is considered appropriate.

5.2. Appendix 1 shows the budget for 2022/2023 (and beyond), taking 2022/2023 as the starting point. Appendix 1 also shows the proposed Strategy for the Board over the next 3 years to the end of 2025/2026. The main principles on which the Strategy are based are:-

- That the Employee Cost Budget reflects the progression of staff through pay grades, in line with agreed pay structures.
- That price increases, pay awards and an estimated 1% reduction in contributions are managed by efficiencies generated by the Board in each year.
- That the budget includes a staff turnover target of 4% per annum (based on prior years' experience this is considered realistic).
- That the pay award is higher than originally budgeted at 2% for 2022/2023, and then is assumed at 1% for the following 3 years. This is an area of risk.
- That the transfer of Valuation Appeal Panel activities to the Scottish Courts and Tribunal Service will have no financial impact (the money will be removed from the councils' settlements and therefore from the income the Board receives from councils).
- That the Barclay funding is assumed at the same level as 2022/2023, as no information is known beyond that year.
- That this position may be affected by further in-year underspends that have not yet been foreseen.

5.3. As part of the Strategy, reflecting the level of reserves held, the level of Council contributions that will be paid to LVJB have been reduced by £0.050m in 2023/2024 and a further £0.050m in 2024/2025. This means that each council's contribution will reduce by £0.025m in 2023/2024 and a further £0.025m in 2024/25.

5.4. Table 2 summarises the impact on Reserves across the 3 years of the Strategy (full detail is shown in Appendix 1). Table 2 shows that by applying the principles noted in 5.2, the Board would have a balance of £0.502 million at the end of 2025/2026.

Table 2 – Reserves Forecast and strategy

	2022/23 (year 0) £m	2023/24 (year 1) £m	2024/25 (year 2) £m	2025/26 (year 3) £m
Opening Balance	1.479	1.419	1.237	0.905
Proposed Utilisation of Reserves	(0.060)	(0.182)	(0.332)	(0.403)
Closing Balance	1.419	1.237	0.905	0.502

5.5. Table 2 shows that at the end of the Strategy period, the Board will have a balance on Reserves of £0.502 million. This is after a reduction in councils' contributions of £0.050m in 2023/24 and 2024/25. This still represents a significant balance. The reason it is considered appropriate to work towards holding this level of reserve relates to a risk that funding for Barclay may not be recurring.

5.6. This strategy is required because there are uncertainties for the Board in relation to the implementation of the Barclay recommendations. The Scottish Government cannot guarantee at this stage a continuation of funding beyond the current parliamentary term. There is currently £0.698m per annum of funding provided for Barclay, and this is spent mainly on staffing. This strategy assumes all in year monies for Barclay will be spent.

- 5.7. Beyond 2025/2026, the Board will require to cover the risk of the Barclay funding being reduced or removed. Therefore a £0.502m balance of reserves is considered reasonable to mitigate this risk.
- 5.8. In 2025/2026, there is still a reliance on reserves (£0.403 million). We will undertake a review of this reliance in the last year of the Strategy (2025/2026). This will be presented to the Board as required
- 5.9. 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 2 / Appendix 1, 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.
- 5.10. As a body that is funded by contributions 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.

6. Employee Implications

- 6.1. There are no direct employee implications contained within this report.

7. Financial Implications

- 7.1. The Reserves balance is £1.479 million at the end of 2021/2022, as detailed in the Revenue Budget Monitoring 2021/2022 report. Of this, £0.060 million is committed to the 2022/2023 Budget, leaving a balance of £1.419 million.
- 7.2. The Strategy proposed in Section 5 presents the Board with a proposed approach to managing the budget over the years beyond 2022/2023. This is alongside the uncertainties facing the Board in relation to the increased workloads as a result of Barclay recommendations and future funding.
- 7.3. Appendix 1 demonstrates that if the Board's expenditure is incurred in line with the budget, and includes efficiencies to cover employee costs, pay award and price increases, then the Reserves balance will be at £0.502 million at the end of 2025/2026.

8. Climate Change, Sustainability and Environmental Implications

- 8.1. There are no climate change, sustainability or environmental implications in terms of the information contained in this report.

9. Other Implications

- 9.1. The main risk in setting this budget is that there is no additional Barclay funding and that the level of expenditure cannot be managed within the budget set. Information will be provided via COSLA and the Scottish Government regarding future funding.
- 9.2. An additional risk associated with the Valuation Board's Budget Strategy is that an overspend occurs as a result of the increased workload across the three main service delivery areas. There is also a risk that efficiency savings become unachievable for the Board, and this could impact on the level of contributions from the constituent authorities. These risks are managed through four weekly Budget Monitoring Meetings at which any variance is analysed. In addition, the probable

outturn exercise each year ensures early warning for corrective action to be taken where appropriate, including the reliance on a greater use of Reserves monies in any one year.

10. Equality Impact Assessment and Consultation Arrangements

- 10.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.
- 10.2. There is also no requirement to undertake any consultation in terms of the information contained in the report.

Paul Manning
Treasurer

15 June 2022

Previous References

- ◆ Financial Strategy 2019/20 to 2021/22 and Longer-Term Outlook – 5 March 2018
- ◆ Revenue Budget 2022/2023 – Lanarkshire Valuation Joint Board – 6 December 2021

List of Background Papers

- ◆ None

Contact for Further Information

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

Lorraine O'Hagan, Finance Manager (Strategy)

Ext: 2601 (Tel: 01698 452601)

E-mail: lorraine.o'hagan@southlanarkshire.gov.uk.

Appendix 1

Revenue Budget Strategy	2022/2023 <i>(year 0)</i> £	2023/2024 <i>(year 1)</i> £	2024/2025 <i>(year 2)</i> £	2025/2026 <i>(year 3)</i> £
Base Expenditure Budget	-	4.265	4.302	4.367
Pay Strategy and Recruitment	-	0.072	0.100	0.071
Pay Award	-	0.060	0.030	0.030
Price Increases	-	0.006	0.006	0.012
Efficiency Savings - to meet Pay Award (£0.060m), Price Increases (£0.006m) and Grant Reduction (£0.035m)	-	(0.101)	(0.071)	(0.077)
Total Expenditure	4.265	4.302	4.367	4.403
Estimated Income				
Council Contribution Payments <i>(incl £0.050m in 2023/24 and 2024/25)</i>	3.507	3.457	3.372	3.337
Less Reduction in Grant pa (at 1%)	-	(0.035)	(0.035)	(0.035)
Barclay Funding	0.698	0.698	0.698	0.698
Revised Council Contributions including Barclay funding	4.205	4.120	4.035	4.000
Reserves	0.060	0.182	0.332	0.403
Total Estimated Income	4.265	4.302	4.367	4.403

Reserves	2022/2023 £m	2023/2024 £m	2024/2025 £m	2025/2026 £m
Opening Balance	1.479	1.419	1.237	0.905
Transfer to / (from) Reserves	(0.060)	(0.182)	(0.332)	(0.403)
Closing Balance	1.419	1.237	0.905	0.502