

**To:** Renfrewshire Valuation Joint Board

**On:** 23 November 2018

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**Report by:** The Treasurer

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**Heading:** Financial Outlook 2019 - 2022

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## **1. Overview & Key Messages**

- 1.1 This report provides Member Councils with an overview of the ongoing financial challenges and risks that the Board is facing linked to both the ongoing constrained financial environment within which the Board and local government operate, but also as a result of potential service changes linked to the implementation of the Barclay review recommendations. A separate report by the Assessor provides further operational detail with regards the financial challenges outlined in this report.
- 1.2 It is likely that pressure on public finances will continue for the foreseeable future. The Valuation Joint Board recognises the impact of this difficult financial climate on its Member Councils and as a result it continually seeks to generate efficiencies where possible. However, with a significant number of statutory duties to be met, the ability of the Board to meet its financial objectives is increasingly constrained.
- 1.3 The level of reserves has reduced in recent years as agreed by the Board, and will reduce further over the course of 2018/19 in line with the budget position agreed. In order to meet current and future obligations as well as their statutory duties, the Board requires to modernise through significant investment in ICT infrastructure. The level of reserves available may not be sufficient to meet the one-off costs of the required investment. This investment will deliver recurring savings, however these are likely to be offset by increased ICT operating costs.
- 1.4 The underlying financial position of the Board remains challenging, with further savings requirements and requisition increases being a feature of the medium term outlook.

## **2. Recommendations**

- 2.1 Note the update regarding the Valuation Joint Board's current financial position.
- 2.2 Note the financial challenges facing the Valuation Joint Board,
- 2.3 Note that this report will inform the 2019/20 revenue estimates which will be presented for the Board's consideration at the next meeting in January; and that the Treasurer will continue to work with the Assessor in the coming weeks to develop the budget for 2019/20 as cost pressures are further clarified.

## **3. Current Financial Position**

- 3.1 The current financial position of the Board is stable and it is anticipated that there will be a drawdown of £33,400 this financial year against a budgeted drawdown of £66,700. This underspend is primarily due to staff turnover and a reduction in property costs as a result of the revised lease arrangements for Robertson Centre which are further explained below.
- 3.2 National pay negotiations for 2018/19 are currently ongoing. The Board have budgeted for a 3% increase however there are risks around this position, with a 3% offer being rejected by trade unions. Future years pay awards have yet to be determined.
- 3.3 In addition to the budgeted pay award of 3%, the Board have also increased their superannuation contributions to 20.2% as result of the recent triennial actuarial valuation which highlighted a projected shortfall in the funded position of the Board's pension liabilities.

### **Robertson Centre**

- 3.4 Although the initial intention of the Board was to sub-let the top floor of Robertson Centre in order to generate additional income and ease budget pressures, the Board have opted for an alternative arrangement with Renfrewshire Council.
- 3.5 The existing lease has been rescinded and the Board are negotiating a new lease with the Council. They currently have a License to Occupy, effective from 1<sup>st</sup> October 2018. It is expected that the new lease will operate until 2024 which is in line with the previous lease term and is for rental of the ground floor only. The Council are assuming responsibility for the top floor of the building.
- 3.6 The annual rental charge to the Board will reduce from £55,000 to £32,500 with consequential reduction in non-domestic rates costs. All other property costs such as utilities are currently being negotiated between the Board and the

Council. It is anticipated that the Board's overall property costs will reduce by approximately £50,000.

- 3.7 Renfrewshire Council are absorbing all of the costs associated with converting the building into two separate entities. The Council have also agreed to provide free storage space at one of their facilities for the Board to store scanned files that cannot be destroyed until they have an appropriate Disaster Recovery plan in place. This is a temporary arrangement for a period of 1 year to allow the Board to scan all of their documents online.
- 3.8 The Board's previous lease came into effect in 2011 and the Council has not increased the annual rental charge during that period. However, the new lease is expected to stipulate a rent review in March 2020.
- 3.9 The Board will still be required to pay the £43k capital charge with respect to the refurbishment of the Robertson Centre. The Council extended the repayment period in 2017 by a further 3 years to reduce the annual payments that the Board incurs each year.
- 3.10 In addition, the Council has absorbed the cost of repairs to the Robertson Centre since 2011, despite the lease stipulating that this was the responsibility of the Board. The Council can no longer absorb these costs so the terms of the new lease stipulate that the Board will now be responsible for repairs and a budget will require to be allocated in this regard from 2019/20. The Board anticipate repairs costing approximately £8k per annum.

#### **4 Level of Requisitions & Reserves**

- 4.1 Requisitions payable to the Board have decreased or been "flat-cash" each year since 2011, with the exception of a 3% increase in 2018/19. During that period, the level of reserves has reduced substantially to £186k in 2017/18 with an anticipated drawdown on reserves this year of £33,400.
- 4.2 The projected reserves position of the Board at the end of this financial year is estimated to fall close to 5% of turnover. This is at the floor of the level deemed prudent in terms of ensuring financial sustainability and managing the financial risks discussed in this report; and will impact on the Board's ability to implement major change in either operations or staffing structures.
- 4.3 The budget agreed for 2018/19 also provided an indication of the level of requisitions payable for the next 2 financial years, which was proposed at 1% based on a range of savings and cost pressure assumptions. These indicative estimates did not include any potential costs resulting from implementation of the Barclay review recommendations – these are further explored below.

- 4.4 The indicative estimates included an assumed level of saving of £120,000 over two years from 2019/20. It is currently estimated that this level saving will still be possible, with an estimated £75,000 being deliverable in 2019/20 linked to efficiencies possible from revised working practices driven through improved use of technology. However, as work to develop the associated ICT requirements has developed over the course of 2018, it has become apparent that the operating costs of the new ICT systems are significantly above that anticipated, and will in effect offset the 19/20 savings anticipated.
- 4.5 There are also one-off costs associated with ICT systems developments, and in her separate report on this agenda the Assessor is seeking permission from the Board to utilise the anticipated underspend in 2018/19 to fund the implementation costs of an electoral management system; with further one off costs anticipated to be incurred in order to replace the currently unsupported NDR and council tax system in 2019/20.
- 4.5 Given that the 19/20 potential efficiency savings derived from investment in technology cannot now contribute to support the core financial position of the Board, a revision to the level of requisition indicated may be required in order to ensure the financial sustainability of the Board in light not just of existing pressures but future pressures associated with the potential loss of IER funding.

## **5 Individual Electoral Registration (IER)**

- 5.1 Funding for IER has been diminishing and the Board are anticipating a 10% reduction in their income from the Cabinet Office in 2019/20 and that funding will cease completely in 2020-21. Although the volume of work relating to IER is expected to reduce, the Joint Board will continue to incur administrative and staffing costs (Canvassers).

## **6 Barclay Review**

- 6.1 Additional costs will be incurred by the Board from the implementation of the Barclay recommendations. At this stage, it is anticipated that the Scottish Government will fund all of the costs associated with the implementation of Barclay's recommendations, however there remains a significant risk that funding provided will not match the costs which will be incurred in fully implementing the Review recommendations.
- 6.2 It is anticipated that changes to the revaluation cycle from 5 to 3 years is expected to increase the workload of the Board by approximately 60%. As part of the Scottish Government's consultation process, the Council and Joint Board both submitted their responses highlighting this 60% increase in workload.

- 6.3 Although the Barclay review recommendations are not expected to come into effect immediately, the Board need to start planning and preparing now in order to undertake the increased workload, especially the recruitment of suitable employees, as it takes time to train and develop personnel. The Board envisage difficulty in attracting and retaining staff as they are competing with other Joint Boards for staff who have the relevant knowledge and experience.
- 6.4 A particular pressure for the Board will be the move to a revaluation cycle every 3 years as opposed to every 5. This will require a substantial information gathering process to collect rental and cost information, processes which the investment in ICT systems will help make more efficient.
- 6.5 A further pressure for the Board will result from the fact that the Assessor for Renfrewshire is also the designated Assessor for fixed line telecommunications across Scotland. This work is currently supported by the VOA in England, however differing valuation cycles could result in a position whereby this support is no longer available.

## **7 Conclusion**

- 7.1 The above information outlines that there are increased risks and costs for the Board in 2019/20 which were not apparent at the start of 2018, and which were not anticipated or included within the indicative financial position outlined when the Board agreed the 2018/19 budget.
- 7.2 The Assessor and the Treasurer will continue to work together to develop a budget proposal for 2019/20 and future years which recognises these unfolding risks and costs and will continue to seek ways in which further efficiencies can be achieved.