

Item: 11

Orkney and Shetland Valuation Joint Board: 3 March 2022.

Medium Term Financial Plan.

Report by Treasurer to the Board.

1. Purpose of Report.

To consider a Medium Term Financial Plan for the period 2022/23 to 2024/25.

2. Recommendations.

The Committee is invited to note:

2.1.

That the Medium Term Financial Plan (MTFP) serves as a key planning document for the use of resources over the medium-term.

2.2.

That the MTFP links to the Corporate and Service Plan 2019-2022 and Workforce Plan 2021-2024.

2.3.

The key principles of the MTFP, as outlined in section 6 of this report.

It is recommended:

2.4.

That the MTFP, for the period 2022/23 to 2024/25, attached as Appendix 1 to this report, be approved.

3. Background

3.1.

The public sector has faced unprecedented reductions in Government funding since 2011. In addition, competing service pressures and increasing demand for services means the Board has had to make budget savings.

3.2.

The continuing requirement to deliver budget savings presents an increasing challenge for the Board, which have been compounded by the greater financial uncertainty that exists over the medium term.

3.3.

The MTFP brings together all the financial requirements for the Board into a single planning document.

4. Purpose of the Financial Plan

4.1.

The MTFP serves as a key planning document for the use of resources over the medium-term period 2022/23 to 2024/25. It is a useful tool for planning purposes rather than a definitive statement of resourcing for the next three years. It also has linkages to the Board's Corporate and Service Plan 2019-2022 and Workforce Plan 2021-2024.

4.2.

The principal focus of the MTFP is on maintaining the provision of an effective valuation assessor and electoral registration officer service for the Orkney and Shetland Island areas.

4.3.

Improved financial planning of the Board's resources should result in better use of resources and improved outcomes as changes in the provision of services can be planned over the medium term.

5. Key Principles and Conclusions

5.1.

The MTFP is founded on the following underlying principles:

- Resources will be directed by the Board based on an assessment of the Risks and identified Priorities.
- An ongoing process of reassessment and reconfiguration will determine the sustainable level of services that can be provided over the next three years.
- The identification of efficiency savings will be redeployed towards the delivery of identified priorities, noting that staff costs represent 83% to 89% of the annual budget.
- Consultation with constituent Councils will assist to bridge the identified funding gap for each of the next three financial years.

5.2.

The MTFP recognises the national context, where real-term cash reductions have been a feature of the public sector funding model over the last ten years. With much uncertainty still surrounding the global post-Covid economic recovery, further reductions in public sector funding can be anticipated over the medium term.

5.3.

The MTFP forecasts a cumulative funding gap of £97,000 for the indicative three year budget for 2022/23 to 2024/25.

5.4.

The options available to bridge this funding gap include:

- Reduced levels of service provision.
- Realise efficiency savings.
- Generate additional income.
- Additional external income – Government and Constituent Councils.

5.5.

While the process of identifying the optimum level of service provision remains ongoing, it is considered that, with staff costs making up 83% to 89% of the Board's annual budget, scope to achieve efficiency savings and generate additional income is limited.

5.6.

The Board's approved budget for 2021/22 included an allowance of 10% towards the cost of implementing the pay and grading model which was jointly funded by the constituent Councils. Having implemented a revised pay and grading model in 2021, this effectively commits the Board to an additional level of incremental progression, including a career grade path for valuation staff. On the basis that the Board was supported through this process by the constituent Councils it is perhaps reasonable to assume that at least some of these ongoing costs will be reflected in future annual requisitions.

5.7.

An increase in employer contributions to the pension fund from 25.5% to 36.0%, or by 10.5%, over three the year period 2021/22 to 2023/24 represents an additional commitment for the Board.

5.8.

While the potential to realise an efficiency saving within staff travel and subsistence to offset this increase in part has been identified, this action represents a risk to the Board both as it returns to a full complement of staff and in advance of staff returning to working in the field post-Covid. It is however considered unlikely that this action is going to be able to generate sufficient savings to offset the increased staff costs, as identified at sections 5.6 and 5.7 above.

5.9.

The underlying assumption for the Barclay Review is that constituent Councils will passport through any revenue grant funding in respect of this initiative, and provisionally notified at £140,000 in total for 2022/23. It is further assumed that this funding stream will be baselined into the local government finance settlement beyond the term of the initial implementation phase.

5.10.

Over the medium term, it is considered that the annual requisitions to the constituent Councils will increasingly be required to address the financial implications associated with the improved staff terms and conditions that the Board is committed to.

5.11.

The Board is reliant on the continued financial support of the constituent Councils to balance the budget. This reliance is however also recognised in statute as the Board is empowered to set an annual requisition for the constituent Council's when approving an annual balanced budget.

5.12.

It is recommended that the Medium Term Financial Plan for 2022/23 to 2024/25, attached as Appendix 1 to this report, be approved.

6. Human Resource Implications

6.1.

A key part of the MTFP is workforce planning with the aim being to help manage the workforce in the present and plan effectively for the future. Workforce planning is the process that organisations use to make sure they have the right people with the right skills, in the right place, at the right time.

6.2.

A Workforce Plan has been developed to deal with the key challenges facing the Board in terms of workforce requirements over the medium term, including the establishment and maintenance of a career path for valuation staff.

6.3.

Workforce Plans may also have to be developed for future scenarios where funding levels are not maintained in line with the possible scenario projections contained in the MTFP.

6.4.

In future, further work will be undertaken on the longer-term forecast, including consideration of how changes in technology and demands on the service may impact on the Board.

7. Financial Implications

7.1.

The MTFP identifies a funding gap based of £97,000 over the three-year period to 2022/23 to 2024/25 based on a most “Likely Case”, equivalent to 9% of the annual budget. This compares to £92,000 and £100,000 in respect of a possible “Best Case” and “Worst Case” scenarios.

7.2.

With staff costs representing between 83% and 89% of the Board’s annual revenue budget capacity to generate recurring efficiency savings from non-staff costs principally to address staffing costs is extremely limited.

7.3.

Annex 3 of the MTFP provides a 10 year forecast of the funding gap that will require to be bridged in the event that the constituent Councils’ requisitions are not increased beyond the proposed level for financial year 2022/23. This has been costed at a cumulative £332,000, equivalent to 26% of the annual budget.

8. Governance Aspects

8.1.

The Board is required by law to make arrangements which secure best value and in doing so must be able to demonstrate that it is making the best use of public resources. The Medium Term Financial Plan will contribute to discharging that obligation.

8.2.

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

9. Contact Officer

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10. Appendix

Appendix 1: Medium Term Financial Plan 2022/23 to 2024/25.

Orkney and Shetland Valuation Joint Board

Medium Term Financial Plan for 2022/23 to 2024/25 including 10 Year Long-Term Forecast to 2031/32

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1. Introduction

1.1. The purpose of the Financial Plan is to allow the Valuation Joint Board (“the Board”) to consider and plan for medium to longer term financial issues by providing early sight of pressures arising from areas such as: constituent authority funding reductions; service demand changes; etc. The Financial Plan demonstrates that the Board is clear that the outcomes it plans to achieve link directly to the financial plans for the future and that any financial challenges identified which threaten the achievement of these outcomes are managed and prioritised in an orderly manner.

1.2. In recent years, the Scottish Government has provided a single year settlement for councils. This clearly makes it difficult to predict constituent contributions going forward, though it seems clear that the trend of reducing funding to councils may continue on an ongoing basis which is likely to result in pressure to reduce Board requisitions.

1.2.1. In general it is anticipated that the Board will face significant financial challenges over at least the next three to five years. It is therefore likely that difficult choices will continue to be required – this Plan provides a practical framework within which choices will be identified, debated and approved.

1.3. To provide clear and consistent direction for the Board, the following objectives have been identified for the Financial Plan – it will ensure that:

- the Board has a comprehensive, coherent balanced budget;
- resources are allocated and deployed to facilitate delivery of services;
- all key strategic decisions on the allocation and deployment of resources are made within the appropriate financial context, with due regard to levels of risk;
- the Board is able to take full account of the impact of decisions on the overall financial resources of the Board in the short, medium and long term;
- the Board has flexibility to address new policy requirements, or significant changes to existing policies, within overall available financial resources; and
- there is an ongoing focus on securing efficiencies across the organisation.

1.4. The primary financial challenges facing the Board over the period of this Plan will be delivering a coherent, balanced revenue budget year on year. To deliver this, the Board will need to continuously review existing and revised service delivery arrangements to determine if they are effective, efficient and sustainable, consider alternative methods of service delivery where appropriate and proactively identify opportunities to secure efficiencies or reduce service provision.

1.5. There is no doubt that the information generated through this process will result in options that require hard choices – one of the main challenges for the Board over the next few years will be that, once chosen, these options will often require a lead-in period prior to implementation.

1.6. If the Financial Plan is to be successful, and achieve the objectives outlined, it must be a dynamic, living document reviewed on a regular basis.

1.7. The financial plan undertakes some sensitivity analysis to provide a picture of best case, worst case and likely case in terms of financial projections. This allows Board to see the risk associated with the range of variables within the financial issues/pressures identified.

1.8. The plan also seeks to provide a longer term projection of the Board's future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the further away from the current date that projections go the less certain the projections become, they will nevertheless allow the Board to consider longer term views and options.

Cllr Andrew Drever
Convener of the Board

Dennis Stevenson
Assessor & ERO

2. Purpose of a Financial Plan

2.1. The purpose of a Financial Plan is to provide clear direction, supported by a practical framework and explicitly defined parameters, on how the Board will structure and manage its financial resources in the medium to long term to ensure they are deployed effectively to comply with the statutory duties of the Assessor & ERO.

2.2. The ambition of the Board is to produce a Financial Plan that brings together the corporate objectives of the Board along with all the relevant financial information in a clear and accessible document over the longer term.

2.3. The value of such a Plan is that it should enable the Board to understand the wider policy and financial environment within which it operates, identify and respond flexibly to opportunities and threats, manage and mitigate risks and ensure that financial resources are contributing to the statutory duties of the Assessor & ERO.

2.4. The Plan will also provide information to a range of stakeholders:

Table 1 – Stakeholder Information.

Stakeholder	Purpose of finance strategy
For the Board and Elected Members.	To decide how available financial resources will be used and prioritised.
For Officers, managers and employees.	To reinforce and support their roles in financial management arrangements.
For partners, including constituent councils.	To share the Board's vision and help understand legislative demands on the Board.

2.5. The Plan identifies issues that will impact longer term so that the Board can plan ahead; it includes expenditure forecasts, and projected funding, where known.

2.6. Inevitably some of the information of the Financial Plan will be based on assumptions and these will change over time - the Plan will be reviewed and updated annually so that the Board can respond proactively to any such changes. This is particularly the case the longer into the future the projections are taken.

3. Financial Summary

Revenue Budget

3.1. The budget process for 2022/23 will be progressed through the Board in the normal manner enabling the Board to set a balanced budget for the financial year ahead.

3.2. Indicative budget gaps for 2023/24 (£40,000) and 2024/25 (£98,000, cumulative) will be reviewed by Members during the budget setting process for 2023/24.

3.3. A sensitivity analysis has been undertaken on the main areas of financial pressure facing the Board and this provides the range of anticipated outcomes in terms of future budget gaps based on a best case, worst case and likely case outcomes as follows:

Table 2 – Outcome of sensitivity analysis.

	2022/23 £000s	2023/24 £000s	2024/25 £000s
Likely Projection	0	40	57
Best Case	0	39	54
Worst Case	0	41	59

3.3.1. The above illustrates that following the review of the financial position and under the “likely” set of assumptions that the gaps for 2023/24 to 2024/25 have increased due to assumptions such as pay award, employers pension contributions, Government grant and estimated Barclay Review costs as set out in Annex 2 to this report.

3.3.2. The expectation is that the Board will plan on the likely projection outcome above, however Members may wish to consider a more prudent approach and consider the worst case.

3.4. Table 3 provides a summary of the Board’s projections for 2022/23 to 2024/25. At this point, funding has yet to be confirmed for Year 1 and beyond and therefore assumptions have been made. Note these projections are based on the “likely” outcome from the sensitivity analysis identified at 3.3 above.

Table 3 – Three Year Budget Summary.

	2022/23	2023/24	2024/25
	£000s	£000s	£000s
Revenue Budget	956	1,015	1,052
Funded by:			
Constitute Contributions (including (Barclay)	(956)	(975)	(995)
Reserves	(0)	(0)	(0)
Cumulative Funding Gap	0	40	97

4. National Context

The Financial Settlement/Government Grant

4.1. The Scottish Government has only provided draft settlement figures for 2022/23 to councils at this stage. Therefore it is difficult to forecast contributions to the Board for beyond 2022/23.

4.2. The Scottish Government has allocated Scotland-wide funding for 2022/23 of £5.250m to meet the estimated costs to be incurred by the Boards in implementing the recommendations of the Barclay Review of NDR. The Board's share of this funding is £140,000 and this will be made available through the constituent Councils. Again, it is difficult to forecast the future for this funding stream beyond 2022/23, but the underlying planning assumption is that these funds will be baselined following completion of the term of the Barclay Review implementation period.

4.3. The Board is facing increased number of statutory duties along with both internal and external cost pressures. These are represented as an ongoing gap between net expenditure and constituent Council contributions, both in table 3 above and Annex 2. This has arisen during a sustained period of tightening of Local Government funding, affecting constituent Council contributions to the Joint Board. .

Brexit

4.4. The signing of the UK-EU Trade and Cooperation Agreement on 24 December 2020 has provided certainty and clarification about many of the changes arising from the UK's departure from the EU. That said, a number of areas remain to be clarified such that there remains a risk to assumptions made around future Scottish Government settlements. It is anticipated that this in turn has the potential to impact on the finance settlements to Constituent Councils and therefore likely to affect the Board. The extent of the risk around this is not quantifiable.

5. Local Context

5.1. The environment within which the Board operates has changed significantly in recent years and is likely to alter further over the period of this strategy due to changes in legislation, policy and other national developments (an example of this being the Barclay Review and the Government's Action Plan leading to the Non-Domestic Rates (Scotland) Act 2020). More recently, the Board approved a revised pay and grading model for its workforce in 2021, including a defined career path for valuation staff. The impact of these changes are reflected in the Board's Workforce Plan 2021-24.

The Planning Context

5.2. The Board's Corporate and Service Plan for 2019-22 sets out a clear vision:

"Our vision is to provide a range of valuation and electoral services to the stakeholders of the Valuation Joint Board in accordance with statute and at levels of excellence which meet or exceed their expectations".

5.3. To achieve this vision the Board will work with its key partners and the Financial Strategy underpins the delivery of the vision, priorities and objectives identified in the Service Plan 2019-22.

6. Financial Management

Corporate Governance

6.1. The Board positively promotes the principles of sound corporate governance within all aspects of its activities.

6.2. Corporate governance is about the structures and processes for decision-making, accountability, controls and behaviour throughout the Board. It is based around key principles of openness, equality, integrity and accountability.

6.3. The fundamental principles of corporate governance are reflected in the various dimensions of Board business, including:

- Ensuring the compliance with statutory duties on a sustainable basis;
- Establishing effective management structures and processes which include clearly defined roles and responsibilities for officers;
- Developing and maintaining effective risk management systems that form part of the Board's strategic decision making process;
- Ensuring high standards of propriety and probity in the stewardship of the Board's funds and the management of the Board's affairs; and
- A commitment to openness in the Board's affairs and the provision of full, accurate and clear information to all stakeholders.

6.4. The Board's Financial Regulations are currently under review. Any amendments will be approved by Board for what is an essential component of the corporate governance of the Board.

6.5. The Treasurer has been designated as "the proper officer" and is responsible for advising the Board on all financial matters including the determination of Accounting Policies. This role is part of the responsibility of the Corporate Finance Senior Manager, Orkney Islands Council.

6.6. The Financial Regulations are designed to facilitate the smooth running of the Board, protect its interests and the interests of members and officers, and ensure the proper administration of the Board's financial affairs.

Roles and Responsibilities

6.7. It is important to set out clearly the roles and responsibilities of the key parties involved in the Financial Strategy and the management of overall financial resources of the Board.

Board Members

6.8. Board Members, through the full Board are responsible for considering, monitoring and approving budgets and the overall Financial Strategy for the Board. Approved budgets must be financially balanced and demonstrate value for money and consider sustainability.

6.9. The Board scrutinises performance and management of resources, with internal and external audit information being reported. The Board's year end position and relevant audit comments are reported to and monitored by the Board.

6.10. Throughout the year the Board receives reports which allow progress against approved budgets to be scrutinised. Members' personal development opportunities are provided through an ongoing annual programme of seminars (provided to individual Members through their relevant Council) which will include updates on financial aspects.

The Board Management Team

6.11. The Management Team (made up of Assessor & ERO, Clerk to the Board and Treasurer) is responsible, individually and collectively, for ensuring that best value and value for money is achieved across the Board, in service delivery, internal processes and systems of control, procurement of goods/services and the use of assets.

6.12. The Management Team is responsible for the management of budgets to deliver the services in line with the statutory requirements of the Board and remain accountable in exercising overall financial control.

The Treasurer

6.13. The Treasurer has a statutory role to ensure the correct arrangements are in place for the proper administration of the financial affairs of the Board. The Treasurer has the authority to comment on any financial decision and advises the Management Team, the Assessor and Board members on all financial matters.

Internal Audit of Orkney Islands Council

6.14. Internal Audit provides assurance to the Board and the Assessor that the internal processes of the Board are being managed appropriately in line with the statutory requirements and outcomes are being delivered in the most efficient and effective manner.

External Audit

6.15. The role of External Audit is to provide assurance to the Auditor General and the Accounts Commission that the Board has spent public money properly to deliver outcomes in an efficient and effective manner. This is considered with a financial context, as well as performance and governance.

6.16. They provide assurance to Board members, the Management Team and general public that the Board's performance is reported in accordance with the extant financial standards and present fairly an account of the Board's activities.

Managing the Budget

6.17. The Board has an effective method of developing the revenue budget that has aims to align resources with the Assessor & ERO's statutory duties.

Revenue Budget

6.18. The current process for considering the development of the revenue budget is undertaken by the Management Team. The process is undertaken with due consideration of, and agreement on, current policy and financial parameters for the budget, expenditure pressures and/or efficiencies.

Freedoms and Flexibilities

6.19. Virements between budgets are allowed, subject to the limitations and approval requirements identified in the Financial Regulations.

Requisitioning

6.20. The funding requirement for the Electoral Registration Officer is currently requisitioned in accordance with S58 of the Representation of the People Act 1983, and for the Assessor in accordance with Sch 2 para 8(1) of the Valuation Joint Boards (Scotland) Order 1995.

7. Financial Outlook

7.1. Key financial issues are known or anticipated events and activities which will have to be addressed within the Board's overall financial resources in the short-term (within one year), medium-term (three to five years) or long-term (five to ten years). Annex 1 provides an analysis of issues.

7.2. Events and activities include efficiencies, planned savings, changes to service priorities and delivery, and known potential pressures - the financial impact of an event or activity may be one-off, recurring or time-limited.

7.3. The Valuation Joint Board is expected to receive Constituent Funding of £956,100 in 2022/23, including funding made available through Councils for Barclay Review costs of £140,000.

7.4. This Financial Plan provides detailed revenue forecasts covering the next 3 financial years, 2022/23 to 2024/25. The forecasts for the first year being more accurate as expected levels of demand and cost for Board services are more likely to be accurate in 2022/23 than in future years. The level of funding for 2023/24 onwards is not yet known. The plan projects that ongoing funding will remain constant, with scenario planning giving consideration to possible reductions, due to the likely impact of the ongoing UK austerity measures. Annex 3 provides a summary of the financial projections for the next 10 years.

7.5. As part of the budget process for 2022/23 the Board will consider a continuation of the existing strategy, namely to operate from within a balanced budget with no accumulated reserves.

Employee Pay Awards

7.6. Future employee pay awards for 2022/23 onwards have not been agreed, however, for the purpose of the Finance Plan pay award expectations has been assumed at 2% for 2022/23 to 2024/25.

7.6.1. In addition to this, the revised pay and grading model which was implemented by the Board in 2021 brings with it an expectation that the Board will now reflect incremental drift in the Financial Plan. This includes the recognition of career progression for valuation staff which has also been incorporated into the pay and grading model.

Employers Pension Contributions

7.7. Employers pension contributions have been increased by 10.5% for the three year period 2020/21 to 2023/24, or by 3.5% per annum for each of the three years. This is based on the outcome of the last actuarial review of the Shetland Islands Council Pension Fund which was completed in 2021 based on a funding position as at 31 March 2020. The recommended increase in the Board's employer contributions for the next three years is in recognition of a fairly modest increase in the Board's funding level from only 73% to 75% over this period. The net pension liability is assessed to have increased by £510,00 to £2,435,000 as at 31 March 2021.

7.7.1. Although the Shetland Islands Council Pension Fund aims to meet the needs of all its scheme members, as the Board's funding level is significantly lower than the Fund's main employer at 92% it is considered that the investment strategy of the Fund will not be specifically targeting a recovery of the Board's position. As such, this means that the funding level can only be addressed through increased employer contributions, unless an additional top-up capital contribution is provided. Such an action would however need to be agreed by the constituent Council's which in the current climate is perhaps unlikely. The employer pension contributions have been increased to 29.0% for 2021/22, 32.5% for 2022/23 and 36% for 2023/24, along with an assumption that this rate will need to be held that 36% beyond 2023/24.

Future Challenges

7.8. The future will continue to present new challenges and demand additional duties which will exert cost pressures, including:

- The proposed change from 5 yearly Non Domestic Rates (NDR) Revaluations to 3 yearly cycles, as set by the Non-Domestic Rates (Scotland) Act 2020, which are out of step with others in the UK and will significantly compress workloads and increase resource requirements.
- The NDR appeal system is currently subject to review and is likely to introduce a two-stage proposal and appeal process which will be a demand on resources.
- Increased information provision, transparency and consultative requirements as detailed in the Barclay Review of NDR.
- A review of the valuation of plant and machinery is to be carried out by the Scottish Government and could result in significant changes to current approaches and valuation methods.
- Introduction of a new civil penalties procedure for non-provision of information to the Assessor.
- Introduction of the Business Growth Accelerator for new and improved properties comes with new obligations on the Assessor.

- The removal of the exemption from the valuation roll for certain properties within public parks.
- Additional checks required on the operation of self-catering units.
- Extension of the franchise to include some prisoners, all overseas electors and all residents of Scotland.
- Electoral Canvass Reform. These reforms remove mandatory processes from the annual electoral canvass from autumn 2020 onwards and drive down the associated print, stationery, mail and temporary staffing costs associated with the former process. The proposed process is, however, more complex than the former ones and might well not provide any opportunity to reduce resources. The need to prepare for and deliver these changes require that we retain an appropriate level of skills and experience; and the potential for unplanned electoral events.

Consequences of continued financial squeezes

7.9. With many activities being statutory requirements with mandatory timetables for completion, and with approximately 83 to 89% of the Board's expenditure being on staff costs, it is considered that any savings of significance would require reductions in staffing levels. While much of the work in recent years has focused on developing a pay and grading model which supports the development of a staffing complement that is fit for purpose, including succession planning arrangements, it is considered that planning for any reductions in staff costs over the short to medium term would be counter-productive.

7.9.1. Although not explicit, the fact that the pay and grading model was developed and implemented with the support of Constituent Council's suggests that it is reasonable to assume that the Councils are similarly committed to supporting the Board to meet the associated financial implications including incremental drift and career progression. As a planning assumption, this would allow the Board to increase the annual requisitions beyond that of a basic pay award over the medium term.

7.9.2. The Board does not have a voluntary retirement and severance scheme, but it is considered that such a scheme would need to be developed if a requirement to deliver material budgetary savings was subsequently confirmed going forward.

7.9.3. The effects of applying efficiencies and staffing reductions on service provision could include:

- The one area of service provision which is not tightly determined by timetables is the entry of new properties onto the Council Tax List. If this area of function was treated as a lower priority than at present the result would be time delays before council taxpayers could be issued with bills, with inherent build-up of back-dated liabilities, reductions in the in-year collection of Council Tax monies by constituent Councils and reductions in performance in relation to one of the Assessor's key performance indicators.
- Failure to meet demand in terms of public enquiries and electoral registration/absent voter applications, especially around the peak periods in the run-up to any electoral events. This could result in the loss of electors' votes or failure to provide registers to the Returning Officers at future electoral events.

- Delays in dealing with NDR and council tax appeals, potentially leaving stakeholders over paying for longer. This could also result in failure to meet the statutory dates for disposal of appeals and/or an increase in referrals to the Lands Tribunal, at additional cost.
- The loss of experience and or skills could lead to increased Rateable Value loss and reductions of Council Tax bands on appeal, resulting in loss of income to the constituent Councils.
- Failure to meet statutory duties in respect of completion of the annual electoral canvass could lead to legal action being taken against the ERO or intervention action being taken by the Electoral Commission and/or government.

8. Monitoring and Reporting Arrangements

8.1. The Financial Plan will be monitored by the Management Team and the Treasurer on a regular basis - there will also be capacity to review the Plan as and when required, particularly when a new issue arises or the impact of major policy or initiative becomes clearer.

8.2. The Financial Plan will be revised when there are changes to estimates, projections or policy which have a major financial impact.

8.3. The financial management principles and expectations have been communicated and are understood by all budget holders.

8.4. The Financial Plan has been drawn up with the full involvement of the Assessor & ERO and, will be communicated to the Management Team and throughout the organisation.

8.5. During the years covered in the strategy, it is planned that the Board will receive budgetary control reports at each meeting analysing all material variances. The Management Team receive this information on a monthly basis.

9. Risk Management

9.1. The Board's strategic and operational risks registers (including risks relating to the Financial Plan and delivery of the Financial Plan) continue to be assessed, reviewed, and managed in line with the strategic priorities.

10. Approach to Generating Future Budgets

10.1. Currently revenue budgets are generated through the traditional process known as "Cost of Current Level of Service" with "incremental budgeting". So, in general, budgets follow the current cost of delivery of Board statutory duties allowing for known cost increases/reductions to be built-in and for unavoidable burdens/ reductions to also be recognised as part of the cost of providing a service reflecting current Board duties. In general this process should, in theory, generate a budget which reflects Board priorities on the basis that services are set up to deliver those priorities. In essence, the baseline position is carried forward from the previous year's budget and this is adjusted for known movements.

10.2. Annex 3 provides a forecast of possible budget gaps over the next 10 years based upon current levels of service and a particular set of assumptions. This should assist the Board in considering longer term financial planning .

10.3. In light of the budget gaps being projected, the statutory nature of the work undertaken by the Board, and the cost and work pressures which have been detailed within this Plan, the Management Team will develop an action plan(s) to address these issues and report back to the Board as part of the annual budget setting process.

Annex 1 – Issues (Short / Medium / Long-term)

The following have been identified by the management team as requiring to be addressed, the impact of which can be one-off or recurring. Some shorter term issues (1 year) will continue into the medium term (3-5 years) and longer term (5-10 years). This list is not exhaustive.

Risk Area	Issues Identified	Action Taken	Responsible Officer
Strategic Issues	Impact of Scottish Government Funding levels on constituent contributions and Barclay implementation.	<ul style="list-style-type: none"> Longer term financial strategy to help identify possible risks on budget gaps to take necessary action at an early stage. 	Assessor and Treasurer.
Organisational Issues	Impact of BREXIT.	<ul style="list-style-type: none"> Monitor ongoing BREXIT discussions and potential impact on the Board's finances, the wider implications for Scottish Economy, etc. Consider implications of BREXIT on European funding. 	Assessor and Treasurer.
Non-Domestic Rating	Scottish Government has confirmed through legislation that the NDR Revaluation cycle will move to 3-yearly from 2023 onwards.	<ul style="list-style-type: none"> Monitor Legislation as it develops. Consider resource implications, including staffing levels. 	Assessor & ERO.
Electoral Registration Service	Changes to electoral processes arising from the UK Government's 'Modernising Electoral Registration' programme.	<ul style="list-style-type: none"> Monitor Legislation as it develops. Consider resource implications, including staffing levels. 	Assessor & ERO.
Electoral Registration Service	Changes to electoral processes and/or franchise arising from the Scottish Government's	<ul style="list-style-type: none"> Monitor Legislation as it develops 	Assessor & ERO.

Risk Area	Issues Identified	Action Taken	Responsible Officer
	Electoral Reform and its devolved powers in relation to electoral registration.	<ul style="list-style-type: none"> • Consider resource implications, including staffing levels. 	
Assessor & ERO	Retirement of postholder.	<ul style="list-style-type: none"> • Review of Pay & Grading Model. • Consult with professional association. 	Board and Clerk to Board.
Depute Assessor	Failure to recruit to vacant post.	<ul style="list-style-type: none"> • Review of Pay & Grading Model. 	Assessor & ERO.
Valuation Staff	A lack of qualified valuer staff.	<ul style="list-style-type: none"> • Review of Pay & Grading Model. • Career progression with staffing structure. • Apprentice valuer posts. 	Assessor & ERO.

Annex 2

Based upon a set of assumptions (noted below), the 3 year indicative budget has been projected forward to identify possible gaps between income and expenditure, if no other changes in the Board's services take place

Income & Expenditure Summary	2022/23 Draft Budget £000	2023/24 Indicative Budget £000	2024/25 Indicative Budget £000
EXPENDITURE:			
Staff Costs	793	850	883
Property	35	35	36
Supplies and Services	79	81	83
Transport	22	22	23
Administration	43	43	44
Apportioned Costs	29	29	30
TOTAL EXPENDITURE	1,000	1,061	1,098
INCOME:			
Fees and Charges	(44)	(45)	(46)
TOTAL INCOME	(44)	(45)	(46)
NET EXPENDITURE	956	1,015	1,052
CONSTITUENT CONTRIBUTIONS (INCLUDING BARCLAY)			
Orkney Islands Council	(479)	(489)	(499)
Shetland Islands Council	(477)	(486)	(496)
TOTAL CHARGE TO CONSTITUENT AUTHORITIES:	(956)	(975)	(995)
FUNDING GAP	-	40	57
CUMULATIVE FUNDING GAP	-	40	97
Inflationary Assumptions:			
Staff Costs	2.0%	2.0%	2.0%
Pension - Employers Contribution	3.5%	3.5%	0.0%
Property Costs	2.0%	2.0%	2.0%
Supplies and Services	2.0%	2.0%	2.0%
Transport	2.0%	2.0%	2.0%
Administration	2.0%	2.0%	2.0%
Apportioned Costs	2.0%	2.0%	2.0%
Fees & Charges	5.0%	3.0%	2.0%
Requisitions	2.0%	2.0%	2.0%
Inflation - CPI	5.0%	3.0%	2.0%

Based on a set of assumptions (noted below), the 3 year indicative budget has been projected forward to provide a sensitivity analysis around the “Best Case”, the most “Likely Case” and the “Worst Case” possible outcome:

Sensitivity Analysis	Best Case	Likely Case	Worst Case
	£000	£000	£000
2022/23			
Net Expenditure	956	956	956
Requisition	(956)	(956)	(956)
Funding Gap (Cummulative)	-	-	-
2023/24			
Net Expenditure	1,004	1,015	1,026
Requisition	(966)	(975)	(985)
Funding Gap (Cummulative)	39	40	41
2024/25			
Net Expenditure	1,029	1,052	1,074
Requisition	(975)	(995)	(1,014)
Funding Gap (Cummulative)	92	97	100
Inflationary Assumptions:			
Staff Costs	1.0%	2.0%	3.0%
Pension - Employers Contribution	3.5%	3.5%	3.0%
Property Costs	1.0%	2.0%	3.0%
Supplies and Services	1.0%	2.0%	3.0%
Transport	1.0%	2.0%	3.0%
Administration	1.0%	2.0%	3.0%
Apportioned Costs	1.0%	2.0%	3.0%
Fees & Charges	5.0%	3.0%	2.0%
Requisitions	1.0%	2.0%	3.0%
Inflation - CPI	2.0%	3.0%	5.0%

Annex 3 – Longer Term Financial Projections

Based upon a set of assumptions (noted below), the 3 year indicative budget has been projected forward to identify possible gaps between income and expenditure, if no other changes in the Board's services take place:

	NET EXPENDITURE	STANDSTILL COUNCIL CONTRIBUTION	INDICATIVE BUDGET GAP
	£000	£000	£000
Draft Budget 2022/23	956	(956)	-
Indicative Budget 2023/24	1,015	(956)	59
Indicative Budget 2024/25	1,052	(956)	96
Indicative Budget 2025/26	1,088	(956)	132
Indicative Budget 2026/27	1,120	(956)	164
Indicative Budget 2027/28	1,157	(956)	201
Indicative Budget 2028/29	1,195	(956)	239
Indicative Budget 2029/30	1,224	(956)	268
Indicative Budget 2030/31	1,254	(956)	298
Indicative Budget 2031/32	1,288	(956)	332

Assumptions:

- No further budget changes/ burdens / efficiencies have been included for 2024/25 onwards at this stage.
- In addition to an assumed 2% per annum for pay inflation, the need to increase employer pension contributions by 10.5% over the three year period from 2020/21 to 2023/24 has been recognised, taking employer contributions up from 25.5% to 36.0%.
- Additional projected costs for the career progression of valuer staff and the implementation of Barclay have also been recognised.
- It is assumed that general inflationary pressures will be contained wherever possible through the generation of efficiency savings within the financial envelope of the Boards revenue budget, noting that 83%, and increasing to 89% by 2024/25, of the budget is staff costs.
- It is further assumed that constituent councils will continue to support the Board financially through the annual requisition mechanism to manage the full financial implications associated with the revised pay and grading model that was implemented in 2021, including incremental draft and career progression.