

Scotland Excel

To: Chief Executive Officers Management Group

On: 19 August 2020

Report by:

Chief Executive of Scotland Excel

Financial Impact of COVID-19 Pandemic on Scotland Excel

1. Summary

- 1.1 As a result of the impact of the COVID-19 pandemic, the associated lockdown period and its impact on local government services and the wider economy, Scotland Excel faces significant financial challenges during financial year 2020/21 and in subsequent years.
- 1.2 This paper identifies the specific financial challenges facing Scotland Excel in this financial year and going forward, detailing actions already taken and planned by the organisation to mitigate these challenges.

2. Background

- 2.1 In December 2019, the Joint Committee approved the Scotland Excel Core Operating budget for financial year 2020/21. This budget contained revenue estimates for the year based on previous and planned expenditure along with income estimates which included targets for the 5 income streams contained within the approved Scotland Excel Funding Model.
- 2.2 Section 3 of this report identifies areas of Core expenditure which will present financial challenges during 2020/21 and in future financial years. In addition, this report highlights challenges associated with the 5 income streams. Planned mitigating actions aimed at minimising the overall impact on Scotland Excel's financial position are also shown.

3. Core Expenditure

- 3.1 In common with local authorities, the Scotland Excel staffing budget is subject to a 5% reduction against the projected actual to reflect anticipated savings in relation to staff turnover. For financial year 2020/21 this reduction totals circa

£185k. In normal circumstances it would be anticipated that savings generated through staff turnover during the financial year would accrue this saving.

- 3.2 During the lockdown period recruitment activity across all sectors has reduced significantly. This has been mirrored within Scotland Excel resulting in a lower than anticipated turnover of staff.
- 3.3 In order to generate the required savings in relation to the staffing budget, Scotland Excel has implemented a recruitment freeze across the organisation leaving a number of posts unfilled. Savings accrued from delaying filling these posts will assist in correcting the projected budget shortfall in Employee Costs by the end of the financial year.
- 3.4 Scotland Excel is also carrying out a comprehensive review of the staffing complement across the organisation to ensure the organisation operates as efficiently and effectively as possible while still delivering excellent standards of service.

4. **Core Income**

- 4.1 The Core operating budget for 2020/21 included income targets for the 5 income streams contained within the approved Scotland Excel Funding Model. The anticipated impact of the COVID-19 pandemic on these income targets is detailed below.
- 4.2 An income target of £217k for Consultancy services is included within the core operating budget for 2020/21. This figure was based on fees and charges from continuing consultancy projects and on income generated from new projects developed and started during 2020/21.
- 4.3 Existing consultancy projects continue to be delivered to a high standard by Scotland Excel however, due to the impact of COVID-19, new project development has been very limited.
- 4.4 Currently, Scotland Excel is anticipating the income target for consultancy in 2020/21 will be achieved. However, the pause in project development caused by COVID-19 is likely to have an adverse impact on income generated from consultancy services in the next and future financial years.
- 4.5 The Scotland Excel Academy performed well during 2019/20 engaging students from all local authorities and 17 other public and third sector organisations. The income target from Learning and Development for 2020/21 is £53k.
- 4.6 Initially, learning through the Academy was delivered through a blend of online learning, face to face workshops and master classes with knowledge gained through these mediums being applied directly in the workplace.

- 4.7 Implementation of the lockdown period due to COVID-19 initially caused a suspension of all training being delivered by the Academy. This impacted income levels and necessitated a comprehensive change in course delivery options, an appraisal of the learning topics being provided and a comprehensive review of the Academy business plan.
- 4.8 The Scotland Excel Academy is now delivering a growing programme of on-line learning opportunities for its customers and this is anticipated to continue to grow throughout 2020/21.
- 4.9 Currently, Scotland Excel is anticipating that the Academy will generate income sufficient to cover only its running costs during 2020/21. Therefore, it is not anticipated that the Academy will achieve its budgeted income figure of £53k for 2020/21. Performance of the Academy will continue to be closely monitored throughout this financial year. The projected income target for the Academy for financial year 2021/22 is currently £55k.
- 4.10 The income target for associate members during 2020/21 is £210k. Income from associates during 2019/20 totalled £160k.
- 4.11 Due to the success and take up of temporary associate membership of Scotland Excel during the COVID-19 pandemic; the introduction of the New Build Housing framework and its attractiveness to Housing Associations and, the dedicated Associates Team within Scotland Excel the general outlook for new associates remains positive.
- 4.12 However, the economic uncertainty of a post COVID-19 world will undoubtedly place increased pressure on the retention of existing associate members whose own income is being severely challenged during these uncertain times. Retention of existing associate members will be a priority area for the Scotland Excel associates team.
- 4.13 Currently, Scotland Excel is anticipating that the income target from associate members will not be achieved for 2020/21 with a revised projection of £190k being anticipated.
- 4.14 Income in relation to the New Build Housing project is generated via a rebate paid to Scotland Excel by contractors delivering new build projects for participants. The income contribution from the New Build Housing Project towards core operating costs during 2020/21 is £30K.
- 4.15 Due to lockdown and the subsequent cessation of all construction activity, there were no new contracts agreed under the New Build framework for the first quarter of 2020/21. This is anticipated to have a major impact on the level of rebate achieved from the project during 2020/21. However, it is anticipated that the total level of rebate projected for the project as a whole will be achieved and will be budgeted for in future years.

- 4.16 Currently, Scotland Excel is anticipating that the income target from the New Build Project will not be achieved for 2020/21. The income target for the New Build Project in financial year 2021/22 is £120k.
- 4.17 The budgeted income target in relation to contract Rebates for 2020/21 is £66k. Total expenditure across all Scotland Excel frameworks is anticipated to reduce during 2020/21 due to the COVID-19 pandemic. Those from which a rebate was planned during 2020/21 have been less affected.
- 4.18 Currently, Scotland Excel is anticipating that the income target from contract rebates will be achieved for 2020/21. Work is currently underway to review all Scotland Excel frameworks to assess the impact of the COVID-19 pandemic on predicted spend and, where appropriate, contract rebates for Scotland Excel. The projected income contribution from rebates to Scotland Excel core running costs during 2021/22 was £143,500.
- 4.19 In December 2019, the Joint Committee approved the Scotland Excel Core Operating budget for financial year 2020/21. At this point, indicative future requisition increases of 3% in 2021/22 and 0% in 2022/23 were provided. Detailed financial modelling is currently underway to review this position based on the impact of the pandemic on Scotland Excel and its members.

5. Financial Impact Summary

- 5.1 The table below gives a summary of the anticipated financial impact of the COVID-19 pandemic on Scotland Excel and the projected outturn for 2020/21 after mitigating actions.

Budgetary Impact of COVID-19 – 2020/21			
Budget Line	Budget for Year (£)	Potential COVID-19 Impact (£)	Projected Variance after Mitigating Actions
Expenditure			
Employee Costs	3,591,300	-185,000	0
Income			
Consultancy	-217,000	0	0
Learning and Development	-53,000	53,000	53,000
Associates	-210,000	20,000	20,000
New Build	-30,000	30,000	30,000
Rebates	-66,000	0	0
Total			103,000

- 5.2 As can be seen from the above table, the anticipated financial impact of the COVID-19 pandemic on Scotland Excel, subject to mitigation is currently a deficit of £103k.
- 5.3 However, Scotland Excel will continue to monitor all expenditure lines and income streams across the organisation and will be targeting a break-even position at year end.

6. **Supporting Financial Sustainability**

- 6.1 As set out above, Scotland Excel, like its members, faces a number of financial challenges and has taken a number of steps to address these. Chief Executives can support these steps further by:
 - a. Encouraging their organisations to consider Scotland Excel for chargeable projects including those that deliver savings to their organisations.
 - b. Encouraging the use of The Academy as a vehicle for developing staff.
 - c. Utilising the New Build Framework where appropriate.
 - d. Encouraging other partner public organisations to become Associate members.
 - e. Providing advice and guidance on achieving longer term financial sustainability for Scotland Excel.