

Scotland Excel

To: Executive Sub-Committee

On: 17 November 2023

**Report by:
The Treasurer and Chief Executive**

Draft Revenue Estimates 2024/25

1. Summary

- 1.1 The following report has been prepared by the Treasurer, in consultation with the Chief Executive, to present the Revenue Estimates of Scotland Excel, including the requisition of the constituent authorities, for the financial year 2024/25, along with indicative planning figures for 2025/26 and 2026/27.

2. Recommendations

- 2.1 It is recommended that members:

- note the Revenue Estimates of Scotland Excel for the financial year 2024/25 as shown in Table 1 of Appendix 1.
- note the requisitions from constituent authorities and total estimated savings for 2022/23 detailed in Appendix 2; and
- note the indicative estimates for 2025/26 and 2026/27.

3. Background

- 3.1 The annual Revenue Estimates process outlines the summary revenue budget position for the organisation. The budget estimates provided in the attached Appendix 1 outline the projected position for 2024/25 and outline an indicative position for 2025/26 and 2026/27. Proposed requisitions for 2024/25 are also attached in Appendix 2. The assumptions used in developing these projections are outlined in sections 4 and 5 below.
- 3.2 The financial environment within which Scotland Excel and its member authorities currently operate continues to be characterised by challenging public sector spending requirements. Factors including the UK exit from the EU, the impact and now recovery from the COVID-19 pandemic, global supply chain issues resulting from continuing conflicts in Ukraine and the middle east, increasingly volatile economic conditions with high levels of inflation and a cost-of-living crisis, all present challenges.

These factors have influenced the revenue budget estimates for 2024/25, 2025/26 and 2026/27 contained within this report. Indeed, figures presented for 2025/26 and 2026/27 should be treated as indicative only and will be subject to constant review as economic conditions develop over the coming year.

- 3.3 It is anticipated that due to the impact of the factors outlined above, local government in Scotland is likely to face further challenges in relation to available resource over the coming years. In this context, Scotland Excel will continue to seek operational efficiencies to manage its financial position flexibly in order to maintain its aim of minimising any increase in requisition required while also developing strategic savings opportunities for member authorities ensuring that, best value continues to be achieved through Scotland Excel.
- 3.4 Scotland Excel has provided an update on the proposed requisition position to a number of stakeholder groups including, the Society of Local Authority Chief Executives (SOLACE), the Chief Executive Officers Management Group (CEOMG) and the Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance forum. The proposed 0% increase to requisition for 2024/25 and 2025/26 was acknowledged and greatly appreciated by stakeholders within the challenging financial landscape currently being experienced.

4. Budget Assumptions

- 4.1 The expenditure budget presented is based on the following assumptions.
- 4.2 An estimated budget provision of 3% in relation to a pay award for 2024/25 has been included in the budget forecast. An estimated 3% increase has also been added to the Employee Costs element of the indicative figures shown for 2025/26 and 2026/27. These are estimates only, used to provide indicative figures for 2025/26 and 2026/27 and, should be considered alongside the continuing economic uncertainty. It should be noted that an estimated pay award for 2023/24 of 6% has been included in all employee costs calculations.
- 4.3 In line with previous years practice, no standard inflationary adjustment has been made to non-salary expenditure lines. Any individual adjustments made are detailed in paragraph 4.4 below.
- 4.4 Adjustments to existing budgets have been made to specific expenditure lines to reflect operational demand in relation to:
- **Employee Costs** – in addition to the 3% pay inflation noted above (and 6% estimated pay award for 2023/24), adjustment has been made to reflect the revised staffing structure in place within Scotland Excel, a staffing turnover

assumption of 5% and a reduction in employers' superannuation contributions as advised by Strathclyde Pension Fund (SPF) with further detail provided in section 6.

- **Property Costs** – no inflationary element applied.
- **Transport Costs** – no inflationary element applied.
- **Transfer Payments** – the Apprenticeship Levy directly relates to employee costs and has been increased accordingly.
- **Supplies and Services** – no inflationary element applied.
- **Support Costs** – budget has been increased to reflect increased legal support costs anticipated to rise in line with employee costs.

4.5 Income estimates include the following assumptions and adjustments to existing budgets:

- **Council Requisitions** – Council Requisitions for 2024/25 have been maintained at current levels with a 0% increase.
- **Associate Income** – The income target reflects pre-COVID estimates previously noted by the Joint Committee resulting in a £10k increase in target.
- **Income from Projects** – Includes anticipated income from several Projects, including Flexible Procurement Services, Consultancy Services, New Build and Learning and Development (Academy). Further detail on the estimated income generated by each of these elements is presented in section 5 below.
- **Rebates** – Income from Rebates during 2024/25 has been amended to reflect current forecasts in relation to the number of Scotland Excel frameworks with rebates attached. Further detail on projected Rebate income for 2024/25, 2025/26 and 2026/27 is also presented in section 5 below.

4.6 In total, estimated non-requisition income for 2024/25 totals £1.586m representing 31% of operating costs for the year. This level of non-requisition income is anticipated to continue to grow through 2025/26 and 2026/27 where non-requisition income will total 34.3% of core operating costs.

4.7 The current projected outturn position for 2023/24 is an overspend position for Core activities of £89k. Income and expenditure will continue to be closely monitored throughout the financial year and reported regularly to the Executive Sub-Committee.

5. Other Income

- 5.1 Members are aware that a new funding model was approved at the June 2018 Joint Committee, which saw Core operations funded from both requisitions and income generated from a range of other sources. This move to a more commercial funding model has increased the overall level of financial risk to Scotland Excel, which requires to be appropriately managed. Key elements of the new funding model and their contributions to core operating costs are detailed below.
- 5.2 **New Build Housing** – Income provision from the New Build project (£50k) reflects current expenditure projections through the framework and resulting rebate less delivery costs.
- 5.3 **Consultancy Services** – Income provision from Consultancy projects, including Flexible Procurement, has been projected at £218k for 2024/25. This figure reflects the confirmed consultancy project portfolio at time of writing and, the growing market utilisation of the Flexible Procurement options being offered by Scotland Excel. Flexible Procurement options being offered to partners continue to grow in popularity, particularly in light of the challenging recruitment environment currently being experienced across the sector.
- 5.4 **Learning and Development (Academy)** – Income provision from the Scotland Excel Academy for 2024/25 has been projected at £30k to reflect the continuing journey back to pre-pandemic activity levels.
- 5.5 Overall, income from New Build Housing £50k, Consultancy £218k and the Scotland Excel Academy £30k will contribute £298k to core operating costs recorded under Income from Projects.
- 5.6 **Rebates** – Income provision from Rebates for 2024/25 has been projected at £1.048m. This projection reflects the increasing number of Scotland Excel frameworks anticipating a rebate on expenditure activity during 2024/25. During 2024/25, it is anticipated that 42 frameworks will generate rebate income compared to 28 frameworks during 2023/24.
- 5.7 Estimated framework expenditure is derived from a range of management information, including historical spend and market intelligence. This information is then used to estimate total framework spend, from which a Rebate figure is calculated. Scotland Excel will continue to monitor expenditure levels across all its frameworks to ensure that forecast Rebate levels continue to be achievable.

6. Strathclyde Pension Fund

- 6.1 Following actuarial review (the triennial valuation), Strathclyde Pension Fund has advised that, as a result of higher than anticipated returns from investments, the fund is 147% funded against current and anticipated future commitments. For this reason, pension fund main employers have been advised that their employer contribution rates for the coming three years have been adjusted. Employer contributions currently total 19.3% however, these rates will be adjusted to 6.5% in 2024/25, 6.5% in 2025/26 and 17.5% in 2026/27. The in-year impact for 2024/25 and 2025/26 will be an anticipated operating surplus of £460k and £459k respectively, which will be allocated to general reserves.
- 6.2 In consultation with the Treasurer, it is proposed to retain the anticipated operating surplus, ring-fenced within Reserves with any in year draw down to be approved by the Executive Sub Committee.
- 6.3 There will be no impact on employee pension contribution rates and individual pension entitlement is unaffected.
- 6.4 It is estimated that general reserves will total £155k at the end of the 2023/24 financial year. This represents 3% of anticipated operating expenditure for the year. The minimum level of uncommitted general reserves recommended by the Treasurer is 5%. This would equate to general reserve balances of £358k in 2024/25 and £441k in 2025/26.
- 6.5 Scotland Excel is developing a suite of projects aimed at utilisation of pension related surpluses in 2024/25 and 2025/26. These projects will demonstrably benefit member authorities in their day-to-day procurement activities and generate on-going efficiencies for Scotland Excel. All project proposals will be presented to the Executive Sub Committee for approval with funds being drawn down from Reserves as required. A number of proposals are already in development including: the extension of the National Savings Team from its initial one-year pilot to making a three year commitment and delivering significantly greater savings, a modernisation programme to implement new customer facing solutions and a number of proposals around direct support for framework utilisation.

In addition, the current Voluntary Retirement (VR)/ Voluntary Early Retirement (VER) programme will require funding once full costs are known. All project proposals will be fully costed and presented in line with carbon net zero expectations of the sector.

7. Financial Overview

- 7.1 As outlined above, the financial outlook in the short and medium-term for local government continues to be characterised by economic and operational uncertainty which has been reflected in the figures presented.
- 7.2 The information provided in Appendix 1 outlines the forecast year-end financial position for 2023/24, the proposed operating budget for 2024/25 and indicative figures for 2025/26 and 2026/27. The funding streams, as set out within the Funding Model Review (see section 5 above) approved by members at the June 2018 Joint Committee, have been incorporated into these estimates. A 0% requisition increase has therefore been recommended for the financial year 2024/25.
- 7.3 Indicative figures have been included within the paper for financial years 2025/26 and 2026/27 and propose a 0% increase in requisition for 2025/26 and a 2% increase in 2026/27. The figures presented for 2025/26 and 2026/27 at this time are indicative only.
- 7.4 Members will note that a memorandum section is detailed in Appendix 1 (Table 2) relating to the projects operated by Scotland Excel. The funding of these projects is not covered by requisition income and the income and expenditure shown are for information purposes only. Project expenditure and income will vary each financial year and activities are generally short-term in nature, therefore only the 2024/25 figures, as known at this time, are provided. As outlined above, Projects are forecast to contribute income towards Core activities during the forthcoming financial years.

8. 2024/25 Member Authority Requisitions

- 8.1 Maintaining member requisition at 2023/24 levels (0% increase) has been recommended for 2024/25 as detailed in Appendix 2 of this report. This recommendation supersedes the indicative 3% increase provided in the December 2022 revenue estimates paper. It should be noted that the requisitions outlined do not include amounts payable in relation to the National Care Home Contract. It is proposed that these costs are absorbed by Scotland Excel from 2025/26 and appropriate information provided to councils to allow this additional benefit to be cross charged to Integrated Joint Boards.
- 8.2 In addition to member authority requisitions for 2024/25, Appendix 2 also details the Total Estimated Savings achieved by member authorities during 2022/23. Joint Committee representatives and all local authorities will receive their annual value reports during December 2023 giving further detail in relation to savings and other member benefits.

- 8.3 Any future events that may materially affect these finances will be the subject of a report to the Joint Committee.
- 8.4 The requisition funding drawdown will be invoiced annually during October, in accordance with arrangements made by the Treasurer.

Appendix 1

Scotland Excel Revenue Estimates

Table 1

	2023/24 Approved Budget £000	2023/24 Forecast Outturn £000	2024/25 Proposed Budget £000	2025/26 Indicative Budget £000	2026/27 Indicative Budget £000
Core Activity					
Employee Costs	4,207	4,431	4,245	4,583	5,185
Property Costs	217	217	217	217	217
Transport Costs	20	20	20	20	20
Supplies and Services	291	313	291	291	291
Administration Costs	0	0	0	0	0
Transfer Payments	22	22	23	24	25
Support Costs	303	281	329	354	360
Total Core Operating Costs	5,060	5,284	5,125	5,489	6,098
Council Requisitions	(3999)	(3,999)	(3,999)	(3,999)	(4,079)
Temporary Reserve Use	0	0	0	0	0
Associate Income	(230)	(230)	(240)	(240)	(240)
Income from Projects	(248)	(383)	(298)	(298)	(298)
Rebates	(583)	(583)	(1,048)	(1,411)	(1,554)
Total Core Operating Income	(5,060)	(5,195)	(5,585)	(5,948)	(6,171)
Core Operating Deficit/(Surplus)	0	89	-460	-459	-73
Uncommitted Reserves					
Opening Balance at 1 April	244	244	155	615	1074
Use of Reserves	0	(89)	460	459	73
Closing Balance at 31 March	244	155	615	1074	1,147
% of Operating Income	4.90%	3.00%	12.00%	19.60%	18.80%

Table 2

Project Activity			
Employee Costs	1,534	1,680	1,474
Property Costs	0	0	0
Transport Costs	3	2	2
Supplies and Services	54	87	48
Transfer Payments	7	8	7
Support Costs	848	289	306
Total Project Costs	2,446	2,066	1,837
Income from Projects	-2,868	-2,596	-2,247
Project Deficit / (Surplus)	-422	-530	-410
Transfer to Core	248	361	298
Transfer from Project Reserves	-174	-169	-112
Project Reserves			
Opening Balance at 1 April	1383	1303	1,472
Use of Reserves	174	169	112
Closing Balance at 31 March	1557	1,472	1,584
% of Operating Income	63.7%	71.2%	86.2%

Appendix 2

Member Requisitions 2024/25 & Savings Achieved 2022/23

Requisition by Authority	2023/24 Requisition	Proposed 2024/25 Proposed Requisition	Total Estimated Savings Achieved 22/23
Aberdeen City	£157,769	£157,769	£1,585,811
Aberdeenshire	£178,354	£178,354	£1,406,015
Angus	£92,786	£92,786	£370,936
Argyll and Bute	£75,330	£75,330	£598,880
City of Edinburgh	£332,351	£332,351	£1,283,869
Clackmannanshire	£55,083	£55,083	£412,525
Dumfries and Galloway	£111,859	£111,859	£439,243
Dundee City	£111,234	£111,234	£791,355
East Ayrshire	£96,230	£96,230	£687,178
East Dunbartonshire	£88,571	£88,571	£469,949
East Lothian	£88,967	£88,967	£669,724
East Renfrewshire	£81,378	£81,378	£597,083
Falkirk	£118,812	£118,812	£1,003,215
Fife	£243,764	£243,764	£958,792
Glasgow City	£395,787	£395,787	£1,671,732
Highland	£163,975	£163,975	£544,131
Inverclyde	£69,772	£69,772	£573,758
Midlothian	£80,269	£80,269	£436,880
Moray	£81,279	£81,279	£417,809
Na h-Eileanan Siar	£40,547	£40,547	£317,550
North Ayrshire	£103,352	£103,352	£818,444
North Lanarkshire	£224,305	£224,305	£1,103,325
Orkney Islands	£38,153	£38,153	£221,739
Perth and Kinross	£114,789	£114,789	£565,073
Renfrewshire	£130,044	£130,044	£781,656
Scottish Borders	£92,727	£92,727	£520,202
Shetland Islands	£38,387	£38,387	£310,540
South Ayrshire	£90,643	£90,643	£515,343
South Lanarkshire	£213,347	£213,347	£1,087,896
Stirling	£79,562	£79,562	£427,293
West Dunbartonshire	£76,246	£76,246	£776,497
West Lothian	£133,337	£133,337	£832,057
	£3,999,008	£3,999,008	£23,196,500

The **Total Estimated Savings** figure comprises:

- **Direct price-based savings calculation** - multiplying the difference between the new contract price and the baseline price (the previous contract price) by the estimated annual volume purchased.
- **Cost avoidance (collaboration) calculation** - the number of new and renewed Scotland Excel frameworks that went live in the financial year is multiplied by the average number of councils participating in those frameworks then multiplied by £12,000. This sectoral figure is then allocated evenly across the 32 local authorities.
- **Cost avoidance (indexation) calculation** - using a range of market indices that accurately reflect the key cost drivers of the goods or services provided, price versus market calculations are carried where appropriate, at an individual framework level for each local authority.