

Scotland Excel

To: **Joint Committee**

On: **9 December 2016**

Report by The Treasurer and Director Scotland Excel

1. **Summary**

The following report has been prepared by the Treasurer, in consultation with the Director, to present the Revenue Estimates of Scotland Excel including the requisition of the constituent authorities for the financial year 2017-18.

2. **Recommendations**

2.1 It is recommended that members:

- **agree** the Revenue Estimates of Scotland Excel for the financial year 2017-18 as shown in Appendix 1
- **agree** the utilisation of reserve funding as outlined in Appendix 1
- **agree** the requisitions from constituent authorities as detailed in appendix 2.

3. **Background**

3.1 The Annual Revenue Estimates process each year outlines the summary revenue budget position for the organisation, including where required the utilisation of retained reserves to fund a number of workstreams relating to the procurement improvement programme led by Scotland Excel across the local authority procurement network in Scotland. The strategy to retain and utilise reserves to support the delivery of services in this manner has proved to be an effective financial planning mechanism.

3.2 The revenue estimates outlined in the remainder of this report present the planned 2017-18 financial position for Scotland Excel, taking into account:

- the estimated costs of core operations;
- the costs and estimated income associated with providing a small value procurement service
- non-recurring costs to be met from reserves;
- the level of requisition from member authorities which is affordable.

- 3.3 It is recognised that over the medium term, local government in Scotland is likely to face a further contraction in available resources, relating predominantly to the provision of revenue grant from the Scottish Government. In this context, Scotland Excel will continue to seek operational savings where possible, and also to develop value propositions for member authorities to ensure that best value is achieved. Scotland Excel also continues to develop alternative services which generate income outwith core requisition income in order to try and diversify its funding base.
- 3.4 At present the local government grant settlement position for 2017/18 is not expected to be made available by the Scottish Government until January 2017. The Scottish Government has indicated that the settlement figures will be for a single year only. In this context and recognising the uncertainty over the level of financial contraction which local government is likely to face over the medium term, no indicative budget figures are provided for 2018/19. However, to provide some context for member authorities, each 1% movement in requisition for Scotland Excel amounts to circa £35,000, while a 1% pay award would cost circa £25,000.

4. **Budget Assumptions**

4.1 The budget is based on the following assumptions:

- A budget provision for inflation on employee costs has been included at an estimated 1% for 2017-18. It is recognised that national pay negotiations remain ongoing and should the agreed position be in excess of this budget provision an appropriate adjustment will require to be made to the 2017-18 position;
- In line with previous years practice no inflation adjustment has been made to all non-pay expenditure lines;
- adjustments have been made to specific budget lines to reflect operational experience in relation to:
 - employee costs – a budgeted staffing turnover assumption of 3% has been applied;
 - contractors – it is anticipated that the consultant funded within the core budget will complete the projects in 2016-17 and will therefore not be required in 2017-18;
 - administration costs – a net reduction in the cost of insurance premiums to reflect the inclusion of Scotland Excel staff within Renfrewshire Council's insurance arrangements;
 - Payments to other bodies – increased cost to maintain quality accreditation within 2017-18;
 - Member requisitions – have been held at 2016-17 levels.
 - Rebate income – relates to the new rebate income which will flow to Scotland Excel from the new groceries framework as outlined in the small value procurement report on this agenda. This proposal has previously been discussed at the Chief Executive Officers Group, CIPFA DoFs and the Executive sub-committee, with a general consensus emerging for use of the rebate as opposed to an additional requisition. This funding will be utilised as outlined in the report to fund a small value contracts team (shown separately under employee costs).

- Other income – has been increased to reflect additional anticipated associate member fee income.

4.2 Separate reports on this agenda outline proposals being discussed with the Scottish Government with regards the procurement of social care and affordable housing. Should these proposals be agreed, the additional funding from the Scottish Government would be utilised to fund the staff resource required to undertake the work involved. Neither the income nor the associated costs have been included in the appendix to this report at this stage.

4.3 In terms of the use of reserves to fund non-recurring obligations, account has been taken of the continued requirement to support the investment in the computer software and equipment programme to continue to drive efficiencies to the service delivery and gathering of management information. Also included is a sum related to specialist consultancy for contract development opportunities in 2017-18.

5. **Financial Overview**

5.1 Scotland Excel has made considerable efforts to meet the financial challenges facing both the organisation and its requisitioning authorities since the financial crisis of 2008 triggered the ongoing austerity measures put in place by the UK government.

5.2 The outlook in the medium term is characterised by uncertainty. At this point both major areas of risk for the Joint Committee in the medium term – the level of pay award and the level of requisition income (broadly linked to the movement in the level of grant available to local government) – are unknown. Single year settlements and further uncertainty arises from enhanced powers for Scotland under the Scotland Act 2016; and also significantly from the Brexit vote.

5.3 While the exact impact of these issues for the Scotland Excel cannot be forecast with certainty; there is a general consensus that prospects for economic growth have deteriorated, placing further ongoing pressure on public spending. Estimates of potential cuts to the 2017/18 local government settlement range across Scotland; however they are broadly in the 3-5% range. Scotland Excel will continue to be mindful of the financial pressures member authorities face and work with them to address these challenges.

5.4 As in previous years, the 2016-17 revenue estimates have been developed to ensure core operations are funded fully by requisition income. The remaining reserves balance will be used to protect against any unforeseen costs or financial risks which may arise in the future.

5.5 Members will note that detailed in Appendix 1 is a memorandum section relating to the National Care Home Contract (NCHC). This relates to activity Scotland Excel will undertake in relation to this contract, with this activity being funded by separate agreement with a significant number of councils, but not all 32. The funding relating to the NCHC is not covered by requisition income, but is fully funded by the income from those councils who have indicated such

agreement, and is outwith the scope of this report. The income and expenditure shown are for information purposes only.

6. 2017/18 Member Authority Requisitions

6.1 The Member Authority Requisitions for 2017-18 have not varied from those agreed in 2016/17, and are detailed in Appendix 2 of this report.

6.2 Any future events which may materially affect these finances will require to be the subject of a report to the Joint Committee.

6.3 The date of drawdown for the requisitions will be as outlined in the Terms and Conditions of Scotland Excel, Section 7 Budget and Payment. The funding drawdown will be annually during October in accordance with arrangements made by the Treasurer.

Appendix 1

	2016/17	2017/18
	Approved	Proposed
<u>Core Operational Expenditure</u>		
Employee Costs	2,915,200	2,944,400
Employee costs - small value procurement team	0	135,000
Property Costs	176,500	176,500
Supplies and Services	87,900	87,900
Administration Costs	315,600	296,800
Payments to other Bodies	19,000	38,600
Total Core Operating Expenditure	3,514,200	3,679,200
<u>Core Operational Income</u>		
Council Requisitions	3,484,200	3,484,200
Rebate Income (groceries framework)	0	135,000
Other Income	30,000	60,000
Total Core Operating Income	3,514,200	3,679,200
Core Operating Deficit/(Surplus)	0	0

<u>Funded from Reserves</u>		
Temporary Staffing Requirements	11,910	0
ICT Development Costs	122,600	51,000
Other Development Costs	65,000	15,000
Total Temporary Costs	199,510	66,000

<u>Reserve Funding</u>		
Total Reserves	465,411	265,901
Budgeted Drawdown	(199,510)	(66,000)
Budgeted Balance	265,901	199,901
Estimated Balance	265,901	199,901

Memorandum

<u>National Care Home Contract</u>		
Additional Costs	165,500	196,240
Additional Income	165,500	196,240
Net Expenditure	0	0

Appendix 2

Member Requisitions

Requisition by Authority	2016-17	2017-18
Aberdeen City	140,607	140,607
Aberdeenshire	156,621	156,621
Angus	82,591	82,591
Argyll and Bute	67,842	67,842
Clackmannanshire	48,605	48,605
Dumfries and Galloway	100,395	100,395
Dundee City	99,296	99,296
East Ayrshire	85,835	85,835
East Dunbartonshire	77,160	77,160
East Lothian	74,806	74,806
East Renfrewshire	69,647	69,647
City of Edinburgh	276,829	276,829
Eilean Siar	36,111	36,111
Falkirk	103,989	103,989
Fife	213,737	213,737
Glasgow City	333,882	333,882
Highland	143,652	143,652
Inverclyde	63,793	63,793
Midlothian	66,090	66,090
Moray	71,138	71,138
North Ayrshire	93,410	93,410
North Lanarkshire	198,471	198,471
Orkney Islands	33,061	33,061
Perth and Kinross	99,076	99,076
Renfrewshire	112,758	112,758
Scottish Borders	81,351	81,351
Shetland Islands	33,914	33,914
Stirling	69,522	69,522
South Ayrshire	80,817	80,817
South Lanarkshire	186,501	186,501
West Dunbartonshire	68,763	68,763
West Lothian	113,930	113,930
Total	3,484,200	3,484,200