

Scotland Excel

To: Executive Sub-Committee

On: 27 November 2020

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

Revenue Estimates 2021/22

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 2021/22 along with indicative planning figures for 2022/23 and 2023/24.

2. Recommendations

2.1 It is recommended that members:

- note the Revenue Estimates of Scotland Excel for the financial year 2021/22 as shown in Table 1 of Appendix 1;
- note the requisitions from constituent authorities detailed in Appendix 2; and
- note the indicative estimates for 2022/23 and 2023/24.

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 and proposed requisitions for 2021/22 and outline an indicative projected position for 2022/23 and 2023/24. The assumptions used in developing these projections are outlined in sections 4 and 5 below.

3.2 Members will note that for this and future financial or budgetary reports, income is reported in line with the Funding Model Review paper presented to and approved by the Joint Committee in June 2018. The Funding Model Review paper, which aimed to reduce the reliance on requisition income, advised that future funding for Scotland Excel core operating services would be funded by Council requisitions, Associate fees, rebates and income from Projects, namely

New Build Housing, Consultancy Services and Learning and Development (the Academy).

- 3.3 Reporting income under these headings should provide members with improved clarity on financial progress against each income stream.
- 3.4 The financial environment within which Scotland Excel and its member authorities currently operate continues to be characterised by uncertainty due to the ongoing COVID-19 pandemic and the increasing possibility of a No-Deal Brexit. These factors have significantly influenced the revenue budget estimates for 2021/22, 2022/23 and 2023/24 contained within this report. Indeed, figures presented for 2022/23 and 2023/24 should be treated as highly indicative and will be subject to constant review as economic conditions develop post-COVID and post-Brexit.
- 3.5 It is anticipated that, due to the impact of these factors, local government in Scotland is likely to face further contraction in available resources 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 the level of requisition required, and also to develop value propositions for member authorities to ensure that best value is achieved.

4. **Budget Assumptions**

- 4.1 The expenditure budget is based on the following assumptions:
- 4.2 An estimated budget provision of 3% in relation to a pay award for 2021/22 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 2022/23 and 2023/24. These are estimates only, used to provide indicative figures for 2022/23 and 2023/24 and should be viewed taking the current economic and operational uncertainty into consideration.
- 4.3 In line with previous years practice, no standard inflationary adjustment has been made to non-salary expenditure lines. Any 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, there is a staffing turnover assumption of 6% and employee increment payments have also been recognised. Scotland Excel will utilise a range of mechanisms including staffing structure review, maintaining vacancies, offering VR and

VER to staff and delaying recruitment where possible to achieve the expenditure estimate.

- **Property Costs** – no inflationary element applied
- **Transport Costs** – budget has been reduced by £10k in light of anticipated working practices post-pandemic
- **Transfer Payments** – no inflationary element applied
- **Supplies and Services** – budget has been reduced by £30k in light of anticipated working practices post-pandemic and provision of £25k has been added in respect of additional legal services required to support Adult Social Care frameworks.
- **Support Costs** - budgetary provision for Insurances has been increased by £42k in line with the forecast outturn for 2020/21

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

- **Council Requisitions** – At the Joint Committee in December 2019, members noted an indicative 3% increase in requisition for 2021/22 (see also section 8 below) and this has now been applied.
- **Associate Income** – The budget has been amended to reflect the anticipated impact of the COVID-19 pandemic on income generated via Associate Memberships, reflecting forecast income generated during 2020/21 and the ongoing economic uncertainty within the social housing and third sectors.
- **Income from Projects** – Includes anticipated income from several Projects, including New Build Housing, Consultancy Services 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 provision relating to anticipated rebates accruing during 2021/22 has been reviewed in anticipation of the potential impact of the COVID-19 pandemic and Brexit. Estimates provided for future financial years are indicative only and will be subject to review in light of changing economic circumstance and local authority spending.

4.6 The current projected outturn position for 2020/21 is an overspend on Core activities of £36k against the approved budget. This projected overspend reflects lower than anticipated turnover of staff during 2020/21 due to the COVID-19 pandemic. Income and expenditure will continue to be monitored closely throughout the financial year and reported regularly to the Executive Sub Committee. Action will be taken to mitigate the projected overspend as far as is possible, through prudent management of the workforce, close monitoring of

sundry budgets and exploring further income opportunities through short-term projects.

5. **Income from Projects**

5.1 **New Build Housing** – Due to continuing uncertainty as a result of the COVID-19 pandemic and delays to Council and Housing Association house building plans, income projections from the New Build project have been revised to achieve £25k during 2021/22 and £45k in each of 2022/23 and 2023/24.

5.2 **Consultancy Services** – Income provision from Consultancy projects during 2021/22 has been increased to £252k, owing to a number of long-running projects coming to an end. Due to the COVID-19 pandemic, the Consultancy Project pipeline has been seriously impacted for future years with currently only four projects continuing into 2022/23. Consequently, income provision for Consultancy Services has been reduced to £140k in years 2022/23 and 2023/24.

However, despite the impact on the project pipeline as a result of COVID-19, good progress is being made in re-establishing a future pipeline of projects. Scotland Excel has recently been contracted by Stirling Council to provide a Head of Procurement for two years. Discussions are underway with regard to the provision of embedded resources within other councils. Scotland Excel has presented new chargeable services at a number of fora, including SOLACE and CIPFA Directors of Finance. A number of project and service discussions have taken place with Chief Executives and more are in the diary. A growing number of councils and associate members are approaching Scotland Excel regarding the provision of tendering services. It is anticipated that a small number of transformation programmes will also be initiated in 2021/22.

These figures will be monitored closely and may be adjusted again in the future.

5.3 **Learning and Development (Academy)** – The COVID-19 pandemic has had a significant impact on the Scotland Excel Academy, resulting in the need to switch from a high quality face-to-face longer-term learning experience to an online environment, resulting in an anticipated zero contribution to income during 2020/21. As a new Business Plan for the Academy is implemented in anticipation of a new post-pandemic learning environment, an income budget of £20k is proposed for 2021/22, rising in subsequent years to pre-pandemic forecasts.

6. **Financial Overview**

6.1 As outlined above, the financial outlook in the short and medium-term continues to be characterised by economic and operational uncertainty. At this point, areas of financial risk for the Joint Committee include the uncertain impact of both the

COVID-19 pandemic and Brexit on Scottish Government funding allocations and on inflation.

- 6.2 Members are aware that a new funding model was approved at the June 2018 Joint Committee, which sees 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 the organisation, which requires to be appropriately mitigated through a prudent level of reserves. It is estimated that uncommitted reserves will amount to £199k at the end of the 2020/21 financial year, which represents 4.6% of anticipated operating income in that year. This balance will be held to protect against any unforeseen costs that may arise as a result of the current levels of economic uncertainty. The minimum level of uncommitted reserves balance recommended by the Treasurer is 5%.
- 6.3 The information provided in Appendix 1 outlines the forecast year-end financial position for 2020/21 and estimates for 2021/22, 2022/23 and 2023/24. The funding streams, set out within the Funding Model Review approved by members at the June 2018 Joint Committee, have been incorporated into these estimates, making allowance where appropriate for the current economic uncertainty. These include the use of Associate income and income that is expected to be earned and generated by Projects during 2021/22. A 3% requisition increase has therefore been recommended for financial year 2021/22 in line with the figure noted by the Joint Committee in December 2019.
- 6.4 Indicative figures have also been included within the paper for financial years 2022/23 and 2023/24. In relation to requisition levels, the figures presented to the Joint Committee in December 2019 that indicated a zero percent requisition increase for 2022/23 have been reviewed in light of the experience of the current year, the inherent risk in the project pipeline and the economic and operational uncertainty of the external environment within which Scotland Excel and local authorities are currently operating, as outlined above. This is now revised to propose a 3% increase in both 2022/23 and 2023/24, to address anticipated inflationary cost increases and to mitigate against inherent operational risk.
- 6.5 Members will note that a memorandum section is detailed in Appendix 1 (Table 2) relating to the projects that Scotland Excel operates. The funding relating to 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 are generally short-term in nature, therefore only the 2021/22 figures, as known at this time, are provided. As outlined above, projects are forecast to contribute income towards Core activities during the forthcoming financial year.

7 Scotland Excel Funding Model

- 7.1 Work continues on the review of the financial sustainability of Scotland Excel since the Joint Committee in June 2018 and on developing the funding solutions set out at that point. While the organisation has made good progress in developing each of the potential offerings set out in the report, the impact of the COVID-19 pandemic has had a major impact on each element. Within the financial estimates for Scotland Excel for financial year 2021/22, 15.5% of required income to deliver core services will be generated through income streams, identified within the Income Stream Update Report, other than council requisitions.

8 2020/21 Member Authority Requisitions

- 8.1 An increase of 3% has been recommended for 2021/22 for member authority requisitions, as detailed in Appendix 2 of this report. As per the Minute of Agreement, member requisitions are calculated by aggregating a fixed annual membership fee, which is 20% of requisition total, with the remainder based on each member council's population as a proportion of total member population. For 2021/22, population numbers have been sourced from the 2019 mid-year population estimates published by the National Records of Scotland. It should be noted that the requisitions outlined do not include amounts payable by councils in relation to the National Care Home Contract.
- 8.2 In addition to member authority requisitions for 2021/22, Appendix 2 also details the estimated savings accrued by member authorities during 2019/20. These figures will be sent out to Joint Committee representatives and all local authorities during November 2020.
- 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 2021, in accordance with arrangements made by the Treasurer.

Appendix 1
Scotland Excel Revenue Estimates

	2020/21 Revised Budget £000	2020/21 Forecast outturn £000	2021/22 Proposed Budget £000	2022/23 Indicative Budget £000	2023/24 Indicative Budget £000
Core Activity					
Employee Costs	3,591	3,472	3,652	3,855	3,996
Property Costs	217	217	217	217	217
Transport Costs	30	15	20	20	20
Supplies and Services	296	301	291	291	291
Transfer Payments	14	14	14	14	14
Support Costs	224	266	266	266	274
Total Core Operating Costs	4,372	4,285	4,460	4,663	4,812
Council Requisitions	(3,661)	(3,661)	(3,770)	(3,883)	(4,000)
Temporary Use of Project Reserves	(120)	(120)	0	0	0
Associate Income	(210)	(170)	(180)	(200)	(200)
Income from Projects	(315)	(232)	(297)	(215)	(215)
Rebates	(66)	(66)	(213)	(365)	(397)
Total Core Operating Income	(4,372)	(4,249)	(4,460)	(4,663)	(4,812)
Core Operating Deficit/(Surplus)	0	36	0	0	0
Uncommitted (Core) Reserves					
Opening balance at 1 April	235	235	199	199	199
Use of Reserves	0	(36)	0	0	0
Closing balance at 31 March	235	199	199	199	199
% of Operating Income	5.4%	4.7%	4.5%	4.3%	4.1%
Project Activity					
Employee Costs	1,302	1,279	1,163		
Property Costs	0	0	0		
Transport Costs	23	3	7		
Supplies and Services	57	11	52		
Transfer Payments	5	4	2		
Support Costs	294	114	155		
Total Project Costs	1,681	1,411	1,379		
Income from Projects	(1,996)	(1,396)	(1,227)		
Project Deficit/(Surplus)	(315)	15	152		
Transfer to Core	315	174	252		
Transfer from Project Reserves	0	189	404		
Project Reserves					
Opening balance at 1 April	763	763	454		
Use of Reserves	0	(309)	(404)		
Closing balance at 31 March	763	454	50		
% of Operating Income	38.2%	32.5%	4.1%		

Appendix 2

Member Requisitions & Savings Achieved 2019/20

Requisition by Authority	2020/21	2021/22	Movement	Savings Achieved 19/20
Aberdeen City	£146,388	£149,800	£3,412	£676,865
Aberdeenshire	£164,202	£167,763	£3,561	£911,247
Angus	£85,648	£87,710	£2,062	£197,768
Argyll and Bute	£69,740	£70,967	£1,227	£319,011
City of Edinburgh	£299,918	£313,348	£13,430	£787,470
Clackmannanshire	£50,652	£52,013	£1,361	£189,415
Dumfries and Galloway	£103,419	£105,741	£2,322	£305,743
Dundee City	£103,154	£105,993	£2,839	£300,865
East Ayrshire	£88,703	£90,918	£2,215	£427,303
East Dunbartonshire	£81,249	£83,537	£2,288	£249,778
East Lothian	£79,473	£82,681	£3,208	£480,814
East Renfrewshire	£74,031	£76,300	£2,269	£589,577
Falkirk	£109,319	£112,382	£3,063	£963,356
Fife	£223,372	£229,780	£6,408	£836,304
Glasgow City	£358,116	£373,073	£14,957	£1,033,067
Highland	£149,832	£153,752	£3,920	£412,971
Inverclyde	£65,394	£66,512	£1,118	£281,161
Midlothian	£71,510	£74,603	£3,093	£681,951
Moray	£74,582	£76,460	£1,878	£269,277
Na h-Eileanan Siar	£37,426	£38,313	£887	£125,402
North Ayrshire	£96,180	£97,946	£1,766	£320,316
North Lanarkshire	£206,394	£212,013	£5,619	£497,645
Orkney Islands	£34,754	£35,857	£1,103	£33,905
Perth and Kinross	£104,444	£107,447	£3,003	£311,315
Renfrewshire	£118,334	£122,433	£4,099	£587,753
Scottish Borders	£84,968	£87,330	£2,362	£196,655
Shetland Islands	£35,337	£36,216	£879	£49,167
South Ayrshire	£83,705	£85,729	£2,024	£299,084
South Lanarkshire	£194,632	£200,511	£5,879	£536,005
Stirling	£73,621	£75,571	£1,950	£112,093
West Dunbartonshire	£71,251	£72,657	£1,406	£601,210
West Lothian	£120,752	£124,643	£3,891	£455,120
	£3,660,500	£3,770,000	£109,500	£14,039,613