

## Scotland Excel

To: Scotland Excel Joint Committee

On: 27 November 2015

### Report by The Treasurer and Director

#### Revenue Estimates 2016-17

#### 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 2016-17.

#### 2. Recommendations

##### 2.1 It is recommended that members:

- **agree** the Revenue Estimates of Scotland Excel for the financial year 2016-17 as shown in Appendix 1;
- **agree** the utilisation of reserve funding to support procurement reform projects due to terminate during 2016-17;
- **agree** the utilisation of reserve funding to support the ICT development programme;
- **agree** the requisitions from constituent authorities as detailed in appendix 2.

#### 3. Background

3.1 Scotland Excel was formally launched on 1 April 2008. The organisation continues to review its operations on an ongoing basis to ensure it remains sustainable, “fit for purpose” and is best structured to deliver its objectives.

3.2 The Annual Revenue Estimates process for each year up to 2015-16 has included agreement to draw from 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, has lasted significantly longer than was originally anticipated following the establishment of Scotland Excel and has assisted in maintaining core requisitions below the cost of service delivery to member councils.

- 3.3 A number of these workstreams have been temporary in nature and the associated funding requirement has consequently fallen away upon the conclusion of the workstream activity. Over time however, key elements in relation to Learning & Development activity and Procurement Reform & Change, incorporating Procurement Capability Assessment delivery, have developed and become part of the core service offering provided by Scotland Excel and moving forward there remains a requirement from member councils for their continued provision. In this context, it was recognised that in time the financial strategy adopted of funding such activities from available reserves, would inevitably come to a natural end and would at an appropriate juncture require to be incorporated into the core funding structure of Scotland Excel to support the sustained the delivery of these services moving forward.
- 3.4 As indicated in the 2015-16 Revenue Estimates report presented last year, Scotland Excel's reserves will be reduced to a level moving into 2016/17 where this adjustment to the underlying funding structure of core service provision will require to be implemented. The detail outlined in the main body of the report, presents a proposed budget for 2016/17 on this basis resulting in an associated uplift in requisition levels moving forward. It should however be noted that the underlying cost of the core service provision has been framed within a flat cash basis. This necessitates service efficiencies to be delivered by the Director in order to mitigate the impact of cost pressures arising from pay awards, changes in national insurance costs and other inflationary pressures.
- 3.5 The revenue estimates outlined in the remainder of this report present the planned 2016-17 financial position for Scotland Excel, taking into account:
- the estimated costs of core operations, incorporating the £0.300 million costs of ongoing procurement improvement activities previously funded from reserves;
  - the non-recurring costs related to procurement reform activities due to come to an end during 2016-17, to be met from reserves;
  - the non-recurring costs related to upgrade investment in ICT provision, to be met from available reserves.
- 3.6 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 it is recognised that this is likely to have a consequential impact on the level of requisition funding available to Scotland Excel over this period. At present the local government grant settlement position for 2016/17 is not expected to be made available by the Scottish Government until January 2016, with figures for 2017/18 and beyond potentially not emerging until the second half of 2016. 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 2017/18. It would be anticipated that at this point next

year a 2017/18 budget and medium term planning figures will be presented in the context of a firmer medium term financial outlook for member councils.

#### **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 1% for 2016-17 reflecting the nationally agreed pay uplift;
- A budget provision for additional employer's national insurance contributions has been included following the introduction of the new state pension arrangements from 2016-17
- 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 5% has been applied;
  - contractors – a planned reduction in the use of consultants as reported during 2015-16;
  - 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;
  - requisitions – requisition levels have been increased to reflect the net increase in operating expenditure in relation to the incorporation of the procurement improvement programme activities into the core operations.

4.2 Account has also been taken of the requirement to support investment in information technology to deliver more efficient supplier and contract performance data and enhancements to the current internet and intranet systems to provide enhanced mobility and allow future potential growth.

#### **5. Financial Overview**

5.1 As in previous years, the 2016-17 revenue estimates have been developed to ensure core operations are funded fully by requisition income. Details of the local government grant settlement for 2016-17 are expected to be issued in January 2016, however there is significant uncertainty over the level of any potential adjustments to the settlements for individual councils.

5.2 As referred to in previous revenue estimate reports, £4.5 million was provided to Scotland Excel in 2008 by way of Scottish Government grant support. This funding has been prudently managed to support the delivery of the procurement improvement programme led by Scotland Excel across the local authority procurement network in Scotland. The use of reserves in this manner to support councils to improve their procurement activity has lasted significantly longer than initially envisaged when Scotland Excel was

established and has been a key mechanism to mitigate the need for requisition increases to support these activities.

- 5.3 The balance of this funding continues to be used along with general reserves to fund procurement reform activity which benefits all member authorities. It is anticipated £0.421 million of combined reserves will be available at the end of the 2015-16 financial year. It is further anticipated that £0.200 million will be drawn down during 2016-17 to fund remaining reform programmes terminating during 2016-17, and ICT activities fundamental to maintaining a fit for purpose contract monitoring systems, leaving a balance of £0.222 million of unallocated reserves. In the context of the wider financial environment this is viewed as being a prudent level at which to maintain unallocated reserves in order to protect against any unforeseen costs or financial risks which may arise in the future.
- 5.4 As outlined in section 3 above, the underlying cost of Scotland Excel's core activities have been framed on a flat cash basis moving from 2015/16 to 2017/18. However in order to provide a sustainable funding structure to support service provision, the procurement improvement programme activities previously funded from reserves, at a cost of £300,000 have been incorporated into the core service provision. To support this transition, there is a requirement to apply a corresponding adjustment to member requisitions. The existing core requisition remains unadjusted moving into 2016/17 with a 9.4% adjustment applied to reflect this change.
- 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. **2016/17 Member Authority Requisitions**

- 6.1 The Member Authority Requisitions for 2016-17, based on the 9.4% increase outlined in section 5, 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

	2015/16		2016/17	
	Approved	Core Operations	Procurement Improvement	Proposed
<b><u>Operational Expenditure</u></b>				
Employee Costs	2,602,800	2,625,200	290,000	2,915,200
Property Costs	176,500	176,500	0	176,500
Supplies and Services	87,500	87,900	0	87,900
Administration Costs	314,400	305,600	10,000	315,600
Payments to other Bodies	33,000	19,000	0	19,000
<b>Total Core Operating Expenditure</b>	<b>3,214,200</b>	<b>3,214,200</b>	<b>300,000</b>	<b>3,514,200</b>
<b><u>Operational Income</u></b>				
Council Requisitions	3,184,200	3,184,200	300,000	3,484,200
Other Income	30,000	30,000	0	30,000
<b>Total Core Operating Income</b>	<b>3,214,200</b>	<b>3,214,200</b>	<b>300,000</b>	<b>3,514,200</b>
<b>Operating Deficit/(Surplus) (a)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b><u>Procurement Improvement</u></b>				
Temporary Staffing Requirements	155,500	0	11,910	11,910
ICT Development Costs	75,000	0	122,600	122,600
Other Development Costs	275,000	0	65,000	65,000
<b>Total Temporary Costs (b)</b>	<b>505,500</b>	<b>0</b>	<b>199,510</b>	<b>199,510</b>

<b><u>National Care Home Contract</u></b>				
Additional Costs	0	165,500	0	165,500
Additional Income	0	165,500	0	165,500
<b>Net Expenditure (c)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b><u>Reserve Funding</u></b>				
<b>Core Reserves</b>	<b>733,567</b>	<b>421,067</b>	<b>421,067</b>	<b>421,067</b>
Budgeted Drawdown (a)+(b)+(c)	(505,500)	0	(199,510)	(199,510)
Budgeted Balance	228,067	421,067	221,557	221,557
Year End Projected Underspend	193,000	0	0	0
<b>Estimated Balance</b>	<b>421,067</b>	<b>421,067</b>	<b>221,557</b>	<b>221,557</b>



## Appendix 2

### Member Requisitions

Requisition by Authority	2015-16	2016-17	Movement	
Aberdeen City	128,501	140,607	12,106	9.4%
Aberdeenshire	143,137	156,621	13,484	9.4%
Angus	75,480	82,591	7,111	9.4%
Argyll and Bute	62,001	67,842	5,841	9.4%
Clackmannanshire	44,420	48,605	4,185	9.4%
Dumfries and Galloway	91,751	100,395	8,644	9.4%
Dundee City	90,747	99,296	8,549	9.4%
East Ayrshire	78,444	85,835	7,391	9.4%
East Dunbartonshire	70,517	77,160	6,643	9.4%
East Lothian	68,365	74,806	6,441	9.4%
East Renfrewshire	63,651	69,647	5,996	9.4%
City of Edinburgh	252,995	276,829	23,834	9.4%
Eilean Siar	33,002	36,111	3,109	9.4%
Falkirk	95,036	103,989	8,953	9.4%
Fife	195,335	213,737	18,402	9.4%
Glasgow City	305,136	333,882	28,746	9.4%
Highland	131,284	143,652	12,368	9.4%
Inverclyde	58,300	63,793	5,493	9.4%
Midlothian	60,399	66,090	5,691	9.4%
Moray	65,013	71,138	6,125	9.4%
North Ayrshire	85,368	93,410	8,042	9.4%
North Lanarkshire	181,383	198,471	17,088	9.4%
Orkney Islands	30,214	33,061	2,847	9.4%
Perth and Kinross	90,546	99,076	8,530	9.4%
Renfrewshire	103,049	112,758	9,709	9.4%
Scottish Borders	74,347	81,351	7,004	9.4%
Shetland Islands	30,994	33,914	2,920	9.4%
Stirling	63,536	69,522	5,986	9.4%
South Ayrshire	73,859	80,817	6,958	9.4%
South Lanarkshire	170,443	186,501	16,058	9.4%
West Dunbartonshire	62,843	68,763	5,920	9.4%
West Lothian	104,121	113,930	9,809	9.4%
<b>Total</b>	<b>3,184,217</b>	<b>3,484,200</b>	<b>299,983</b>	<b>9.4%</b>