

## Scotland Excel

To: Scotland Excel Joint Committee

On: 08 December 2017

Report  
by  
The Treasurer and Director Scotland Excel

### Revenue Estimates 2018-19

#### 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 2018-19 and indicative planning figures for 2019-20 and 2020-2021.

#### 2. Recommendations

2.1 It is recommended that members:

- **agree** the Revenue Estimates of Scotland Excel for the financial year 2018-19 as shown in Appendix 1
- **agree** the requisitions from constituent authorities as detailed in Appendix 2
- **note** the indicative estimates for 2019-20 and 2020-21
- **consider** the options for addressing the indicative funding gap indicated over the medium term as discussed in section 5; and agree Scotland Excel will further explore these and report to the next meeting of the Joint Committee.

#### 3. Background

3.1 The Annual Revenue Estimates process each year outlines the summary revenue budget position for the organisation. The budget estimates provided in the attached Appendix 1 outline the projected position and proposed requisition for 2018/19, and also outline an indicative projected position for 2019/20 and 2020/21 for member's information and as an aid to constituent authorities financial planning. The assumptions used in developing these projections are outlined in section 4 below.

3.2 The financial environment in which Scotland Excel and member authorities operate continues to be characterised by significant demand and cost pressures, compounded by reducing levels of grant support. It is anticipated that the Scottish Budget and local government settlement to be announced on 14 December will again reflect a revenue grant cut for local authorities. It is

also possible that the settlement announced will again be for a single financial year only, adding significant uncertainty to financial forecasts.

3.3 It is also recognised that over the medium term, local government in Scotland is likely to face 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, 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. Scotland Excel also continues to develop alternative services which generate income outwith core requisition income in order to try and diversify its funding base. This is further explored in section 5 below.

#### **4. Budget Assumptions**

4.1 The budget is based on the following assumptions:

- A budget provision of 2% in relation to the 2018/19 pay award has been included in the budget forecast, recognising the removal of the 1% cap on public sector pay awards (2% has also been assumed in the indicative 19/20 and 20/21 forecasts). 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 2018-19 budget funded from reserve balances;
- in line with previous years practice, no inflation adjustment has been made to any 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;
  - supplies and services – ICT costs have increased due to the migration to a cloud environment and requirement to purchase individual Microsoft licenses per user;
  - administration costs – reduction due to the review of the cost of support arrangements with Renfrewshire Council;
  - payments to other bodies – reduced as CIPS accreditation is secured on a 3 year basis;
  - Member requisitions – have been held at 2016-17 levels.
  - Other income – has been increased to reflect additional anticipated income from Crown Commercial Services.

4.2 The projected outturn position for 2017/18 is a £70,000 underspend on core activities as detailed in Appendix 1. It is proposed to manage this underspend flexibly across years to support the 2018/19 budget. Scotland Excel are acutely aware that the use of non-recurring revenue sources to fund recurrent core activities is inconsistent with a sustainable funding position and section 5 below outlines measures to address this position.

## 5. Financial Overview

- 5.1 As outlined above, the financial outlook in the medium term is characterised by uncertainty. At this point both major areas of financial risk for the Joint Committee – 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. However, both appear to be increasing risks ie the level of pay award is expected to be higher in future years than in the recent years, and similarly the level of funding available to local government through the grant settlement process is expected to reduce.
- 5.2 While the exact impact of these issues for 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 2018/19 local government settlement range across Scotland; however they are broadly in the 3-5% range. Scotland Excel continue to be mindful of the financial pressures member authorities face and will work with them to address these challenges through the support provided to local procurement teams and through the collaborative contracts put in place.
- 5.3 As in previous years, the 2018-19 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. To provide some context for member authorities, each 1% movement in requisition for Scotland Excel amounts to circa £35,000, while a movement of 1% in the pay award would cost circa £30,000.
- 5.4 The information provided in Appendix 1 outlines the indicative medium term financial position, and includes an estimate that Scotland Excel will in 2019/20 (assuming no change in the level of requisition and no reliance on reserves) require to secure additional income or reduce costs by £168,000; rising to £254,000 in 2020/21. Scotland Excel recognises the financial environment is constrained and future requisition increases are undesirable at a time when councils are facing grant cuts, therefore options have been explored to address this funding gap. The Joint Committee is invited to discuss these options with a view to further work being undertaken to fully explore their potential, and develop timescales within which they could be implemented.

### Additional income generating activity

- 5.5 Throughout 2017/18, Scotland Excel has been reviewing opportunities to identify additional income for the organisation. A number of successes have been made with regard to externally funded projects including; housing, adult supported living and the SeeMIS project. Each of the projects have delivered additional benefits to members at no cost, and each has been operated on a “cost recovery” model. This means that although additional benefits have been achieved, they are not used to financially support core activities. Scotland Excel is keen to pursue other income generating projects and to also

identify projects that can provide a surplus which in turn can support financial sustainability.

- 5.6 External projects that generate a surplus could provide a method of subsidising core activities. As already demonstrated, these projects can also provide additional member benefits based on the selection of appropriate projects. The scale of the potential marketplace is unknown and will clearly take time to implement. Initial project resourcing will also provide challenges due to the lack of a specific team dedicated to this task, resulting in a position where income would have to be generated on an organic growth basis.

#### Rebates and supplier levies

- 5.7 The use of rebates has already been agreed by the Joint Committee with regards the proposal to implement a small value team into the organisation. This project has utilised rebate income to fund a team that is on track to deliver 11 new contracts by the end of the year. Effective collaborative solutions have been delivered to date, with the first 3 contracts generating a positive return on investment. Additional opportunities to support financial sustainability are also under consideration, including the implementation of supplier levies where appropriate. This is not uncommon, and involves the addition of a fee to purchases made under the framework by participating bodies. This has been considered in the past, but Scotland Excel have elected to postpone pursuing this, and rely on member requisitions and extended use of the Scottish Government set-up fund.
- 5.8 It is likely that the solution to the funding gap outlined will consist of a blend of the options outlined above, along with continued focus on cost efficiencies and sourcing new associate member income in order to avoid increased requisitions. However, the possibility of a requirement for increased requisition income over the medium term cannot be ruled out. It is suggested that Scotland Excel further explore the options outlined above and bring a report back to the June 2018 Joint Committee meeting to provide an indication of how and in what timescale the above options could be implemented.
- 5.9 Members will note that detailed in Appendix 1 is a memorandum section relating to various projects that Scotland Excel operate. 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 2018-19 figures are provided. As outlined above, each project is self-funding.

## **6. 2018/19 Member Authority Requisitions**

- 6.1 The Member Authority Requisitions for 2018/19 have been updated to reflect changes in population (as reflected in the 2016 mid-year population estimates published by NRS), however the overall total requisition has 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**

	2017/18 Approved	2017/18 Forecast Outturn	2018/19 Proposed	2019/20 Indicative	2020/21 Indicative
<b><u>Core Operational Expenditure</u></b>					
Employee Costs	2,944,400	2,899,811	3,040,160	3,122,878	3,209,288
Property Costs	176,500	176,500	176,500	176,500	176,500
Supplies and Services	87,900	87,900	141,140	141,140	141,140
Contractors	-	6,500	-	-	-
Administration Costs	296,800	300,089	266,400	281,400	266,205
Payments to other Bodies	38,600	38,600	20,000	20,000	35,000
Required Saving	-	-	-	(167,718)	(253,933)
<b>Total Core Operating Expenditure</b>	<b>3,544,200</b>	<b>3,509,400</b>	<b>3,644,200</b>	<b>3,574,200</b>	<b>3,574,200</b>
<b><u>Core Operational Income</u></b>					
Council Requisitions	3,484,200	3,484,200	3,484,200	3,484,200	3,484,200
17/18 Underspend	-	-	70,000	-	-
Other Income	60,000	95,200	90,000	90,000	90,000
<b>Total Core Operating Income</b>	<b>3,544,200</b>	<b>3,579,400</b>	<b>3,644,200</b>	<b>3,574,200</b>	<b>3,574,200</b>
<b>Core Operating Deficit/(Surplus)</b>	<b>0</b>	<b>(70,000)</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b><u>Funded from Reserves</u></b>					
ICT Development Costs	101,000	101,000	-	-	-
Office Fit Out Costs	50,000	50,000	-	-	-
Other Development Costs	15,000	15,000	-	-	-
<b>Total Temporary Costs</b>	<b>166,000</b>	<b>166,000</b>	<b>0</b>	<b>0</b>	<b>0</b>

<b><u>Reserve Funding</u></b>					
<b>Total Reserves</b>	<b>367,928</b>	<b>367,928</b>	<b>271,928</b>	<b>201,928</b>	<b>201,928</b>
Budgeted Drawdown	(166,000)	(166,000)	(70,000)	-	-
Projected Underspend	-	70,000	-	-	-
<b>Budgeted Balance</b>	<b>201,928</b>	<b>271,928</b>	<b>201,928</b>	<b>201,928</b>	<b>201,928</b>
<b>Estimated Balance</b>	<b>201,928</b>	<b>271,928</b>	<b>201,928</b>	<b>201,928</b>	<b>201,928</b>

**Memorandum**

<b><u>Scotland Excel Projects</u></b>					
Additional Costs	-	-	960,000	-	-
Additional Income	-	-	960,000	-	-
<b>Net Expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Appendix 2

### Member Requisitions

<b>Requisition by Authority</b>	<b><u>2017-18</u></b>	<b><u>2018-19</u></b>
Aberdeen City	140,607	140,311
Aberdeenshire	156,621	156,995
Angus	82,591	81,869
Argyll and Bute	67,842	66,712
Clackmannanshire	48,605	48,259
Dumfries and Galloway	100,395	98,888
Dundee City	99,296	98,243
East Ayrshire	85,835	84,798
East Dunbartonshire	77,160	77,238
East Lothian	74,806	75,458
East Renfrewshire	69,647	70,157
City of Edinburgh	276,829	283,339
Eilean Siar	36,111	35,649
Falkirk	103,989	103,973
Fife	213,737	212,766
Glasgow City	333,882	338,987
Highland	143,652	142,854
Inverclyde	63,793	62,600
Midlothian	66,090	67,475
Moray	71,138	71,322
North Ayrshire	93,410	91,859
North Lanarkshire	198,471	196,810
Orkney Islands	33,061	33,045
Perth and Kinross	99,076	99,486
Renfrewshire	112,758	112,508
Scottish Borders	81,351	80,843
Shetland Islands	33,914	33,741
Stirling	69,522	70,126
South Ayrshire	80,817	79,780
South Lanarkshire	186,501	185,314
West Dunbartonshire	68,763	68,120
West Lothian	113,930	114,675
<b>Total</b>	<b>3,484,200</b>	<b>3,484,200</b>