

Scotland Excel

To: Executive Sub-Committee

On: 18 November 2022

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

Draft Revenue Estimates 2023/24

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 2023/24 along with indicative planning figures for 2024/25 and 2025/26.

2. Recommendations

- 2.1 It is recommended that members:

- note the Revenue Estimates of Scotland Excel for the financial year 2023/24 as shown in Table 1 of Appendix 1.
- note the requisitions from constituent authorities detailed in Appendix 2; and
- note the indicative estimates for 2024/25 and 2025/26.

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 2023/24 and outline an indicative projected position for 2024/25 and 2025/26. 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, following a prolonged period of change, arising from the UK's exit from the EU, the impact and now recovery from the COVID-19 pandemic, global supply chain issues following the invasion of Ukraine and increasingly volatile economic conditions, with very high current levels of inflation. These factors have influenced the revenue budget estimates for 2023/24, 2024/25 and 2025/26 contained within this report. Indeed, figures

presented for 2024/25 and 2025/26 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 the level of requisition required, and also to develop strategic savings opportunities for member authorities, to ensure that best value continues to be achieved through Scotland Excel.
- 3.4 Scotland Excel has provided an update on the proposed requisition increase to a number of stakeholder groups including the Society of Local Authority Chief Executives (SOLACE), the Chief Executive Officers Management Group (CEOMG), Procurement Improvement Programme (PiP) Steering group (procurement managers) and the Chartered Institute of Public Finance and Accountancy (CIPFA) Directors of Finance forum. Whilst the need for a requisition increase has been recognised by stakeholders, the challenging financial landscape was also clearly articulated.

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 2023/24 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 2024/25 and 2025/26. These are estimates only, used to provide indicative figures for 2024/25 and 2025/26 and should be considered alongside the continuing economic uncertainty. It should be noted that the 2022/23 pay award (5%) has been included in 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 5% pay award for 2022/23), adjustment has been made to reflect the revised staffing structure currently in place within Scotland Excel and, as in previous years, there is a staffing turnover assumption of 5%. Revised Employers

National Insurance figures have also been incorporated in all employee cost figures, removing the Social Care NI Levy from future years.

- **Property Costs** – no inflationary element applied.
- **Transport Costs** – no inflationary element applied.
- **Transfer Payments** – as the Apprenticeship Levy directly relates to employee costs, this has been increased in line.
- **Supplies and Services** – the budget has been reduced to reflect the transfer of the cost of additional legal support from Renfrewshire Council to Support Costs, as this is now included within the Service Level Agreement (SLA) annual charge for services. This additional legal support is required due to the size and increasing complexity of the Scotland Excel framework portfolio.
- **Support Costs** – budget has been increased to reflect the increased costs in relation to the Service Level Agreement (SLA) with Renfrewshire Council, which now includes additional legal costs, as noted above. This is the first increase in SLA costs in 3 years and reflects an inflationary increase in staffing costs in the delivery of services and also the changing mix of services being provided.

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

- **Council Requisitions** – At the Joint Committee in December 2021, members noted an indicative 3% increase in requisition for 2023/24 and this has now been applied (see also section 7 below).
- **Associate Income** – The budget has been amended to reflect pre-COVID estimates previously noted by the Joint Committee.
- **Income from Projects** – Includes anticipated income from several Projects, including Flexible Procurement Services, 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 from Rebates during 2023/24 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 2023/24, 2024/25 and 2025/26 is also presented in section 5 below.

4.6 In total, estimated non-requisition income for 2023/24 totals £1,061k representing 21% of operating costs for the year. This level of non-requisition income is estimated to continue into 2024/25 and 2025/26.

- 4.7 The current projected outturn position for 2022/23 is a break-even position for Core activities. Income and expenditure continues to be monitored closely throughout the financial year and reported regularly to the Executive Sub-Committee.

5. Income from Projects

- 5.1 **New Build Housing** – Income provision from the New Build project (£0k) reflects the continuing challenging environment within the construction sector, along with increased resource requirements for the ongoing development of the next generation New Build framework, which will be launched during 2024/25. No contribution from the New Build framework explains the projected reduction in Income from Projects figure for 2023/24; however, it is anticipated that the New Build framework will contribute to Income from Projects from 2024/25 onwards.

- 5.2 **Consultancy Services** – Income provision from Consultancy projects has been projected at £218k for 2023/24, reflecting the confirmed consultancy project portfolio at time of writing, and the growing market utilisation of the Flexible Procurement options being offered by Scotland Excel.

These 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.

- 5.3 **Learning and Development (Academy)** – Income provision from the Scotland Excel Academy for 2023/24 has been projected at £30k to reflect the continuing journey back to pre-pandemic activity levels. Transition from a high quality face-to-face, longer-term learning experience to an online environment continues to present challenges for the Academy; however, it is forecast to achieve its target contribution of £30k for 2022/23.

- 5.4 Overall, income from New Build Housing (£0k), Consultancy (£218k) and the Scotland Excel Academy (£30k) will contribute £248k to core operating costs recorded under Income from Projects.

- 5.5 **Rebates** – Income provision from Rebates for 2023/24 has been projected at £583k. This projection reflects the increasing number of Scotland Excel frameworks anticipating a rebate on activity during 2023/24 and the possible impact on framework spend levels due to the current challenging economic environment.

Income from Rebates for Scotland Excel depends entirely on expenditure levels made through its frameworks. During the COVID-19 and Brexit periods, expenditure levels across Scotland Excel frameworks have varied significantly

from pre-pandemic/pre-Brexit levels. Expenditure through some frameworks has reduced (e.g., Construction, Building Supplies), while others have experienced an increase in expenditure (e.g., Janitorial Supplies).

Estimated framework spend for 2023/24, 2024/25 and 2025/26 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 monitor expenditure levels across all its frameworks to ensure that forecast Rebate levels continue to be achievable, and will report any significant variation on budget to the Executive Sub-Committee.

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 and ongoing impact of both the COVID-19 pandemic and Brexit on Scottish Government funding allocations; increasing levels of inflation and cost of living and, the current volatility across the UK economy.
- 6.2 Members will be 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.
- 6.3 It is estimated that Core uncommitted reserves will amount to £246k at the end of the 2022/23 financial year, which represents 5.0% of anticipated operating income in the 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 2022/23, the proposed operating budget for 2023/24 and indicative figures for 2024/25 and 2025/26. The funding streams, as 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 2023/24. A 3% requisition increase has therefore been

recommended for financial year 2023/24 in line with the indicative figure noted by the Joint Committee in December 2021.

- 6.4 Indicative figures have been included within the paper for financial years 2024/25 and 2025/26 and propose a 3% increase in requisition in both years to address anticipated inflationary cost pressures. It should be noted, however, that this currently results in a projected deficit at the end of each of these years. These figures presented for 2024/25 and 2025/26 are indicative only; however, and Scotland Excel will continue to closely monitor operating costs across future years with a view to mitigating this position.
- 6.5 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 2023/24 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.

7. 2023/24 Member Authority Requisitions

- 7.1 An increase of 3% has been recommended for 2023/24 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 2023/24, population numbers have been sourced from the 2021 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.
- 7.2 In addition to member authority requisitions for 2023/24, Appendix 2 also details the estimated savings and estimated cost avoidance accrued by member authorities during 2021/22. Joint Committee representatives and all local authorities will receive their annual value reports during December 2022 detailing savings, cost avoidance, rebates and other member benefits.
- 7.3 Any future events that may materially affect these finances will be the subject of a report to the Joint Committee in December.
- 7.4 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	2022/23 Approved Budget £000	2022/23 Forecast Outturn £000	2023/24 Proposed Budget £000	2024/25 Indicative Budget £000	2025/26 Indicative Budget £000
Core Activity					
Employee Costs	4,096	4,075	4,207	4,435	4,598
Property Costs	217	216	217	217	217
Transport Costs	20	10	20	20	20
Supplies and Services	311	308	291	291	291
Transfer Payments	16	15	22	22	23
Support Costs	272	272	303	310	316
Total Core Operating Costs	4,932	4,896	5,060	5,295	5,465
Council Requisitions	(3,883)	(3,883)	(3,999)	(4,119)	(4,243)
Associate Income	(220)	(203)	(230)	(240)	(240)
Income from Projects	(286)	(267)	(248)	(298)	(293)
Rebates	(543)	(543)	(583)	(578)	(578)
Total Core Operating Income	(4,932)	(4,896)	(5,060)	(5,235)	(5,354)
Core Operating Deficit/(Surplus)	0	0	0	60	111
Uncommitted Reserves					
Opening Balance at 1 April	246	246	246	246	186
Use of Reserves	0	0	0	(60)	(111)
Closing Balance at 31 March	246	246	246	186	75
% of Operating Income	5.0%	5.0%	4.9%	3.6%	1.4%

Table 2	£000	£000	£000
Project Activity			
Employee Costs	1,416	1,607	1,534
Transport Costs	4	3	3
Supplies and Services	10	41	59
Transfer Payments	5	8	7
Support Costs	501	311	843
Total Project Costs	1,936	1,970	2,446
Income from Projects	(2,111)	(2,261)	(2,868)
Project Deficit / (Surplus)	(175)	(291)	(422)
Transfer to Core	286	258	248
Transfer from Project Reserves	111	(33)	(174)
Project Reserves			
Opening Balance at 1 April	1,096	1,096	1,129
Use of Reserves	(111)	33	174
Closing Balance at 31 March	985	1,129	1,303
% of Operating Income	46.7%	49.9%	45.4%

Appendix 2

Member Requisitions 2023/24 & Savings Achieved 2021/22

Requisition by Authority	2022/23	2023/24	Savings Achieved 2021/22	Cost Avoidance 2021/22	Savings + Cost Avoidance
Aberdeen City	£154,289	£157,769	£522,792	£117,900	£640,692
Aberdeenshire	£172,791	£178,354	£196,183	£117,900	£314,083
Angus	£90,340	£92,786	£93,178	£117,900	£211,078
Argyll and Bute	£73,094	£75,330	£207,863	£117,900	£325,763
City of Edinburgh	£322,741	£332,351	£570,882	£117,900	£688,782
Clackmannanshire	£53,574	£55,083	£177,811	£117,900	£295,711
Dumfries and Galloway	£108,910	£111,859	£239,499	£117,900	£357,399
Dundee City	£109,171	£111,234	£266,678	£117,900	£384,578
East Ayrshire	£93,643	£96,230	£321,538	£117,900	£439,438
East Dunbartonshire	£86,041	£88,571	£162,844	£117,900	£280,744
East Lothian	£85,160	£88,967	£259,424	£117,900	£377,324
East Renfrewshire	£78,587	£81,378	£336,691	£117,900	£454,591
Falkirk	£115,750	£118,812	£858,024	£117,900	£975,924
Fife	£236,667	£243,764	£592,699	£117,900	£710,599
Glasgow City	£384,257	£395,787	£766,389	£117,900	£884,289
Highland	£158,361	£163,975	£29,493	£117,900	£147,393
Inverclyde	£68,506	£69,772	£299,656	£117,900	£417,556
Midlothian	£76,841	£80,269	£91,297	£117,900	£209,197
Moray	£78,752	£81,279	£77,661	£117,900	£195,561
Na h-Eileanan Siar	£39,462	£40,547	£68,568	£117,900	£186,468
North Ayrshire	£100,881	£103,352	£408,192	£117,900	£526,092
North Lanarkshire	£218,370	£224,305	£419,396	£117,900	£537,296
Orkney Islands	£36,932	£38,153	-£3,588	£117,900	£114,312
Perth and Kinross	£110,667	£114,789	£264,809	£117,900	£382,709
Renfrewshire	£126,104	£130,044	£411,142	£117,900	£529,042
Scottish Borders	£89,947	£92,727	-£8,223	£117,900	£109,677
Shetland Islands	£37,301	£38,387	-£5,213	£117,900	£112,687
South Ayrshire	£88,298	£90,643	£121,884	£117,900	£239,784
South Lanarkshire	£206,520	£213,347	£389,087	£117,900	£506,987
Stirling	£77,836	£79,562	£127,725	£117,900	£245,625
West Dunbartonshire	£74,834	£76,246	£553,062	£117,900	£670,962
West Lothian	£128,379	£133,337	£513,863	£117,900	£631,763
	£3,883,006	£3,999,008	£9,331,306	£3,772,800	£13,104,106

Cost Avoidance 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.