

To: Joint Committee

On: 07 December 2018

Report
by
The Treasurer and Director

Revenue Estimates 2019-20

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 2019-20 and indicative planning figures for 2020-21 and 2021-22.

2. Recommendations

2.1 It is recommended that members:

- **agree** the Revenue Estimates of Scotland Excel for the financial year 2019-20 as shown in Appendix 1
- **agree** the requisitions from constituent authorities as detailed in Appendix 2
- **note** the indicative estimates for 2020-21 and 2021-22
- **note** the update to the funding model outlined in Section 6

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 2019/20, and outline an indicative projected position for 2020/21 and 2021/22 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 12 December will likely reflect a revenue grant cut for local authorities. It is also likely that the settlement announced will again be for a single financial year only, adding significant uncertainty to financial forecasts.

- 3.3 It is further 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. The Joint Committee agreed in June 2018 a revised funding model which aims to reduce the reliance on requisition income. An update on this funding model is detailed in section 6 below.

4. **Budget Assumptions**

- 4.1 The budget is based on the following assumptions:

- A budget provision of 3% in relation to the 2019/20 pay award has been included in the budget forecast (3% has also been assumed in the indicative 20/21 and 21/22 forecasts). It is recognised that national pay negotiations for 2018/19 remain ongoing, with unions recently rejecting the most recent offer of a 3% uplift. Should the final agreed position be in excess of the budget provision (the 2018/19 budget was agreed including a 2% pay uplift, so there is an immediate pressure in the current financial year), 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;
 - property costs – rent and service charge costs have increased due to the cost of the office expansion
 - supplies and services - ICT costs have increased due to the migration to a cloud based environment, the introduction of virtual servers and the move to Microsoft O365
 - administration costs – increased due to the inclusion of annual review costs, the cost of facilitating practitioner workshops and increased telephony costs
 - Member requisitions – a 2% increase has been recommended for 2019/20.
 - Other income – has been reduced to reflect the anticipated reduction in income from Crown Commercial Services.

- 4.2 The projected outturn position for 2018/19 is a break even position on core activities as detailed in Appendix 1. A minor overspend is currently reported, however the organisation is taking mitigating action to recover this position by the end of the financial year. Scotland Excel is 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 the measures that were approved to address this position.

5. Financial Overview

- 5.1 As outlined above, the financial outlook in the medium term continues to be 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; with the level of pay award expected to be higher in future years. The pay award for 2018/19 has still to be agreed, with unions recently rejecting the 3% pay offer. 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. Scotland Excel continues 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. Scotland Excel has had no requisition increase since 2016/17.
- 5.3 There has been a change from the approach adopted in previous years, where revenue estimates have been developed to ensure core operations are funded fully by requisition income. Members will be aware that a new funding model was approved at the June 2018 Joint Committee which means that core operations will be funded from both requisitions and income generated from a range of other sources. This move to a more commercial funding model does increase the overall level of financial risk to the organisation, which requires to be appropriately mitigated through a prudent level of reserves. It is estimated the reserves balance at the end of the 2018/19 financial year will be £202,000 – 5.7% of turnover, however this position is significantly dependent on the level of pay award agreed for 2018/19. The remaining reserves balance will be used to protect against any unforeseen costs or financial risks which may arise in the future, and is near the 5% floor which is viewed as being the minimum recommended by the Treasurer. 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 estimates for 2019/20. 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. These include the flexible use of Associate Income generated in 2018/19; the temporary use of reserves built up by the Small Value Procurement Team; and income that is expected to be earned by projects during 2019/20. A 2% requisition increase has therefore been recommended.
- 5.5 Indicative figures have been included for 2020/21 and 2021/22. This shows that with a 3% requisition increase in 2020/21 Scotland Excel will required to secure

additional income or reduce costs by a further £90,000. A 3% requisition increase in 2021/22 will result in a breakeven position being achieved based on current estimates. These indicative estimates assume a 3% pay award in both years.

- 5.6 Members will note that detailed in Appendix 1 is a memorandum section relating to the 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 2019/20 figures are provided. As outlined above, each project is forecast to contribute surpluses toward core activities during the forthcoming financial years. It should be noted that these projects will become business as usual activity and will be subsumed into core operations; consequently figures have only been provided for 2019/20.

6 Scotland Excel Funding Model

- 6.1 The Revenue Estimates 2018-19 report presented at the Joint Committee on 8th December 2017 and the Funding Model Review at the 29th June 2018 Joint Committee, highlighted the challenging future financial landscape for local government and the impact on Scotland Excel. It 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.
- 6.2 The review concluded with a number of steps that were subsequently approved by the Joint Committee:
- Approve the proposed hybrid approach to meeting the deficit whereby the funding opportunity projects were progressed by Scotland Excel in addition to potential flexible use of reserves and potential requisitions increases.
 - Agree that the Care Homes for Older People project continues to be directly funded from the participating councils.
 - Agree that Scotland Excel officers continue to work with the Treasurer to identify methods to address the short to mid-term deficit.
 - Note that an update paper will be presented to the December 2018 Joint Committee along with the annual Revenue Estimates. This paper would provide an update on the steps taken since the June 2018 joint committee and any further steps required to ensure ongoing financial sustainability.
- 6.3 The approach outlined a number of measures to mitigate the financial pressure Scotland Excel is under both now and in the future, with a range of alternative income streams being developed. A brief update on each of these is outlined in the table below:

Consultancy Services	Scotland Excel has been working on a number of consultancy service opportunities since the June Joint Committee and is confident on the projected surplus outlined. In 2017/18 projects were initiated with Fife council, East Renfrewshire council and Aberdeen City council. Additionally, work was undertaken with Scottish Education Management Information System (SEEMiS) and City Property (Glasgow) LLP for the provision of procurement support. The Fife Council and City Property projects will continue into the following financial year and therefore contribute towards the target set out.
New Build Housing	Since the June Joint Committee, Scotland Excel has continued to work with member councils to progress the New Build project. Extensive stakeholder engagement has been held to date including those with individual contractors, purchasers, Scottish Government (grant funding & More Homes divisions), Homes for Scotland (contractor representative body), Construction Innovation Centre, Offsite Solutions Scotland (organisation comprising offsite contractors and manufacturers in Scotland) and Construction Industry Training Board (CITB). User intelligence groups have been held over the past five months and the framework strategy is almost complete. A restricted procedure has been agreed upon, with the contract notice to be published by the end of November 2018 and a contract start date anticipated in August 2019.
Learning & Development – The Academy	The Academy has made good progress since the June 2018 Joint Committee. Working with our partner organisation, The Improvement Service, Scotland Excel has introduced a new Professional Diploma Award (PDA) in Project Management. The programme, which is accredited by The Scottish Qualifications Authority (SQA), has commenced and has a pipeline of 4 learning groups. Additionally, two new learning groups have commenced, delivering Practitioner and Advanced Practitioner within the Chartered Institute of Procurement and Supply (CIPS).
Rebates	The use of volume rebates within appropriate contracts was approved at the June 2018 Joint Committee. Rebates have been used to varying degree of success across the Scotland Excel portfolio to date. Some frameworks have had a rebate embedded within the commercial agreement, such as within construction materials, whilst others have offered successful returns on a one-off basis. There is also the view that if rebates are maintained at very modest levels, for example less than c.0.75%, there is no adverse

	effect on pricing. As part of the internal contract governance process, the applicability of the inclusion of rebates is now standard practice.
Associate Member Expansion	<p>This project is taking a much more proactive approach to the identification and enrolment of associate members to Scotland Excel. The project is making use of the existing affordable housing team to accelerate this within both the housing sector and beyond.</p> <p>Scottish Government funding for the project supported a team of four specialists within Scotland Excel. The funding for this initiative terminates at the end of the current financial year. In addition to the aims of the Scottish Government funded project, the team have generated an additional £80k of associate annual income.</p> <p>It is proposed that this future income be utilised to support the project team going forward. The team will be reduced in size to two team members to meet the objectives including the income objectives set out in the '<i>funding model review</i>'. The focus for this team will continue to be supporting housing sector growth, whilst seeking wider associate opportunities. A future review will consider the scale of this team based on income generation.</p>

6.4 Work has continued to review the financial sustainability of Scotland Excel since the Joint Committee in June 2018 and to consider the funding solutions set out at that point. The organisation has made good progress in developing each of the potential offerings set out in section 6.3 of this report. Three opportunities are forecast to deliver income in financial year 19/20; consultancy, learning and development and associate members expansion. Each project has delivered income within the current financial year and measures have been taken to meet the targets set out for the next financial year. The remaining two projects are forecast to deliver income within subsequent financial years.

6.5 A number of additional financial arrangements were proposed and approved within the June Joint Committee report and they remain valid:

- Use of up to £120k from project reserves currently allocated to the Operational Supplies and Services (OSS) project and repaid in financial year 2022/23 when income has grown to a sufficient level.
- Use of £80k of associate income earned in the current financial year and allocated to support 2019/20.
- *Care Home for Older People* project continues to be directly funded from the participating councils.

7 2019/20 Member Authority Requisitions

- 7.1 The Member Authority Requisitions for 2019/20 have been updated to reflect changes in population (as reflected in the 2017 mid-year population estimates published by NRS). An increase of 2% has been recommended and these are detailed in Appendix 2 of this report. It should be noted the requisitions outlined do not include amounts payable by councils in relation to care home services.
- 7.2 Any future events which may materially affect these finances will require to be the subject of a report to the Joint Committee.
- 7.3 The funding drawdown will be annually during October in accordance with arrangements made by the Treasurer.

Appendix 1

	2018/19 Approved	2018/19 Forecast Outturn	2019/20 Proposed	2020/21 Indicative	2021/22 Indicative
<u>Core Operational Expenditure</u>					
Employee Costs	3,040,160	2,998,415	3,139,900	3,287,200	3,430,495
Property Costs	176,500	176,500	217,800	217,800	217,800
Supplies and Services	141,140	154,445	165,900	165,900	165,900
Contractors	-	-	2,800	2,800	2,800
Administration Costs	266,400	286,840	286,100	326,100	286,100
Payments to other Bodies	20,000	20,000	20,000	20,000	20,000
Supported Living/Care at Home	-	-	169,400	172,800	176,200
Required Saving	-	-	-	(89,710)	0
Total Core Operating Expenditure	3,644,200	3,636,200	4,001,900	4,102,890	4,299,295
<u>Core Operational Income</u>					
Council Requisitions	3,484,200	3,484,200	3,553,900	3,660,500	3,770,305
18/19 Associate Income			80,000		
Temporary Reserve Use			120,000		
Other Income	90,000	82,000	75,000	114,000	153,600
Income from Projects			173,000	273,390	275,390
Rebates				55,000	100,000
Total Core Operating Income	3,574,200	3,566,200	4,001,900	4,102,890	4,299,295
Core Operating Deficit/(Surplus)	70,000	0	0	0	0

<u>Funded from Reserves</u>					
Staff Costs	70,000	70,000	-	-	-
Office Furniture	20,000	20,000	-	-	-
Other Development Costs	0	0	-	-	-
Total Temporary Costs	90,000	90,000	0	0	0

<u>Reserve Funding</u>					
Total Reserves	291,664	291,664	201,664	201,664	201,664
Budgeted Drawdown	(90,000)	(90,000)	0	-	-
Projected Underspend	-	0	-	-	-
Budgeted Balance	201,664	201,664	201,664	201,664	201,664
Estimated Balance	201,664	201,664	201,664	201,664	201,664

Memorandum

<u>Scotland Excel Projects</u>			
Additional Costs	960,000	1,678,000	1,428,000
Additional Income	960,000	1,834,000	1,601,000
Net Expenditure	0	(156,000)	(173,000)
Opening Project Reserves	264,489	264,489	420,489
Use of reserves	0	156,000	(373,000)
Closing Project Reserves	264,489	420,489	47,489

Appendix 2

Member Requisitions

Requisition by Authority	<u>2018/19</u>	<u>2019/20</u>	<u>Movement</u>
Aberdeen City	140,311	142,125	1,814
Aberdeenshire	156,995	159,420	2,425
Angus	81,869	83,153	1,284
Argyll and Bute	66,712	67,709	997
Clackmannanshire	48,259	49,176	917
Dumfries and Galloway	98,888	100,407	1,519
Dundee City	98,243	100,150	1,907
East Ayrshire	84,798	86,120	1,322
East Dunbartonshire	77,238	78,882	1,644
East Lothian	75,458	77,158	1,700
East Renfrewshire	70,157	71,874	1,717
City of Edinburgh	283,339	291,182	7,843
Eilean Siar	35,649	36,335	686
Falkirk	103,973	106,135	2,162
Fife	212,766	216,865	4,099
Glasgow City	338,987	347,684	8,697
Highland	142,854	145,468	2,614
Inverclyde	62,600	63,489	889
Midlothian	67,475	69,427	1,952
Moray	71,322	72,409	1,087
North Ayrshire	91,859	93,378	1,519
North Lanarkshire	196,810	200,383	3,573
Orkney Islands	33,045	33,742	697
Perth and Kinross	99,486	101,402	1,916
Renfrewshire	112,508	114,911	2,403
Scottish Borders	80,843	82,493	1,650
Shetland Islands	33,741	34,308	567
South Ayrshire	79,780	81,266	1,486
South Lanarkshire	185,314	188,962	3,648
Stirling	70,126	71,477	1,351
West Dunbartonshire	68,120	69,175	1,055
West Lothian	114,675	117,235	2,560
Total	3,484,200	3,553,900	69,700