

To: Executive Sub Committee

On: 23 November 2018

Report
by
Director Scotland Excel

Funding 2019/20 Update

1 Introduction

This report provides an update on the funding strategy for fiscal period 19/20 set out by Scotland Excel in the “*Funding Model Review*” paper approved at the June 2018 Joint Committee.

2 Background

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.

The reports presented to the Joint Committee stated that “*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.*”

The *Funding Model Review* approved at the 29th June 2018 Joint Committee presented a number of funding opportunities and made a series of recommendations regarding income generation, use of project reserves and potential requisition increases.

The review concluded with a number of steps that were subsequently approved by the Joint Committee:

1. 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.
2. Agree that the *Care Home for Older People* project continues to be directly funded from the participating councils.
3. Agree that Scotland Excel officers continue to work with the Treasurer to identify methods to address the short to mid-term deficit.
4. 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.

3 Funding Opportunity Updates

The *Funding Model Review* presented at the June 2018 Joint Committee presented a number of funding opportunities which were subsequently approved by members.

3.1 Consultancy Services

This project will develop and formalise the chargeable consultancy services offered to members and the wider public sector including the affordable housing sector. No offering will be made beyond the public sector at this stage

The project is anticipated to provide a financial return early in period 2019/20. A prudent approach has been taken to develop and grow this income stream over the coming years and is shown in table 1.

Table 1.

Fiscal	Surplus
2019/20	£70,000
2020/21	£70,000
2021/22	£70,000
2022/23	£80,000
2023/24	£90,000

Scotland Excel has been working on a number of consultancy service opportunities since the June Joint Committee and is confident on the projected surplus outlines in table 1.

In 2017/18 projects were initiated with Fife council, East Renfrewshire council and Aberdeen City council. Additionally, work was undertaken with SEEMiS and City Property Ltd for the provision of procurement support. The Fife Council, SEEMiS, and City Property projects will continue into the following fiscal period and therefore contribute towards the target set out.

3.2 New Build Housing

Scotland Excel has initiated a project to meet the procurement demand for new build housing through a new funding approach, which involves

participating members contributing to the total project cost. This new funding approach provides a much needed framework with a number of additional benefits to the wider public sector, and a financial return to those organisations investing in the project.

The project is anticipated to provide a financial return in period 2020/21. A prudent approach has been taken to spend on the framework and is based on current knowledge of house build plans as published by the Association of Local Authority Chief Housing Officers (ALACHO).

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, with a strategy document to be made available to councils shortly. 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.

The contribution to deficit is shown in table 2.

Table 2.

Fiscal	SXL Rebate
2019/20	£0
2020/21	£95,390
2021/22	£95,390
2022/23	£16,155
2023/24	£16,155

3.3 Learning and Development – The Academy

The creation of a new 5-year Learning and Development strategy has the aim of Scotland Excel being the public-sector partner of choice for procurement and other disciplines. It takes a multi-disciplinary learning approach and learning programmes are currently segmented by procurement, leadership & management and project management.

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 cohorts. Additionally, two new cohorts have commenced, delivering Practitioner and Advanced Practitioner within the Chartered Institute of Procurement and Supply (CIPS).

The project is anticipated to provide a financial return in 2019/20 and is shown in table 3.

Table 3.

Fiscal	Surplus
2019/20	£53,000
2020/21	£53,000
2021/22	£55,000
2022/23	£60,000
2023/24	£62,000

3.4 Rebates

The use of volume rebates has 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, where 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. It is the intention therefore to include a rebate review as part of the internal contract governance process and consider applicability of the inclusion of rebates as standard practice going forward.

Scotland Excel has undertaken further analysis on the use rebates since the last Joint Committee. The organisation continues to discuss the approach at its User Intelligence Groups.

The project is anticipated to provide a financial return early in period 2020/21. It is provided in table 4.

Table 4.

Fiscal	Surplus
2019/20	£0
2020/21	£55,000
2021/22	£100,000
2022/23	£572,000
2023/24	£811,000

3.5 Associate Member Expansion

This project will take a much more proactive approach to the identification and enrolment of associate members to Scotland Excel. The project will make use of the existing affordable housing team to accelerate this within both the housing sector and beyond.

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 fiscal period. In addition to the aims of the Scottish

Government funded project, the team have generated an additional £80k of associate annual income.

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 '*funding model review*'. 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.

The project is anticipated to provide a financial return in period 2019/20 as outlined in table 5.

Table 5.

Fiscal	Surplus
2019/20	£50,000
2020/21	£55,000
2021/22	£55,000
2022/23	£60,000
2023/24	£60,000

4 Funding update

Work has continued to review the financial sustainability of Scotland Excel since the June Joint Committee 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 3 of this report. Three opportunities are forecast to deliver income in fiscal year 19/20; consultancy, learning and development and associate members expansion. Each project has delivered income within the current fiscal period and measures have been taken to meet the targets set out for the next fiscal period. The remaining two projects are forecast to deliver income within subsequent fiscal periods.

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 fiscal period 2022/23 when income has grown to a sufficient level.
- Use of £80k of associate income earned in the current fiscal period and allocated to support 2019/20.
- *Care Home for Older People* project continues to be directly funded from the participating councils.

Scotland Excel continues to develop its organisational culture and operational environment to recognise the need for a more commercial outlook to support

future financial sustainability. It is this environment that will allow the organisation to seek out ways to support cost effective member services for the future.

Scotland Excel recognises the need to ensure core member services are at the forefront of its operational goals. This is a key ethos of the organisation and is at the heart of every project decision. A number of projects provide additional benefits to core operations including the generation of surpluses to support financial sustainability.

The organisation has been impacted with additional cost challenges within the current fiscal period. These challenges are no different to the ones faced by its members, but the scale of the organisation clearly means the impact is more pronounced. These challenges include items such as the level of staff pay award and higher than anticipated IT costs. Scotland Excel continues to monitor financial performance on a regular basis and take appropriate corrective actions to achieve its budgetary aims. Staff vacancies and delaying recruitment within the current period has supported these aims.

Updated financial position

The “*Funding Model Review*” approved at the June 2018 Joint Committee set out the hybrid funding approach shown in table 6 below. The paper estimated that a “requisition increases in the region of 1-3% may be required to bridge the deficit position outlined in specific financial years”.

Table 6

Project	Fiscal Period				
	2019/20	2020/21	2021/22	2022/23	2023/24
Operating Deficit	-£168,000	-£254,000	-£334,000	-£414,000	-£494,000
Care Home for Older People	£0	-£97,955	-£99,914	-£101,912	-£103,951
Supported Living and Care at Home	-£169,394	-£172,782	-£176,238	-£179,762	-£183,358
Proposed office expansion	-£50,000	-£50,000	-£50,000	-£50,000	-£50,000
Total	-£387,394	-£574,737	-£660,152	-£745,675	-£831,308
Income options	£173,000	£328,390	£375,390	£788,155	£1,039,155
Associate member income secured 2018/19	£80,000				
Care Home for Older People - Member funded		£97,955	£99,914	£101,912	£103,951
Estimated surplus/deficit	-£134,394	-£148,392	-£184,848	£144,393	£311,797
Opening reserves (general and project)	£ 360,000	£ 240,000	£ 240,000	£ 240,000	£ 360,000
Use of reserves	£ 120,000	£ -	£ -	-£ 120,000	£ -
Closing reserves	£ 240,000	£ 240,000	£ 240,000	£ 360,000	£ 360,000
Remaining surplus/deficit	-£14,394	-£148,392	-£184,848	£24,393	£311,797

Scotland Excel continues to work with its treasurer to calculate the projected outturn for the current fiscal period, level of funding for next fiscal period and any funding gap. At this point it is anticipated that a requisition increase of 2% will be required in fiscal period 19/20. Further work is underway to establish subsequent requirements in future periods.

5 Next steps

Scotland Excel will continue to work with its treasurer to finalise the elements of its budget for next fiscal period and the associated elements described above. This task will be completed and presented at the December 2018 Joint Committee.

6 Conclusion/Recommendation

Committee members are requested to:

- Note the progress made since the June 2018 Joint Committee.
- Endorse the contents of this paper which will be taken to the Joint Committee in December 2018.