

Scotland Excel

To: Joint Committee

On: 6 December 2019

**Report
by
The Treasurer and Director
Revenue Estimates 2020/21**

1. Summary

- 1.1 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 2020/21 along with indicative planning figures for 2021/22 and 2022/23.
- 1.2 This report was presented to the Executive Sub-Committee on 22 November 2019 and they agreed to recommend the report to the Joint Committee.

2. Recommendations

- 2.1 It is recommended that members:
 - **agree** the Revenue Estimates of Scotland Excel for the financial year 2020/21 as shown in Table 1 of Appendix 1;
 - **agree** the requisitions from constituent authorities detailed in Appendix 2; and
 - **note** the indicative estimates for 2021/22 and 2022/23.

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 requisitions for 2020/21 and outline an indicative projected position for 2021/22 and 2022/23. The assumptions used in developing these projections are outlined in section 4 below.
- 3.2 Members will note that for this and future financial or budgetary reports, income will be reported in line with the Funding Model Review paper presented to and approved by the Joint Committee in June 2018. The Funding Model Review paper, which aimed to reduce the reliance on requisition income, advised that future funding for Scotland Excel core operating services would be funded by council requisitions, Associate fees, rebates and income from Projects, namely

New Build Housing, Consultancy Services and Learning and Development (The Academy).

- 3.3 Reporting income under these headings should provide members with improved clarity on financial progress against each income stream.
- 3.4 The financial environment in which Scotland Excel and its member authorities operate continues to be characterised by significant demand and cost pressures, compounded by reducing levels of grant support in real terms. It is anticipated that the Scottish Budget and local government settlement will continue to present significant challenges.
- 3.5 Furthermore, it is 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 efficiencies, 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.

4. **Budget Assumptions**

- 4.1 Expenditure - The expenditure budget is based on the following assumptions:
- 4.2 A budget provision of 3% in relation to the agreed 2020/21 pay award has been included in the budget forecast. An estimated 3% has also been added to the Employee Costs element of the indicative figures shown for 2021/22 and 2022/23. These are estimates only, used to provide indicative figures for 2021/22 and 2022/23.
- 4.3 In line with previous years practice, no inflationary adjustment has been made to most non-salary expenditure lines. Any adjustments made are detailed in paragraph 4.4 below.
- 4.4 Adjustments have been made to specific expenditure lines to reflect operational demand in relation to:
 - **Employee Costs** – a budgeted staffing turnover assumption of 5% has been applied; the Adult Supported Living project has been absorbed into the Core operating budget as approved at the Joint Committee in December 2018 (£157,000); the Associates Team has been absorbed into the Core operating budget (£111,000); Marketing and Corporate Support budgets have been enhanced, reflecting increasing demand on these business areas (£83,500); employee increment payments have been recognised (£30,000); and the agreed 3% increase in relation to the 2020/21 pay award has been included (£90,000).
 - **Property Costs** – rent and service charge costs have been updated to reflect the current lease agreement.

- **Supplies and Services** - ICT costs have increased due to the continuing migration to an agile working environment, as identified within the organisational operating plan and risk register; the introduction of virtual servers, the organisational move to Microsoft Office 365 and the continuing development of data access systems for suppliers, councils and Scotland Excel.
- **Administration Costs** – Administration costs have increased due to anticipated recruitment and telephony costs.
- **Transport Costs** – budgetary provision has been reduced to reflect the increased use of Video Conferencing and Skype for Business.

4.5 Income budget estimates have been created taking into consideration the following,

- **Member Requisitions** – At the Joint Committee in December 2018, members noted indicative 3% increases for 2020/21 and 2021/22. Members approved the overall financial strategy and the 2019/20 requisition increase of 2%.
- **Temporary Use of Reserves** – A temporary drawdown of Project reserves of £120k was approved, but not taken during 2019/20 due to the receipt of a one-off Scottish Government grant – this drawdown will now be taken in 2020/21.
- **Associate Income** – Provision has been added to reflect anticipated increased income via Associate Memberships as a result of consolidation of the Associates Team into Core.
- **Income from Projects** – Includes anticipated income from projects including New Build Housing, Consultancy Services and Learning and Development (Academy)
- **Rebates** – Income provision relating to anticipated rebates accruing during 2020/21 has been included in line with the Funding Review proposal approved by the Joint Committee in December 2018.

4.6 The projected outturn position for 2019/20 is an overspend on core activities of £14,000 against the approved budget. This agreed overspend reflects a shortfall in approved funding following the 3% budget provision for pay inflation made in 2018/19 and the subsequent 3.5% pay agreement.

5. Financial Overview

5.1 As outlined above, the financial outlook in the medium term continues to be characterised by uncertainty. At this point, areas of financial risk for the Joint Committee include the increasing levels of pay inflation and the continuing uncertainty in local authority grant settlement figures.

5.2 Members will be aware that, there has been a change in the approach to that adopted in previous years where revenue estimates had been developed to ensure that Core operations are fully funded by requisition income. Members are

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 that uncommitted reserves will amount to £227,141 at the end of the 2019/20 financial year, which represents 5.6% of anticipated operating income in that year. This balance will be held to protect against any unforeseen costs or financial risks that may arise. The minimum level of uncommitted reserves balance recommended by the Treasurer is 5%.

- 5.3 The information provided in Appendix 1 outlines the forecast year-end financial position for 2019/20 and estimates for 2020/21, 2021/22 and 2022/23. 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 use of Associate income; the temporary use of project reserves built up by the Small Value Procurement Team; and income that is expected to be earned and generated by Projects during 2020/21. A 3% requisition increase has therefore been recommended for financial year 2020/21 in line with the figure noted by the Joint Committee in December 2018.
- 5.4 Indicative figures have also been included for 2021/22 and 2022/23. These figures, which include an estimated inflationary increase in each year of 3%, show that, with a 3% requisition increase in 2020/21 and 2021/22 and anticipated increasing levels of non-requisition income, Scotland Excel can forecast a zero percent (0%) increase in council requisitions in 2022/23. Non-requisition income is forecast to generate 19% of income required to cover core operating costs in 2022/23.
- 5.5 Members will note that a memorandum section is detailed in Appendix 1 (Table 2) relating to the projects that Scotland Excel operates. 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 2020/21 figures, as known at this time, are provided. As outlined above, each project is forecast to contribute income towards Core activities during the forthcoming financial year.

6 Scotland Excel Funding Model

Work continues on the review of the financial sustainability of Scotland Excel since the Joint Committee in June 2018 and on developing the funding solutions set out at that point. The organisation has made good progress in developing each of the potential offerings set out in the report. The Income Stream Update Report within these papers provides an update on each area. Within the financial estimates for Scotland Excel for financial year 2020/21, 14% of required income to deliver core services will be generated through income streams, identified within the Income Stream Update Report, other than council requisitions. In 2019/20 project activity is budgeted to contribute £173k to core operations and this income is anticipated to be achieved in full.

7 2020/21 Member Authority Requisitions

- 7.1 An increase of 3% has been recommended for 2020/21 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 net operating expenditure, with the remainder based on each member council's population as a proportion of total member population. For 2020/21, population numbers have been sourced from the 2017 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 Any future events that may materially affect these finances will be the subject of a report to the Joint Committee.
- 7.3 The requisition funding drawdown will be invoiced annually during October 2020, in accordance with arrangements made by the Treasurer.

Appendix 1

Table 1: Core Operating Budget

	2019/20	2019/20	2020/21	2021/2022	2022/23
	Revised	Forecast Outturn	Proposed	Indicative	Indicative
Core Operational Expenditure					
Employee Costs	3,107,580	3,141,000	3,591,300	3,753,800	3,866,400
Property Costs	217,800	217,000	217,500	217,500	217,500
Supplies & Services	254,060	251,000	295,200	295,200	295,200
Administration Costs	220,740	222,000	224,000	224,000	224,000
Transport Costs	35,000	35,000	30,000	30,000	30,000
Transfer Payments	11,320	11,000	13,500	13,500	13,500
Supported Living/Care at Home	169,400	169,000			
Total Core Operating Costs	4,015,900	4,046,000	4,371,500	4,534,000	4,646,600
Core Operational Income					
Council Requisitions	3,553,900	3,554,000	3,660,500	3,770,300	3,770,300
Temporary Reserve Use	120,000	0	120,000	0	0
Scottish Government Grant	0	150,000	0	0	0
18/19 Associate Income	80,000	80,000	0	0	0
Associate Income	75,000	75,000	210,000	225,000	240,000
Income from Projects	173,000	173,000	315,000	395,200	326,700
Rebates	0	0	66,000	143,500	309,600
Total Core Operating Income	4,001,900	4,032,000	4,371,500	4,534,000	4,646,600
Cored Operating Deficit/(Surplus)	14,000	14,000	0	0	0

Table 2: Project Budgets

	2019/20	2019/20	2020/21
	Revised	Forecast Outturn	Proposed
Project Operating Expenditure			
Employee Costs	1,311,000	1,234,400	1,302,500
Property Costs	0	0	0
Supplies and Services	27,000	39,100	28,000
Contractors	0	0	0
Administration Costs	18,500	12,900	28,500
Payments to Other Bodies	291,500	288,000	299,000
Transport	30,000	28,000	22,600
Total Projects Operating Expenditure	1,678,000	1,602,400	1,680,600
Projects Operating Income			
Project Income	1,851,000	1,775,400	1,995,600
Total Projects Operating Income	1,851,000	1,775,400	1,995,600
Project Surplus	173,000	173,000	315,000
<i>Comprising:</i>			
New Build Housing	0	0	30,000
Consultancy Services	70,000	80,000	217,000
Learning and Development (Academy)	53,000	53,000	53,000
New Associate Income	50,000	40,000	0
Other Income	0	0	15,000
	173,000	173,000	315,000

Table 3: Reserves

Scotland Excel Reserves					
<u>Unrestricted Reserves</u>					
Opening Uncommitted Reserves	241,141	241,141	227,141	227,141	227,141
Use of Reserves	(14,000)	(14,000)	0	0	0
Closing Uncommitted Reserves	227,141	227,141	227,141	227,141	227,141
% of Operating Income	5.7%	5.6%	5.2%	5.1%	5.0%
<u>Restricted Reserves</u>					
Opening Project Reserves	636,924	436,924	356,924	TBC	TBC
Use of Reserves	(200,000)	(80,000)	(120,000)		
Closing Project Reserves	436,924	356,924	236,924		
% of Operating Income	23.6%	23.3%	16.0%		

Appendix 2

Member Requisitions

Requisition by Authority	2019/20	2020/21	Movement
Aberdeen City	£ 142,125	£ 146,388	£ 4,263
Aberdeenshire	£ 159,420	£ 164,202	£ 4,782
Angus	£ 83,153	£ 85,648	£ 2,495
Argyll and Bute	£ 67,709	£ 69,740	£ 2,031
Clackmannanshire	£ 49,176	£ 50,652	£ 1,476
Dumfries and Galloway	£ 100,407	£ 103,419	£ 3,012
Dundee City	£ 100,150	£ 103,154	£ 3,004
East Ayrshire	£ 86,120	£ 88,703	£ 2,583
East Dunbartonshire	£ 78,882	£ 81,249	£ 2,367
East Lothian	£ 77,158	£ 79,473	£ 2,315
East Renfrewshire	£ 71,874	£ 74,031	£ 2,157
City of Edinburgh	£ 291,182	£ 299,918	£ 8,736
Eilean Siar	£ 36,335	£ 37,426	£ 1,091
Falkirk	£ 106,135	£ 109,319	£ 3,184
Fife	£ 216,865	£ 223,372	£ 6,507
Glasgow City	£ 347,684	£ 358,116	£ 10,432
Highland	£ 145,468	£ 149,832	£ 4,364
Inverclyde	£ 63,489	£ 65,394	£ 1,905
Midlothian	£ 69,427	£ 71,510	£ 2,083
Moray	£ 72,409	£ 74,582	£ 2,173
North Ayrshire	£ 93,378	£ 96,180	£ 2,802
North Lanarkshire	£ 200,383	£ 206,394	£ 6,011
Orkney Islands	£ 33,742	£ 34,754	£ 1,012
Perth and Kinross	£ 101,402	£ 104,444	£ 3,042
Renfrewshire	£ 114,911	£ 118,334	£ 3,423
Scottish Borders	£ 82,493	£ 84,968	£ 2,475
Shetland Islands	£ 34,308	£ 35,337	£ 1,029
South Ayrshire	£ 81,266	£ 83,705	£ 2,439
South Lanarkshire	£ 188,962	£ 194,632	£ 5,670
Stirling	£ 71,477	£ 73,621	£ 2,144
West Dunbartonshire	£ 69,175	£ 71,251	£ 2,076
West Lothian	£ 117,235	£ 120,752	£ 3,517
Total	£ 3,553,900	£ 3,660,500	£ 106,600