

## Scotland Excel

**To: Joint Committee**

**On: 10 December 2021**

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

### **Revenue Estimates 2022/23**

#### **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 2022/23 along with indicative planning figures for 2023/24 and 2024/25.

#### **2. Recommendations**

2.1 It is recommended that members:

- approve the Revenue Estimates of Scotland Excel for the financial year 2022/23 as shown in Table 1 of Appendix 1;
- approve the requisitions from constituent authorities detailed in Appendix 2; and
- note the indicative estimates for 2023/24 and 2024/25.

#### **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 2022/23 and outline an indicative projected position for 2023/24 and 2024/25. 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 uncertainty due to the ongoing impact of the COVID-19 pandemic and the emerging impact of Brexit. These factors have influenced the revenue budget estimates for 2022/23, 2023/24 and 2024/25 contained within this report. Indeed, figures presented for 2023/24 and 2024/25 should be treated as indicative only and will be subject to constant review as economic conditions develop post pandemic and post Brexit.

- 3.3 It is anticipated that, due to the impact of these factors, 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 value propositions for member authorities to ensure that best value is achieved.
- 3.4 Scotland Excel has provided an update on the proposed requisition increase to a number of stakeholder groups including; SOLACE, the Chief Executive Officers Management group, PiP Steering group (procurement managers) and the CIPFA Finance Directors forum. Whilst the need for a requisition increase has been recognised by stakeholders, the challenging financial landscape was also 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 2022/23 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 2023/24 and 2024/25. These are estimates only, used to provide indicative figures for 2023/24 and 2024/25 and should be viewed taking the current economic and operational uncertainty into consideration. It should be noted that the 2021/22 pay award has not yet been agreed and this will influence the total pay bill in the period covered by this report.
- 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, employee costs also include recognition of the one-year Social Care National Insurance levy of 1.25% and employee increment payments. As in previous years, there is a staffing turnover assumption of 5%.
  - **Property Costs** – no inflationary element applied.
  - **Transport Costs** – no inflationary element applied.

- **Transfer Payments** – as the Apprenticeship Levy directly relates to Employee costs, £2k has been added to this budget line.
- **Supplies and Services** – budget has been increased by £20k reflecting increased costs in relation to legal support for the growing Scotland Excel framework portfolio.
- **Support Costs** - budgetary provision for Insurances has been increased by £6k in line with the forecast outturn for 2021/22.

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

- **Council Requisitions** – At the Joint Committee in December 2020, members noted an indicative 3% increase in requisition for 2022/23 and this has now been applied (see also section 7 below).
- **Associate Income** – The budget has been amended to reflect pre-COVID estimates and in light of a projected over-recovery against budget during 2021/22.
- **Income from Projects** – Includes anticipated income from several Projects, including New Build Housing, 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 2022/23 has been amended in line with current forecasts in relation to the increasing number of Scotland Excel frameworks with rebates attached. Further detail in relation projected Rebate income for 2022/23, 2023/24 and 2024/25 is also presented in section 5 below.

4.6 In total, estimated non-requisition income for 2022/23 totals £1,049k representing 21% of operating costs for the year. Indicative figures for estimated non-requisition income 2023/24 and 2024/25 are 22% and 21% respectively.

4.7 The current projected outturn position for 2021/22 is a break-even position for Core activities. Income and expenditure will continue 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 (£45k) is in line with projections noted by the Joint Committee in December 2020 and takes into consideration the continuing volatile environment within the construction industry.

- 5.2 **Consultancy Services** – Income provision from Consultancy projects has been projected at £211k for 2022/23 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.
- 5.3 The Consultancy project pipeline continues to bounce back after being adversely affected by the COVID-19 pandemic. The Scotland Excel 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.
- 5.4 **Learning and Development (Academy)** – Income provision from the Scotland Excel Academy for 2022/23 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 £20k for 2021/22.
- 5.5 Overall, income from New Build Housing (£45k), Consultancy (£211k) and the Scotland Excel Academy (£30k) will contribute £286k to core operating costs recorded under Income from Projects.
- 5.6 **Rebates** – Income provision from Rebates for 2022/23 has been projected at £543k. This projection reflects the increasing number of Scotland Excel frameworks anticipating a rebate on activity during 2022/23.
- 5.7 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/Brexit levels. Expenditure through some frameworks has reduced significantly (Construction, Building Supplies), while others have experienced an increase in expenditure (Janitorial Supplies).
- 5.8 Estimated framework spend for 2022/23, 2023/24 and 2024/25 is derived from a range of management information including historical spend, COVID-19 impact and market intelligence. This information is then used to estimate total framework spend, from which a Rebate figure is calculated.
- 5.9 Scotland Excel will monitor expenditure levels across all its frameworks to ensure Rebate levels continue to be achievable and will report any significant variation to 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 impact of both the COVID-19 pandemic and Brexit on Scottish Government funding allocations and on inflation.
- 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 £249k at the end of the 2021/22 financial year, which represents 5.6% of anticipated operating income in that 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 2021/22 and estimates for 2022/23, 2023/24 and 2024/25. 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, 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 2021/22. A 3% requisition increase has therefore been recommended for financial year 2022/23 in line with the figure noted by the Joint Committee in December 2020.
- 6.4 Indicative figures have also been included within the paper for financial years 2023/24 and 2024/25. In relation to requisition levels, the figures presented to the Joint Committee in December 2020 have been reviewed in light of experience during the current year and the ongoing uncertainty around the continuing impact of the pandemic and Brexit. Indicative figures for 2023/24 and 2024/25 now propose a 3% increase in both years to address anticipated inflationary cost increases and to mitigate against further inherent operational risk.
- 6.5 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 2022/23 figures, as known at this time, are provided. As outlined above, projects are forecast to contribute income towards Core activities during the forthcoming financial year.

## **7 2022/23 Member Authority Requisitions**

- 7.1 An increase of 3% has been recommended for 2022/23 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 2022/23, population numbers have been sourced from the 2019 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 2022/23, Appendix 2 also details the estimated savings and estimated cost avoidance accrued by member authorities during 2020/21. Joint Committee representatives and all local authorities received their annual value reports during November 2021 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.
- 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**

	<b>2021/22 Revised Budget £000</b>	<b>2021/22 Forecast outturn £000</b>	<b>2022/23 Proposed Budget £000</b>	<b>2023/24 Indicative Budget £000</b>	<b>2024/25 Indicative Budget £000</b>
<b>Core Activity</b>					
Employee Costs - direct	3,652	3,661	4,039	4,153	4,278
Employee Costs - indirect			57	107	107
Property Costs	217	216	217	217	217
Transport Costs	20	8	20	20	20
Supplies and Services	291	282	311	312	313
Transfer Payments	14	14	16	17	18
Support Costs	266	272	272	272	272
<b>Total Core Operating Costs</b>	<b>4,460</b>	<b>4,453</b>	<b>4,932</b>	<b>5,098</b>	<b>5,225</b>
Council Requisitions	(3,770)	(3,770)	(3,883)	(3,999)	(4,119)
Associate Income	(180)	(190)	(220)	(230)	(240)
Income from Projects	(297)	(280)	(286)	(286)	(286)
Rebates	(213)	(213)	(543)	(583)	(580)
<b>Total Core Operating Income</b>	<b>(4,460)</b>	<b>(4,453)</b>	<b>(4,932)</b>	<b>(5,098)</b>	<b>(5,225)</b>
<b>Core Operating Deficit/(Surplus)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Uncommitted (Core) Reserves</b>					
Opening balance at 1 April	235	249	249	249	249
Use of Reserves	0	0	0	0	0
<b>Closing balance at 31 March</b>	<b>235</b>	<b>249</b>	<b>249</b>	<b>249</b>	<b>249</b>
<b>% of Operating Income</b>	<b>5.3%</b>	<b>5.6%</b>	<b>5.0%</b>	<b>4.9%</b>	<b>4.8%</b>
<b>Project Activity</b>					
Employee Costs	1,163	1,653	1,416		
Transport Costs	7	3	4		
Supplies and Services	52	51	10		
Transfer Payments	2	4	5		
Third Party Payments	155	266	501		
<b>Total Project Costs</b>	<b>1,379</b>	<b>1,977</b>	<b>1,936</b>		
Income from Projects	(1,227)	(2,084)	(2,111)		
<b>Project Deficit/(Surplus)</b>	<b>152</b>	<b>(107)</b>	<b>(175)</b>		
Transfer to Core	252	280	286		
<b>Transfer from Project Reserves</b>	<b>404</b>	<b>173</b>	<b>111</b>		
<b>Project Reserves</b>					
Opening balance at 1 April	454	772	599		
Use of Reserves	(404)	(173)	(111)		
<b>Closing balance at 31 March</b>	<b>50</b>	<b>599</b>	<b>488</b>		
<b>% of Operating Income</b>	<b>4.1%</b>	<b>28.7%</b>	<b>23.1%</b>		

## Appendix 2

### Member Requisitions 2022/23 & Savings Achieved 2020/21

Requisition by Authority	2021/22	2022/23	Savings Achieved 20/21	Cost Avoidance 20/21	Savings + Cost Avoidance
Aberdeen City	£149,800	£154,289	£355,459	£127,800	£483,259
Aberdeenshire	£167,763	£172,791	£404,828	£127,800	£532,628
Angus	£87,710	£90,340	£153,457	£127,800	£281,257
Argyll and Bute	£70,967	£73,094	£219,367	£127,800	£347,167
City of Edinburgh	£313,348	£322,741	£705,432	£127,800	£833,232
Clackmannanshire	£52,013	£53,574	£170,714	£127,800	£298,514
Dumfries and Galloway	£105,741	£108,910	£219,675	£127,800	£347,475
Dundee City	£105,993	£109,171	£237,255	£127,800	£365,055
East Ayrshire	£90,918	£93,643	£251,977	£127,800	£379,777
East Dunbartonshire	£83,537	£86,041	£198,700	£127,800	£326,500
East Lothian	£82,681	£85,160	£139,686	£127,800	£267,486
East Renfrewshire	£76,300	£78,587	£351,133	£127,800	£478,933
Falkirk	£112,382	£115,750	£874,189	£127,800	£1,001,989
Fife	£229,780	£236,667	£525,108	£127,800	£652,908
Glasgow City	£373,073	£384,257	£649,125	£127,800	£776,925
Highland	£153,752	£158,361	£122,438	£127,800	£250,238
Inverclyde	£66,512	£68,506	£161,214	£127,800	£289,014
Midlothian	£74,603	£76,841	£85,951	£127,800	£213,751
Moray	£76,460	£78,752	£62,256	£127,800	£190,056
Na h-Eileanan Siar	£38,313	£39,462	£67,326	£127,800	£195,126
North Ayrshire	£97,946	£100,881	£253,955	£127,800	£381,755
North Lanarkshire	£212,013	£218,370	£535,290	£127,800	£663,090
Orkney Islands	£35,857	£36,932	£18,054	£127,800	£145,854
Perth and Kinross	£107,447	£110,667	£422,231	£127,800	£550,031
Renfrewshire	£122,433	£126,104	£420,981	£127,800	£548,781
Scottish Borders	£87,330	£89,947	£92,563	£127,800	£220,363
Shetland Islands	£36,216	£37,301	-£759.00	£127,800	£127,041
South Ayrshire	£85,729	£88,298	£165,209	£127,800	£293,009
South Lanarkshire	£200,511	£206,520	£360,779	£127,800	£488,579
Stirling	£75,571	£77,836	£117,007	£127,800	£244,807
West Dunbartonshire	£72,657	£74,834	£428,226	£127,800	£556,026
West Lothian	£124,643	£128,379	£310,160	£127,800	£437,960
	<b>£3,770,000</b>	<b>£3,883,008</b>	<b>£9,078,986</b>	<b>£4,089,600</b>	<b>£13,168,586</b>

**\*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."