

**THE HIGHLAND COUNCIL**  
**EDUCATION, CULTURE AND SPORT COMMITTEE**

Agenda Item	
Report No	

**Revenue Budget Monitoring Report for the 8 months to November 2007**

**Report by Director of Education, Culture and Sport**

**SUMMARY**

This report sets out the Revenue Budget monitoring position for the 8 months to November 2007 and the projected year end position.

**1. BACKGROUND**

- 1.1 The attached statement shows the projected expenditure position for the Service as at the end of the financial year. At this time there is a projected overspend of £2.572M (1.30%), details of which are contained in **Annex1**. Details of the projected year-end position for the Cleaning and Catering trading accounts are contained within **Annexes 2 and 3** respectively. The Catering trading account is projecting a £100K deficit whilst the Cleaning trading account is projecting a break-even position.
- 1.2 Section 2 contains details of the existing budget pressures. Section 3 out-lines current financial issues which may ultimately have a detrimental impact on the ECS Revenue budget. Section 4 outlines proposals as to how the above budget pressures will be addressed in order that the Education, Culture and Sport (ECS) budget may be brought in on target by the end of the financial year.

**2.0 SIGNIFICANT ISSUES**

- 2.1 The main budget pressures can be summarised thus:

- Joint Committee (net)      £ 2.09M
- Additional Support Needs   £ 0.16M
- Administration                £ 0.14M
- Catering trading                £ 0.10M
- Leisure                            £ 0.06M

- 2.2 As previously reported the projected expenditure on Out of Authority placements in the current financial year is likely to exceed £6.4M, some £2.93M above budget. Members were previously advised of the extensive measures being implemented to manage this position. As the Out of Authority budget is delegated to the Joint Committee for Children and Young People (JCCYP) it is the responsibility of that Committee to identify off-setting savings from elsewhere within the budgets delegated to it. The current projections suggest that savings of £0.85M can be identified from elsewhere in the JCCYP delegated budget to off-set the Out of Authority over-spend. Senior managers are currently examining what other savings

measures are available within the JCCYP budget to off-set the Out of Authority budget pressure.

- 2.3 Under the terms of the financial protocol governing the JCCYP delegated budget when it is apparent that no further actions can be taken to manage a budget pressure from within its own resources then this budget reverts to the parent Service, in this case ECS. On the basis that it is now apparent that no further savings can be achieved from other budget headings delegated to the JCCYP within the current financial year, it is now appropriate to include this projected **net** over-spend within the overall ECS reported year-end projections.
- 2.4 Within the Additional Support Needs (ASN) sector there are significant on-going budget pressures within the Inverness, Nairn and Badenoch & Strathspey (£86K), Ross, Skye & Lochaber (£193K) and Caithness, Sutherland and Easter Ross (£45K) areas as a result of an increased demand for teaching input at specific sites. In order to off-set these pressures centrally managed contingency funding, totalling £161K, will be allocated proportionately to those areas of greatest need.
- 2.5 The budget pressure shown against the Administration sector relate to two factors:
- Higher than anticipated costs associated with the ECS Service contribution towards early retirement of its former employees
  - The non achievement of savings targets in the Ross, Skye and Lochaber area

A detailed analysis of the early retirement costs is currently being undertaken in order to better understand the reasons for this increase. In relation to the non achievement of savings targets efforts are on-going in conjunction with the Area ECS Manager to identify compensatory savings.

- 2.6 The Catering trading account is projecting a deficit of £100K. The reasons for this are as follows:-
- Increased food costs, including wheat-based and dairy produce where projected increases are in excess of 20%. This reflects current market conditions relating to the poor summer in 2007 coupled with increased global demands for food-stuffs.
  - The anticipated levels of income not being achieved at the Inverness Museum and HQ Snack Bar catering outlets

The statutory requirement of Best Value legislation is that trading accounts must achieve at least a break-even position over a 3 year rolling period. As a result it is essential that the above pressures are off-set by increased income and reductions in costs else-where.

Members should note that the significant increases in food costs will have a detrimental impact on the 2008/09 ECS Revenue Budget, with possibly in excess of £0.50M additional funding required.

- 2.7 The Leisure sector projected over-spend has been stabilised. The projected overspend reflects the additional payments arising from the Court of Appeal determination in relation to the VAT treatment of the income generated from the sale of the Highlife card in council operated leisure centres.

### 3.0 POTENTIAL ISSUES

- 3.1 Elected members should note that the 2007/08 savings target for the ECS Revenue budget was £5.35M. Details of progress to date re the achievement of this savings target are appended as **Annex 4**. Good progress has been achieved to date, however the main outstanding issue relates to the achievability of the savings target relating to management restructuring. As a result in delays in implementing the revised Area structures relating to Educational Psychologists and Additional Support Needs a proportion of the target savings figure of £238K will not be achieved in the current financial year. It should be noted that the extent of the shortfall is currently being quantified and will be included within the reported variances when detailed investigative work has been completed.
- 3.2 There are concerns relating to the impact of Revenue consequences of Capital expenditure in the current financial year. The indications at this time are that the current commitments are greater than the funding provided in the current financial year. The relevant budget holders have been instructed to delay incurring further expenditure within the current financial year in order that this budget can be balanced.
- 3.3 The current scheme of devolved school management allows a school to carry forward to the next financial year a surplus of up to 5% or a deficit of up to 3% of its devolved budget. An early warning system is in place whereby school year-end budgetary projections are categorised thus:-
- Red – the school will exceed its 3% deficit threshold.
  - Amber – the school will have a deficit within its 3% deficit threshold
  - Green – the school will have a surplus at the end of the financial year
- 3.4 At this time the summarised projections for all schools are as follows:
- Red – 5
  - Amber – 19
  - Green – 191

The critical factor is that any deficits in excess of 3% will impact on the overall ECS budgetary position at the end of the financial year. At this time the collective value of the deficits relating to the category red schools is £0.22M. It is essential therefore that senior management work closely with those schools in the red or amber categories to identify what corrective actions can be achieved before the end of the financial. It is a source of concern that more than 11% (24) of Highland schools are projecting a deficit for this financial year.

### 4.0 ACTIONS TAKEN OR PROPOSED

- 4.1 In summary there are 4 significant financial issues that require to be addressed:-

- The significant budget pressure relating to JCCYP that is now included within the projected year-end ECS financial position – current projection £2.09M.
- Out-with this the other budget pressures detailed in section 2 above – current projection £0.48M
- The potential shortfall in the 2007/08 ECS management restructuring savings due to delays in implementing the proposed changes – potential shortfall has not yet been finalised.
- The level of deficit that is in excess of the 3% threshold relating to category red schools – current projection £0.22M (this figure is not included within the current reported year-end projections).

4.2 In relation to the JCCYP budget pressure it is proposed that members approve a request to the Resources Committee for a supplementary estimate at the level of £2.09M in the current financial year. It is also proposed that the level of funding for future years be considered by the Budget Working Group as part of the 2008-09 Revenue Budget setting process.

4.3 The management of the remaining reported budget pressures requires to be addressed wherever possible by delaying expenditure and also by identifying compensatory under-spends. This approach was reinforced in the instruction issued to senior managers by the Director following the ECS Committee meeting in early November 2007.

4.4 A review of the 2007/08 ECS savings target figures to be undertaken as a matter of urgency. This review would attempt to identify compensatory savings to off-set the potential shortfall in the savings anticipated from management restructuring.

## **5. RECOMMENDATIONS**

5.1 Members are asked to:-

- Approve a request to the Resources Committee for £2.09M additional funding to address the significant and on-going demands relating to the Joint Committee budget.
- Approve the continuing policy of financial restraint and the identification of off-setting savings.

**Signature:**

**Designation:** Director of Education, Culture and Sport

**Date:** 7th January 2008.

**Author:** Ron MacKenzie, Head of Support Services, Education Culture and Sport

**Background papers**

Annex 1 – ECS Revenue Budget monitoring statement as at November 2008.

Annex 2 – Cleaning trading account as at November 2008.

Annex 3 – Catering trading account as at November 2008.

Annex 4 – ECS 2007/08 savings – control document

**EDUCATION CULTURE & SPORT REVENUE MONITORING REPORT**

Nov 2007

	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
<b>BY ACTIVITY</b>				
Primary Education DSM	34,766	55,167	55,167	-
Secondary Education DSM	45,271	68,204	68,204	-
Special Education DSM	2,054	3,208	3,208	-
Nursery Education	2,392	3,721	3,721	-
<b>TOTAL DSM</b>	<b>84,483</b>	<b>130,299</b>	<b>130,299</b>	<b>-</b>
Primary Education (Non-DSM)	1,321	1,957	1,987	30
Secondary Education (Non-DSM)	(734)	(698)	(667)	32
Schools - General	2,976	3,904	3,963	59
Hostels	460	768	727	(41)
School Transport	5,903	10,816	10,810	(7)
Catering/Cleaning	1,474	2,705	2,805	100
Community Learning	2,255	4,561	4,496	(65)
Special Education (Non-DSM)	10,226	14,723	16,971	2,248
Delegated to Joint Children's Committee	7,057	9,761	9,715	(46)
Administration	8,184	10,194	10,337	143
Archives	149	210	200	(10)
Arts Development	219	455	463	8
Grants	-	-	10	10
Village Halls	231	308	299	(9)
Leisure Facilities	1,644	2,687	2,748	61
Integrated Library Service	2,514	4,249	4,277	28
Museums	578	1,064	1,081	17
Sports Development	(254)	537	550	13
Gaelic Culture	(49)	-	-	-
<b>TOTAL NON DSM</b>	<b>44,153</b>	<b>68,201</b>	<b>70,773</b>	<b>2,572</b>
<b>OVERALL TOTAL</b>	<b>128,636</b>	<b>198,500</b>	<b>201,072</b>	<b>2,572</b>

**BY SUBJECTIVE**

	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
Staff Costs	106,111	162,307	162,107	(200)
Other Costs	52,948	75,269	77,771	2,502
Gross Expenditure	159,058	237,576	239,878	2,302
Grants	(13,585)	(21,712)	(21,700)	12
Other Income	(16,838)	(17,363)	(17,105)	258
Total Income	(30,423)	(39,076)	(38,806)	270
	<b>128,636</b>	<b>198,500</b>	<b>201,072</b>	<b>2,572</b>

Net expenditure expressed as a percentage of the Annual Budget 64.80%

**STATEMENT OF REVENUE MONITORING TO: 30TH NOVEMBER 2007**

	2007/8				
	ANNUAL BUDGET	BUDGET TO DATE	ACTUAL TO DATE	TO GO	PROJECTED OUT-TURN
<b>INCOME</b>					
Defined	£4,888,052	£3,258,701	<b>£3,263,153</b>	£1,624,899	<b>-£4,888,052</b>
Non Defined	-£95,134	-£63,423	-£55,857	-£39,277	-£82,134
	£4,983,186	£3,322,124	<b>£3,319,010</b>	£1,664,176	-£4,970,186
<b>DIRECT COSTS</b>					
Labour - Basic	£3,798,586	£2,532,391	<b>£2,583,902</b>	£1,214,684	<b>£3,865,343</b>
- Overtime	£34,659	£23,106	<b>£23,004</b>	£11,655	<b>£34,659</b>
- Other Staff Costs	£24,539	£16,359	<b>£1,541</b>	£22,998	<b>£4,139</b>
Supplies - Materials	£112,200	£74,800	£74,800	£37,400	£112,200
- Other Supplies & Services	£121,042	£80,695	<b>£80,195</b>	£40,847	<b>£122,066</b>
Transport & Plant	£57,834	£38,556	<b>£56,012</b>	£1,822	<b>£78,209</b>
<b>TOTAL DIRECT COSTS</b>	<b>£4,148,860</b>	<b>£2,765,907</b>	<b>£2,819,454</b>	<b>£1,329,406</b>	<b>£4,216,616</b>
<b>GROSS MARGIN</b>	<b>-£834,326</b>	<b>-£556,217</b>	<b>-£499,556</b>	<b>-£334,770</b>	<b>-£753,570</b>
<b>OVERHEADS</b>					
APT & C Staff Costs	£436,863	£291,242	<b>£254,188</b>	£182,675	<b>£393,000</b>
Property Costs	£26,025	£17,350	<b>£15,195</b>	£10,830	<b>£26,025</b>
Administration Costs	£111,172	£79,317	<b>£73,332</b>	£37,840	<b>£107,606</b>
Support Costs	£161,938	£107,959	<b>£107,959</b>	£53,979	<b>£150,000</b>
<b>TOTAL OVERHEADS</b>	<b>£735,998</b>	<b>£495,867</b>	<b>£450,674</b>	<b>£285,324</b>	<b>£676,631</b>
<b>SURPLUS/(DEFICIT)</b>	<b>-£98,328</b>	<b>-£60,350</b>	<b>-£48,883</b>	<b>-£49,445</b>	<b>-£76,939</b>
<b>PROFIT SHARE</b>	£0	£0	£0	£0	£0
Interest on Revenue Balances	£0	£0	£0	£0	-£6,000
<b>ECS SURPLUS(-)/DEFICIT</b>	<b>-£98,328</b>	<b>-£60,350</b>	<b>-£48,883</b>	<b>-£49,445</b>	<b>-£82,939</b>
ASSET RENT	£4,696	£3,131	£1,811	£2,885	£3,540
FRS17 (Pension Assets/Liabilities)	£90,966	£60,644	£60,644	£30,322	£79,399
<b>FINAL SURPLUS(-)/DEFICIT</b>	<b>-£2,666</b>	<b>£3,425</b>	<b>£13,573</b>	<b>-£16,239</b>	<b>£0</b>

**ADDITIONAL INFORMATION**

	October	November
APT & C EMPLOYEES	17	17
NUMBER OF POSITIONS / OPERATIVES	961	961
RATIO MANUAL/APT&C	57	57
ANNUAL COST OF MANUAL EMPLOYEE	£4,070	£4,071
APT&C STAFF COSTS AS % OF TURNOVER	8%	8%
OTHER OVERHEADS AS % OF TURNOVER	2.78%	2.67%
CENTRAL SUPPORT COSTS AS % OF TURNOVER	3%	3%

**CATERING**
**ANNEX 3**
**STATEMENT OF REVENUE MONITORING TO: 30th November  
2007**

	2007/2008				
	ANNUAL BUDGET	BUDGET TO DATE	ACTUAL TO DATE	TO GO	PROJECTED OUTTURN
<b>INCOME</b>	£7,267,745	£4,713,221	-£4,857,949	-£2,557,005	-£7,414,954
<b>DIRECT COSTS</b>					
Labour - Basic	£3,677,939	£2,343,561	£2,467,250	£1,306,189	£3,773,439
- Overtime	£48,959	£32,639	£27,799	£21,160	£48,959
- Other Staff Costs	£4,809	£3,206	£266	£4,543	£4,809
Supplies - Materials	£2,005,674	£1,141,394	£1,331,938	£833,998	£2,165,936
- Other Supplies & Services	£192,919	£128,613	£112,346	£79,058	£191,404
Transport & Plant	£92,257	£61,505	£67,574	£24,683	£92,257
<b>TOTAL DIRECT COSTS</b>	<b>£6,022,557</b>	<b>£3,710,918</b>	<b>£4,007,173</b>	<b>£2,269,631</b>	<b>£6,276,804</b>
<b>GROSS MARGIN</b>	£1,245,188	£1,002,303	<b>-£850,776</b>	-£287,374	-£1,138,150
<b>OVERHEADS</b>					
APT & C Staff Costs	£459,596	£306,397	£292,451	£157,145	£449,596
Property Costs	£362,282	£241,521	£240,603	£121,679	£362,282
Administration Costs	£152,802	£118,701	£116,356	£39,408	£155,764
Support Costs	£198,707	£132,471	£132,471	£66,236	£198,707
	£1,173,387	£799,091	<b>£781,881</b>	£384,468	£1,166,349
<b>SURPLUS</b>	-£71,801	-£203,212	<b>-£68,895</b>	£97,094	£28,199
<b>ASSET RENT</b>	£4,843	£3,229	£3,229	£1,614	£4,843
<b>PROFIT SHARE</b>	£0	£0	£0	£0	£0
Interest on Revenue Balances	£0	£0	£0	£0	£0
FRS17 (Pension Assets/Liabilities)	£66,958	£44,639	£44,639	£22,319	£66,958
<b>DEFICIT AFTER ASSET RENT</b>	£0	-£155,344	-£21,027	£121,027	£100,000

**ADDITIONAL INFORMATION**

	October	November
Number of Trading Days for Month	15	18
School Meals for Month	249504	305921
Average Meals per Day	16634	16996
Percentage Food Cost	27%	29%
Trading Days to Date	101	119
School Meals to Date	1,564,060	1,869,981
APT & C Employees	19.95	19.95
Manual Workers	674	674
Ratio Manual/APT & C	34	34
Average Cost of Manual Employee	£5,489	£5,553

Manual Staff Costs as % of Turnover	54%	53%
APT&C STAFF COSTS AS % OF TURNOVER	6%	6%
OTHER OVERHEADS AS % OF TURNOVER	8%	7%
CENTRAL SUPPORT COSTS AS % OF TURNOVER	3%	3%

# ECS Savings - 2007/08 Control Document

ANNEX 4

	Savings Description	Amount £m	Details of anticipated savings	Progress report	Actions required
1	PPP2	1.584	School building Improvement grant, falling schools and transferred budgets	Completed	None
2	Devolved budget target saving	0.951	Increase school target savings	Completed	None
3	Full year effect of 2006/07 savings	0.866	See attached sheets	Completed	None
4	New entrants August 2007	0.500	New entrants being appointed to substantive posts from August 2007	Completed	None
5	Integrated Children Services	0.300	As detailed in report to JCCYP	Completed	None
6	CLL target	0.287	Pro rata savings to be identified across all Areas	Not completed	Area ECS Managers to provide details
7	Staff efficiencies	0.238	Savings anticipated from re-structuring within Service	Not completed	Potential shortfall - currently being quantified
8	Increase school meal charges	0.150	Increases - Secondary 10p and Primary 5p from August 2007	Completed	None
9	SEN target	0.148	The equivalent of 4:0FTE teaching posts to be removed	Completed	None
10	JCCYP target	0.133	Target reduction to be applied across HQ Pre School budget	Completed	None
11	Other centrally held budgets target savings	0.102	Target reduction to be applied across ECS HQ budgets	Completed	None
12	Reduction in Rate poundage	0.088	Reduction in Rate poundage	Completed	None
	<b>TOTAL</b>	<b>5.347</b>			