

THE HIGHLAND COUNCIL
EDUCATION, CULTURE AND SPORT SERVICE COMMITTEE

6 August 2009

Agenda Item	
Report No	

**2008- 09 Revenue Budget outturn and the monitoring position
for the 3 months to June 2009.**

Report by Director of Education, Culture and Sport Service

Summary

This report sets out the Revenue Budget outturn position for the financial year ended 31st March 2009 and the monitoring position for the 3 months to June 2009.

1. Background

- 1.1 The net expenditure position for the non devolved sectors of the budget at the end of the financial year was £0.631M (0.28%) over-spent, the details of which are contained within **Annex 1**.

Under the terms of the Devolved School Management (DSM) scheme schools are permitted to carry forward a surplus of up to 5% or a deficit of up to 3% of their devolved budgets.

At the end of financial year 2008/09 the total surplus carried forward by schools was £1.565. The corresponding figure carried forward from financial year 2007/08 was a surplus of £1.754M. As a result there has been a net reduction of £0.189M in devolved school management balances.

The Catering Trading Account generated a surplus of £0.030M, details of which are provided in **Annex 2**. The Cleaning Trading Account generated a surplus of £0.093M, details of which are provided in **Annex 3**.

- 1.2 A supplementary estimate of £2.154M was approved by the Resources Committee on the 15th April 2009 when it became apparent that the following budget pressures could not be addressed by compensatory savings within the original budget allocation:-

- School Transport £0.828M
- Category red schools £0.150M
- Non achievement of 2008-09 savings £0.470M
- A delay in the achievement of 2008-09 savings £0.545M
- Other misc. pressures £0.161M

- **Total £2.154M**

- 1.3 Whilst the supplementary estimate adequately funded the known budget pressures reported to the ECS Committee in March 2009 a further budget pressure emerged towards the end of the financial year. This budget pressure related to Rates payable on the new PPP2 schools and amounted to £0.754M
- 1.4 Had it not been for this new pressure there would have been a slight underspend at the end of the financial year.
- 1.5 This report outlines the main budget pressures encountered during 2008-09. In addition the report high-lights those budget pressures which are on-going and require to be addressed by the appropriate management actions during financial year 2009-10. The budget monitoring statements for the 3 months to the end of June 2009 are provided in **Annexes 4, 5 and 6** respectively.
- 1.6 Progress with the achievement of the 2009-10 budget savings and those savings not fully achieved in financial year 2008-09 is outlined in **Annex 7.**

2. Significant Issues

- 2.1 The position at the end of financial year 2008-09 was an overspend of £0.631M. This overspend comprises 2 elements namely, a £0.754M overspend in relation to the Rates payable on the new PPP2 schools, partially off-set by the surpluses generated by the Catering and Cleaning trading accounts. The supplementary estimate addressed all of the budget pressures identified at the March ECS Committee.
- 2.2 The under lying reasons for the Rates budget pressure is that the actual Rateable value is significantly higher than the corresponding figure provided for and included in the financial model. The total Rates bill payable for all schools in financial year 2009/10 is currently estimated at £914,128. The full year corresponding amount in the financial model is £557,652, representing a shortfall of £356,476 (£234,877 in 2009-10 due to part year). This shortfall represents an annual budget pressure for the duration of the PPP contract. Beyond 2037 the responsibility for paying the Rates on these schools reverts to the Council.
- 2.3 The Rates figure provided for in the financial model was based on advice received from a specialist adviser employed by the Council during the pre contract period. It should be noted however that the Rateable Value (RV) for a new building is determined by the Assessor and can only be calculated when the building is completed.

- 2.4 Advice from colleagues in Legal Services is that specialist legal advice will be required to examine the terms of engagement with the above adviser and to determine what level of damages could reasonably be sought by the Council. This specialist legal advice has been instructed under delegated powers at a cost of less than £2K. A decision whether or not to pursue damages from the adviser will be available by the date of the ECS Committee.
- 2.5 As a result of the above there is a funding shortfall within the 2009-10 Unitary Charge budget of £540,420, being the difference between the Rates payable figure and the amount provided in the financial model. It should be noted that these figures do not include any rate liability for the inter-Agency building (the Pines). There is also a favourable impact within the budget as a result of the inflationary rate used in the financial model in 2009/10, producing a net pressure of £282,476. This is clearly a pressure that will have to be managed within the ECS budget during the remainder of this financial year and will be zero

3. Devolved School Budgets

- 3.1 At the financial year-end the summary financial position for schools was as follows:

	Secondary Schools	Primary Schools	Special Schools
TOTAL			
Category green 180	19	157	4
Category amber 26	3	23	0
Category red 11	8	3	0
Total 217	29	183	4

The estimated number of category red schools reported to the ECS Committee in March 2009 was 12, comprising 8 Secondary and 4 Primary schools. The position has therefore improved marginally.

- 3.2 Each Head Teacher in a category red school has been asked to identify proposals for a recovery plan in conjunction with their Area ECS Manager. However it should be noted that it may take longer than one financial year for some schools to achieve a balanced budget position.
- 3.3 The predominant reason for overspends in category red schools related to deficits carried from the previous financial year allied to overspends on staffing during the financial year. In category red schools energy

budget pressures collectively contributed to less than £0.048M across the 11 schools.

4. Continuing Pressures

4.1 The analysis of the actual expenditure and income incurred during financial year 2008-09 has now been completed. A number of the budget pressures that occurred during the year were addressed within the 2009-10 budget setting process including:-

- School transport – budget increased by £0.750M plus 2.5% inflation
- Energy budgets – budget increased by £3.4M across all sectors
- Non achievement of savings – budget re-instatement £0.470M

4.2 In the current financial year the approach that will be adopted is that all budget pressures will be reported to Members as soon they are identified. In addition the related corrective management actions will be reported. This will be a combination of savings measures that are quantifiable and savings measures that will not be quantifiable until later in the financial year. The majority of the compensatory savings measures will be quantifiable by December 2009 when the root and branch review of the budget and the annual refresh of the devolved budgets is completed.

4.3 The known budget pressures at this time are as follows:-

	£M
• PPP2 Rates	0.282
• Unachieved/delayed savings 2008-09	0.845
• Unachieved savings 2009-10	0.142
• Total	1.269

It is anticipated that there will be a reduction in the unachieved/delayed 2008-09 budget savings figure during the course of the financial year. However this budget pressure will only be reduced when the actual saving has been achieved as opposed to based on estimated savings.

4.4 The details of the budget pressures relating to PPP2 Rates and the achievement of 2008-09 and 2009-10 budget savings are detailed elsewhere in this report. There are potential pressures relating to the Revenue consequences of Capital investment which will have an impact on the budget. At this stage these pressures are not quantifiable, although estimates will be available for a future Committee report.

4.5 As indicated above the corrective management actions comprise of quantifiable savings and other savings measures that cannot be quantified until later in the financial year. The quantifiable savings measures comprise of:-

	£M
• Income budget realignment	0.100
• H2007 legacy – uncommitted	0.050
• Unallocated contingency – devolved budgets	0.350
• Unallocated contingency – energy	0.515
• Total	1.015

4.6 Energy budgets have been fully funded on the basis of the most recent consumption per site multiplied by the current contractual unit price. Following this exercise there is an unallocated sum of £0.515M as reported above. The only potential risks in relation to this figure are future volatility in the price of oil and any boiler malfunction which results in exceptional energy usage.

4.7 The savings measures that are not quantifiable at this stage comprise of the following:

- Vacancy management
- New entrants to the teaching profession

As indicated above the above measures will be quantifiable by December 2009.

4.8 There is a root and branch review currently being under-taken of all non-devolved staffing budgets and income budgets that will improve the integrity of the overall Service budget. This will assist budget holders to monitor their budgets more easily and should enable potential budgetary pressures and savings to be identified at an earlier stage.

5. Budget savings – progress report:

5.1 **Annex 7** provides members with an update on the progress achieved to date in relation to the 2009-10 and the residual 2008-09 budget savings. This document reflects the actual level of saving achieved to date as opposed to estimated figures.

5.2 In relation to those 2008-09 budget savings targets that were delayed the cessation of vocational school cleaning was fully implemented from April 2009. In addition the review of the administrative and clerical staff will be implemented by November 2009. As identified above alternative savings will require to be identified to address this potential shortfall.

5.3 Good progress is currently being made with the achievement of the 2009-10 savings and there are no potential risks to be reported at this time.

6. Recommendations

6.1 Members are requested to:-

- Note the 2008/09 outturn position.
- Note the known pressures out-lined in paragraph 4:3 of the report.
- Agree the corrective actions identified in paragraphs 4.5 and 4.7 of the report.
- Note the progress being made with the achievement of budget savings as outlined in section 5 of the report.

Signature:

Designation: Director of Education, Culture and Sport

Date: 25th July 2009.

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

Background Papers

Annex 1 – Un-audited 2008-09 Revenue Budget monitoring statement

Annex 2 – Un-audited 2008-09 Catering Trading Account

Annex 3 – Un-audited 2008-09 Cleaning Trading Account

Annex 4 - Revenue Budget monitoring statement for the 3 months to June 2009

Annex 5 – Catering trading account for 3 months to June 2009

Annex 6 – Cleaning trading account for 3 months to June 2009

Annex 7 – Budget savings progress report

2008-09 Unaudited Outturn

	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Actual	£'000 Year End Variance
BY ACTIVITY				
Primary Education DSM	56,966	56,945	56,945	-
Secondary Education DSM	72,312	72,316	72,316	-
Special Education DSM	3,111	3,111	3,111	-
Nursery Education DSM	3,967	3,969	3,969	-
TOTAL DSM	136,356	136,341	136,341	-
Primary Education (Non-DSM)	3,594	3,594	3,594	-
Secondary Education (Non-DSM)	101	101	101	-
Schools - General	21,180	20,426	21,180	754
Hostels	826	826	826	-
School Transport	11,761	11,761	11,761	-
Catering/Cleaning Client	4,847	4,970	4,847	(123)
Community Learning	4,090	4,090	4,090	-
Additional Support Needs(Non-DSM)	17,451	17,451	17,451	-
Administration	14,478	14,478	14,478	-
Archives	463	463	463	-
Arts Development	598	598	598	-
Village Halls	330	330	330	-
Leisure Facilities	2,899	2,899	2,899	-
Integrated Library Service	4,141	4,141	4,141	-
Museums	932	932	932	-
Sports Development	620	620	620	-
Gaelic (Non DSM)	(424)	(424)	(424)	-
TOTAL NON DSM	87,887	87,256	87,887	631
OVERALL TOTAL	224,243	223,597	224,227	631
	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Actual	£'000 Year End Variance
BY SUBJECTIVE				
Staff Costs	175,461	172,622	172,498	(123)
Other Costs	80,984	81,360	81,374	14
Gross Expenditure	256,445	253,982	253,872	(109)
Grants	(8,526)	(7,381)	(7,381)	-
Other Income	(23,676)	(22,978)	(22,238)	740
Total Income	(32,203)	(30,359)	(29,619)	740
	224,243	223,622	224,253	631

HIGHLAND COUNCIL
ECS CATERING

ANNEX 2

FINANCIAL MONITORING STATEMENT PERIOD
1ST APRIL 2008 - 31ST MARCH 2009

<u>SUMMARY</u>	ANNUAL PLAN	ACTUAL TO DATE	YEAR END VARIANCE
INCOME			
SCHOOL MEALS INCOME	(7,471,859)	(7,029,012)	442,847
FUNCTION CATERING	(250,009)	(230,618)	19,391
SNACK BAR INCOME	(230,822)	(216,952)	13,870
ADDITIONAL INCOME	(1,906,279)	(1,964,977)	(58,698)
	(9,858,969)	(9,441,559)	417,410
DIRECT COSTS			
LABOUR COSTS	5,156,652	5,236,740	80,088
FOOD/MATERIALS	2,926,390	2,869,460	(56,930)
TRANSPORT & PLANT	111,263	106,023	(5,240)
OTHER SUPPLIES & SERVICES	342,449	180,182	(162,267)
	8,536,754	8,392,404	(144,350)
OVERHEADS			
MANAGEMENT COSTS	491,898	453,835	(38,063)
APPORTIONED COSTS	364,812	260,044	(104,768)
SUPPORT COSTS	384,474	377,173	(7,301)
INTEREST ON REVENUE BALANCES	0	448	448
	1,241,184	1,091,499	(149,685)
TOTAL COSTS	9,777,938	9,483,904	(294,034)
(SURPLUS)DEFICIT	(81,031)	42,344	123,375
ASSET RENT FRS17	4,976 66,958	2,376 (75,013)	(2,600) (141,971)
(SURPLUS) AFTER ASSET RENT	(9,097)	(30,293)	(21,196)
Staff	5,648,550	5,690,575	42,025
Other Costs	4,201,322	3,720,692	(480,630)
Income	(9,858,969)	(9,441,559)	417,410
	(9,097)	(30,293)	(21,196)

HIGHLAND COUNCIL
ECS CLEANING

ANNEX 3

FINANCIAL MONITORING STATEMENT PERIOD
1ST APRIL 2008 - 31ST MARCH 2009

<u>SUMMARY</u>	ANNUAL PLAN	ACTUAL TO DATE	YEAR END VARIANCE
INCOME			
CONTRACT CLEANING	(5,169,332)	(4,825,236)	344,096
EXTERNAL INCOME	(66,685)	(88,295)	(21,610)
	<u>(5,236,017)</u>	<u>(4,913,531)</u>	<u>322,486</u>
DIRECT COSTS			
LABOUR COSTS	4,081,878	4,038,565	(43,313)
MATERIALS	105,000	108,624	3,624
TRANSPORT & PLANT	80,550	65,358	(15,192)
OTHER SUPPLIES & SERVICES	104,536	81,322	(23,214)
	<u>4,371,964</u>	<u>4,293,869</u>	<u>(78,095)</u>
OVERHEADS			
MANAGEMENT COSTS	479,848	357,889	(121,959)
APPORTIONED COSTS	24,250	19,868	(4,382)
SUPPORT COSTS	260,565	203,007	(57,558)
INTEREST ON REVENUE BALANCES	0	(8,426)	(8,426)
	<u>764,663</u>	<u>572,339</u>	<u>(192,324)</u>
TOTAL COSTS	<u>5,136,627</u>	<u>4,866,208</u>	<u>(270,419)</u>
(SURPLUS)DEFICIT	<u>(99,390)</u>	<u>(47,323)</u>	<u>52,067</u>
ASSET RENT			
FRS17	4,813	3,971	(842)
	90,966	(49,358)	(140,324)
(SURPLUS) AFTER ASSET RENT	<u>(3,611)</u>	<u>(92,710)</u>	<u>(89,099)</u>
Staff	4,561,726	4,396,454	(165,272)
Other Costs	670,680	424,367	(246,313)
Income	<u>(5,236,017)</u>	<u>(4,913,531)</u>	<u>322,486</u>
	<u>(3,611)</u>	<u>(92,710)</u>	<u>(89,099)</u>

EDUCATION, CULTURE & SPORT REVENUE MONITORING REPORT – ANNEX 4

3 months to June 2010	ANNEX 4			
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	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Primary Education DSM	13,987	57,058	57,058	0
Secondary Education DSM	18,197	72,803	72,803	0
Special Education DSM	941	3,170	3,170	0
Nursery Education DSM	1,068	4,057	4,057	0
TOTAL DSM	34,194	137,088	137,088	0
Primary Education (Non-DSM)	830	3,250	3,250	0
Secondary Education (Non-DSM)	49	-579	-579	0
Schools - General	1,040	7,847	7,836	-11
PPP	3,422	22,221	22,785	282
Hostels	212	773	773	0
School Transport	1,898	11,643	11,643	0
School Crossings	62	323	323	0
Additional Support Needs(Non- DSM)	4,776	17,877	17,877	0
Catering/Cleaning Client	71	4,644	4,644	0
Grants	1,080	3,278	3,278	0
Community Learning	1,036	3,618	3,618	0
Administration	1,275	6,661	6,794	132
Archives	127	451	451	0
Arts Development	425	813	793	-20
Events & Promotions	148	1,013	963	-50
Village Halls	63	278	278	0
Leisure Facilities	784	3,651	3,571	-80
Integrated Library Service	953	4,423	4,423	0
Museums	259	998	998	0
Sports Development	-254	486	486	0
Gaelic (Non DSM)	-108	-340	-340	0
TOTAL NON DSM	18,148	93,329	93,865	254
OVERALL TOTAL	52,342	230,418	230,953	254

	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
BY SUBJECTIVE				
Staff Costs	40,932	171,330	171,898	568
Other Costs	19,025	90,043	89,760	-283
Gross Expenditure	59,957	261,373	261,658	285
Grants	-1,592	-9,120	-9,120	0
Other Income	-6,023	-21,835	-21,866	-31
Total Income	-7,615	-30,956	-30,987	-31
	52,342	230,418	230,671	254

**HIGHLAND COUNCIL - ANNEX 5
ECS CATERING**

FINANCIAL MONITORING STATEMENT PERIOD 29TH MAY 2009 - 3RD JULY 2009

SUMMARY	ANNUAL PLAN	PLANNED TO DATE	ACTUAL TO DATE	PROJECTED OUTTURN	YEAR END VARIANCE
INCOME					
SCHOOL MEALS INCOME	(7,122,498)	(2,184,826)	(2,064,114)	(7,122,498)	0
FUNCTION CATERING	(262,909)	(65,726)	(21,932)	(262,909)	0
SNACK BAR INCOME	(231,165)	(57,791)	(57,961)	(231,165)	0
ADDITIONAL INCOME	(433,016)	(108,250)	(91,516)	(433,016)	0
	<u>(8,049,588)</u>	<u>(2,416,593)</u>	<u>(2,235,523)</u>	<u>(8,049,588)</u>	<u>0</u>
DIRECT COSTS					
LABOUR COSTS	3,911,080	864,558	321,695	3,911,080	0
FOOD/MATERIALS	2,432,447	761,223	778,658	2,432,447	0
TRANSPORT & PLANT	112,289	28,061	28,096	112,289	0
OTHER SUPPLIES & SERVICES	169,899	42,459	96,966	169,899	0
	<u>6,625,715</u>	<u>1,696,301</u>	<u>1,225,416</u>	<u>6,625,715</u>	<u>0</u>
OVERHEADS					
MANAGEMENT COSTS	491,898	146,226	119,268	491,898	0
APPORTIONED COSTS	455,318	72,604	60,822	455,318	0
SUPPORT COSTS	407,160	93,415	66,273	407,160	0
INTEREST ON REVENUE BALANCES	0	0	0	0	0
	<u>1,354,377</u>	<u>312,245</u>	<u>246,364</u>	<u>1,354,377</u>	<u>0</u>
TOTAL COSTS	<u>7,980,092</u>	<u>2,008,546</u>	<u>1,471,779</u>	<u>7,980,092</u>	<u>0</u>
(SURPLUS)DEFICIT	<u>(69,496)</u>	<u>(408,047)</u>	<u>(763,744)</u>	<u>(69,496)</u>	<u>0</u>
ASSET RENT	2,538	633	0	2,538	0
FRS17	66,958	0	0	66,958	0
(SURPLUS)DEFICIT AFTER ASSET RE	<u>0</u>	<u>(407,414)</u>	<u>(763,744)</u>	<u>0</u>	<u>0</u>

BREAKEVEN

VARIATION DUE TO JOB EVALUATION ACCRUAL OF -£825,119

**HIGHLAND COUNCIL - ANNEX 6
ECS CLEANING**

FINANCIAL MONITORING STATEMENT PERIOD 29TH MAY 2009 - 3RD JULY 2009

SUMMARY	ANNUAL PLAN	PLANNED TO DATE	ACTUAL TO DATE	PROJECTED OUTTURN	YEAR END VARIANCE
INCOME					
CONTRACT CLEANING	(4,512,871)	(1,121,750)	(1,147,004)	(4,512,871)	0
EXTERNAL INCOME	(68,686)	(11,435)	(14,085)	(68,686)	0
	<u>(4,581,556)</u>	<u>(1,133,185)</u>	<u>(1,161,090)</u>	<u>(4,581,556)</u>	<u>0</u>
DIRECT COSTS					
LABOUR COSTS	3,394,123	757,320	533,315	3,394,123	0
MATERIALS	117,875	29,466	65,283	117,875	0
TRANSPORT & PLANT	83,513	17,661	15,086	83,513	0
OTHER SUPPLIES & SERVICES	108,625	38,763	38,109	108,625	0
	<u>3,704,135</u>	<u>843,210</u>	<u>651,793</u>	<u>3,704,135</u>	<u>0</u>
OVERHEADS					
MANAGEMENT COSTS	480,302	120,152	101,957	480,302	0
APPORTIONED COSTS	24,856	1,363	1,105	24,856	0
SUPPORT COSTS	268,939	74,429	60,617	268,939	0
INTEREST ON REVENUE BALANCES	0	0	0	0	0
	<u>774,097</u>	<u>195,944</u>	<u>163,678</u>	<u>774,097</u>	<u>0</u>
TOTAL COSTS	<u>4,478,232</u>	<u>1,039,154</u>	<u>815,471</u>	<u>4,478,232</u>	<u>0</u>
(SURPLUS)DEFICIT	<u>(103,324)</u>	<u>(94,031)</u>	<u>(345,618)</u>	<u>(103,324)</u>	<u>0</u>
ASSET RENT	4,933	0	0	4,933	0
FRS17	98,390	0	0	98,390	0
(SURPLUS)DEFICIT AFTER ASSET	<u>(0)</u>	<u>(94,031)</u>	<u>(345,618)</u>	<u>(0)</u>	<u>0</u>

VARIATION DUE TO JOB EVALUATION ACCRUAL OF -£373,384

ECS BUDGET SAVINGS 2009/10 - ANNEX 7

Saving Ref	Savings 2009/10	Target Saving	Saving Achieved	Balance to Achieve
01a/09-10	Savings - Teaching early retirement	83,000	- 83,000	-
	Savings - Probationer Teachers/New			
01b/09-10	Entrants	117,000	- 117,000	-
	Savings - Primary School Teacher			
01c/09-10	rationalisation	177,000	- 177,000	-
02/09-10	Savings - Income Generation (Highlife)	27,000	- 27,000	-
03/09-10	Savings - Teaching early retirement	100,000	- 66,961	33,039
04/09-10	Savings - Income for Probationer Teachers	448,000	- 448,000	-
	Savings - Standstill Budget on Selected			
05/09-10	Headings	340,000	- 340,000	-
06/09-10	Savings - Teacher Posts above formula	780,000	- 780,000	-
	Savings - Probationer Teachers/New			
07/09-10	Entrants	47,000	- 9,560	37,440
	Savings - Curriculum Support &			
08/09-10	Development	89,000	- 64,825	24,175
09/09-10	Savings - Health projects	80,000	- 80,000	-
10/09-10	Savings - Highland 2007 Legacy	100,000	- 100,000	-
11/09-10	Savings - Community Grants	40,000	- 40,000	-
12/09-10	Savings - Inverness Events	63,000	- -	63,000
13/09-10	Savings - Outdoor Education	60,000	- 60,000	0
14/09-10	Savings - Cultural Staff	75,000	- 75,000	0
15/09-10	Savings - Adult Learning	261,000	- 261,000	0
	Savings - Community Learning & Leisure			
16/09-10	Mgt	193,000	- 193,000	0
17/09-10	Savings - PPP Project Management	60,000	- 38,513	21,487
18/09-10	Savings - SEN Non Dev Area	231,000	- 231,000	-
		3,371,000	- 3,191,859	179,141

Saving Ref	Savings 2008/09	Target Saving	Saving Achieved	Balance to Achieve
1/08-09	Savings - Office & Admin Review	323,000	- -	323,000
10/08-09	Savings - School Cleaning	196,174	- 87,267	108,907
11/08-09	Savings - Mgt and Admin Review	240,000	- -	240,000
12/08-09	Savings - Janatorial Savings	100,000	- -	100,000
20/08-09	Savings - Letting Charges Review	69,000	- -	69,000
27/08-09	Savings - Village Hall Equalisation	35,000	- 35,000	-
29/08-09	Savings - Library Support Structure	4,817	- 4,817	-
30/08-09	Savings - QI Officer and Related support	113,029	- -	113,029
		1,081,020	- 127,084	953,936
		4,452,020	- 3,318,943	1,133,077