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| Agenda Item | 12. |
| Report No | EDU/21/21 |

HIGHLAND COUNCIL

Committee: Education

Date: 2 September 2021

Report Title: **Revenue Budget Monitoring – Out-turn for 2020/21 and Quarter 1 for 2021/22**

Report By: Executive Chief Officer - Education and Learning

1. Purpose/Executive Summary

- 1.1 This report provides Members with an out-turn monitoring statement for the 2020/21 financial year, as well as the first reported position for the new 2021/22 financial year, for the Quarter to end June 2021.
- 1.2 In relation to the 2020/21 full year out-turn, as recently reported to the June Council meeting, the Service had an underspend of £4.370m (2.1% of the budget). Which reflects the in year underspend on Early Learning and Childcare, which is not recurring into 2021/22 with the rollout of 1140 hours expansion by August 2021.
- 1.3 In relation to Quarter 1 of the 2021/22 financial year, the forecast is an overspend of £3.287m (1.6% of the budget).
- 1.4 As Members will see from the report narrative below, the core Education part of the budget is broadly on target overall for 2021/22, albeit with a number of residual variances and risks to be considered. The net overspend for the Service as a whole therefore relates in the main to High Life Highland, with their forecast deficit due to Covid-19 impact on their business, being anticipated and planned for in the March Council budget. The Council did set aside reserves to address this and other budget risks, but with these held corporately and only to be drawn down at year end if required, and hence the in-year deficit translates to an overspend against the Service budget.
- 1.5 The report also provides an update on the current status and risk assessment of agreed budget savings for the year, as well as a number of other current financial risks and issues, including a number of Scottish Government commitments which at this stage there is uncertainty regarding financial impact and funding to be provided. These include changes to funding arrangements for instrumental music tuition and practical subject charging, as well as plans for expansion of wrap around care.
- 1.6 Based on current assessment, the financial impact on the Council, and therefore the level of additional funding required from Scottish Government would be in excess of £1.3m for

a full financial year for music tuition and practical subject charging alone. This does not include the expansion of wrap around care, which would require further assessment upon receipt of further information from Scottish Government in relation to plans. Given the additional costs faced in Highland's due to geography and rurality factors, there is the risk as to whether funding allocated will fully meet the costs of provision in Highland.

2. Recommendations

Members are asked to:

- i. note the revenue out-turn position for the 2020/21 financial year;
- ii. note the forecast revenue position for the 2021/22 financial year, including the additional scrutiny and management action being taken and the risks and uncertainties set out within the report;
- iii. note the progress update provided in relation to budget savings delivery;
- iv. note the update provided in relation to the Scottish Government changes to funding and charging arrangements for a number of service areas; and
- v. agree to a letter being written to the Scottish Government to seek a commitment to fully fund the costs arising from the post-settlement policy initiatives referred to in Section 7 below and iv above.

3. Implications

- 3.1 **Resource (Budget and Staffing)** – the report and appendices provide an up to date forecast of the financial position, including progress with delivery of savings. There are a number of potentially very significant financial implications arising from new Government policy initiatives and also the as yet unknown pay settlement. As noted below in the risk section, there also remains ongoing uncertainty and challenges in financial forecasting as a result of the pandemic. Consequently, the current forecasted out-turns have the potential the change quite substantially as the year progresses, particularly should the Scottish Government not provide full funding to cover these new costs. There are also Covid-related HLH pressures, currently forecasted at £3.2m. If this cannot be further reduced or mitigated, then there would be a call on Council reserves.
- 3.2 **Legal** – no particular implications to highlight.
- 3.3 **Community (Equality, Poverty and Rural)** – as noted within section 7, changes to funding arrangements in a number of service areas, including music, ELC and practical subject charging, create some risks until such time as future funding provision for these areas from the Scottish Government is known. Given Highland's geography, and often unique implications and costs of delivering service within Highland, it will be vital that future funding models consider Highland needs, and the Council will be looking to pro-actively engage with COSLA and the Scottish Government to make these points. Should an increase in demand for and provision of music tuition be forthcoming, this could lead in the future to the inability to staff in remote and rural settings across the Highlands. Leading to a potential gap in both music provision and musical attainment.
- 3.4 **Climate Change / Carbon Clever** – The increase in music tuition across the Highlands could lead to an increase in tutors which in turn would lead to an increase in the carbon footprint required i.e. leading to more travel.

3.5 **Risk** – this report and appendix reflects best available information and assessment of expected service impacts, including those related to the Covid-19 pandemic. Despite the easing of restrictions, there remains the risk of changes in circumstance that may have an adverse variance on financial forecasts. The report also highlights risks relating to recently confirmed Scottish Government changes to charging and funding arrangements for instrumental music tuition, ELC and practical subjects. There are further potential risks and impact should there be a future teacher pay claim ask.

3.6 **Gaelic** – no specific implications to highlight.

4. **Out-turn 2020/21**

4.1 The Council meeting on 24 June included information on the near-final out-turn for the 2020/21 financial year, and the position for each Council Service. This report now provides the out-turn report and with some additional commentary and explanation in relation to the year end position. As Members will be aware from regular reports during the course of the year, the 2020/21 monitoring position reflects additional Scottish Government Covid-19 funding provided, as well as additional Covid-19 costs incurred.

4.2 The out-turn for the year was an underspend of £4.370m (2.1% of the budget) and this is as per the figures reported to the June Council meeting. **Appendix 1** sets out the analysis of the outturn across the Service budget headings.

4.3 This is an improvement of £2.474m on the previously forecast position, being an underspend of £1.897m. The overall movement and improvement is principally due to further in-year underspend including savings in PPE, school utilities and other costs during the last lockdown period. There still remains uncertainty regarding the impact of the Covid hidden harms on the Education and Learning Directorate budget and future pressures.

4.4 The main areas of service with more significant variance are as described below and reflect the main areas of variance reported throughout the year:

- **Service Management Team and Support** – a £1.334m overspend which reflects savings from past years relating to service management restructuring, delayed by the pandemic. Service re-design is now moving forward with new service structures to be taken forward and resolve these historical saving targets.
- **HLH Services** - £0.615m overspend against the Council's budget, reflecting a number of in year costs and adjustments including provision for pay award and other cost pressures.
- **Schools General** - £1.734m Covid-19 related underspend, covering a number of factors including savings in school utility costs during lockdown, and other schools general cost savings as a result of Covid which have been retained to offset Covid pressures elsewhere in the budget. This budget line also excludes additional school Covid related costs for school transport, cleaning and facilities management, etc which sit against other Directorate budgets.
- **Learning and Teaching** - £0.538m underspend being savings in staffing/vacancies, school and college transport, and staff travel for training, all due to lockdown and savings retained to offset Covid pressures elsewhere in the budget.
- **Early Learning and Childcare** - £5.466m underspend. A significant one off in year underspend on ELC has been reported throughout the year, and per the out-turn figures has been higher than forecast at Quarter 3. As previously reported this underspend is reflective of the Covid 19 impact and delays from August 2020

to 2021 for the rollout of 1140 hours of funded childcare. As Members will note from a separate report on this agenda, positive progress has continued to conclude the 1140 hours implementation. As noted in section 5 below, and as had been anticipated, with progress made in relation to 1140, the budget forecast for ELC in 2021/22 is largely on budget with only a relatively modest underspend of £229k shown at this time.

- **Covid-19 response** - £2.304m overspend. This includes the following Covid cost pressures, over and above any specific budget or the Scottish Government funding provision - Schools PPE, keyworker critical childcare provision during lockdown one, supply retention scheme payments during lockdown one. On an ongoing basis, and in relation to Covid 'harms', the Service will continue to monitor and assess, considering impacts for example in relation to pressures on staffing, supply cover and staff and pupil wellbeing.

5. Quarter 1 Monitoring 2021/22

- 5.1 **Appendix 2** sets out the first reported monitoring position for the new financial year, based on the position for the first Quarter to end June 2021.
- 5.2 As can be seen from the appendices, against a budget for the year of £211.866m, an overspend of £3.287m (or 1.6% of the budget) is forecast. As noted in earlier comments, while there are a number of variances across service budget headings, these are in the main mitigating and offsetting each other, with the bottom-line position for the service related to the known and anticipated HLH deficit for the year. Further information relating to HLH is set out further below.
- 5.3 The Scottish Government has announced the easing of restrictions, effective from 9 August. In relation to schools return, while clearly there will remain ongoing risks and impacts on service delivery, current financial forecasts assume these will in the main be managed within agreed budget and funding. Clearly there still remain residual risks if future infection waves, restrictions or lockdowns in turn impact on planned service delivery and costs. This will be closely monitored and addressed through future reports to this committee.
- 5.4 The following sections describe the main variances, the causes and actions being taken. Members will note recurring themes in relation to the prior financial year, and past reports to this committee. Albeit with the HLH deficit position as noted above, requiring further explanation given its impact in 2021/22.
- 5.5 **Covid-19** - Notwithstanding the easing of restrictions, the current financial forecast is for a £0.272m overspend on Covid-19 costs, mainly PPE related. With the risk that this will require review should there be any further or increased Covid-19 impact to be addressed.
- 5.6 **Service Management Team and Support** – as noted above at paragraph 4.5 relating to the prior financial year, there remain agreed budget savings relating to the management and service structure redesign to be delivered. This is being offset by staff vacancies and underspends against other budget lines, pending the finalisation of service redesign and staff structures this year, and resulting realignment of budgets.

5.7 HLH Services

5.7.1 As was noted in the March Council budget paper, HLH were forecasting a reasonable worst-case position of an in-year deficit for 2021/22 of £3.4m. This due to the severe impact on their business operations from the pandemic, lockdown and restrictions. Members will recall that while these same impacts also applied during 2020/21, due to the Furlough scheme and other cost control measures, HLH were able to in fact underspend in that year and retain reserves to help support their financial position in 2021/22. The ending of the Furlough scheme, and the lead time before restrictions permit facilities to operate at or near normal capacity, and in turn the lead time for customer confidence and High Life subscriptions to return, lead to the deficit forecast. This is expected to be a short-term impact and the HLH recovery plan is focused on returning the business to a sustainable position.

5.7.2 The deficit of £3.4m forecast at the start of the financial year, was based upon the following key assumptions and elements:

| | 2021/22 £m |
|---|---------------|
| Shortfall in High Life income | £3.9m |
| Shortfall in other income | £5.4m |
| Total income shortfall in 2021/22 | £9.3m |
| Job Retention Scheme | -£0.7m |
| Use of HLH reserves | -£2.0m |
| Staff cost savings and cost control | -£1.8m |
| Other cost savings and cost control | -£1.4m |
| Overall net deficit – reasonable worst-case forecast | £3.4m |

5.7.3 The most recent position for Quarter 1 provided by HLH, shows a forecast improvement in income levels against the table as set out above, and overall the deficit reducing by £200k to £3.2m for the year.

5.7.4 The additional easing of restrictions, will enable further progress to be made but with HLH nonetheless highlighting that a return to activities that are at or near 'normal' capacity levels remains some way away. There remains ongoing risk and careful planning is needed around the level of service and opening hours offered (and staff and other costs which result) balanced against expected customer confidence, demand and income.

5.7.5 Monthly meetings between Council and HLH officers take place to review the financial position and ensure suitable scrutiny relating to the deficit and the risk to the Council.

5.7.6 The Council, in setting its budget in March this year, recognised the financial risk and forecast £3.4m deficit at that time. With the risk that Council reserves may be required unless the deficit position improves. Any use of reserves would however only be at year end, and on the basis of a final confirmed position. And as a result, in-year the deficit, will translate to an overspend against the Education and Learning budget.

5.8 Schools General and Learning & Teaching

£0.697m and £0.414m underspends respectively, mainly on staffing due to vacancies and pending implementation of new re-designed service structure. This partly mitigates the overspend referred to above at paragraph 5.6.

5.9 **Early Learning and Childcare**

As had been expected, and highlighted in past reports to Committee, the underspend within 2020/21 was expected and has proven to be a short-term and one-off position, as a result of Covid-19 delays and the programming of 1140 rollout. With the positive progress made regarding 1140 rollout and the revised target date of August 2021, the budget and level of spend in the current financial year are now forecast to be largely on track, with a modest level of underspend of £0.229m at this stage. However, it should be noted that for a small number of settings, those moving to 1140 in August of this year, only a part year cost arises (and a factor therefore in the underspend) and increased full year costs will apply in 2022/23 and beyond. These forecasts make no provision for any additional cost that may arise from additional payments to partners for funded ELC provision or Scottish Government planned changes to wraparound care for settings. A separate and more detailed report on this agenda provides further information on these matters and ELC provision

5.10 **Additional Support – Special Schools**

Consistent with the out-turn for the previous financial year, there is a forecast overspend against the Council's three special schools of £0.192m, albeit the level of pressure is considerably lower than circa 2-3 years ago due to action taken over recent years. Members will be aware there is an ongoing review of the Schools Devolved School Management (DSM) scheme at present, and one factor being considered is the provision made for special school budgets going forward.

6. **Budget Savings Delivery**

6.1 Also enclosed with this report is an updated assessment of progress with delivery of budget savings. **Appendix 3** sets out a Red/Amber/Green (RAG) assessment of those savings.

7. **Other Financial Matters**

7.1 The Scottish Government made a number of commitments for their First 100 days of government, and several of these have recently been advised to COSLA and Councils, with financial implications now highlighted to Members.

7.2 **Instrumental Music Tuition**

7.2.1 The Scottish Government has now written to all Councils confirming that for the new academic year from August 2021 onwards, no charges of any kind should be levied for instrumental music tuition. The Scottish Government has committed to an interim funding arrangement to cover that academic year to provide for the budgeted level of income at the start of 2021/22.

7.2.2 To date, £5m has been allocated across all councils on a population share basis, with Highland receiving £0.219m of that. The Government has said that this will be topped up for those councils who do charge, to reflect the level of budgeted income foregone. In Highland, our service is provided by HLH, and the implications on their income levels are as follows.

- Budgeted income for a full financial year £1.098m
- Budgeted income relating to the period Aug 21 – Mar 22 £0.732m
- SG allocated funding to date for that period £0.146m
- Top-up funding required for 2021/22 £0.586m
- SG allocated funding for April to July 2022 £0.073m

- Further top up funding required for 2022/23 (Apr-Jul22) £0.293m
- Add overall pressure to directorate

7.2.3 The figures outlined above have been provided to COSLA which in turn is liaising with the Scottish Government regarding the funding requirement. While the stated commitment of the Scottish Government is clear and relates to budgeted income for 2021/22, the actual total funding to be received has not yet been confirmed.

7.2.4 Until final funding is confirmed, there remains a risk as to whether the Council and HLH will be sufficiently compensated for lost income. If no further funding is provided this will create a pressure of £0.586m for the current financial year and a total pressure of £0.879m for the full academic year. For context, Highland is unique in a number of respects

- (1) that the service is provided arms length by HLH,
- (2) that the service has grown in recent years due to income growth enabling investment by HLH,
- (3) Highland had the highest level of budgeted income of all Scottish Authorities who responded to the last published Improvement Service survey on music tuition, and
- (4) the geography, number and spread of our schools, creates unique circumstances and challenges in relation to the staffing and cost implications of service delivery.

7.2.5 The Scottish Government has stated that the interim funding arrangements for the 2021/22 academic year are to maintain **current** service levels. They acknowledge there may be increased demand as a result of the change to charging arrangements, but also that the funding arrangement put in place for 2021/22 is not intended to address that. This will therefore require careful communication and management by HLH and the Council in terms of parental and pupil expectations.

7.2.6 The interim funding arrangements for the 2021/22 academic year are pending The Scottish Government undertaking further engagement with COSLA and other stakeholders to determine funding arrangements to be in place going forward. The Scottish Government has indicated its intent to have a funding arrangement that makes provision for growth in service demand. A key concern for the Council and HLH will be to ensure the future funding arrangements are sustainable, allow for growth and investment, and support the success already achieved where growth in the service has been delivered in recent years. And as noted above, the unique geographical and other considerations, which mean costs of delivery in Highland are greater and would need recognition in any new funding arrangement. The Council and HLH are seeking to be closely and proactively involved in any national discussions that help shape the new funding arrangements going forward.

7.3 **Practical Subject Charging**

7.3.1 A further Scottish Government commitment relates to the removal of charges for practical subjects and core curriculum costs. This covers a broad range of subjects but is intended to relate to charges for “materials required for class-based activity within the 8 core curriculum areas in primary and secondary school as well as activity associated with preparation for SQA qualifications in the senior phase.” This would include charges that schools currently levy for home economic materials, CDT materials, and various other subjects and activities.

7.3.2 The Council has yet to receive formal notification from The Scottish Government, or confirmation of funding, but understands that nationally a sum of around £6m may be allocated, with Highland’s share therefore potentially circa £0.260m. Initial scoping has suggested that actual costs could be in excess 1m per circa 10 activities/classes

continue as before this will create a significant additional pressure on the Service budget/school DSM budgets or may require schools to adapt the delivery of these subjects to reduce costs to a more manageable level, with implications for pupil's learning and enjoyment of the subject.

7.3.3 The Scottish Government has acknowledged that a variety of different charging arrangements are in place across Scotland, and the difficulties therefore in establishing data to assess the cost implications. Within Highland, we are undertaking further review and analysis now that schools have returned, to understand the implications, the directorate continue to assess the impact of Covid on all of our families especially the most vulnerable.

7.3.4 Further feedback to Members will be provided once clarity on financial impact and funding is available. Meantime, there is of course a risk regarding the level of funding to be received and whether this will be sufficient to cover all costs.

7.4 **Out of School Care**

The Scottish Government policy commitments also included a commitment related to out of school care, stated as "Build a wraparound childcare system, providing care before and after school, all year round, where the least well-off families will pay nothing." At this time further details on the commitment are to be received, and further assessment of the service, financial and funding implications will need assessed at that time. No provision within the Council budget has been made and therefore it is presumed additional Scottish Government funding would be made available to support this objective.

Designation: Executive Chief Officer – Education and Learning

Date: 21 July 2021

Author: Brian Porter Head of Resources

EDUCATION MONITORING STATEMENT 2020-21

Appendix 1

| 31/03/2021 | £'000 Actual YTD | £'000 Annual Budget | £'000 Year End Estimate | £'000 Year End Variance |
|---|------------------------|---------------------------|-------------------------------|-------------------------------|
| BY ACTIVITY | | | | |
| Service Management Team & Support | 544 | (790) | 544 | 1,334 |
| Pensions, Insurance and Other Pan-Service Costs | 2,011 | 2,206 | 2,011 | (195) |
| Commissioned HLH Services | 16,785 | 16,170 | 16,785 | 615 |
| Grants to Voluntary Organisations | 848 | 1,025 | 848 | (177) |
| Hostels | 1,042 | 1,099 | 1,042 | (57) |
| Crossing Patrollers/School Escorts | 611 | 764 | 611 | (153) |
| Secondary Schools | 73,621 | 73,643 | 73,621 | (22) |
| Primary Schools | 66,765 | 67,145 | 66,765 | (380) |
| Schools General | 2,101 | 3,835 | 2,101 | (1,734) |
| Learning and Teaching | 792 | 1,330 | 792 | (538) |
| Early Learning & Childcare | 2,674 | 8,140 | 2,674 | (5,466) |
| Additional Support - Schools | 24,789 | 24,751 | 24,789 | 38 |
| Additional Support - Special Schools | 4,956 | 4,771 | 4,956 | 185 |
| Specialist Additional Support Services | 2,160 | 2,284 | 2,161 | (123) |
| COVID-19 Response | 3,058 | 754 | 3,058 | 2,304 |
| Grand Total ECO Education | 202,757 | 207,127 | 202,757 | (4,370) |
| BY SUBJECTIVE | | | | |
| Staff Costs | 194,031 | 196,845 | 194,031 | (2,813) |
| Other Expenditure | 42,168 | 41,883 | 42,168 | 285 |
| Gross Expenditure | 236,200 | 238,728 | 236,200 | (2,528) |
| Grant Income | (32,725) | (30,994) | (32,725) | (1,730) |
| Other Income | (718) | (607) | (718) | (111) |
| Total Income | (33,443) | (31,601) | (33,443) | (1,842) |
| NET TOTAL | 202,757 | 207,127 | 202,757 | (4,370) |

EDUCATION & LEARNING MONITORING STATEMENT 2021-22

Appendix 2

| 31/06/2021 | £'000 Actual YTD | £'000 Annual Budget | £'000 Year End Estimate | £'000 Year End Variance |
|---|------------------------|---------------------------|-------------------------------|-------------------------------|
| BY ACTIVITY | | | | |
| Service Management Team & Support | 438 | 777 | 2,058 | 1,281 |
| Pensions, Insurance and Other Pan-Service Costs | 470 | 2,202 | 1,986 | (216) |
| High Life Highland | 3,638 | 16,670 | 19,870 | 3,200 |
| Grants to Voluntary Organisations | 137 | 1,025 | 1,006 | (19) |
| Hostels | 258 | 1,000 | 1,059 | 59 |
| Crossing Patrollers/School Escorts | 133 | 614 | 536 | (78) |
| Secondary Schools | 16,532 | 74,414 | 74,414 | 0 |
| Primary Schools | 14,412 | 67,216 | 67,195 | (21) |
| Schools General | 544 | 5,935 | 5,238 | (697) |
| Learning and Teaching | 153 | 1,070 | 656 | (414) |
| Early Learning & Childcare | 6,818 | 6,613 | 6,384 | (229) |
| Additional Support - Schools | 6,214 | 24,123 | 24,159 | 36 |
| Additional Support - Special Schools | 1,190 | 4,785 | 4,977 | 192 |
| Specialist Additional Support Services | 560 | 2,266 | 2,187 | (79) |
| COVID-19 Response | (333) | 3,156 | 3,428 | 272 |
| Grand Total ECO Education | 51,164 | 211,866 | 215,153 | 3,287 |
| BY SUBJECTIVE | | | | |
| Staff Costs | 48,895 | 195,627 | 194,381 | (1,248) |
| Other Expenditure | 7,999 | 45,571 | 50,122 | 4,551 |
| Gross Expenditure | 56,894 | 241,198 | 244,503 | 3,303 |
| Grant Income | (5,498) | (28,345) | (28,378) | (33) |
| Other Income | (232) | (986) | (971) | 15 |
| Total Income | (5,730) | (29,332) | (29,350) | (18) |
| NET TOTAL | 51,164 | 211,866 | 215,153 | 3,287 |

| Service | Date | Ref | Budget Area | Savings Description | 2021/22 Savings £m | Status R A G |
|---------|-------------|--------|---|---|-----------------------|-----------------|
| E&L | HC 14/02/19 | C&L/16 | Funding for external sports culture and leisure organisations | Revised funding for Sports, Leisure, Culture and Community organisations | | G |
| E&L | HC 14/02/19 | C&L/6 | Early Years/ELCC | A review of the whole early years' service will impact positively on the effectiveness and efficiency of the delivery of the expanded ELC provision. This will be based on the principles of quality, flexibility, affordability and accessibility. Additional funding from the Scottish Government is available. | 0.250 | G |
| E&L | HC 14/02/19 | C&L/7a | Specialist Teachers | Integrating services by maximising the deployment of specialist teachers to support mainstream teaching staff in meeting the needs of pupils with a high level of need | 1.575 | G |
| E&L | HC 14/02/19 | C&L/7b | Benchmarking of Support in Schools | Building on the findings of the redesign review, a change to the allocation of resource, monitoring and training of staff and assessment of need, where ASGs control allocation of resource. Supports embedding this approach into the daily functioning of a school and can target support to those pupils with the greatest need. | 1.050 | G |
| E&L | HC 04/03/21 | E&L/4 | ELC | One off savings from Phasing of 1140 Implementation | 0.500 | G |
| E&L | HC 04/03/21 | E&L/5 | ELC | ELC phase 1 into phase 2 Implementation | 1.237 | G |
| E&L | HC 04/03/21 | E&L/7 | Procurement | Software ICT Licensing Best Value Review | 0.150 | G |
| E&L | HC 04/03/21 | E&L/8 | ICTI Development Team / Virtual Academy | Income Generation ICT Consultancy / Virtual Academy / Advertising on Chromebooks | 0.150 | G |
| E&L | HC 04/03/21 | E&L/13 | School General | Review of Probationer Allocations | 0.168 | G |
| E&L | HC 04/03/21 | E&L/14 | DSM | Job Sizing Review Promoted Teaching Posts | 0.288 | G |
| E&L | HC 04/03/21 | E&L/18 | Learning & Teaching | Non-Staff costs review | 0.130 | G |