

**ANGUS COUNCIL**

**EDUCATION COMMITTEE - 25 AUGUST 2011**

**SUBJECT: SCHOOL CONVEYANCE CONTRACTS – REVIEW OF CONTRACT PRICES**

**JOINT REPORT BY DIRECTOR OF EDUCATION AND  
DIRECTOR OF INFRASTRUCTURE SERVICES**

**ABSTRACT**

This report outlines an annual price increase on school conveyance contracts of 3.59% effective from 2 July 2011, Members are also informed of an interim fuel related inflationary price increase of 4.94% effective from 1 April 2011 which was introduced under delegated powers. In addition, authority is sought to align future annual inflationary price increases with the budget setting process.

**1 RECOMMENDATION**

It is recommended that the Committee –

- (i) note the interim fuel price related contract inflationary price increase of 4.94% introduced from 1 April 2011 by the Director of Corporate Services, Director of Education and Director of Infrastructure Services under their delegated powers (Angus Council Report 651/08 refers);
- (ii) note the award of a 3.59% contract price increase, for eligible school conveyance contracts, from 2 July 2011; and
- (iii) approve the alignment of the timing of the annual contract inflationary price increase with the budget setting process.

**2 BACKGROUND**

2.1 This report informs Members of an interim fuel related contract inflationary price increase introduced from 1 April 2011 and of the annual review of school conveyance contract prices undertaken on 1 July each year, or on the day immediately after the end of the academic session (whichever is later). Approval is also sought to align the annual contract price inflationary increase with the budget setting process.

**3 FORMULA FOR ANNUAL CONTRACT PRICE INCREASE CALCULATION**

3.1 In 2008 the formula for applying inflationary increases to school and local bus service contracts was reviewed (Report 796/08 refers). Accounts from the bus operators were analysed in relation to the categories listed below and the expenditure for each of these categories was calculated. The results averaged as follows:

• Purchase of Motor Vehicles	6.971%
• Maintenance of Motor Vehicles	8.771%
• Fuel	32.854%
• Vehicle Tax & Insurance	7.422%
• Salaries	43.982%
<b>Total</b>	<b>100.00%</b>

- 3.2 It was agreed that Tables 18.4 and 18.15 of the Monthly Digest of Statistics published by the National Office of Statistics would be used as the basis of the inflation calculation:
- In Table 18.4 (this table being re-numbered Table 3.4 in 2010) the sub-classifications of Purchase of Motor Vehicles, Maintenance of Motor Vehicles, Petrol and Oil and Vehicle Tax and Insurance would be used with the weightings applied to each of these sub-categories as outlined in paragraph 3.1.
  - Table 18.15 (this table being re-numbered Table 3.10(e) in 2010) Average Earnings Index – Transport, Storage and Communications would continue to be utilised with the weighting applied as outlined in paragraph 3.1.

*It should be noted that from 25 August 2011 the National Digest of Statistics will no longer be published, the information in these tables will however continue to be available on the Office of National Statistics website [www.statistics.gov.uk](http://www.statistics.gov.uk).*

#### **4 ARRANGEMENTS PUT IN PLACE FOR THE QUARTERLY REVIEW OF CONTRACT PRICES RELATED TO FUEL COSTS DURING PERIODS OF SUSTAINED FUEL PRICE INCREASES**

- 4.1 During the last period of sustained fuel price increases in 2008, authority was delegated by Angus Council to the Director of Corporate Services in consultation with the Director of Education and Director of Infrastructure Services to put in place a procedure for a quarterly review of contract prices in respect of rising fuel costs (Angus Council Report 651/08 refers).
- 4.2 Details of the interim arrangements in respect of fuel increases were presented to Members at the Education Committee on 28 August 2008 (Report 778/08 refers). It was agreed that:
- inflationary increases would be made in respect of any increases in fuel costs only on a 3 monthly basis on 1 October, 1 January, 1 April and 1 July each year. For other elements of contract costs the annual inflationary increase will apply.
  - The increases would be based on 3-monthly comparisons of monthly figures for the 'petrol & oil' indices detailed in Table 18.4 of the Monthly Digest of Statistics.
  - The fuel related inflationary increases would only be made if the 3-monthly increase was greater than or equal to 1%, if the increase was less than 1% the increase would be carried forward to the next review period. As a minimum an annual inflationary increase would be made in July each year.
  - Any contract entered into in one 3-monthly period would receive an increase at the end of the following 3-monthly period.

In addition, it was agreed that quarterly reports summarising delegated decisions would be reported back to the appropriate committees (Report 651/08 refers).

- 4.3 The inflationary increase applied to all school and local bus service contracts in July 2010 was 2.89%. Over the period April 2009 to March 2010 there had been a fall in the fuel price indices for the first 7 months of the year and there appeared to be the possibility of there being a negative inflationary award (i.e. cut in contract prices). There was however an increase in costs in the last 5 months of the year which resulted in the increase of 2.89% being applied.
- 4.4 Since April 2010, the inflationary indices have been closely monitored. For the first quarter there was an increase for the fuel index of 1.75%, however, as we had been in the position the previous financial year where there at one stage appeared to be the possibility of a negative award (i.e. reduction in contract prices) and we had no evidence that this increase was likely to be sustained throughout the year then a fuel related increase was not taken

forward. Since the first quarter the fuel related increases were 0.98% for July to September and 0.94% for October to December. It is only for the last period December to March that the index showed an increase of over 1% namely 1.27%. On the basis that the increase exceeded the 1% trigger for a fuel related inflationary increase outlined in 4.2 above and that we were going through a period of sustained fuel price increases, an increase was implemented by the Director of Corporate Services, Director of Education and Director of Infrastructure Services under their delegated powers put in place by the Infrastructure Services and Education Committees, on 26 August 2008 (Report 796/08) and 28 August 2008 (Report 778/08) respectively.

- 4.5 Taking into account the increase in the fuel indices from April 2010 to March 2011 the fuel related increase awarded to operators was 4.94% from 1 April 2011.

## **5 INFLATIONARY INCREASE TO BE APPLIED FROM 1 JULY 2011**

- 5.1 Using the formula outlined in paragraph 3.1 of this report the annual increase in contract prices due from 2 July 2011 to all contracts of more than 17 months duration which were entered into prior to the 1 January preceding the review was calculated to be 8.53%. Taking into account the fuel related increase already implemented from 1 April 2011, the contract price increase from 2 July 2011 is 3.59%.

## **6 RE-ALIGNMENT OF THE ANNUAL CONTRACT INFLATIONARY PRICE INCREASE WITH THE BUDGET SETTING PROCESS**

- 6.1 The current arrangement for contract price increases is as follows:

- The Office of National Statistics indices (as outlined in Section 3 of this report) for the period 1 April to 31 March are used to determine the annual inflationary increase due.  
↓  
Increase applied from 1 July each year or on the day immediately after the end of the academic session (whichever is later).

- 6.2 Proposed change to align inflationary increase with budget setting process:

- The Office of National Statistics indices (as outlined in Section 3 of this report) for the period 1 October to 30 September each year would be used to determine the annual inflationary increase due.  
↓  
Increase applied from 1 April each year

- 6.3 How will this transition be made:

- In 2011/12 financial year the annual inflationary increase will be made on 2 July.
- Statistics will then be analysed for the period 1 April 2011 to 30 September 2011 and an inflationary increase will be calculated which will be applied on 1 April 2012.
- Thereafter an annual increase will be applied on 1 April based on the indices for 1 October to 30 September each year.

- 6.4 In addition, it is proposed that the review of fuel prices as outlined in Section 4 of this report should continue.

- 6.5 This change, if agreed, will minimise the risk from the budget setting process and the potential for budget overspends in future years.

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## **7 FINANCIAL IMPLICATIONS**

- 7.1 The financial implications of the 4.94% fuel related inflationary increase applied from 1 April 2011 amounted to £111,510 in 2011-12. This brought the budget for school conveyance contract provision to £2,716,913 against budget provision of £2,665,000, representing a shortfall of £51,913. This expenditure will be contained within the Education Department's revenue budget.
- 7.2 The application of the further 3.59% inflationary increase from 1 July 2011 on school conveyance contracts amounts to £49,617 in 2011-12, which will bring the school conveyance contract expenditure to £2,766,530 in the 2011-12 financial year against a budget provision of £2,665,000. This represents a budget shortfall of £101,530 which will be contained within the Education Department's 2011-12 Revenue Budget.

## **8 HUMAN RIGHTS IMPLICATIONS**

- 8.1 There are no human rights implications arising from this report.

## **9 EQUALITIES IMPLICATIONS**

- 9.1 The issues contained in the report fall within an approved category that has been confirmed as exempt from an equalities perspective.

## **10 CONSULTATION**

- 10.1 The Chief Executive, Director of Corporate Services, Head of Finance and Head of Law & Administration have been consulted in the preparation of this report.

## **11 CONCLUSION**

- 11.1 This report informs Members of an interim fuel related contract price increase, applied under delegated powers, to school conveyance contracts from 1 April 2011.
- 11.2 The basis for the annual review of school conveyance contract prices is detailed in this report and it is recommended that a 3.59% increase for eligible school conveyance contracts is applied from 2 July 2011.
- 11.3 As inflationary price increases can have a significant impact on budgets proposals are outlined to align the inflationary award with the budget setting process.

**NEIL LOGUE  
DIRECTOR OF EDUCATION**

**ERIC S LOWSON  
DIRECTOR OF INFRASTRUCTURE SERVICES**

## **NOTE**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

**P&T/GWC/LEM  
26 July 2011**