

Agenda Item	<b>8</b>
Report No	<b>HP/06/21</b>

## THE HIGHLAND COUNCIL

**Committee:** Housing & Property Committee

**Date:** 11<sup>th</sup> March 2021

**Report Title:** Property & Facilities Management Services  
Revenue Monitoring Report to 31<sup>st</sup> December 2020

**Report By:** Executive Chief Officer Housing & Property

### 1. Purpose/Executive Summary

- 1.1 This report covers the Property, Catering, Cleaning and Facilities Management budgets, and comments on the Quarter 3 Revenue monitoring position for the period to 31st December 2021 together with a forecast year end outturn position.
- 1.2 Because the Service generates income externally and internally (through internal re-charges to other Council services and capital programmes) the budget monitoring report contains information on income and expenditure, showing both gross and net budgets. Annual gross income totals £21.662m and annual budgeted expenditure totals £83.096m, providing a net annual budget of £61.434m.
- 1.3 At the end of quarter 3, 2020/21, income of £9.857m was generated and £59.865m was spent, providing a net spend on services totalling £50.008m.
- 1.4 As previously reported corporately to Corporate Resources Committee and Council meetings Covid 19 has created budget pressures, particularly in relation to additional Covid mitigation costs. Covid has made it difficult to plan for and deliver all Service savings and it has caused significant disruption to service income. The monitoring forecasts continue to be reflective of best information and estimates at the current time, but still subject to a significant risk of variation as the country continues through this pandemic.
- 1.5 At the end of Q3, **a year end** budget gap of £7.359m is forecast, largely due to costs responding to the ongoing impact of Covid 19. This is an improving outturn position from Q2 as the year end budget gap is now forecast to reduce from £8.417m to £7.359m, a reduction of £1.058m.

This position may change depending on progress made with income recovery, ongoing expenditure controls, and any additional Government funding that may become available. New pressures may also arise.

- 1.6 A number of refinements to the budget reporting are still to be made relative to the new Service budget. Any changes will be reported in future monitoring reports. New opportunities for efficiencies and income potential are also being explored.

## 2. Recommendations

### 2.1 Members are asked to Note:

- i. net spend at the end of quarter 3 totalled £50.008m;
- ii. based on the best available information to date, a service budget gap of £7.359m to the end of 2020/21 is presently forecast, largely due to continued Covid responses. (This is an improving outturn position from Q2 as the year end budget gap is now forecast to reduce from £8.417m to £7.359m);
- iii. almost every area of service relies on income to pay for services and this is significantly disrupted this year because of Covid impacts. Ongoing spend addressing Covid related issues is the key reason for the service's forecast budget gap;
- iv. the budget gap may change positively or negatively depending on the application of expenditure and recruitment controls, adjusting services to meet previously agreed budget savings; in-year income recovery, identifying new income and procurement opportunities, drawing down any further Government grant support and any new Covid related recovery costs;
- v. further adjustments will be made in future quarterly reporting to reflect the updated apportionment of costs and savings across the new Service structure.

## 3. Implications

- 3.1 **Resource implications** - This report highlights the quarter 3 revenue position and the forecast budget gap for 2020/21. Covid impacts are still emerging and will be tracked and reported in future monitoring.
- 3.2 **Legal implications** - The service budget supports delivery of a range of statutory services. Income generation is permitted and is an integral part of the service budget. Covid works delivered by the service are part of the legal response required during a pandemic and they continue to have resource implications.
- 3.3 **Community implications (Equality, Poverty, Rural and Island)**- Services have been adjusted during the Covid lockdown and recovery periods and Covid responses have included essential support to communities such as supporting humanitarian centres, key worker hubs and the return to school's project as well as the continued engagement of local contractors for the delivery of engineering servicing, water safety compliance works and the ongoing delivery of an enhanced daytime cleaning service.
- 3.4 **Climate Change implications**- The temporary closure of buildings has had a positive environmental impact, in particular the significant reduction of staff vehicle journeys travelling to and from work. Staff business travel has also reduced as a direct result of Covid restrictions, resulting in lower carbon emissions across Highland.
- 3.5 **Risk implications**- The Property & FM service budget relies on £21.662m of income to pay for service delivery costs. Service income applies to nearly every service area. This brings risk to achieving a balanced budget, especially when most income generating

services are demand-led. Covid disruption to date has brought additional cost, lost income and lost savings achievement. Consequently, there is a risk to sustaining service delivery at current levels. There is risk that further pressures will emerge either from local outbreaks of Covid, further recovery from Covid or other external factors including Brexit.

3.6 **Gaelic implications-** None.

#### 4. **Background and Quarter 3 Service Position**

4.1 This report covering the revenue budget monitoring aims to improve the financial information provided to Members by:

- providing more detail in the description of the service areas within the budget; and
- reporting actual and forecast income as well as expenditure, so reporting gross as well as net budgets.

4.2 **Appendix 1** details the total annual net budget of £61.434m, the net budget by service activity, the actual net spend in Q3 and the forecast net spend to the year end. The PPP schools and Wick Campus including property non-domestic rates budgets account for the largest area of net expenditure. Staff costs comprise 32% of the gross budget and the service is reliant on £21.662m of income from both external and internal sources.

4.3 By end December 2020, net spend totalled £50.008m. Current projections predict that without additional Covid support funding an over-spend of £7.359m is forecast by the end of March 2021. Various assumptions are made in this forecast as described in section 5 below. Work is underway to mitigate this overspend, although at this time the extent of the budget gap cannot be closed.

4.4 **Appendix 2** provides more information on the net budget by showing the different service areas in more detail along with the gross income and gross expenditure positions. The main issues and variances are explained at section 5 of this report.

#### 5. **Main Issues and Service Budget Variances**

5.1 Corporate reporting on the Council's revenue budget overall highlighted relative cost risk areas contributing to the budget gap. These are:

- **Dealing with the second Covid lockdown:** – Along with our response to supporting communities and services throughout this pandemic;
- **Service recovery costs:** – Enhanced arrangements for the return to schools including significant additional cleaning costs associated with meeting government recommendations;
- **Winter activity:** – Increased utility costs as a result of increased heating to schools and offices whilst ensuring additional ventilation levels are sufficiently maintained;
- **Lost income:** – Budgeted income from fees, charges and internal recharges for project works not expected to be delivered due to the Covid impact;
- **Challenges in delivering approved savings:** – Planned savings activity not expected to be delivered due to Covid 19 disruption;
- **Reduced costs:** – Costs saved in specific areas as a result of lockdown;
- **Brexit:** – Potential cost increase relative to supply of equipment, spares and parts for heating and engineering installations.

Each of these areas in some way will continue to contribute to the budget gap in the Property & FM Service.

- 5.2 From Appendix 2 it will be noted that the Project Delivery section is below target for the period to 31 December 2020 and a yearend shortfall of £1.603m is being forecast. Within the Project Delivery heading the collective technical design, project management and property support teams are wholly reliant on fee income derived from the delivery of General Fund and HRA capital and revenue projects. Income was expected to drop significantly as a direct result of Covid restrictions, the suspension of construction contracts and early IT network issues during periods of homeworking, however staff continue to work through these issues and income recovery is better than previously expected.
- 5.3 Property & CCFM related **Covid 19** mitigation works paid to date amount to £1.170m. Ongoing and additional Covid responses are forecasting a year end mitigation spend of £4.880m, a projected reduction of £1.058m since Q2. The following table contains the year end forecast for Property & CCFM Covid mitigation works as well as additional **Corporate Energy** related utility costs:

<b>Ongoing COVID Mitigation Works</b>		<b>£'000 Year End Projection (March 2021)</b>
1	Disinfection, repairs and ongoing flushing of water installations to schools, HLH properties, offices and other buildings	850
2	Installation of Covid signage and protective screens to schools and public facing offices	30
3	Additional Summer Holiday Cleaning and FM support	250
4	Additional daytime and evening cleaning and FM support to schools to 31 <sup>st</sup> March 2021	1,750
5	Ventilation Systems repairs to schools and other buildings	500
6	Work to offices to comply with social distancing, signage, ventilation and heating requirements	150
7	Increased repairs to heating systems in schools due to increased heating to mitigate the effect of increased ventilation requirements during the winter months	250
8	Additional Corporate utility costs (Electricity, Gas, LPG, Oil and Biomass) across the built estate, essential to keep buildings within acceptable thermal comfort levels whilst providing additional fresh air ventilation	1,100
<b>Total</b>		<b>£4,880</b>

- 5.4 Catering, Cleaning and Facilities Management (CCFM) due to the impact of Covid 19 impact are forecasting £0.835m of income under-recovery at year end. CCFM provide a significant level of service delivery to Education, HLH and Office accommodation across Highland. Income targets are particularly reliant on food sales in schools and cleaning income from various Council services. Annual food supply costs will underspend due to earlier Covid related school closures; however, this will not balance out the overall loss of food sales income.
- 5.5 The greatest area of expenditure in this budget is found in the annual payments for the Councils PPP schools estate including the new Wick Campus, totalling £32.319m. The Wick Campus annual payments are supported by SFT grant funding totalling £4.211m. A year end variance of £0.113m is currently forecast, however this position will be revised during Q4 to take account of any FM contract performance deductions made against the companies that manage these facilities, which may help to close the budget gap.
- 5.6 The Property Revenue Maintenance budget line covers the delivery of statutory, reactive and planned maintenance including engineering servicing works to the Councils General Fund built estate in particular schools, nurseries, offices and the HLH estate. Due to

buildings being closed and contractors complying with lockdown there has been a build-up of both repairs and backlog servicing work which is now being actioned as schools reopened and contractor's availability improved. This budget will be balanced at year end.

- 5.7 Property Asset Management forecasts an underspend of £0.037m, due to a staff vacancy. This team is currently leading on property rationalisation across the office estate and is key to supporting the return to offices project across Highland.
- 5.8 Depots: This budget covers the cost of utility consumption in all Council depots, a year end overspend of £0.057m is currently forecast, however building users are working towards reducing their energy consumption in order to minimise the overspend.
- 5.9 HLH Properties: This budget also covers the cost of utility consumption in HLH occupied premises, a year end underspend of £0.071m is currently forecast. A programme of LED lighting installation work is underway, and this should assist in reducing electricity consumption across the estate.
- 5.10 Other Offices & Properties: This heading also relates to utility consumption across this portfolio and an underspend of £0.021m is currently forecast.
- 5.11 Non-Domestic Rates: The Council has now centralised the payment of non-domestic rates via the Property Service (previously all Council services held individual rates budgets for the buildings they occupied), rates payments have been made and this budget, £10.184m will be fully expended at year end.

## **6. Mitigation and Resourcing Developments**

- 6.1 As reported to the Corporate Resources Committee in November 2020, the impact of Covid on the Council's budget could still be significant. Certain aspects of the response are still being determined and the figures reported here reflect the best information we have at the time of writing this report. Had it not been for the impact of Covid 19 the Service would be reporting a near-balanced budget for year end.
- 6.2 Current mitigation includes:
- continuing to control expenditure, including on recruitment, (although challenging due to the requirement to provide additional enhanced cleaning in our schools);
  - continuing to recover all internal and external income.

Designation: Executive Chief Officer Housing & Property

Date: 15<sup>th</sup> February 2021

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**PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - DECEMBER MONITORING**

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
<b>BY ACTIVITY</b>				
Project Delivery	(4,583)	(922)	(2,980)	1,603
<b>Covid 19 Response (Forecast Costs)</b>	0	1,170	4,880	<b>4,880</b>
CCFM	16,825	13,267	17,660	835
PPP & Wick SFT	28,108	20,369	28,221	113
Revenue Maintenance	6,698	3,481	6,698	0
Properties	14,386	12,643	14,314	(72)
<b>TOTAL</b>	<b>61,434</b>	<b>50,008</b>	<b>68,793</b>	<b>7,359</b>
<b>BY SUBJECTIVE</b>				
Staff Costs	25,090	18,235	26,137	1,047
Other Expenditure	58,006	41,630	59,758	1,752
<b>Gross Expenditure</b>	<b>83,096</b>	<b>59,865</b>	<b>85,895</b>	<b>2,799</b>
Grant Income	(5,692)	(3,053)	(5,486)	206
Other Income	(15,970)	(6,804)	(11,616)	4,354
<b>Total Income</b>	<b>(21,662)</b>	<b>(9,857)</b>	<b>(17,102)</b>	<b>4,560</b>
<b>NET TOTAL</b>	<b>61,434</b>	<b>50,008</b>	<b>68,793</b>	<b>7,359</b>

**PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - DECEMBER MONITORING**

**Appendix 2**

	GROSS EXPENDITURE				GROSS INCOME				NET TOTAL			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance
<b>BY ACTIVITY</b>												
<b>Project Delivery</b>												
Technical Design & Projects	5,006	3,757	4,942	(64)	(9,157)	(4,554)	(7,420)	1,737	(4,151)	(797)	(2,478)	1,673
Project Management	742	541	724	(18)	(1,410)	(940)	(1,392)	18	(668)	(399)	(668)	0
Property Support	253	279	174	(79)	(17)	(5)	(8)	9	236	274	166	(70)
<b>Covid 19</b>												
Covid 19 Response (Forecast Costs)	0	1,170	4,880	4,880	0	0	0	0	0	1,170	4,880	4,880
<b>CCFM</b>												
CCFM Business Support	471	360	439	(32)	(36)	0	(36)	0	435	360	403	(32)
Catering	12,462	7,484	10,292	(2,170)	(4,731)	(1,183)	(1,865)	2,866	7,731	6,301	8,427	696
Cleaning	5,333	3,988	5,417	84	(331)	(48)	(389)	(58)	5,002	3,940	5,028	26
Facilities Management	3,984	2,666	3,822	(162)	(327)	0	(20)	307	3,657	2,666	3,802	145
<b>PPP &amp; Wick SFT</b>												
PPP & Wick SFT	32,319	22,420	32,432	113	(4,211)	(2,051)	(4,211)	0	28,108	20,369	28,221	113
<b>Revenue Maintenance</b>												
Revenue Maintenance	7,562	4,362	8,070	508	(864)	(881)	(1,372)	(508)	6,698	3,481	6,698	0
<b>Properties</b>												
Property Asset Management	1,315	803	1,200	(115)	(275)	(122)	(197)	78	1,040	681	1,003	(37)
Depots	765	514	818	53	(73)	(1)	(69)	4	692	513	749	57
HLH Properties	2,120	1,034	1,937	(183)	(172)	(42)	(60)	112	1,948	992	1,877	(71)
Other Offices & Properties	580	386	564	(16)	(58)	(30)	(63)	(5)	522	356	501	(21)
Non-Domestic Rates	10,184	10,101	10,184	0	0	0	0	0	10,184	10,101	10,184	0
<b>TOTALS</b>	<b>83,096</b>	<b>59,865</b>	<b>85,895</b>	<b>2,799</b>	<b>(21,662)</b>	<b>(9,857)</b>	<b>(17,102)</b>	<b>4,560</b>	<b>61,434</b>	<b>50,008</b>	<b>68,793</b>	<b>7,359</b>