

Agenda Item	8
Report No	HP/17/21

THE HIGHLAND COUNCIL

Committee: Housing & Property Committee

Date: 30 September 2021

Report Title: Property & Facilities Management Services
Revenue Budget Monitoring Report
Outturn for 2020/21 and Q1 for 2021/22

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 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 Q1 period to the end of June 2021.
- 1.2 In regard to the 2020/21 outturn, as recently reported to the June Council meeting, the Service had an overspend of £3.895m (6.3% of the budget) largely due to costs responding to the impact of Covid 19. This is an improvement of £3.464m from the 2020/21 Q3 monitoring report where the forecast was a £7.359m overspend. The overall variance can be summarised as additional costs in relation to enhanced daytime cleaning in schools; additional facilities management support; shortfalls in school meals income and in staff recharges to the capital programme; all as a result of Covid. It should be noted that the general Covid funding received from Government was intended to address Covid pressures of the type set out above and more than offsets the reported overspend on this service budget.
- 1.3 In relation to Q1 of the 2021/22 financial year, the forecast is currently an overspend of £1.345m (1.9%) of the budget. This variance consists of:
- Projects and Property Maintenance Teams - Fee Income - forecast shortfall: £1.090m
 - Catering Service - School Meals Income - forecast shortfall: £0.106m
 - Properties - Operational utility costs - forecast overspend: £0.149m
- 1.4 The ongoing impact of Covid 19 on the Property & FM budget, including residual risks and uncertainties in relation to the pandemic and the impact on services continues to be a key factor in estimating financial forecasts. In particular the risk that demand for services rises, and also that there is a degree of time-lag before the full impact and extent of pandemic impact on service demand is fully known. The monitoring forecasts will therefore continue to be reflective of best information and estimates at the current time, but still subject to a risk of variation as the country continues through this pandemic.

- 1.5 The report also provides information on the current status of agreed budget savings for the year.
- 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.

2. Recommendations

2.1 Members are asked to:

- i. **NOTE** the revenue outturn position for the 2020/21 financial year.
- ii. **NOTE** that based on the best available information to date, a service budget gap of £1.345m to the end of 2021/22 is presently forecast.
- iii. **NOTE** that 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.
- iv. **NOTE** the progress update provided in relation to budget savings delivery.
- v. **NOTE** that further adjustments will be made in future quarterly reporting to reflect the updated apportionment of costs across the new Service structure.

3. Implications

- 3.1 **Resource Implications:-** This report and appendices provide a current forecast of the financial position, including progress with the delivery of Service savings. As noted in the sections below, there remains ongoing uncertainty and challenge in financial forecasting as a result of the ongoing pandemic. Ongoing Covid impacts 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):-** The Service continues to respond to the needs of our communities, and redesign of staffing structures along with realignment of budgets as a result will consider these impacts.
- 3.4 **Climate Change Implications:-** The blended return to offices will continue to reduce the number of staff vehicle journeys to and from work which will result in less emissions being discharged into the environment. However, HSE guidance advises that fresh air ventilation to our facilities is key to reducing the transmission of Covid- 19. Increased heating and ventilation, during the heating season will result in increased spend on utilities, (a direct result of heating systems working harder to maintain adequate temperature/comfort levels within our buildings).

3.5 **Risk Implications:-** The 2021/22 Property & FM Service budget relies on £21.193m 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 will continue to be 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 such as our supply chains failing to keep up with demand (at present deliveries slowing down primarily due to the reduction of available delivery drivers across UK).

3.5.1 **Additional Construction Material Delays as a Result of Covid 19**

Extract from the Construction Leadership Council on construction materials and costs:

The basic trends of the last six months remain, with global demand far in excess of supply leading to product shortages, rapid and sustained price inflation, long lead times and uncertainty regarding deliveries. It is also clear that the global shipping industry is far from recovered from the disruption caused by the coronavirus pandemic, with congested shipping routes, container cancellations and higher costs still evident.

*The products most affected are those used in building and domestic **repair maintenance and improvement** (RMI), including roofing products, timber, insulation, landscaping products, blocks, sealants/PVA, Insulation, kitchen carcassing and products that use plastic, e.g., drainage, some windows and bagged cement*

Overall, prices for products and materials have increased by a reported 10-15%, consistent with the Office of National Statistics figure for May of 10.2% overall with 12.8% for those most commonly used in RMI. Specific products, especially timber, has seen increases of 20-50% for most products and over 100% for Oriented Strand Board (OSB) and other sheet materials. For the first time we have had reports that some merchants are destocking certain products that are no longer economic.¹

¹ <https://www.constructionleadershipcouncil.co.uk/news/construction-product-availability-statement-5/>

3.6 **Gaelic Implications:-** None to highlight at present.

4. **Budget Outturn 2020/21**

4.1 The Council meeting on 24 June included information on the near final outturn for the 2020/21 financial year, and the position for each Council Service. This report now provides the outturn report and with some additional commentary and explanation in relation to the year end position.

4.2 **Appendices 1 and 2** set out the financial analysis of the 2020/21 outturn across the Service budget headings.

In regard to the 2020/21 out-turn, the Service had an overspend of £3.895m (6.3% of the budget) largely due to costs responding to the impact of Covid 19.

This is an improvement of £3.464m from the 2020/21 Q3 monitoring report where the forecast was a £7.359m overspend. The overall variance can be summarised as:

- additional costs in relation to enhanced daytime cleaning in schools;
- additional facilities management support;
- shortfalls in school meals income, and in
- a reduction in staff income relative to disruption and suspension of projects included in the Councils capital programme; all as a result of Covid.

- 4.3 It should be noted that the general Covid funding received from Government was intended to address Covid pressures of the type set out above and more than offsets the reported overspend on this Service budget.
- 5. Revenue Budget Monitoring – Q1 2021/22**
- 5.1 **Appendices 3 and 4** set out the first reported monitoring position for the new financial year, based on the position for Q1 to end June 2021. As can be seen from the Appendices, against a net budget for the year of £68.298m, an overspend of £1.345m (or 1.9% of the budget) is currently forecast.
- 5.2 **Appendix 3** details the total annual net budget of £68.298m, the net budget by service activity, the actual net spend in Q1 and the forecast net spend to the year-end. The PPP schools and Wick Campus, the CCFM Service, and the property non-domestic rates budgets account for the largest area of net expenditure and the service is reliant on £21.193m of income from both external and internal sources.
- 5.3 As noted in the Executive Summary, the Covid-19 pandemic continues to give rise to services pressures and risks and uncertainties in relation to service demand and delivery which has a bearing across the budget information presented. The Service is also progressing transformation activity and redesign of service structures, the outcome of which (once complete) will be a realignment of service budgets during the course of this year. Further adjustments regarding areas such as the new Corporate Landlord function are likely to be reported in future monitoring reports.
- 5.4 There are several differences in the service budget this year compared to last year arising from the Council's budget decisions in March 2021. These are set out below.
- 5.4.1 The Council agreed additional budget for the service to deal with pressures arising from:
- Covid Mitigation: - To continue with the enhanced cleaning to Schools to 31 March 2022 - £1.362m
 - Covid Mitigation: - To provide enhanced cleaning to Offices to 31 March 2022 - £50k
 - Property Estate Compliance:- To address various health and safety/compliance matters as well as specific Insurance conditions across our properties - £2.850m
 - Property Maintenance:- Anticipated contractual increases resulting from engineering contract re-procurements - £361k
 - PPP1 Schools:- Contractual indexation - £67k
 - PPP2 Schools:- Contractual indexation - £492k
 - Wick Campus:- Contractual indexation - £92k
- 5.5 **Appendix 4** 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 below.
- 5.6 From Appendix 4 it will be noted that the Project Delivery section is projecting a year end income shortfall of £1.090m. Within the Project Delivery heading the collective technical design, project management, property maintenance, estates and property support teams are reliant on achieving fee income targets derived from the delivery of General Fund and HRA capital and revenue programmes of work. Also included in this section is income from the Renewable Heat Incentive scheme which is income derived from the Councils Biomass Boiler installations. Further work is being done to review the income

potential and targets that have been set for each team in order to improve on the forecast year end income recovery position.

5.7 Cleaning and Facilities Management services (CFM) are forecasting a balanced budget at year end. The CFM service has been under pressure to deliver and maintain an enhanced Cleaning and FM service across the school estate and this additional work will continue in line with Covid guidance. Catering services are forecasting an income shortfall of £106k. The introduction of free school meals for Primary 4-7 as well as additional Early Learning and Childcare provision is an area of key focus for this team over the next 12 months.

The combined CCFM team provide a significant level of service 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. Increasing food costs will impact year end income recovery however the catering team are reviewing options to improve on the forecast year end position.

5.8 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 £28.487m. The Wick Campus annual payments are supported by SFT grant funding totalling £4.201m. A balanced budget is being forecast at year end.

5.9 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. This budget will be balanced at year end.

5.10 Property Asset Management is forecasting a slight underspend of £4k at year end. This team is currently leading on property rationalisation across the Council estate and is key to supporting the return to offices project across Highland.

5.11 Depots: This budget covers the cost of utility consumption in all Council depots, a year end overspend of £5k is currently forecast, however building users are working towards reducing their energy consumption in order to minimise the overspend.

5.12 HLH Properties: This budget also covers the cost of utility consumption in HLH occupied premises, a year end overspend of £0.186m is currently forecast. A programme of LED lighting installation work is underway, and this along with behavioural change should assist in reducing electricity consumption across the estate.

5.13 Other Offices & Properties: This heading also relates to utility consumption across this portfolio and an underspend of £0.038m is currently forecast.

5.14 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 will soon be concluded and this budget, £10.084m will be fully expended at year end.

6. Budget Savings Delivery

6.1 Also enclosed with this report is an updated assessment of progress with delivery of budget savings. **Appendix 5** sets out a Red/Amber/Green (RAG) assessment of those savings.

6.2 At this time £100k of rates relief for the General Fund property portfolio is not expected to be achieved this year, nor is the £93k saving for a reduction of utilities consumed across the HLH estate. The remaining 2 savings allocated to the current year will be achieved.

Designation: Executive Chief Officer Housing & Property

Date: 24 August 2021

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PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - MARCH MONITORING

1 April 2020 to 31 March 2021	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,582)	(2,043)	(2,043)	2,539
CCFM	16,823	18,559	18,559	1,736
PPP & Wick SFT	28,105	28,047	28,047	(58)
Revenue Maintenance	6,699	6,660	6,660	(39)
Properties	14,274	13,991	13,991	(283)
TOTAL	61,319	65,214	65,214	3,895
BY SUBJECTIVE				
Staff Costs	25,090	25,447	25,447	357
Other Expenditure	57,891	56,677	56,677	(1,214)
Gross Expenditure	82,981	82,124	82,124	(857)
Grant Income	(5,692)	(5,510)	(5,510)	182
Other Income	(15,970)	(11,400)	(11,400)	4,570
Total Income	(21,662)	(16,910)	(16,910)	4,752
NET TOTAL	61,319	65,214	65,214	3,895

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - MARCH 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

BY ACTIVITY

Project Delivery												
Technical Design & Projects	5,007	4,898	4,898	(109)	(9,157)	(6,415)	(6,415)	2,742	(4,150)	(1,517)	(1,517)	2,633
Project Management	742	721	721	(21)	(1,410)	(1,334)	(1,334)	76	(668)	(613)	(613)	55
Property Support	253	(23)	(23)	(276)	(17)	(7)	(7)	10	236	(30)	(30)	(266)
COVID 19	0	117	117	117	0	0	0	0	0	117	117	117
CCFM												
CCFM Business Support	471	443	443	(28)	(36)	(36)	(36)	0	435	407	407	(28)
Catering	12,460	10,536	10,536	(1,924)	(4,731)	(1,846)	(1,846)	2,885	7,729	8,690	8,690	961
Cleaning	5,333	6,164	6,164	831	(331)	(628)	(628)	(297)	5,002	5,536	5,536	534
Facilities Management	3,984	3,950	3,950	(34)	(327)	(24)	(24)	303	3,657	3,926	3,926	269
PPP & Wick SFT												
PPP & Wick SFT	32,316	32,460	32,460	144	(4,211)	(4,413)	(4,413)	(202)	28,105	28,047	28,047	(58)
Revenue Maintenance												
Revenue Maintenance	7,563	8,496	8,496	933	(864)	(1,836)	(1,836)	(972)	6,699	6,660	6,660	(39)
Properties												
Property Asset Management	1,297	1,137	1,137	(160)	(275)	(219)	(219)	56	1,022	918	918	(104)
Depots	771	779	779	8	(73)	(62)	(62)	11	698	717	717	19
HLH Properties	2,029	1,771	1,771	(258)	(172)	(54)	(54)	118	1,857	1,717	1,717	(140)
Other Offices & Properties	571	499	499	(72)	(58)	(36)	(36)	22	513	463	463	(50)
Non-Domestic Rates	10,184	10,176	10,176	(8)	0	0	0	0	10,184	10,176	10,176	(8)
TOTAL	82,981	82,124	82,124	(857)	(21,662)	(16,910)	(16,910)	4,752	61,319	65,214	65,214	3,895

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - JUNE MONITORING

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
1ST April 2021 to 31ST March 20212				
Quarter 1 April 2021 to June 2021				
BY ACTIVITY				
Project Delivery	(1,113)	(153)	(23)	1,090
CCFM	19,986	4,668	20,092	106
PPP & Wick SFT	28,487	5,156	28,487	0
Revenue Maintenance Properties	7,070 13,868	1,134 649	7,070 14,017	0 149
TOTAL	68,298	11,454	69,643	1,345
BY SUBJECTIVE				
Staff Costs	26,863	5,822	26,603	(260)
Other Expenditure	62,628	8,192	61,814	(814)
Gross Expenditure	89,491	14,014	88,417	(1,074)
Grant Income	(5,682)	(193)	(5,465)	217
Other Income	(15,511)	(2,367)	(13,309)	2,202
Total Income	(21,193)	(2,560)	(18,774)	2,419
NET TOTAL	68,298	11,454	69,643	1,345

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - JUNE MONITORING

APPENDIX 4

	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
BY ACTIVITY												
Project Delivery												
Technical Design & Projects	8,429	1,277	8,313	(116)	(9,122)	(1,416)	(7,973)	1,149	(693)	(139)	340	1,033
Project Management	743	186	743	0	(1,407)	(316)	(1,334)	73	(664)	(130)	(591)	73
Property Support	261	108	244	(17)	(17)	(4)	(28)	(11)	244	104	216	(28)
COVID 19	0	12	12	12	0	0	0	0	0	12	12	12
CCFM												
CCFM Business Support	503	128	503	0	(36)	0	(36)	0	467	128	467	0
Catering	13,670	2,923	13,125	(545)	(4,431)	(630)	(3,780)	651	9,239	2,293	9,345	106
Cleaning	6,840	1,371	6,840	0	(331)	14	(331)	0	6,509	1,385	6,509	0
Facilities Management	3,898	862	3,898	0	(127)	0	(127)	0	3,771	862	3,771	0
PPP & Wick SFT												
PPP & Wick SFT	32,688	5,139	32,688	0	(4,201)	17	(4,201)	0	28,487	5,156	28,487	0
Revenue Maintenance												
Revenue Maintenance	8,008	1,302	7,603	(405)	(938)	(168)	(533)	405	7,070	1,134	7,070	0
Properties												
Property Asset Management	1,267	130	1,179	(88)	(281)	(41)	(197)	84	986	89	982	(4)
Depots	771	135	765	(6)	(73)	0	(62)	11	698	135	703	5
HLH Properties	1,757	340	1,920	163	(171)	(13)	(148)	23	1,586	327	1,772	186
Other Offices & Properties	572	101	500	(72)	(58)	(3)	(24)	34	514	98	476	(38)
Non-Domestic Rates	10,084	0	10,084	0	0	0	0	0	10,084	0	10,084	0
TOTAL	89,491	14,014	88,417	(1,074)	(21,193)	(2,560)	(18,774)	2,419	68,298	11,454	69,643	1,345

Property & FM Service Savings RAG Assessment Q1 2021/22							APPENDIX 5	
REF	Theme Ref	Budget Area	Savings Description	2021/22 Savings £m	2022/23 Savings £m	2023/24 Savings £m	Total Savings £m	Status RAG
P&H/4	1.19	Non HRA	Temporary Housing Accommodation Saving	0.116	0	0	0.116	G
D&I/19	4.04	Property	Review of Letting Policies and FM provision	0	0.050	0	0.050	G
P&H/3	3.26	Property	Reduction in Staff Travel Costs	0.005	0	0	0.005	G
D&I/1	3.02	Property	Efficiencies in future delivery of property maintenance works. Develop an in-house property/engineering service contracts team, with less reliance on external contractors.	0	0.315	0.315	0.630	A
D&I/10	2.20	Property	Catering Service - Redesign School Meals	0	0.075	0	0.075	G
D&I/18	3.06	Property	Catering Review	0	0.050	0	0.050	G
P&H/2	2.19	Property (Corporate Business Rates)	Rates Relief Savings	0.100	0	0	0.100	A
P&H (Originally C&L/7b)	1.16	Property	HLH - Reduce Energy Costs	0.093	0.279	0	0.372	A
			Total	0.314	0.769	0.315	1.398	