

Agenda Item	6
Report No	HP/22/21

THE HIGHLAND COUNCIL

Committee: **Housing & Property Committee**

Date: **15 December 2021**

Report Title: **Property & Facilities Management Services
Revenue Monitoring Report to 30 September 2021: Q2**

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 Q2 Revenue monitoring position together with a forecast outturn position for end of March 2022.
- 1.2 The outturn forecast is currently an overspend of £1.553m (2.2%) of the budget, an increase of £208k since Q1. This forecast variance consists of:
- Projects and Property Maintenance Teams Income - Forecast shortfall: £1.266m
 - Catering Service - School Meals Income - Forecast shortfall: £0.134m
 - Properties - Utility Costs and Non-Domestic Rates - Forecast overspend: £0.438m
 - PPP & Wick SFT - Forecast contractual underspend: £0.285m.
- 1.2.1 In addition to this, in conjunction with the Finance team, the service has identified £0.380m of non-domestic rates relief which once recovered will assist in reducing the current forecast overspend.
- 1.2.2 This continues to be a cautious forecast and mitigation will continue in order to deliver a reduced overspend by year end, focusing on income achievement, control of expenditure and the drawdown of appropriate Covid funding. However, given the ongoing impact of Covid new pressures may also arise.
- 1.3 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 £21.193m and annual budgeted expenditure totals £89.492m, providing a net annual budget of £68.299m.
- 1.4 At the end of Q2, 2021/22, income of £5.146m was generated and £42.886m was spent, providing a net spend on services totalling £37.740m.

1.5 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 and expenditure. 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.

2. Recommendations

2.1 Members are asked to **NOTE**:

- i. net spend at the end of Q2 totalled £37.740m;
- ii. based on the best available information to date, a service budget gap of £1.553m to the end of 2021/22 is presently forecast;
- iii. mitigation measures have identified £0.380m of Non-Domestic Rates relief which once applied to the budget will improve the final outturn position;
- iv. almost every area of service relies on income to pay for services, and this continues to be disrupted this year because of ongoing Covid impacts;
- v. 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;
- vi. further adjustments may 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 Q2 revenue position and the forecast budget gap for 2021/22. Covid is still impacting service delivery 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 are adjusting to deal with the ongoing challenges relative to the Covid pandemic and continue to provide responsive services to local communities as well as supporting the recovery process.

3.4 **Climate Change implications:** The reduced use of office 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, resulting in lower carbon emissions across Highland.

3.5 **Risk implications:** The 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 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 trades and material shortages.

3.6 **Gaelic implications:** There are no Gaelic implications arising from this report.

4. Background and Q2 Service Position

4.1 The service budget as at Q2 is shown in **Appendix 1** for the net position and **Appendix 2** for the gross position. Progress with savings to be delivered this year is shown in **Appendix 3**.

4.2 **Appendix 1** details the total annual net budget of £68.299m, the net budget by service activity, the actual net spend in Q2 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 30% of the gross budget and the service is reliant on £21.193m of income from both external and internal sources.

4.3 By end September 2021, net spend totalled £37.740m. Current projections predict that an over-spend of £1.553m is forecast by the end of March 2022. Work is underway to mitigate this overspend, although at this time the extent of the budget gap cannot be fully 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.

5. Service Budget Variances and Mitigation

5.1 From **Appendix 2** it will be noted that the Project Delivery section is below target for the period to end September 2021 and a year end shortfall of £1.266m 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. Staff vacancies are also impacting fee recovery so recruitment will continue for essential vacant posts. Further work is being done with the Finance Team to ensure that all project related income and external income is achieved.

5.2 Cleaning and Facilities Management Services will achieve a balanced budget at year end; however Catering Services are projecting a year end shortfall of £0.134m, due in the main to increasing food costs and a reduction in food sales income. Intermittent school closures due to Covid transmission is further complicating the position.

5.3 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 £32.688m. The Wick Campus annual payments are supported by SFT grant funding totalling £4.202m. A year end underspend of £0.285m is currently forecast.

- 5.4 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. The previous build-up of property repairs and backlog servicing work is now being actioned as schools permit access and contractor's availability improves. However, material shortages continue to have an impact on repair completion times. This budget will be balanced at year end.
- 5.5 Property Asset Management forecasts an underspend of £0.028m, due to a staff vacancy. This team will be leading on property rationalisation across the office estate and is key to supporting the return to offices project across Highland.
- 5.6 **Depots:** This budget covers the cost of utility consumption in Council depots, a year end overspend of £0.022m is currently forecast, however building users are working towards reducing their energy consumption in order to minimise the overspend.
- 5.7 **HLH Properties:** This budget also covers the cost of utility consumption in HLH occupied premises, a year end overspend of £0.188m is currently forecast. A programme of LED lighting installation work is almost complete, and this should assist in reducing electricity consumption across the estate.
- 5.8 **Other Offices & Properties:** This heading also relates to utility consumption across this portfolio and an underspend of £0.016m is currently forecast.
- 5.9 **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 now been made. Whilst the budget is currently stating an overspend of £0.272 it should in fact deliver a slight underspend at year end due to £0.380m of rates relief being identified and claimed.

6. Budget Mitigation

- 6.1 Various aspects of the Covid response are still ongoing and the figures reported here reflect the best information we have at the time of writing this report.
- 6.2 Current mitigation includes:
- continuing to monitor and 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: 17 November 2021

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

Appendix 1

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(1,076)	(22)	190	1,266
CCFM	19,987	9,259	20,121	134
PPP & Wick SFT	28,486	13,145	28,201	(285)
Revenue Maintenance Properties	7,070 13,832	3,284 12,074	7,070 14,270	0 438
TOTAL	68,299	37,740	69,852	1,553
BY SUBJECTIVE				
Staff Costs	26,899	12,401	27,494	595
Other Expenditure	62,593	30,485	61,100	(1,493)
Gross Expenditure	89,492	42,886	88,594	(898)
Grant Income	(5,682)	(198)	(5,465)	217
Other Income	(15,511)	(4,948)	(13,277)	2,234
Total Income	(21,193)	(5,146)	(18,742)	2,451
NET TOTAL	68,299	37,740	69,852	1,553

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - SEPTEMBER 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	8,465	2,664	8,558	93	(9,121)	(2,651)	(7,974)	1,147	(656)	13	584	1,240
Project Management	743	359	706	(37)	(1,407)	(627)	(1,334)	73	(664)	(268)	(628)	36
Property Support	261	212	232	(29)	(17)	(2)	(21)	(4)	244	210	211	(33)
COVID 19	0	23	23	23	0	0	0	0	0	23	23	23
CCFM												
CCFM Business Support	462	238	462	0	(36)	0	(36)	0	426	238	426	0
Catering	13,712	5,609	12,989	(723)	(4,431)	(1,384)	(3,574)	857	9,281	4,225	9,415	134
Cleaning	6,840	2,937	6,840	0	(331)	14	(331)	0	6,509	2,951	6,509	0
Facilities Management	3,898	1,845	3,898	0	(127)	0	(127)	0	3,771	1,845	3,771	0
PPP & Wick SFT												
PPP & Wick SFT	32,688	13,128	32,405	(283)	(4,202)	17	(4,204)	(2)	28,486	13,145	28,201	(285)
Revenue Maintenance												
Revenue Maintenance	8,008	3,673	7,749	(259)	(938)	(389)	(679)	259	7,070	3,284	7,070	0
Properties												
Property Asset Management	1,267	539	1,173	(94)	(281)	(75)	(215)	66	986	464	958	(28)
Depots	771	310	782	11	(73)	(2)	(62)	11	698	308	720	22
HLH Properties	1,757	732	1,922	165	(171)	(24)	(148)	23	1,586	708	1,774	188
Other Offices & Properties	536	261	499	(37)	(58)	(23)	(37)	21	478	238	462	(16)
Non-Domestic Rates	10,084	10,356	10,356	272	0	0	0	0	10,084	10,356	10,356	272
TOTAL	89,492	42,886	88,594	(898)	(21,193)	(5,146)	(18,742)	2,451	68,299	37,740	69,852	1,553

Property & FM Service Savings RAG Assessment Q2 2021/22							Appendix 3	
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	A
D&I/18	3.06	Property	Catering Review	0	0.050	0	0.050	A
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	