

Agenda Item	<b>6</b>
Report No	<b>HP/04/22</b>

## THE HIGHLAND COUNCIL

**Committee:** Housing & Property Committee

**Date:** 3 February 2022

**Report Title:** Property & Facilities Management Services  
Revenue Monitoring Report to End December 2021 Q3

**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 Q3 Revenue monitoring position together with a forecast outturn position for end of March 2022.
- 1.2 The outturn forecast is currently an income shortfall of £1.129m (1.6% of the budget), a decrease of £424k since Q2. This reduced gap is due in the main to the recovery of rates relief for various Council buildings. This forecast variance consists of:
- Projects, RHI and Property Maintenance Teams - Forecast Income shortfall: £1.127m
  - CCFM - Business Support and School Meals - Forecast Income shortfall: £0.136m
  - Properties - HLH Sites and Depots - Utility Costs - Forecast overspend: £0.125m
  - PPP & Wick SFT - Forecast contractual underspend: £0.259m.
- 1.2.1 This continues to be a cautious forecast and mitigation will continue in order to deliver an improved position 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.
- 1.2.2 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 £21.666m and annual budgeted expenditure totals £90.005m, providing a net annual budget of £68.339m.
- 1.3 At the end of Q3, 2021/22, income of £11.019m was generated and £61.256m was spent, providing a net spend on services totalling £50.237m.

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 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 Q3 totalled £50.237m;
- ii. based on the best available information to date, a service income gap of £1.129m to the end of 2021/22 is presently forecast;
- iii. 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;
- 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 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 Q3 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 £21.666m 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:** None.

#### 4. **Background and Q3 Service Position**

4.1 The service budget as at Q3 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 £68.339m, 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 30% of the gross budget and the service is reliant on £21.666m of income from both external and internal sources.

4.3 By end December 2021, net spend totalled £50.237m. Current projections predict that an income gap of £1.129m is forecast by the end of March 2022. Work is underway to mitigate this position, 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 December 2021 and a year-end income shortfall of £1.127m 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. RHI income is also included in this budget heading. 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 £0.136m, 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 £0.259m 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 £0.017m, 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 £0.076m 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 £0.187m 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 a balanced budget 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. A yearend underspend of £0.121m is currently forecast due to 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 continued requirement to provide additional enhanced cleaning in our schools);
  - continuing to recover all internal and external income.

Designation: Executive Chief Officer Housing & Property

Date: 14 January 2022

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**PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - DECEMBER MONITORING**

**Appendix 1**

	<b>£'000 Annual Budget</b>	<b>£'000 Actual YTD</b>	<b>£'000 Year End Estimate</b>	<b>£'000 Year End Variance</b>
<b>BY ACTIVITY</b>				
Project Delivery	(1,076)	(292)	51	1,127
CCFM	20,026	14,287	20,162	136
PPP & Wick SFT	28,486	18,895	28,227	(259)
Revenue Maintenance Properties	7,070 13,833	4,420 12,927	7,070 13,958	0 125
<b>TOTAL</b>	<b>68,339</b>	<b>50,237</b>	<b>69,468</b>	<b>1,129</b>
<b>BY SUBJECTIVE</b>				
Staff Costs	27,412	19,874	27,325	(87)
Other Expenditure	62,593	41,382	61,999	(594)
<b>Gross Expenditure</b>	<b>90,005</b>	<b>61,256</b>	<b>89,324</b>	<b>(681)</b>
Grant Income	(5,682)	(2,384)	(5,465)	217
Other Income	(15,984)	(8,635)	(14,391)	1,593
<b>Total Income</b>	<b>(21,666)</b>	<b>(11,019)</b>	<b>(19,856)</b>	<b>1,810</b>
<b>NET TOTAL</b>	<b>68,339</b>	<b>50,237</b>	<b>69,468</b>	<b>1,129</b>

**PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - 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	8,832	4,080	8,622	(210)	(9,488)	(4,304)	(8,068)	1,420	(656)	(224)	554	1,210
Project Management	813	569	780	(33)	(1,477)	(976)	(1,509)	(32)	(664)	(407)	(729)	(65)
Property Support	261	323	206	(55)	(17)	(11)	(7)	10	244	312	199	(45)
COVID 19	0	27	27	27	0	0	0	0	0	27	27	27
<b>CCFM</b>												
CCFM Business Support	462	366	473	11	(36)	0	(36)	0	426	366	437	11
Catering	13,728	8,629	13,172	(556)	(4,431)	(2,401)	(3,750)	681	9,297	6,228	9,422	125
Cleaning	6,850	4,794	7,253	403	(331)	(72)	(734)	(403)	6,519	4,722	6,519	0
Facilities Management	3,911	2,988	3,919	8	(127)	(17)	(135)	(8)	3,784	2,971	3,784	0
<b>PPP &amp; Wick SFT</b>												
PPP & Wick SFT	32,688	20,980	32,432	(256)	(4,202)	(2,085)	(4,205)	(3)	28,486	18,895	28,227	(259)
<b>Revenue Maintenance</b>												
Revenue Maintenance	8,044	5,362	8,044	0	(974)	(942)	(974)	0	7,070	4,420	7,070	0
<b>Properties</b>												
Property Asset Management	1,267	773	1,160	(107)	(281)	(141)	(191)	90	986	632	969	(17)
Depots	771	596	836	65	(73)	(2)	(62)	11	698	594	774	76
HLH Properties	1,758	1,205	1,921	163	(172)	(38)	(148)	24	1,586	1,167	1,773	187
Other Offices & Properties	536	381	516	(20)	(57)	(30)	(37)	20	479	351	479	0
Non-Domestic Rates	10,084	10,183	9,963	(121)	0	0	0	0	10,084	10,183	9,963	(121)
<b>TOTAL</b>	<b>90,005</b>	<b>61,256</b>	<b>89,324</b>	<b>(681)</b>	<b>(21,666)</b>	<b>(11,019)</b>	<b>(19,856)</b>	<b>1,810</b>	<b>68,339</b>	<b>50,237</b>	<b>69,468</b>	<b>1,129</b>

Property & FM Service Savings RAG Assessment Q3 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	G
P&H (Originally C&L/7b)	1.16	Property	HLH - Reduce Energy Costs	0.093	0.279	0	0.372	R
			<b>Total</b>	<b>0.314</b>	<b>0.769</b>	<b>0.315</b>	<b>1.398</b>	