

Agenda Item	7.
Report No	HP/08/22

THE HIGHLAND COUNCIL

Committee: **Housing & Property Committee**

Date: **31 August 2022**

Report Title: **Property & Facilities Management Services Revenue Budget: Final Outturn for 2021/22 and Monitoring Statement to 30 June 2022**

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 2021/22 financial year, as well as the first reported position for the new 2022/23 financial year Q1 period to the end of June 2022.
- 1.2 In regard to the 2021/22 outturn, the Service had an income shortfall of £1.012m (1.2% of the budget) largely due to a number of (fee earning) staff vacancies in the Property Maintenance, Design and Project Management Teams as well as a reduction in staff income relative to disruption and suspension of projects included in the Councils capital programme; all as a result of Covid. This is an improvement of £0.117m from the 2021/22 Q3 monitoring report where the year-end forecast was a £1.129m income shortfall.
- 1.3 In relation to Q1 of the 2022/23 financial year, the forecast is currently a budget gap of £1.261m (1.9%) of the budget. This variance in the main consists of:
- Projects and Property Maintenance Teams - Fee Income - forecast shortfall: £0.990m
 - Properties - Operational utility costs (HLH/Depots/Office's) - forecast overspend: £0.271m
- 1.4 The continued impact of Covid 19 variants on the Property & FM budget, including residual risks and uncertainties in relation to 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 Covid (variants) 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 to deal with spikes in Covid.
- 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 2021/22 financial year.
- ii. **NOTE** that based on the best available information to date, a service budget gap of £1.261m to the end of 2022/23 is presently forecast.
- iii. **NOTE** that the budget gap may change positively or negatively depending on the application of expenditure and recruitment controls, filling fee earning posts in an extremely challenging job market, adjusting services to meet previously agreed budget savings; in-year income recovery, identifying new income and procurement opportunities, 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 impact of Covid variants on service delivery, as well as challenges recruiting both CCFM and technical staff in the current job market.

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.

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 future transmission of Covid variants. 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 2022/23 Property & FM Service budget relies on £21.544m of income to meet a portion of 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. There is potential risk in that further pressures will emerge either from local outbreaks of Covid, further recovery from Covid or other external factors such as fluctuating material costs, rising fuel/energy costs and the Ukrainian conflict, all impacting on our supply chain's ability to keep up with demand.

3.5.1 Additional Construction Material Costs, Delays, and Inflation

Extract from the Construction Products Association on construction materials and costs:

In its latest quarterly forecast, the Construction Products Association (CPA) said:

“The brakes on growth are beginning to emerge, with the slowdown being blamed on a host of issues such as the war in Ukraine, labour and product availability and the impact of the reverse VAT charge.

The CPA said the industry was being hit by ongoing labour and products shortages as well as the costs of the reverse charge VAT and IR35.

It added: “Prior to the conflict in Ukraine, UK construction was already facing labour and product availability issues and the impact of. Rising energy costs were driving near-record price increases in construction products and the continued conflict is exacerbating this issue.”

The CPA said demand remains strong, with the current project pipeline suggesting this will continue throughout Q3 and into the autumn.

But it warned that contractors are beginning to feel the effects of cost pressures now, especially those working on fixed-price deals.

“For future projects, contractors will be forced to re-price, add fluctuation costs and introduce risk-sharing arrangements to deal with the uncertainty over potential cost inflation,” it said.

Noble Francis, CPA economics director, added: “The major challenge is creeping uncertainty. The immediate picture is one of resilient demand and healthy pipelines. Longer term, the current inflationary pressures, if sustained, will have an increasingly depressing impact. Specialist sub-contractors are feeling the effects first, particularly those working to fixed-price contracts”.

<https://www.building.co.uk/news/slowdown-starting-to-hit-as-cost-pressures-ratchet-up/5117297.article>

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

4. **Budget Outturn 2020/21**

4.1 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 2021/22 outturn across the Service budget headings.

In regard to the 2021/22 outturn, the Service had an income shortfall of £1.012m (1.2% of the budget) largely due to:

- a reduction in staff income relative to disruption and suspension of projects included in the Councils capital programme; all as a result of Covid.

- a number of (fee earning) staff vacancies in the Property Maintenance, Design and Project Management Teams.

This is an improvement of £0.117m from the 2021/22 Q3 monitoring report where the year-end forecast was a £1.129m income shortfall.

- 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 2022/23

- 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 2022. As can be seen from the Appendices, against a net budget for the year of £66.754m, the forecast is currently a budget gap of £1.261m (1.9%) of the budget.

- 5.2 **Appendix 3** details the total annual net budget of £66.754m, 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 £20.898m of income from both external and internal sources.

- 5.3 There are several differences in the service budget this year compared to last year arising from the Council's budget decisions in March 2022. These are set out below.

- 5.4 Approved Budget Pressures to support service delivery, once allocated by Finance, will be reported to the next Committee.

- 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 £0.990m. 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.

- 5.6.1 A number of (fee earning) staff vacancies continue to have a negative impact on the Service achieving its annual income targets. 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 Catering, Cleaning and Facilities Management services (CCFM) are forecasting a balanced budget at year end. 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. It is anticipated that increasing food costs will impact year end income recovery however the catering team are reviewing options to mitigate any potential income shortfall.

- 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 £29.787m. The Wick Campus annual payments are supported by SFT grant funding totalling £4.202m. 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 overspend of £1k at year end. This team is currently leading on property asset management 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 £48k 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 £0.222m 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, a balanced budget is being forecast at year end.
- 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, £10.407m 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 The Appendix reflects the Service share of corporately allocated savings, as well as those savings proposals taken forward within the Service.

Designation: Executive Chief Officer Housing & Property

Date: 05 August 2022

Authors: Finlay MacDonald Head of Property & FM
Alistair Bernard Accountant

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

1 April 2021 to 31 March 2022	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,254)	(2,557)	(2,557)	1,697
CCFM	20,957	20,448	20,448	(509)
PPP & Wick SFT	28,494	28,082	28,082	(412)
Revenue Maintenance	7,357	7,342	7,342	(15)
Properties	13,780	14,031	14,031	251
TOTAL	66,334	67,346	67,346	1,012
BY SUBJECTIVE				
Staff Costs	28,731	27,842	27,842	(889)
Other Expenditure	58,501	60,003	60,003	1,502
Gross Expenditure	87,232	87,845	87,845	613
Grant Income	(5,683)	(5,879)	(5,879)	(196)
Other Income	(15,215)	(14,620)	(14,620)	595
Total Income	(20,898)	(20,499)	(20,499)	399
NET TOTAL	66,334	67,346	67,346	1,012

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2021/22 - 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	5,223	5,046	5,046	(177)	(9,094)	(7,335)	(7,335)	1,759	(3,871)	(2,289)	(2,289)	1,582
Project Management	838	753	753	(85)	(1,477)	(1,381)	(1,381)	96	(639)	(628)	(628)	11
Property Support	273	348	348	75	(17)	(15)	(15)	2	256	333	333	77
COVID 19	0	27	27	27	0	0	0	0	0	27	27	27
CCFM												
CCFM Business Support	475	480	480	5	(36)	(36)	(36)	0	439	444	444	5
Catering	13,683	13,480	13,480	(203)	(4,056)	(3,723)	(3,723)	333	9,627	9,757	9,757	130
Cleaning	7,141	7,053	7,053	(88)	(331)	(723)	(723)	(392)	6,810	6,330	6,330	(480)
Facilities Management	4,208	4,207	4,207	(1)	(127)	(290)	(290)	(163)	4,081	3,917	3,917	(164)
PPP & Wick SFT												
PPP & Wick SFT	32,696	32,357	32,357	(339)	(4,202)	(4,275)	(4,275)	(73)	28,494	28,082	28,082	(412)
Revenue Maintenance												
Revenue Maintenance	8,331	9,684	9,684	1,353	(974)	(2,342)	(2,342)	(1,368)	7,357	7,342	7,342	(15)
Properties												
Property Asset Management	1,275	1,187	1,187	(88)	(281)	(226)	(226)	55	994	961	961	(33)
Depots	771	863	863	92	(73)	(61)	(61)	12	698	802	802	104
HLH Properties	1,700	1,941	1,941	241	(172)	(55)	(55)	117	1,528	1,886	1,886	358
Other Offices & Properties	534	469	469	(65)	(58)	(37)	(37)	21	476	432	432	(44)
Non-Domestic Rates	10,084	9,950	9,950	(134)	0	0	0	0	10,084	9,950	9,950	(134)
TOTAL	87,232	87,845	87,845	613	(20,898)	(20,499)	(20,499)	399	66,334	67,346	67,346	1,012

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2022/23 - JUNE MONITORING
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1 April 2022 to 30 June 2022	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,397)	(450)	(3,407)	990
CCFM	19,644	4,682	19,644	0
PPP & Wick SFT	29,787	5,495	29,787	0
Revenue Maintenance	7,178	1,523	7,178	0
Properties	14,542	928	14,813	271
TOTAL	66,754	12,178	68,015	1,261
BY SUBJECTIVE				
Staff Costs	26,656	6,103	26,091	(565)
Other Expenditure	61,642	8,881	61,938	296
Gross Expenditure	88,298	14,984	88,029	(269)
Grant Income	(5,682)	(655)	(5,832)	(150)
Other Income	(15,862)	(2,151)	(14,182)	1,680
Total Income	(21,544)	(2,806)	(20,014)	1,530
NET TOTAL	66,754	12,178	68,015	1,261

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2022/23 - JUNE MONITORING

APPENDIX 4

	GROSS EXPENDITURE				GROSS INCOME				NET TOTAL			
	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY												
Project Delivery												
Technical Design & Projects	5,047	1,339	4,844	(203)	(9,200)	(1,778)	(7,836)	1,364	(4,153)	(439)	(2,992)	1,161
Project Management	986	199	795	(191)	(1,477)	(357)	(1,450)	27	(491)	(158)	(655)	(164)
Property Support	264	146	253	(11)	(17)	(3)	(17)	0	247	143	236	(11)
COVID 19	0	4	4	4			0	0	0	4	4	4
CCFM												
CCFM Business Support	463	116	463	0	(36)	0	(36)	0	427	116	427	0
Catering	14,515	2,795	14,515	0	(4,196)	(490)	(4,196)	0	10,319	2,305	10,319	0
Cleaning	5,038	1,310	5,038	0	(331)	(10)	(331)	0	4,707	1,300	4,707	0
Facilities Management	4,718	961	4,718	0	(527)	0	(527)	0	4,191	961	4,191	0
PPP & Wick SFT												
PPP & Wick SFT	33,989	5,395	33,989	0	(4,202)	100	(4,202)	0	29,787	5,495	29,787	0
Revenue Maintenance												
Revenue Maintenance	8,152	1,706	8,121	(31)	(974)	(183)	(943)	31	7,178	1,523	7,178	0
Properties												
Property Asset Management	1,343	209	1,241	(102)	(281)	(36)	(178)	103	1,062	173	1,063	1
Depots	836	162	875	39	(73)	0	(64)	9	763	162	811	48
HLH Properties	1,996	497	2,222	226	(172)	(34)	(176)	(4)	1,824	463	2,046	222
Other Offices & Properties	544	139	544	0	(58)	(15)	(58)	0	486	124	486	0
Non-Domestic Rates	10,407	6	10,407	0	0	0	0	0	10,407	6	10,407	0
TOTAL	88,298	14,984	88,029	(269)	(21,544)	(2,806)	(20,014)	1,530	66,754	12,178	68,015	1,261

Property & FM Service Savings RAG Assessment Q1 2022/23						APPENDIX 5	
REF	Theme Ref	Budget Area	Savings Description	2022/23 Savings £m	2023/24 Savings £m	Total Savings £m	Status RAG
Existing Savings							
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	0.315	0.315	0.630	G
D&I/18	3.06	Catering	Catering Review	0.050	0	0.050	
D&I/19	4.04	Facilities Management	Review of Letting Policies and FM provision	0.050	0	0.050	G
New Savings							
P&FM	0.00	Property	Targeted savings from the re-negotiation of Service software annual licencing agreements	0.007	0	0.007	G
P&FM	0.00	CCFM	Reduction in support and administration to this function, reflecting 3% savings target requirement	0.021	0	0.021	G
P&H/13	0.00	Facilities Management	Review of Lets	0.150	0	0.150	G
P&H/20	0.00	Facilities Management	Reduction in material and sundry costs	0.050	0	0.050	G
			Total	0.643	0.315	0.958	

Property & Housing Service - **Corporate Savings** RAG Assessment Q1 2022/23

Budget Area	Savings Description	2022/23 Savings £m	Status RAG
1. Salary Sacrifice	Based on Actuals and allocated across the Service	0.013	G
2. Staffing	Savings on redesign, staff realignment, overtime, and allowance for delay in recruitment	0.676	G
3. Review of Corporate non-staffing budgets	<p>Areas identified for the delivery of savings include (but are not limited to) the following: Property and Housing (target £166,000) – Extend expiring service contracts-seeking to freeze or reduce rates. Create one-year contracts with repair and maintenance suppliers - this will target the high spend off contract trades suppliers with an opportunity to put in place one-year agreements whilst the repairs framework is relaunched from March 2023</p>	0.166	G
4. Catering	Cease provision of free meals for dining-room supervisors	0.040	G
5. Printing	Savings from reduced printing	0.006	G
6. Travel	Small element will go against the Housing Budget	0.084	G
	Total	£0.985	