

Agenda Item	8.
Report No	HP/09/22

THE HIGHLAND COUNCIL

Committee: Housing and Property

Date: 31 August 2022

Report Title: Property Capital Monitoring Statement and Progress Update

Report By: Executive Chief Officer, Housing and Property

1. Purpose/Executive Summary

- 1.1 This report provides Members with the final monitoring statement for the 2021/22 financial year and the reported position for the first quarter of the 2022/23 financial year to the end of June.
- 1.2 In 2021/22, net spend on capital projects was £40.607m against a budget of £60.182m, thus £19.575m of budget is carried forward into 2022/23.
- 1.3 The report also updates Members on progress with some of the key capital projects in the General Fund Capital Programme that are managed by Housing and Property.
- 1.4 Members are reminded that the Council's latest Capital Plan was approved by The Highland Council on 9 December 2021 (item 9). The report - Medium Term Financial Plan-Capital Strategy and Capital Programme to 2036/37 – can be found at the link below.
https://www.highland.gov.uk/meetings/meeting/4537/highland_council

2. Recommendations

- 2.1 Members are asked to:
 - i. **NOTE** the final position for the 2021/22 financial year.
 - ii. **NOTE** the position for the first quarter of the 2022/23 financial year, and the estimated year-end position.
 - iii. **NOTE** the progress made with the projects referred to in this report.

3. Implications

- 3.1 **Resource:** The expenditure on the individual projects and programmes of work is being managed within the overall funding allocations in the revised Capital Programme approved by the Council in December 2021.
- 3.2 **Legal:** The contents of this report and the annual accounts aim to satisfy the requirement of Sections 6 and 7 of the CIPFA Financial Management Code - 'Monitoring Financial Performance' and 'External Financial Reporting'. Also, the capital investment outlined in the report supports the Council's efforts to meet its statutory obligations to maintain compliance of buildings, manage school roll pressures and deliver the Early Learning and Childcare expansion programme.
- 3.3 **Community (Equality, Poverty, Rural and Island):** The report details continuing investment across all geographic areas of the Council's estate. The capital investment programme will make a significant contribution to the economic recovery across Highland communities over the coming years.
- 3.4 **Climate Change/Carbon Clever:** The continuing investment will help meet Council and Scottish Government objectives in relation to energy efficiency and climate change.
- 3.5 **Risk:** Risk implications to the budget position, and budget assumptions, will be kept under regular review and any risks identified reported to future meetings of this Committee. All risk matters are managed on both individual projects and across programmes of work.
- 3.6 **Gaelic:** The capital programme includes substantial investment to support the delivery and expansion of Gaelic Medium Education.

4. Capital Programme 2021/22

- 4.1 The capital programme summary is included in **Appendix 1**. Overall, the net expenditure for the 2021/22 financial year was £19.575m less than the total budget of £60.182m. This is mostly due to the relatively high level of income that was accounted for in the financial year. The largest single amount was for the Early Learning and Childcare programme (£14.661m). Also, a capital grant of £900K of Gaelic funding was received from the Scottish Government for the two-classroom extension at Bun-Sgoil Ghàidhlig Loch Abar (£650K) that was completed last year, and the new primary school building at Dunvegan (£250K) that is at design stage.
- 4.2 Some of the projects that were due to be completed in the 2021/22 financial year were delayed during the period of the pandemic. However, all the delayed projects are now either complete or being progressed, and the underspend will be carried forward into 2022/23.

5. Capital Programme 2022/23

- 5.1 The capital programme budget for 22/23 is £71.908m and a summary is included in **Appendix 2**. It includes actual expenditure of £7.962m (11% of annual budget) for Quarter 1. The estimated year end outturn position is currently forecast as being £62.570m, which will result in slippage of £9.363m, (a significant improvement from last year) which can be attributed to challenging market conditions, in particular a limited

availability of contractors and consultants due to a high volume of work across the construction industry. Further sector pressures are set out in para 6.1.1 below.

5.2 The following are some of the key Education/Early Learning & Childcare projects that have been completed since the previous meeting of this Committee in February:

- Crown Primary
- Farr High
- Hilton Primary
- Milton of Leys Primary
- Strategic Asset Management Programme: Fire Safety, Property Security, Water Management, Engineering Compliance (Electrical & Mechanical) and Structure & Fabric programmes of work.

6. Major Projects (Project Whole Life Reporting – Projects over £5m)

6.1 The Councils Major School Projects currently included in the capital programme (as well as LEIP funded projects) are set out in **Appendix 3**. Going forward all major projects will be given a RAG rating in relation to the following criteria: **Cost, Time and Scope**. A number of these major projects **are at an early stage** and will be impacted by various factors currently affecting the complete construction industry. A number of our major projects currently have their RAG ratings marked as TBC, these ratings will be updated for our next Committee when these Construction risks and potential impacts have been considered and analysed in more detail.

6.1.1 Previous reports to meetings of the Council and the Housing and Property Committee have highlighted some of the pressures that have affected the delivery of projects over the last two years, and the potential impact on the capital programme of rising construction cost inflation. This situation has worsened significantly in recent months, and the following are the main factors that are impacting on construction costs.

- General inflation/tender cost indices – rising oil and gas prices; material and labour shortages; the impact of various socio-economic factors and worldwide events; manufacturing and distribution constraints; local, national, and worldwide demand.
- Extraordinary increases in costs of certain materials or products.
- Local supply chain – limited number of sub-contractors in Highland for certain types of work or sizes of project.
- Central belt supply chain – already busy so further inflated cost of working on Highland projects, effectively a higher cost location factor.
- Risk management – contractors, sub-contractors and suppliers are all factoring in additional risk allowances to cover any further increases, particularly for projects with a longer construction period, thus exacerbating the overall position.
- More stringent design and energy performance standards; this includes the adoption of the Passivhaus design principles for new build schools, such as the Tain 3-18 Campus, that are part of the Scottish Government's Learning Estate Investment Programme (LEIP). There is also a requirement to work towards ambitious targets in relation to achieving Net Zero Emissions and a reduction in Construction Embedded Carbon.

The summary overview on progress with these major school projects is detailed as follows:

- 6.2 **Ness Castle Primary School:** Progress on the construction of the new school building at Ness Castle in Inverness has been delayed due to a range of factors that have been affecting the construction industry since work commenced on site in May 2021, including the ongoing effect of the Covid-19 pandemic. As a result, an interim plan has been implemented to establish the new Ness Castle Primary School at the Holm Primary School campus from the start of the school session in August. The new building at Ness Castle will be operational for the start of the new term after the October holidays.
- 6.3 **Tain 3-18 Campus:** Members agreed at the meeting of Highland Council on 30 June to progress to the next stage of awarding the contract for the building of the new Tain 3-18 Campus, which is included in Phase 1 of the Scottish Government's Learning Estate Investment Programme (LEIP). The project team has been working since then to achieve financial close with the contractor and an update will be provided at the next Committee meeting.
- 6.4 **LEIP Phase 2 Projects:** New school buildings at Broadford Primary School and Nairn Academy are included in Phase 2 of the LEIP, with a requirement for the buildings to be occupied by the end of 2025. It is anticipated that an update on the projects will be included in a report to the meeting of Highland Council in September. Grant funding of £30K has been secured from the Scottish Futures Trust for Pathfinder initiatives on both projects to analyse the application of the principles of the Net Zero Public Sector Buildings Standard to the new buildings, and to determine the benefits and costs of formally applying the Standard to these or future projects.
- 6.5 **Other Major Projects:** Members also agreed at the meeting of the Council in June to undertake a review of the capital programme later this year, which will look at the phasing of the programme of works for the Council's capital projects. However, it was agreed that design and planning work will continue on the major school projects listed below that are currently at pre-construction stage. Stakeholder Group meetings were effectively paused during the election period and the school summer holidays but will resume early in the new school session.
- Beauly Primary School
 - Charleston Academy
 - Culloden Academy
 - Dunvegan Primary School
 - Park Primary School
 - St Clement's School
- 6.5.1 The page on the Council website (link below) has been updated to provide further information and regular updates on the major new build and extension projects being taken forward, including minutes of Stakeholder Group meetings.
https://www.highland.gov.uk/info/878/schools/845/school_estate_management
- 6.6 **School Roll Pressures:** An exercise is underway to assess the capacity pressures facing the school estate over the coming years. This includes a review of the pressures across Inverness and the timing of the proposed new schools at East Inverness that are included in years 6 to 10 of the capital programme that was approved in December 2021.

6.7 **LEIP Phase 3:** Bids to the third phase of the programme have been invited by the Scottish Government and must be submitted by 31 October. Projects selected to form part of Phase 3 will be expected to be open to pupils by December 2027, i.e., complete during financial year 2027/28, year 6 of the capital programme. The projects identified in 6.4 and 6.5 will be considered as potential priorities for submission and the work that is underway will also include an assessment of the revenue implications of each of these projects over the whole life cycle of the buildings.

7. **Strategic Asset Management Programme**

7.1 Works are progressing with continued investment in general fund properties through the fire safety, property security, water management, engineering compliance (electrical & mechanical) and structure & fabric programmes of work. The Building Condition Survey Programme is progressing with Phase 1 complete and Phase 2 nearing completion. Phase 1 concentrated on the HC Depot Estate and Phase 2 on secondary schools within the Lochaber and Badenoch & Strathspey areas. Phase 3 has been awarded and will survey all remaining sites in the Badenoch & Strathspey area.

8. **Housing (Non HRA) Travelling People Sites**

8.1 Last year, Housing Services bid to the Scottish Government's Gypsy Traveller Accommodation Fund to redevelop one of our sites (to meet revised fire standards and to bring them up to current standards). The Scottish Government (SG) are looking for significant match funding (40%) and THC's capital budget was to form part of that match funding. The redevelopment works are unable to proceed until we access the significant funding required from the SG. Unfortunately, last year's bid was unsuccessful. This year when the fund opened again, bids were submitted for 2 sites – again the Scottish Government are looking for significant match funding - again we have earmarked the capital budget for this use (including last year's budget). We expect to hear later this year (October) if we have been successful with our bid and if so, works will commence as soon as practicable.

Designation: Executive Chief Officer, Housing and Property

Authors: Finlay MacDonald, Head of Property and Facilities Management
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Date: 17 August 2022

MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2021 TO 31ST MARCH 2022

SERVICE: PROPERTY & HOUSING	BUDGET	ACTUALS			VARIANCE			COMMENTS
Project Description	2021/22 Budget	2021/22 Actual Expenditure	2021/22 Actual Income	2021/22 Actual Net Year to Date	2021/22 Variance Actual v Budget	2021/22 Acceleration / (Slippage)	2021/22 Overspend / (Underspend)	
	£000	£000	£000	£000	£000	£000	£000	
COMMUNITY AND LEISURE FACILITIES								
Community and Leisure Facilities	678	249	0	249	(429)	(429)		To carry forward.
SCHOOLS								
Alness Academy	4,223	4,069	0	4,069	(154)	(154)		To carry forward.
Charleston Academy	727	167	0	167	(560)	(560)		To carry forward.
Culloden Academy	1,096	3,207	0	3,207	2,111	2,111		To carry forward.
Inverness High School	258	352	0	352	94	94		To carry forward.
Lochaber High Flood Damage	(710)	55	0	55	765	765		To carry forward.
Merkinch Primary	286	292	0	292	6	6		To carry forward.
Ness Castle Primary	4,041	6,405	0	6,405	2,364	2,364		To carry forward.
Park Primary - Fire Reinstatement	514	2,089	0	2,089	1,575	1,575		To carry forward.
Tain 3 to 18 Campus - LEIP Phase 1	1,470	2,134	0	2,134	664	664		To carry forward.
Broadford Primary - LEIP Phase 2	258	93	(5)	88	(170)	(170)		To carry forward.
Nairn Academy - LEIP Phase 2	515	276	0	276	(239)	(239)		To carry forward.
Beauly Primary - New Project	250	81	0	81	(169)	(169)		To carry forward.
Dunvegan Primary - New Project	250	168	(250)	(82)	(332)	(332)		To carry forward.
Park Primary - New Project	250	12	0	12	(238)	(238)		To carry forward.
St Clement's - New Project	100	46	0	46	(54)	(54)		To carry forward.
Legacy Projects	(875)	928	0	928	1,803	1,803		To carry forward.
Early Learning and Childcare/School Estate Improvement Programme	33,028	29,503	(15,803)	13,700	(19,328)	(19,328)		To carry forward.

HEALTH & SOCIAL CARE PROGRAMME									
Adult Services (NHS)	3,157	335	(81)	254	(2,903)	(2,903)			To carry forward.
Children's Services/Out of Authority	80	181	0	181	101	101			To carry forward.
STRATEGIC ASSET MANAGEMENT									
Health & Safety	324	1,735	0	1,735	1,411	1,411			Budget amount of £324k relates to funding towards Co2 monitors received through GCG 21/22. To carry forward.
Engineering Compliance	1,065	1,133	0	1,133	68	68			To carry forward.
Catering & FM Compliance	703	146	0	146	(557)	(557)			To carry forward.
Property Structures and Fabric	2,449	669	0	669	(1,780)	(1,780)			To carry forward.
Property Security	305	631	0	631	326	326			To carry forward.
Water Management	346	177	0	177	(169)	(169)			To carry forward.
Fire Safety	(81)	78	0	78	159	159			To carry forward.
Asbestos Removal	100	96	0	96	(4)	(4)			To carry forward.
Energy Management	1,302	147	(61)	86	(1,216)	(1,216)			To carry forward.
Rose Street Car Park Solar PVs	13	64	(30)	34	21	21			To carry forward.
Depots - Health & Safety	586	0	0	0	(586)	(586)			To carry forward.
Office Rationalisation	815	267	(25)	242	(573)	(573)			To carry forward.
HOUSING (NON HRA)									
Private Sector Housing Grants	2,423	1,490	(225)	1,264	(1,159)	(1,159)			To carry forward.
Travelling People Sites	236	39	(226)	(187)	(423)	(423)			To carry forward.
OVERALL TOTAL	60,182	57,314	(16,706)	40,607	(19,575)	(19,575)		0	

MONITORING OF CAPITAL EXPENDITURE - 1ST APRIL 2022 TO 30TH JUNE 2022 (Q1)

SERVICE: PROPERTY & HOUSING

Project Description	BUDGET	ACTUALS			ESTIMATES			VARIANCE		
	2022/23 Approved Budget	2022/23 Actual Expenditure	2022/23 Actual Income	2022/23 Actual Net Year to Date	2022/23 Estimated Expenditure	2022/23 Estimated Income	2022/23 Estimated Outturn	2022/23 Variance Est. Outturn v Budget	2022/23 Acceleration (Slippage)	2022/23 Overspend / (Underspend)
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
COMMUNITY AND LEISURE FACILITIES										
Community and Leisure Facilities	929	63	0	63	429	0	429	(500)	(500)	0
Inverness Leisure Centre & Aquadome	125	0	0	0	50	0	50	(75)	(75)	0
Other Properties (Comm & Leisure)	66	0	0	0	66	0	66	0	0	0
Eden Court Theatre Redevelopment	827	0	0	0	827	0	827	0	0	0
SCHOOLS										
Alness Academy	986	299	0	299	986	0	986	0	0	0
Charleston Academy	3,650	29	0	29	650	0	650	(3,000)	(3,000)	0
Culloden Academy	2,979	694	0	694	3,479	0	3479	500	500	0
Inverness High School	245	2	0	2	245	0	245	0	0	0
Lochaber High Flood Damage	(765)	23	0	23	50	0	50	815	815	0
Merkinch Primary	242	2	0	2	242	0	242	0	0	0
Ness Castle Primary	6,509	2,730	0	2,730	6,509	0	6509	0	0	0
Park Primary - Fire Reinstatement	(1,575)	121	0	121	250	0	250	1,825	1,825	0
Park Primary - New Project	1,988	10	0	10	988	0	988	(1,000)	(1,000)	0
Tain 3 to 18 Campus - LEIP Phase 1	5,293	45	0	45	8,293	0	8293	3,000	3,000	0

Broadford Primary - LEIP Phase 2		685	60	(5)	55	690	(5)	685	0	0	0
Nairn Academy - LEIP Phase 2		1,784	261	(20)	241	1,804	(20)	1784	0	0	0
Beaully Primary - New Project		919	14	0	14	769	0	769	(150)	(150)	0
Dunvegan Primary - New Project		1,082	66	0	66	582	0	582	(500)	(500)	0
St Clement's - New Project		304	4	0	4	554	0	554	250	250	0
Legacy Projects		50	21	0	21	50	0	50	0	0	0
Early Learning and Childcare/School Estate Improvement Programme		20,095	2,090	0	2,090	17,095	0	17095	(3,000)	(3,000)	0
Remote Schools - Housing Accommodation		250	0	0	0	350	0	350	100	100	0
E&L Residential Properties		83	0	0	0	83	0	83	0	0	0
HEALTH & SOCIAL CARE PROGRAMME											
Adult Services (NHS)		6,653	19	(4)	15	1,653	0	1653	(5,000)	(5,000)	0
Children's Services/Out of Authority		650	7	0	7	250	0	250	(400)	(400)	0
STRATEGIC ASSET MANAGEMENT											
Health & Safety		(1,411)	408	0	408	0	0	0	1,411	1,411	0
Engineering Compliance		1,009	106	0	106	1,789	0	1789	780	780	0
Catering & FM Compliance		922	80	0	80	500	0	500	(422)	(422)	0
Property Structures and Fabric		3,998	76	0	76	4,756	0	4756	758	758	0
Property Security		80	25	0	25	250	0	250	171	171	0
Property Surveys		450	0	0	0	400	0	400	(50)	(50)	0
Council Property Estate Annual Improvements		1,875	0	0	0	500	0	500	(1,375)	(1,375)	0
Water Management		401	3	0	3	200	0	200	(201)	(201)	0
Fire Safety		841	43	0	43	841	0	841	(0)	0	0
Asbestos Removal		114	3	0	3	70	0	70	(44)	(42)	0
Energy Management		2,707	24	0	24	1,200	0	1200	(1,507)	(1,507)	0
Energy Efficiency Projects (SALIX)		625	0	0	0	625	0	625	0	0	0
Rose Street Car Park Solar PVs		(21)	40	0	40	75	0	75	96	96	0
Depots - Health & Safety		1,186	0	0	0	500	0	500	(686)	(686)	0

Office Rationalisation	1,459	24	0	24	300	0	300	(1,159)	(1,159)	0
HOUSING (NON HRA)										
Private Sector Housing Grants	3,079	563	(13)	550	3,079	0	3079	0	0	0
Travelling People Sites	541	8	0	8	541	0	541	(0)	0	0
OVERALL TOTAL	71,908	7,962	(42)	7,921	62,570	(25)	62,545	(9,363)	(9,363)	0

THE HIGHLAND COUNCIL													Appendix 3
CAPITAL MAJOR PROJECT													
WHOLE LIFE REPORTING													
HOUSING	WHOLE LIFE BUDGET TO 2036/37			ACTUALS TO DATE			FORECAST TO END OF PROJECT			PROJECT ASSESSMENT			COMMENTS
	LIFE BUDGET EXPENDITURE	LIFE BUDGET INCOME	LIFE BUDGET NET	ACTUAL EXPENDITURE TO DATE	ACTUAL INCOME TO DATE	ACTUAL NET TO DATE	FORECAST EXPENDITURE	FORECAST INCOME	FORECAST NET	COST	TIMING	SCOPE	COMMENTS
Project Description	£000	£000	£000	£000	£000	£000	£000	£000	£000				
Eden Court Highlands Theatre Redevelopment - match funding	13,385	-11,154	2,231				13,385	-11,154	2,231	A	G	G	Project still in its infancy. Brian Porter is key lead for now and will meet with EC next month to find out plans under new Chief Exec. Rising costs noted as a potential risk for now as much higher than when OBC was completed in 2021 .
Alness Academy	37,983	-2,101	35,882	36,093		36,093	37,883	0	37,883	G	G	G	New building operational from October 2020; phase 2 works completed in 2022
Charleston Academy	16,010	-164	15,846	742		742	TBC	TBC	TBC	TBC	TBC	TBC	
Cullooden Academy	19,218	-1,001	18,217	4,085		4,085	TBC	TBC	TBC	A	A	G	
Inverness High School	16,789		16,789	16,453		16,453	16,357	0	16,357	G	G	G	Works complete
Nairn Academy - LEIP	42,165	-25	42,140	543	-20	523	TBC	TBC	TBC	TBC	TBC	TBC	
Merkinch Primary	20,269	-1,000	19,269	20,028		20,028	18,881	0	18,881	G	G	G	New building operational from October 2020
Ness Castle Primary Ph 1	14,868	-2,084	12,784	10,832		10,832	14,618	0	14,618	G	A	G	New building to ne operational in October 2022
Park Primary School	13,000		13,000	22		22	TBC	TBC	TBC	TBC	TBC	TBC	
St Clements School	13,000		13,000	66		66	TBC	TBC	TBC	TBC	TBC	TBC	
Beaully Primary School	12,000		12,000	98		98	TBC	TBC	TBC	TBC	TBC	TBC	
Dunvegan Primary School	12,250	-250	12,000	296	-250	46	TBC	TBC	TBC	TBC	TBC	TBC	
Broadford Primary - new school - LEIP	14,193	-5	14,188	177	-10	167	TBC	TBC	TBC	TBC	TBC	TBC	
Tain 3-18 Campus - LEIP	46,783		46,783	3,904		3,904	TBC	TBC	TBC	TBC	TBC	TBC	Approval to proceed to award contract at Council meeting in June