

Agenda Item	6
Report No	HP/04/23

THE HIGHLAND COUNCIL

Committee: Housing & Property Committee

Date: 26 January 2023

Report Title: Property & Facilities Management Services
Revenue Budget Monitoring Statement Q3 to 31 December 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 comments on the Q3 Revenue monitoring position together with a forecast outturn position for end of March 2023.
- 1.2 In relation to Q3 22/23, the forecast is currently an overspend of £2.610m (3.8%) of the budget. This variance consists of:
- Service Fee income under recovery and staff savings shortfall which consists of:
 - Staff Fee Income - forecast under recovery of £1.300m and
 - Corporate Budget Savings - Staffing Saving target for 22/23 (0.676m with £0.461m achieved) - forecast shortfall: £0.215m
 - CCFM Services - Net income under recovery for Catering Services, but for CCFM combined, a forecast underspend: £0.019m
 - PPP & Wick Campus Contractual Payments - forecast underspend £0.078m
 - Properties – Asset Management, Operational utility costs (HLH/Depots/Office's) - forecast overspend: £1.192m (Significant increase in utility costs in particular water and gas charges).
 - Note that in respect of utility costs, approximately £1m is currently held centrally towards offsetting these costs. However, utilities are paid out on behalf of the Council both by Property Services and also Education, in respect of schools. At the point of writing therefore, the element of these centrally held funds that will be apportioned to Property Services Revenue to offset the increased utility costs is unknown; it should help reduce overspend in this area, but it will not fully mitigate this pressure.

1.3 The report also provides information on the current status of allocated budget savings for the year.

2. Recommendations

2.1 Members are asked to:

- i. **NOTE** that based on the best available information to date, a service overspend of £2.610m to the end of 2022/23 is presently forecast. This is an increasing budget gap since the Q2 monitoring report where a budget overspend of £1.546m was being projected.
- ii. **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.
- iii. **NOTE** the progress update provided in relation to budget savings delivery.
- iv. **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 inflationary impact on service budgets, as well as challenges in maintaining front-line service delivery within current recruitment controls.

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 is resulting 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 £21.439m 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 ongoing risk in that pressures will continue to emerge, in particular, external factors such as fluctuating material costs, contractor availability, rising fuel/energy costs and the Ukrainian conflict, all impacting on our supply chain's ability to keep up with demand. The following paragraphs highlight a number of ongoing risks in more detail.

3.6 **Cost pressures:-**

Spend on construction related matters, in particular material costs and utilities, continues to be impacted, partially as a result of the COVID pandemic and of late as a result of the conflict in Ukraine. This is in addition to the general increases in inflation, fuel cost pressures and wage increase pressures, which also impact. Whilst the general level of inflation in the economy is well reported as currently 10% or thereabouts, construction industry inflation varies, material dependent, at up to 30%, with timber costs alone as one example of a significant material impact on revenue property maintenance budget spends.

Where possible, we seek to mitigate the impact on cost on revenue budgets by capitalising spend on revenue repairs where appropriate and/or through drawdown of approved earmarked reserves where these exist – such as the approved ringfenced Health and Safety budget. Further cost control measures include reprioritising and/or deferring of a range of repairs where that is considered reasonable and appropriate and consistent with our legal responsibilities to building users and occupiers. The opportunity cost of this approach however is that all of the above can mean that there will need to be an element of expectation management in terms of the nature and extent of what works may be carried out and in what timescale, and in some cases, whether some categories of works will be carried out at all.

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

4. **Revenue Budget Monitoring – Q3 2022/23**

4.1 **Appendix 1** sets out the monitoring position for Q3 to end December 2022. As can be seen from the Appendix, against a net budget for the year of £68.733m, the forecast is currently an overspend of £2.610m (3.8%) of the budget.

4.2 **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. The main issues and variances are explained below.

4.3 From **Appendix 2** it will be noted that the Project Delivery lines are projecting a year end income shortfall of £1.515m which consists of:

- Staff Fee Income - forecast under recovery of £1.300m and
- Corporate Budget Savings - Staffing Saving target for 22/23 (0.676m with £0.461m achieved) - forecast shortfall: £0.215m

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.

4.4 **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.

- 4.5 Catering, Cleaning and Facilities Management services (CCFM) are forecasting a year end underspend of £0.019m. 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 continue to affect year end income recovery however the catering team are reviewing options to mitigate the impact through Q4.
- 4.6 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. An underspend of £0.078m is being forecast at year end.
- 4.7 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.
- 4.8 Property Asset Management is reliant on achieving fee income targets derived from the delivery of asset rationalisation projects and due to vacancies within the team are forecasting a fee income shortfall of £0.106m 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.
- 4.9 Depots: This budget covers the cost of utility consumption in all Council depots, a year end overspend of £0.250m is currently forecast, due to the increasing cost of energy supplies.
- 4.10 HLH Properties: This budget also covers the cost of utility consumption in HLH occupied premises, a year end overspend of £0.806m is currently forecast.
- 4.11 Other Offices & Properties: This heading also relates to utility consumption across this portfolio, a year end overspend of £0.030m is currently forecast.
- 4.12 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 are being concluded and this budget, £10.557m, will be fully expended at year end.

5. Budget Savings Delivery

- 5.1 Also enclosed with this report is an updated assessment of progress with delivery of budget savings. **Appendix 3** sets out a Red/Amber/Green (RAG) assessment of those savings.
- 5.2 The Appendix reflects the savings proposals being taken forward within the Service as well as the Service share of corporately allocated savings.

Designation: Executive Chief Officer Housing & Property

Date: 12 January 2023

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PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2022/23 - DECEMBER MONITORING - APPENDIX 1

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,703)	(948)	(3,188)	1,515
CCFM	21,540	16,028	21,521	(19)
PPP & Wick SFT	29,787	23,250	29,709	(78)
Revenue Maintenance	7,557	6,569	7,557	0
Properties	14,552	14,037	15,744	1,192
TOTAL	68,733	58,936	71,343	2,610
BY SUBJECTIVE				
Staff Costs	29,184	21,559	29,574	390
Other Expenditure	60,988	49,702	62,344	1,356
Gross Expenditure	90,172	71,261	91,918	1,746
Grant Income	(5,727)	(2,947)	(5,933)	(206)
Other Income	(15,712)	(9,378)	(14,642)	1,070
Total Income	(21,439)	(12,325)	(20,575)	864
NET TOTAL	68,733	58,936	71,343	2,610

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

APPENDIX 2

	GROSS EXPENDITURE				EXPENDITURE VARIANCE		GROSS INCOME				NET TOTAL			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Staffing	Other	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	4,724	4,005	5,177	453	337	116	(9,045)	(4,900)	(7,900)	1,145	(4,321)	(895)	(2,723)	1,598
Project Management	1,036	739	978	(58)	(61)	3	(1,677)	(1,272)	(1,696)	(19)	(641)	(533)	(718)	(77)
Property Support	276	483	263	(13)	(9)	(4)	(17)	(7)	(14)	3	259	476	249	(10)
COVID 19	0	4	4	4	0	4	0	0	0	0	0	4	4	4
CCFM														
CCFM Business Support	485	314	449	(36)	(67)	31	(36)	0	(36)	0	449	314	413	(36)
Catering Cleaning & Facilities Management	15,290	10,134	15,176	(114)	(100)	(14)	(4,046)	(2,462)	(3,816)	230	11,244	7,672	11,360	116
PPP & Wick SFT	10,706	8,217	11,241	535	355	180	(859)	(175)	(1,493)	(634)	9,847	8,042	9,748	(99)
PPP & Wick SFT Revenue	33,989	25,449	33,981	(8)	0	(8)	(4,202)	(2,199)	(4,272)	(70)	29,787	23,250	29,709	(78)
Maintenance														
Maintenance Revenue	8,531	7,620	8,329	(202)	(72)	(130)	(974)	(1,051)	(772)	202	7,557	6,569	7,557	0
Properties														
Property Asset Management	1,357	991	1,400	43	19	24	(281)	(139)	(218)	63	1,076	852	1,182	106
Depots	819	617	1,060	241	(13)	254	(73)	(1)	(64)	9	746	616	996	250
HLH Properties	1,881	1,753	2,739	858	0	858	(171)	(86)	(223)	(52)	1,710	1,667	2,516	806
Other Offices & Properties	521	378	564	43	1	42	(58)	(33)	(71)	(13)	463	345	493	30
Non-Domestic Rates	10,557	10,557	10,557	0	0	0	0	0	0	0	10,557	10,557	10,557	0
TOTAL	90,172	71,261	91,918	1,746	390	1,356	(21,439)	(12,325)	(20,575)	864	68,733	58,936	71,343	2,610

Property & FM - Service Savings - RAG Assessment Q3 2022/23							APPENDIX 3	
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 Maintenance	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	G	
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 Support	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	A	
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 Q3 2022/23		APPENDIX 3 (Continued)	
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 (Note: £0.461m achieved to date).	0.676	A
3. Review of Corporate non-staffing budgets	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	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	