

# The Highland Council

Agenda Item	<b>8</b>
Report No	<b>HP/17/24</b>

**Committee:** Housing & Property

**Date:** 14 August 2024

**Report Title:** Property Capital Monitoring Statement and Progress Update

**Report By:** Assistant Chief Executive – Place

## 1. Purpose/Executive Summary

- 1.1 This report advises on the capital monitoring position at the end of the 2023/24 financial year.
- 1.2 The report also updates on progress with the delivery of projects in the General Fund Capital Programme that are managed by the Property teams in the Place Service Cluster.

## 2. Recommendations

- 2.1 Members are asked to:
  - i. **NOTE** the capital monitoring position at the end of the 2023/24 financial year and the variances outlined in this report.
  - ii. **NOTE** the current position regarding the delivery of the works programmes and the individual projects referred to in this report.
  - iii. **NOTE** the various challenges faced in recent years and that will continue into 2024/25 and beyond.
  - iv. **NOTE** that the outcome of the options appraisal exercise for the provision of staff housing on Rum will be reported to the next meeting of this Committee in November.
  - v. **NOTE** that the 2024/25 and 2025/26 programmes of work for the School Estate Investment Programme and Property Estate Asset Management budget headings will be reported to the next meeting of this Committee in November along with a full update on all projects that are underway.

## 3. Implications

- 3.1 **Resource:** The expenditure on the individual projects and programmes of work is managed within the following funding allocations (links to each report are included in the Background Papers section later in this report).

1. The one-year Capital Programme for 2023/24 approved in March 2023.
2. The 5-year Capital Programme (2024/25 to 2028/29) approved in September 2023.
3. The additional funding for several school projects approved in June 2024.

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 and accommodation pressures and complete the delivery of the Early Learning and Childcare expansion programme.

3.3 **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.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** No further risks at this stage other than those highlighted in this report.

3.5 **Gaelic:** The Capital Programme includes investment to support the delivery and expansion of Gaelic Medium Education. This includes a second 2-classroom extension to Bun-Sgoil Ghàidhlig Loch Abar in Fort William which has received a funding grant award of up to £900,000 from the Scottish Government. Construction work is underway and is due to be complete in September.

#### 4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring update report and therefore an impact assessment is not required.

#### 5. Capital Programme Monitoring

5.1 **Appendix 1** sets out the final position for 2023/24. The total net budget was £62.872M with net expenditure of £44.098M, a variance of -£18.774M. The main reasons for this are summarised below.

1. **Major Projects: Appendix 1** outlines a total variance of -£4.357M across the seven projects, and this has been categorised as follows.
  - a) A re-profiling of -£1.525M that will be carried forward to 2024/25 to fund either ongoing design and planning activities or to complete planned construction works at several schools.

b) An under-spend of –£2.832M due to the reduced level of funding included in the revised 5-year Capital Programme approved in September 2023 for several projects.

2. **Learning Estate Investment Programme (LEIP) Projects:** The position at year-end for the Tain Campus project is a variance of –£10.393M. This is due to over-optimistic cash flow forecasts provided by the contractor at the start of the financial year and the impact of delays in the completion of some work elements. There is also a total variance of –£0.997M for the Broadford Primary and Nairn Academy projects, and a progress update on all 3 LEIP projects is provided in Section 5.
3. **School Estate Investment Programme/Early Learning and Childcare (ELC) Expansion Programme:** The position at year-end is a variance of –£2.167M. This is due to delays in the delivery of two projects in the ELC programme at Kiltearn and Kinmylies Primary Schools for several reasons, including the requirement for Kinmylies to be included in the Planning in Principle application for the overall masterplan for Charleston Academy. The contract for the Kinmylies project has been awarded and design work is progressing at Kiltearn. The unspent funding will be carried forward to 2024/25 to allow both projects to progress and meet the commitment to the Scottish Government that both will be delivered as part of the original jointly funded investment programme.
4. **Free School Meals Programme:** The capital funding awards by the Scottish Government to continue the phased expansion of free school meal support for primary children totalling £1,935M were allocated to the 2023/24 budget. However, most of the expenditure will be in 2024/25 so the variance of –£1.858M will be carried forward.
5. **Remote Schools – Housing Accommodation:** This budget heading from the capital programme approved in December 2021 was intended to provide housing accommodation for school staff on Rum. The overall budget was reduced in the revised programme approved in September 2023 and the project team have been exploring options that could be delivered within the reduced funding allocation. The outcome of this work will be reported to the meeting of this Committee in November and the variance of –£0.182M will be carried forward to 2024/25.
6. **Property Estate Asset Management:** There was accelerated expenditure of £1.931M across all these budget headings in 2023/24. This was due to the various cost pressures outlined in Paragraph 4.2 and the unplanned expenditure to address compliance issues and building failures, including the remedial works to the Reinforced Autoclaved Aerated Concrete (RAAC) structures at Charleston Academy and Nairn Academy.

5.2 **Construction Cost Pressures:** Previous reports to meetings of the Council and this Committee have highlighted the pressures that have affected the delivery of projects in recent years, and the potential impact on the Capital Programme of rising construction cost inflation. The following are the main factors that continue to impact on construction costs.

1. 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.
2. Extraordinary increases in costs of certain materials or products.
3. Local supply chain – limited number of sub-contractors in Highland for certain types of work or sizes of project.

4. Central belt supply chain – already busy so further inflated cost of working on Highland projects, effectively a higher cost location factor.
5. 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.
6. 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, which 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.

## **6. Schools Programme**

- 6.1 **Tain Campus:** The Council's project team is continuing to monitor progress with the contractor, with a particular focus on quality for this project which is the first Passivhaus project that the Council has undertaken. The contractor is currently working on a revised programme and the outcome of this will be shared with the Stakeholder Group at a meeting in September.
- 6.2 **Broadford Primary:** Design work is progressing, and the planning application was submitted in June. The programme dates are being reviewed and will be shared with the Stakeholder Group early in the new school session.
- 6.3 **Nairn Academy:** An advanced works contract started on site during the school summer holiday period to form a new access road and commence potentially disruptive earthworks while the campus is unoccupied. Financial close for the overall project is due to be reached by the end of August to enable the new building to be operational by August 2026.
- 6.4 **Asset Mapping and Review:** As outlined in the report that was approved at the Council meeting in June (Highland Investment Plan – Next Steps), there was extensive community and partner engagement during the early stages of the Broadford Primary project that closely mirrored the approach now set out in the Highland Investment Plan to develop Community Points of Delivery (PODs). Further work is now underway for the Tain Campus and Nairn Academy projects on the mapping of all existing assets in these locations, conducting Impact Assessments, and engagement with relevant partners and stakeholders.
- 6.5 **School Estate Improvement Programme:** The programme of works is progressing with continued investment through this budget heading to carry out essential improvements to school buildings, including meeting the Council's obligations to address immediate roll pressures and suitability issues (including adaptations for pupils with specific needs). Work is underway to establish the priorities for 2024/25 and 2025/26 and this will take account of the ongoing cost pressures referred to in Paragraph 4.2 and the reduced level of funding and re-profiling targets included in the revised capital programme approved in September 2023. This process will also align with the objectives and outcomes of the Highland Investment Plan that have been set out in recent reports to Council meetings. A proposed programme of work for 2024/25 and 2025/26 will be reported to the next meeting of this Committee in November along with a full update on all projects that are underway, including those that are being carried out in schools during the summer holiday period.

## 7. Property Estate Asset Management

- 7.1 **Generally:** The programme of works is progressing with continued investment through the various budget headings to maintain statutory compliance and carry out improvements to the condition of the building fabric and engineering installations in the various properties in the General Fund estate. Again, the priorities for 2024/25 and 2025/26 are being reviewed and the proposed programme of work will be reported to the next meeting of this Committee in November along with a full update on all projects that are underway.
- 7.2 **Building Condition Surveys:** The programme of surveys is progressing with Phase 1 (Council Depots) and Phase 2 (Secondary Schools in the Lochaber and Badenoch & Strathspey areas) complete. Phase 3 surveys have been completed (all operational assets in the Black Isle and Cromarty Firth areas) and the submitted information is being verified. A recruitment process is underway to establish an in-house surveying team to carry out condition surveys in future as this is considered to be the most cost-effective option going forward.

## 8. Housing (Non HRA) Gypsy/Traveller Sites

- 8.1 Housing Services have been successful in securing Scottish Government funding to transform Longman Park into a “great place to live and bring up children”. This significant funding will enable, over the next two years, land works and the development of new rented accommodation and enhanced site facilities. This will improve and future proof the services on offer to the tenants at the site (rented from Inverness’ Common Good Fund). Our aim is to bring Longman Park up to the standards which we aim to provide to all our tenants. The residents have been actively involved in helping to draw up the design plans - making sure that their needs and preferences inform the improvements. This close working and active engagement will continue.
- 8.2 The capital budget for Highland Gypsy Traveller sites has been carried forward from previous years to provide the required match funding. This project will help deliver the Council’s ‘Fairer Highland’ commitments and is one of a small number of Scottish demonstrator projects.

**Designation:** Assistant Chief Executive – Place

**Authors:** Finlay MacDonald, Head of Property and Facilities Management  
Robert Campbell, Service Lead – Capital Planning and Estate Strategy  
Rory MacLeod, Service Lead – Housing Investment and Building Maintenance

**Date:** 29 July 2024

**Background Papers:** Report to Council meeting on 2 March 2023: Revenue and Capital Budgets 2023/24 and Medium-Term Financial Outlook  
[https://www.highland.gov.uk/download/meetings/id/81258/item\\_3\\_revenue\\_and\\_capital\\_budgets\\_202324\\_and\\_medium-term\\_financial\\_outlook](https://www.highland.gov.uk/download/meetings/id/81258/item_3_revenue_and_capital_budgets_202324_and_medium-term_financial_outlook)  
Report to Council meeting on 14 September 2023: Capital Programme Review – General Fund  
[https://www.highland.gov.uk/download/meetings/id/82168/item\\_12\\_capital\\_programme\\_review](https://www.highland.gov.uk/download/meetings/id/82168/item_12_capital_programme_review)

Report to Council meeting on 27 June 2024: The Highland Investment Plan – Next Steps  
[https://www.highland.gov.uk/download/meetings/id/83523/item\\_11\\_highland\\_investment\\_plan\\_-\\_next\\_steps](https://www.highland.gov.uk/download/meetings/id/83523/item_11_highland_investment_plan_-_next_steps)

**Appendices** Appendix 1: Monitoring of Capital Expenditure – Q4 2023/24

## MONITORING OF CAPITAL EXPENDITURE - TO 31ST MARCH 2024 (Q4 2023/24) NEAR FINAL

## SERVICE: PROPERTY &amp; HOUSING

Project Description	BUDGET	ACTUALS			VARIANCE		
	2023/24 Capital Budget	2023/24 Actual Expenditure	2023/24 Actual Income	2023/24 Actual Net Year to Date	2023/24 Variance Forecast Outturn v Budget	Reprofile to 2024/25	2023/24 Overspend/ Underspend
	£000	£000	£000	£000	£000	£000	£000
<b>COMMUNITY &amp; LEISURE FACILITIES</b>							
Inverness Leisure Centre & Aquadome	350	332	(5)	327	(23)	(23)	0
HLH Properties - Life Cycle Investment	375	362	(162)	200	(175)	(175)	0
Other Properties (Comm & Leisure) - Life Cycle Investment	33	23	59	82	49	49	0
<b>SCHOOLS</b>							
<b>Major Projects</b>							
Beaully Primary	650	194	0	194	(456)	(56)	(400)
Charleston Academy	500	174	0	174	(326)	(326)	0
Culloden Academy	2,500	1,008	(11)	997	(1,503)	(503)	(1,000)
Dunvegan Primary	650	105	0	105	(545)	0	(545)
Ness Castle Primary Phase 1	750	268	0	268	(482)	(482)	0
Park Primary	1,000	112	0	112	(888)	0	(888)
St Clements	750	591	0	591	(159)	(159)	0
<b>LEIP Projects</b>							
Tain 3-18 Campus - Phase 1	28,000	17,607	0	17,607	(10,393)	(10,393)	0
Nairn Academy - Phase 2	2,600	2,141	(20)	2,121	(479)	(479)	0
Broadford Primary - Phase 2	700	181	0	181	(519)	(519)	0

<b>Estate Management</b>							
School Estate Improvements / ELC	11,000	9,227	(395)	8,833	(2,167)	(2,167)	0
Free School Meals	1,935	77	0	77	(1,858)	(1,858)	0
Remote Schools Housing Accommodation	200	18	0	18	(182)	(182)	0
E&L Residential Properties	83	0	0	0	(83)	(83)	0
<b>HEALTH &amp; SOCIAL CARE PROGRAMME</b>							
Adult Services (NHS)	750	377	(73)	304	(446)	(446)	0
Children's Services/Out of Authority	100	53	(25)	29	(71)	(71)	0
<b>PROPERTY ESTATE ASSET MANAGEMENT</b>							
Engineering Compliance	834	1,406	(437)	969	135	135	0
Catering & FM Compliance	500	475	0	475	(25)	(25)	0
Property Structures and Fabric	3,500	6,661	(602)	6,059	2,559	2,559	0
Property Security	400	437	0	437	37	37	0
Property Surveys	450	789	0	789	339	339	0
Council Property Estate Annual Improvements	1,100	167	0	167	(933)	(933)	0
Water Management	200	74	0	74	(126)	(126)	0
Fire Safety	300	781	0	781	481	481	0
Asbestos Removal	50	12	0	12	(38)	(38)	0
Energy Management	1,862	2,144	(242)	1,902	40	40	0
Depots - Health & Safety	350	88	0	88	(262)	(262)	0
Office Rationalisation	300	99	(25)	74	(226)	(226)	0
Portree Office Demonstrator Project	100	51	0	51	(49)	(49)	0
Caithness Demonstrator Project	0	335	(335)	0	0	0	0
<b>HOUSING (NON HRA)</b>							
Travelling People Sites - Longman Park Redevelopment	0	2,118	(2,118)	0	0	0	0
Travelling People Sites - General	0	41	(41)	0	0	0	0
<b>OVERALL TOTALS</b>	<b>62,872</b>	<b>48,530</b>	<b>(4,432)</b>	<b>44,098</b>	<b>(18,774)</b>	<b>(15,942)</b>	<b>(2,832)</b>



