

The Highland Council

Agenda Item	7.
Report No	HP/24/24

Committee: Housing and Property

Date: 6 November 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 second quarter of the 2024/25 financial year and on the estimated year-end position.
- 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 second quarter of the 2024/25 financial year, the estimated year-end position and the main financial variances outlined in the report.
 - ii. **NOTE** the current position regarding the delivery of the works programmes and the individual projects referred to in this report.
 - iii. **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.
 - iv. **NOTE** the current position on the remedial works underway at Charleston Academy and Nairn Academy.

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 received a funding grant award of up to £900,000 from the Scottish Government and was completed and handed over in September 2024.

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 an update report and therefore an impact assessment is not required.

5. Capital Programme Monitoring

- 5.1 **Appendix 1** sets out the position at the end of September 2024 and the projected position at the end of this financial year. Gross expenditure to the end of Q2 is approximately 36% of the total forecast at year-end, which is reasonable at this stage of the financial year when the lag in processing payments to contractors at the end of each month is accounted for. The total net budget for 2024/25 is £91.879M with the forecast final position being a negative variance of £22.102M for the following reasons.
1. **Major Projects:** Appendix 1 outlines a total variance of £1.903M across all these projects, largely due to the additional funding approved at the Council meeting in June 2024 for the essential works required at Beauly Primary and St Clement's Schools and the new access road at Dunvegan Primary School.
 2. **Learning Estate Investment Programme (LEIP) Projects:** As reported in August, the final position for the Tain Campus project in 2023/24 was a negative variance of over £10M 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. An update on the current position is provided in Paragraph 6.1 and the estimated variance for this financial year is -£14.479M.

There is also an estimated variance of –£7.519M for the Broadford Primary project due to the revised programme outlined in Paragraph 6.3.

3. **Property Estate Asset Management:** As reported in August, there was accelerated expenditure of £1.931M across all these budget headings in 2023/24 which was carried forward and therefore reduced the budget for 2024/25. This was due to the various cost pressures outlined in Paragraph 5.2 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. The financial position will be managed in the current financial year, but mitigation options are limited due to the ongoing demands on these budget headings. The estimated year end position is a variance of £0.984M.

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:** As previously reported, delays have been experienced in some of the construction work elements. The contractor has produced a revised programme indicating a building handover date of June 2025, which results in an operational date of August 2025. This information was shared with the Stakeholder Group at a meeting in September, and the Scottish Futures Trust have been kept informed. As a result of the delay to the overall programme, a letter will be sent to the Scottish Government formally requesting an extension to the previous completion date of December 2024. The Council's project team is continuing to monitor progress with a particular focus on quality as this is the first Passivhaus project that the Council has undertaken.

6.2 **Nairn Academy:** An advanced works contract started on site during the school summer holiday period to form the new access road and commence potentially disruptive earthworks while the campus was unoccupied. Work has continued since then to allow

maintain progress. Financial close for the entire works was reached earlier this month and the new building remains on target to be operational by August 2026.

- 6.3 **Broadford Primary:** Design work is progressing, and the planning application was submitted in June. The procurement approach was reconsidered following the outcome of the review of the capital programme in September 2023 as there was no funding for three other new build projects that had been included in a batch of four projects. The design is now being led by the Council's in-house team which has built up expertise from the involvement in the Tain Campus and Nairn Academy Passivhaus projects. A revised programme has been produced and the target is now for the building to be operational from October 2026. Again, the Scottish Futures Trust have been kept apprised of developments and a letter will be sent to the Scottish Government formally requesting an extension to the previous completion date of December 2025.
- 6.4 **School Estate Improvement Programme:** The programme of works is progressing with continued investment through this budget heading on 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). A full list of the projects being taken forward in 2025/26 will be reported to the next meeting of this Committee. This will take account of the ongoing cost pressures referred to in Paragraph 5.2 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.
- 6.5 **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. It was intended that the outcome of this work would be included in this report, but it will now be reported to the meeting of this Committee.
- 6.6 **Reinforced Autoclaved Aerated Concrete:** Further mitigation works are underway during the October holiday period at Charleston Academy and Nairn Academy. The works at Nairn have been relatively difficult due to the steelwork frame design and are likely to continue into the new term. An inspection will take place at the end of the holiday period and an update will be provided to stakeholders.

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. A full list of the projects being taken forward in 2025/26 will be reported to the next meeting of this Committee.

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

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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
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
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

Appendices Appendix 1: Monitoring of Capital Expenditure – Q2 2024/25
Appendix 2: Capital Major Project Whole Life Reporting - Q2 2024/25

MONITORING OF CAPITAL EXPENDITURE Q2 2024/25

SERVICE: PROPERTY & HOUSING

Project Description	BUDGET	ACTUALS			FORECASTS TO END OF 24/25			VARIANCE			COMMENTS
	2024/25 Capital Budget £000	2024/25 Actual Expenditure £000	2024/25 Actual Income £000	2024/25 Actual Net Year to Date £000	2024/25 Forecast Expenditure £000	2024/25 Forecast Income £000	2024/25 Forecast Outturn £000	2024/25 Variance Forecast Outturn v £000	2024/25 Reprofile to Next Financial £000	2024/25 Overspend/ (Underspend) Completed £000	
COMMUNITY & LEISURE FACILITIES											
Inverness Leisure Centre & Aquadome	23	32	0	32	100	0	100	77		77	Remedial works required to
HLH Properties - Life Cycle Investment	421	173	(5)	168	350	(5)	345	(76)	(76)		Various projects.
Community & Leisure Facilities	107	1	0	1	57	0	57	(50)	(50)		Various projects.
SCHOOLS											
Major Projects											
Beaully Primary	256	234	0	234	1,100	0	1,100	844	200	644	Additional funding approved for modular kitchen/dining unit and other essential works.
Charleston Academy	626	190	0	190	500	0	500	(126)	(126)		Various internal improvements completed.
Cullooden Academy	2,003	1,288	0	1,288	1,750	0	1,750	(253)	(253)		New synthetic playing field and other essential works now complete.
Dunvegan Primary	1,100	41	0	41	1,750	0	1,750	650	100	550	Additional funding approved for new access road and other essential works.
Ness Castle Primary	482	257	0	257	1,194	(15)	1,179	697		697	New playing fields nearing completion.
Park Primary	50	2	0	2	50	0	50	0			Minor improvement works.
St Clements	259	140	0	140	450	0	450	191	100	91	Additional funding approved for conversion of former library building, demolition of classroom unit and other essential works.
Plockton Residence	300	0	0	0	100	0	100	(200)	(200)		Essential works required.
Tomnagraig - New Primary School	0	53	0	53	100	0	100	100	100		Site investigations and initial design work underway.
LEIP Projects											
Tain 3-18 Campus	44,549	11,374	(800)	10,574	30,349	0	30,349	(14,200)	(14,200)		See Appendix 2.
Nairn Academy	14,479	2,680	0	2,680	14,479	0	14,479	0			See Appendix 2.
Broadford Primary	8,019	283	(599)	(316)	500	0	500	(7,519)	(7,519)		See Appendix 2.
Estate Management											
School Estate Improvements / ELC	6,714	3,378	(1,148)	2,230	8,000	(1,148)	6,852	138	138		Programme of essential works and improvements; includes new nursery annexe building at Kinmylies Primary
Free School Meals	1,858	0	0	0	150	0	150	(1,708)	(1,708)		New kitchen/dining unit at Rosebank Primary.
Remote Schools Housing Accommodation	182	5	0	5	50	0	50	(132)	(132)		New staff housing at Rum Primary.
E&L Residential Properties	194	19	0	19	100	0	100	(94)	(94)		Various works.
HEALTH & SOCIAL CARE PROGRAMME											
Adult Services (NHS)	808	200	(4)	196	400	(4)	396	(412)	(412)		Various projects.
Children's Services/Out of Authority	197	0	(53)	(53)	203	(53)	150	(47)	(47)		Income of £53k relates to funding from Bairns' Hoose to upgrade residential properties, with full amount expected to be spent this financial year.
PROPERTY ESTATE ASSET MANAGEMENT											
Engineering Compliance	650	167	0	167	550	0	550	(100)	(100)	0	
Catering & FM Compliance	300	23	0	23	300	0	300	0	0	0	
Property Structures and Fabric	2,250	1,391	0	1,391	2,694	(106)	2,588	338	338	0	
Property Security	400	336	0	336	400	0	400	0	0	0	
Property Surveys	250	66	0	66	250	0	250	0	0	0	
Property Estate Annual Improvements	500	635	0	635	957	(327)	630	130	130	0	
Water Management	250	249	0	249	264	0	264	14	14	0	
Fire Safety	200	185	0	185	346	0	346	146	146	0	
Asbestos Removal	50	119	0	119	130	0	130	80	80	0	
Energy Management	650	786	(99)	687	1,090	(400)	690	40	40	0	
Depots - Health & Safety	563	20	0	20	964	0	964	401	401	0	
Property Rationalisation	150	20	0	20	184	0	184	34	34	0	
Portree Demonstrator Project	99	19	(800)	(781)	99	(99)	0	(99)	(99)	0	
Caithness Demonstrator Project	0	2	(415)	(413)	100	(100)	0	0	0	0	Forecast income includes £800k from Scottish Government and £100k from HIE. Scottish Government funding award for improvements in Caithness.
HOUSING (NON HRA)											
Private Sector Housing Grants	1,974	1,109	(39)	1,070	2,024	(50)	1,974	0	0	0	It is expected that the full budget will be spent this FY. A review of commitments is ongoing with grant officers to ensure the profile of grant payments fits with the budget profile per the approved capital programme.
Travelling People Sites - Longman Park Redevelopment	966	998	(1,385)	(387)	2,300	(2,300)	0	(966)	(966)	0	THC contribution now not required until 25/26. Phase 2 works to commence including providing temporary on-site accommodation for residents. Completion date estimated Nov 2025 but hopeful of earlier.
Travelling People Sites - General	0	9	(81)	(72)	18	(18)	0	0	0	0	Fire safety works at Spean Bridge to commence March/April 2025 and will utilise remainder of funding.
OVERALL TOTALS	91,879	26,484	(5,428)	21,056	74,402	(4,625)	69,777	(22,102)	(24,161)	2,059	

Project Description	WHOLE LIFE BUDGET			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
	£000	£000	£000	£000	£000	£000	£000	£000	£000				
Tain 3-18 Campus	72,275	-800	71,475	37,225	-800	36,425	72,275	-800	71,475	G	R	G	
Nairn Academy	67,051	-20	67,031	6,450	-20	6,430	67,051	-20	67,031	G	G	G	Contract awarded and work progressing on site; new building programmed to be operational from August 2026.
Broadford Primary	21,010	-604	20,406	1,202	-604	598	21,010	-604	20,406	G	A	G	Design in progress and planning application lodged; revised programme for new building to be operational in October 2026.
Longman Park TPS	7,654	-6,554	1,100	3,324	-3,711	-387	7,654	-6,554	1,100	A	A	A	Additional THC reserves funding of £320k has been required to provide temporary accommodation for residents on-site during works which was not part of additional plan. Original completion date was July 2025 now forecast to be Nov 2025 but hopeful some of this delay can be clawed back. Phase 2 works to commence.