

Agenda Item	<b>7</b>
Report No	<b>HP/04/25</b>

# The Highland Council

**Committee:** Housing and Property

**Date:** 29 January 2025

**Report Title:** Property & Facilities Management Services Revenue Monitoring Statement to 31 December 2024

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

## 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 2025.
- 1.2 The report also provides information on the current status of agreed corporate budget savings for the year.
- 1.3 The service net budget is £78.929m, with a predicted year end deficit of £2.002m, (2.5% of the net budget). This combined budget variance consists of:
  - Project Delivery and Property Management Teams - Fee Income - forecast shortfall: £0.822m.
  - CCFM Services - Overall forecast underspend for CCFM: £0.429m.
  - PPP & Wick Campus Contractual Payments - forecast underspend: £0.098m.
  - Property Revenue Maintenance Budget: forecast balanced budget.
  - Properties – \*(Offices/HLH/Depots) - Operational utility costs - forecast overspend: £0.133m.
  - Non-Domestic Rates payments - forecast overspend: £0.662m.
  - Previous unallocated saving - Asset Rationalisation Savings Target - future target to be achieved: £0.912m.
  - \*(Note: The centrally held earmarked energy balance is partially supporting the increase in utility costs for these properties).

## 2. Recommendations

2.1 Members are asked to:

- i. **SCRUTINISE and APPROVE** the budget position for the third quarter of the 2024/25 financial year, and the predicted year-end position.
- ii. **SCRUTINISE and 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, and identifying new income and procurement opportunities.
- iii. **SCRUTINISE and NOTE** the progress update provided in relation to corporate budget savings delivery.

## 3. Implications

3.1 **Resource** – This report reflects the Q3 budget monitoring and forecast position.

3.1.1 As noted in the sections below, there remains ongoing uncertainty and challenge in financial forecasting due to the ongoing inflationary impact on service budgets, as well as challenges in maintaining front-line service delivery within a volatile recruitment market.

Spend on construction related matters, in particular material costs and utilities, continues to be impacted. This is in addition to fuel cost pressures and wage increase pressures, which also affect the budget.

3.2 **Legal** - The Service budget supports delivery of a range of statutory services. Income generation is permitted and is an integral part of the Service budget. This report also contributes to the Council's statutory duties to report performance and secure best value in terms of; Section 1(1)(a) of the Local Government Act 1992, and Section 1 of the Local Government in Scotland Act 2003, respectively.

3.3 **Risk** - The 2024/25 Property & FM Service budget relies on £22.885m 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, rising fuel/energy costs and the Ukrainian conflict, all impacting on our supply chain's ability to keep up with demand.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** - Other than what is advised at Para 5.6.1 below there are no additional health & safety implications arising from this report.

3.5 **Gaelic** - There are no implications for Gaelic arising from this report.

## 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. Revenue Budget Monitoring – Q3 2024/25

- 5.1 **Appendix 1** sets out the monitoring position for Q3 to end December 2024. As can be seen from the Appendix, against a net budget for the year of £78.929m, there is a predicted year end deficit of £2.002m, (2.5% of the net budget).
- 5.2 **Appendix 2** provides more information on the net budget by showing the different service areas in more detail along with the income and expenditure positions. The main issues and variances are explained below.
- 5.3 **Project Delivery:** Within this budget 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. The number of fee-earning staff vacancies (circa 54 posts) continues to have a negative impact on the Service achieving its annual income targets and is also affecting project delivery and maintenance works.
  - 5.3.1 The current estimated position is that the fee income target set by Finance will be under-recovered by £0.822m; however, based on the previous years' final position and the challenges that we continue to face, there is potential for this fee income under-recovery to be higher. Further work is being done with the Finance Service to review the income potential and targets that have been set for each team as well as the income multiplier, in an effort to improve on the predicted year end income recovery position.
- 5.4 **CCFM:** Catering, Cleaning and Facilities Management (CCFM) services are currently forecasting a collective underspend of £0.429m, this is due in the main to the turnover of posts and subsequent recruitment challenges throughout the year. 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 the year. The team continues to face the pressures that were experienced last financial year, and therefore the year end position is still considered as carrying some risk.

- 5.5 **PPP and Wick SFT:** This budget covers the management of the contracts and annual payments for the Council's PPP school properties and the Wick Community Campus, totalling £37.067m, with the Wick Campus annual payments supported by SFT grant funding totalling £4.102m. This budget is forecast to be underspent by £0.098m at year-end.
- 5.6 **Revenue Maintenance:** This budget covers the delivery of statutory, reactive, and planned maintenance including engineering servicing works to the General Fund built estate in particular schools, nurseries, offices, and High Life Highland properties. This budget is forecast to be balanced at year-end. However, due to the general condition of our estate there is a high demand for repair works, which requires close monitoring to ensure that the allocated budget is not exceeded.
- 5.6.1 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 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.
- 5.7 **Property Asset Management:** This team is currently leading on property asset management across the Council estate and are focused on reducing the number of buildings that Services occupy. This operational budget is forecast to be slightly underspent by £0.100m at year-end.
- 5.8 **Depots:** This operational budget covers the purchase of material and equipment supplies in all Council depots; a year end overspend of £0.172m is currently forecast. However, staff, where practicable are working towards reducing their material and equipment spend in order to improve on the year end position.
- 5.9 **HLH Properties:** This budget also covers the cost of utility consumption in HLH occupied premises, this budget is forecast to be to be slightly overspent by £0.057m at year-end.
- 5.10 **Other Offices & Properties:** This heading also relates to utility consumption across this portfolio, a year end underspend of £0.004m is currently forecast.
- 5.11 The budget position for Depots, HLH and Offices may vary at year end, depending on the allocation of centrally held funding to cover cost pressures related to utilities.
- 5.12 **Non-Domestic Rates:** The Council has centralised the payment of non-domestic rates via the Property Service (previously all Council Services held individual rates budgets for the buildings they occupied). A reduction in the number of non-domestic properties being eligible for rates relief for 24/25 will result in the allocated budget being overspent by circa £0.662m at year end.

## 6. Corporate Budget Savings Delivery

6.1 Also enclosed within this report is an updated assessment of progress with delivery of budget savings. **Appendix 3** sets out a Blue/Red/Amber/Green (BRAG) assessment of those savings.

6.2 The Appendix reflects the savings proposals being taken forward within the Service as well as the Services share of corporate specific savings.

The corporate asset rationalisation savings target of £1.164m which was previously held within unallocated corporate savings has now been allocated to the Property budget. Savings of £252k have been achieved bringing the savings still to be achieved down to £912k.

Work will continue to identify and progress further Asset Rationalisation savings for Q4 and beyond. The balance of this budget saving will transfer into financial year 25/26 where various general fund properties will be targeted for disposal or additional lease income generated to support the delivery of this saving.

Designation: Assistant Chief Executive – Place.

Date: 8 January 2025.

Authors: Finlay H. MacDonald – Chief Officer – Property & Assets.  
Luke McColl – Accountant – Finance Service.

### **Appendices:**

Appendix 1: Monitoring of Revenue Expenditure to 31 December 2024 – Summary.

Appendix 2: Monitoring of Revenue Expenditure to 31 December 2024 – Detailed.

Appendix 3: Corporate Savings – BRAG Assessment Q3 24/25.

**PROPERTY & FACILITIES MANAGEMENT MONITORING STATEMENT QUARTER 3 2024-25**

**Appendix 1**

31/12/2024	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
<b>BY ACTIVITY</b>				
Project Delivery	(385)	(5,181)	(4,359)	822
CCFM	15,936	25,673	25,244	(429)
PPP & Wick SFT	24,728	33,134	33,036	(98)
Revenue Maintenance	8,272	8,530	8,530	0
Properties	16,866	16,774	18,481	1,707
<b>Grand Total Property &amp; Facilities Management</b>	<b>65,417</b>	<b>78,930</b>	<b>80,932</b>	<b>2,002</b>
<b>BY SUBJECTIVE</b>				
Staff Costs	22,734	34,339	34,213	(126)
Other Expenditure	52,549	66,787	70,329	3,542
<b>Gross Expenditure</b>	<b>75,283</b>	<b>101,126</b>	<b>104,542</b>	<b>3,416</b>
Grant Income	(1,129)	(5,727)	(5,816)	(89)
Other Income	(8,738)	(16,470)	(17,795)	(1,325)
<b>Total Income</b>	<b>(9,867)</b>	<b>(22,197)</b>	<b>(23,611)</b>	<b>(1,414)</b>
<b>NET TOTAL</b>	<b>65,416</b>	<b>78,929</b>	<b>80,931</b>	<b>2,002</b>

PROPERTY & FACILITIES MANAGEMENT MONITORING STATEMENT 2024-25

Appendix 2

Q3 MONITORING 2024-25	STAFF COSTS				OTHER COSTS				GRANT INCOME				OTHER INCOME				NET TOTAL			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'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	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance
<b>BY ACTIVITY</b>																				
<b>Project Delivery</b>																				
Technical Design & Projects	4,925	3,189	4,830	(95)	(856)	419	884	1,740	(1,526)	(1,126)	(1,610)	(84)	(7,925)	(2,749)	(8,073)	(148)	(5,382)	(267)	(3,969)	1,413
Project Management	1,502	1,361	2,032	531	5	6	7	1	0	0	0	0	(1,547)	(1,880)	(2,712)	(1,165)	(40)	(513)	(673)	(633)
Property Support	407	318	439	32	114	78	113	(1)	0	0	0	0	(280)	(2)	(269)	11	241	395	283	42
COVID 19	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>CCFM</b>																				
CCFM Business Support	462	356	439	(24)	54	62	71	17	0	0	0	0	(36)	0	0	36	480	417	510	29
Catering	12,293	8,488	12,116	(177)	5,697	2,100	5,835	138	0	0	0	0	(3,939)	(2,649)	(3,996)	(57)	14,050	7,939	13,955	(95)
Cleaning & Facilities Management	12,550	7,594	12,151	(399)	423	234	417	(6)	0	0	0	0	(1,831)	(248)	(1,790)	41	11,142	7,580	10,779	(363)
<b>PPP &amp; Wick SFT</b>																				
PPP & Wick SFT	268	(45)	313	45	37,067	24,798	37,063	(4)	(4,102)	(3)	(4,106)	(5)	(100)	(22)	(234)	(134)	33,134	24,728	33,036	(98)
<b>Revenue Maintenance</b>																				
Revenue Maintenance	1,483	1,092	1,364	(119)	7,334	8,129	7,457	123	0	0	0	0	(286)	(949)	(291)	(5)	8,530	8,272	8,530	0
<b>Properties</b>																				
Property Asset Management	384	354	480	96	1,196	642	981	(216)	0	0	0	0	(287)	(174)	(267)	20	1,293	822	1,194	(100)
Depots	66	25	50	(16)	1,068	854	1,255	187	0	(0)	(1)	(1)	(79)	(1)	(78)	2	1,055	877	1,227	172
HLH Properties	0	2	0	0	2,996	2,148	2,972	(23)	(82)	0	(82)	0	(115)	(20)	(35)	81	2,798	2,130	2,855	57
Other Offices & Properties	0	0	0	0	471	261	482	12	(17)	0	(17)	0	(43)	(43)	(51)	(8)	410	218	414	4
Non Domestic Rates	0	0	0	0	12,130	12,818	12,791	662	0	0	0	0	0	0	0	0	12,130	12,818	12,791	662
Asset Rationalisation Saving	0	0	0	0	(912)	0	0	912	0	0	0	0	0	0	0	0	(912)	0	0	912
<b>Grand Total Property &amp; Facilities Management</b>	<b>34,339</b>	<b>22,734</b>	<b>34,213</b>	<b>(125)</b>	<b>66,787</b>	<b>52,549</b>	<b>70,329</b>	<b>3,542</b>	<b>(5,727)</b>	<b>(1,129)</b>	<b>(5,816)</b>	<b>(89)</b>	<b>(16,470)</b>	<b>(8,738)</b>	<b>(17,795)</b>	<b>(1,325)</b>	<b>78,929</b>	<b>65,416</b>	<b>80,931</b>	<b>2,002</b>

Corporate Savings - Housing & Property Service - BRAG Assessment Q3 2024/25					Appendix 3		
	Service	Saving Type	Saving Description	Agreed Savings £m	Savings Confirmed to Date (Blue/Green)	Savings still to be confirmed (Amber)	Status: BRAG
1	H&P	Non-Staffing	Use of Robotic Technology - Modernisation of Cleaning Service	0.041	0.041		G
2	H&P	Income Generation	Property Assets - New Demonstrator Type Projects – Shared Space Rental Income	0.100	0.040	0.060	A
3	H&P	Non-Staffing	Property Assets - More Energy Efficient Buildings	0.100	0.050	0.050	A
4	H&P	Non-Staffing	Property Assets - Accelerated Rationalisation of Offices & Depots	0.050	0.050		G
5	H&P	Staffing	Management Process - Hybrid Work - P&H hybrid working contribution	0.036	0.036		G
6	H&P	Staffing/non-staffing	Cross Service Efficiency - 1% efficiency target from relevant service budgets	0.370	0.370		G
7	H&P	Income Generation	Income from Fees & Charges - Commercial Lease Fees - New rental income from third party leases	0.025	0.025		G
9	H&P	Income Generation	Income from Fees & Charges - Increasing Fees and Charges – Property £132,417 / non-HRA £229,096	0.362	0.100	0.262	A
10	H&P	Income Generation	Income from Fees & Charges - Delivering additional Cleaning & FM Services to Housing Services	0.016	0.016		G
11	H&P	Non-Staffing	Corporate Asset Rationalisation Savings Target - This previous non-allocated saving has now been allocated to Property Services. This saving will be carried forward into FY 25/26.	0.912	0.100	0.812	R
			<b>Total</b>	<b>£2.012m</b>	<b>0.828m</b>	<b>1.184m</b>	
			<b>Savings as a % of Total</b>		<b>41%</b>	<b>59%</b>	