

Agenda Item	6
Report No	HP/13/20

THE HIGHLAND COUNCIL

Committee: **Housing & Property Committee**

Date: **9th September 2020**

Report Title: **Property & Facilities Management Services
Revenue Monitoring Report to 30th June 2020**

Report By: **Executive Chief Officer Housing & Property**

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first quarter of financial year 2020/21 together with a forecast year end outturn position.
- 1.2 This is the first revenue report for Property & FM Services (as part of the new Housing & Property Service). Because the service generates income externally and internally (through internal re-charges to other Council services and capital programmes) the budget monitoring report contains information on income and expenditure, showing both gross and net budgets. Annual gross income totals £19.945m and annual budgeted expenditure totals £83.071m, providing a net annual budget of £63.126m.
- 1.3 At the end of quarter 1, 2020/21, income of £1.745m was generated and £12.519m was spent, providing a net spend on services totalling £10.774m.
- 1.4 As reported corporately to Corporate Resources Committee and Council meetings Covid 19 has created budget pressures, particularly in relation to additional Covid mitigation costs. Covid has made it difficult to plan for and deliver all service savings and it has caused significant disruption to service income. Income streams such as professional fees relative to the delivery of capital and revenue projects, school meal food sales, cleaning services and school lets have all been in some way affected.
- 1.5 At the end of quarter 1, a budget gap of £3.128m is forecast, largely due to costs incurred responding to the ongoing impact of Covid 19. This position may change depending on progress made with income recovery, ongoing expenditure controls, and any additional Government funding that may become available. New pressures may also arise. In quarter 2 we expect to report on additional costs incurred from supporting Covid mitigation measures such as the enhanced cleaning of schools along with increased property maintenance costs for water safety management, ventilation improvements and engineering service contracts.
- 1.6 Capital monitoring will be reported for the service from quarter 2 and after the Council has confirmed the capital programme for the service for 2020/21.

2. Recommendations

2.1 Members are asked to Note:

- i. The more detailed reporting of gross income and gross expenditure to improve scrutiny of net budgets as set out in the attached Appendices;
- ii. net spend at the end of quarter 1 totalled £10.774m;
- iii. based on the best available information to date, a service budget gap of £3.128m to the end of 2020/21 is presently forecast, largely due to essential Covid responses;
- iv. almost every area of service relies on income to pay for services and this is significantly disrupted this year because of Covid impacts. Spend addressing Covid related issues is the key reason for the service's forecast budget gap;
- v. the budget gap may change positively or negatively depending on the application of expenditure and recruitment controls, adjusting services to meet previously agreed budget savings; in-year income recovery, identifying new income and procurement opportunities, drawing down any further Government grant support and any new Covid related recovery costs;
- vi. that further adjustments will be made in future quarterly reporting to reflect the updated apportionment of costs and savings across the new ECO structure, improved monthly profiling of income and expenditure and any other resourcing issues emerging including any potential Brexit impacts; and
- vii. the significant effort and support applied by the Property, Catering, Cleaning and FM teams in preparing the physical school estate for fully reopening on the 18th August. The Property & FM teams are also providing phased support to bring the HLH estate back into operational use.

3. Implications

3.1 Resource implications

This report highlights the quarter 1 revenue position and the forecast budget gap for 2020/21. Covid impacts are still emerging and will be tracked and reported in future monitoring.

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, covering £19.945m of expenditure. Covid works delivered by the service are part of the legal response required during a pandemic and they continue to have resource implications.

3.3 Community implications (Equality, Poverty, Rural and Island)

Services have been adjusted during the Covid lockdown and recovery periods and Covid responses have included essential support to communities such as supporting humanitarian centres, key worker hubs and the return to school's project as well as engaging local contractors for the delivery of engineering servicing and water safety compliance works.

3.4 Climate Change implications

The temporary closure of buildings has had a positive environmental impact, in particular the significant reduction of staff vehicle journeys travelling to and from work. Quarter 1 staff business travel has also reduced as a direct result of Covid restrictions, resulting in lower carbon emissions across Highland.

3.5 Risk implications

The Property & FM service budget relies on £19.945m of income to pay for 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. Covid disruption to date has brought additional cost, lost income and lost savings achievement and these are not mitigated by reduced expenditure at quarter 1. Consequently, there is a risk to sustaining service delivery at current levels. There is risk that further pressures will emerge either from local outbreaks of Covid, further recovery from Covid or other external factors including Brexit.

3.6 Gaelic implications

Bilingual Covid advisory signage has been provided for the school estate.

4. **Background and Quarter 1 service position**

4.1 This report covering the revenue budget monitoring aims to improve the financial information provided to Members by:

- providing more detail in the description of the service areas within the budget; and
- reporting actual and forecast income as well as expenditure, so reporting gross as well as net budgets.

4.2 As noted in the corporate revenue monitoring report for quarter 1 for Corporate Resources Committee, the exercise to realign all budgets to the new ECO structure would be challenging in the best of times and some realignment to the budget allocations across services is likely to be required over the remainder of the year to ensure that budgets exactly match the areas of responsibility of each Executive Chief Officer. Further adjustments regarding areas such as the new Corporate Landlord function are likely to be reported in future monitoring reports.

4.3 **Appendix 1** details the total annual net budget of £63.126m, the net budget by service activity, the actual net spend in quarter 1 and the forecast net spend to the year-end. The PPP schools and Wick Campus including property non-domestic rates budgets account for the largest area of net expenditure. Staff costs comprise 32% of the gross budget and the service is reliant on £19.945m of income from both external and internal sources.

4.4 By end June 2020, net spend totalled £10.774. Current projections predict that without additional Covid support funding an over-spend of £3.128m is forecast by the end of March 2021. Various assumptions are made in this forecast as described in section 5 below. Work is underway to mitigate this overspend, although at this time the extent of the budget gap cannot be closed.

4.5 **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.

4.6 This highlights that income applies to nearly every service area. This brings risk to achieving a balanced budget, especially when £19.945m of income is required to pay for service running costs.

- 4.7 **Appendix 2** identifies the various activities that are delivered across the service. Within the Project Delivery heading the collective technical design, project management and property support teams are wholly reliant on fee income derived from the delivery of General Fund and HRA capital and revenue projects. Income was expected to drop as a direct result of Covid restrictions, the suspension of construction contracts and early IT network issues during periods of homeworking, however staff managed to work through these issues and income is better than originally expected.
- 4.8 Within the Covid 19 heading property related estimated Covid costs of £2.312m currently consist of the cleaning, disinfection and remediation of school water systems, installation of Covid related signage, additional cleaning prior to schools reopening, installation of protective screens to dining room till points, supply of additional cleaning materials, initial bulk purchase of hand sanitiser as well as work to improve mechanical ventilation in the school estate. A proportion of actual Covid expenditure will be reported in the quarter 2 monitoring report.
- 4.9 Catering, Cleaning and Facilities Management (CCFM) provide a significant level of service delivery to Education, HLH and Office accommodation across Highland. Covid has resulted in an underspend in food supplies of £1.7m, however food sales were significantly down primarily due to school closures resulting in a projected £2.3m loss of Catering income at year end. The Cleaning and FM service have also supported keyworker hubs, humanitarian centres and have come under significant pressure in providing additional enhanced cleaning and FM services (with a reduced workforce due to managing a number of vacancies and shielding compliance) to schools and other Council facilities during the current pandemic.
- 4.10 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. The Wick Campus annual payments are supported by SFT grant funding totalling £4.211m.
- 4.11 The Property Revenue Maintenance budget 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. Due to buildings being closed and contractors complying with lockdown there has been a build-up of both repairs and backlog servicing work which is now being actioned as schools have reopened and contractors are becoming available. This budget line will continue to come under pressure as more of the estate reopens for business under the “new normal” operating protocols.
- 4.12 The last specific heading in **Appendix 2** called properties contains the following areas of responsibility:
- Property Asset Management: This team is currently leading on property rationalisation across the office estate and is key to supporting the return to offices project across Highland.
 - Depots: Responsibility for the Council depot buildings previously sat with Community Services, so this is a new area for the Property team to be leading on. Early condition surveys are necessary to provide an accurate overview on how well or poorly sites are performing which in time will inform future investment decisions.

- **HLH Properties:** The Property team continue to provide a maintenance service for HLH buildings and initial engineering servicing works are underway in order that the HLH estate is prepared for future service delivery.
- **Other Offices & Properties:** This heading relates to property maintenance work carried out to our Highland wide office portfolio and remaining functional General Fund buildings.
- **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), this budget, £10.184m will be expended by year end.

4.13 The totals at the bottom of the table in **Appendix 2** shows that at the end of quarter 1 gross spend was £12.519m, gross income was £1.745m and the net spend totalled £10.774m. Forecast net spend shows a budget gap of £3.128m.

5. Service budget variances

- 5.1 Corporate reporting on the Council's revenue budget overall highlights 5 areas contributing to the budget gap. These are:
- Covid mobilisation costs - principally the costs of the initial response activity;
 - lost income - budgeted income from fees, charges and internal recharges for project works not expected to be delivered due to the Covid impact;
 - challenges in delivering approved savings - planned savings activity not expected to be delivered due to Covid 19;
 - recovery costs - additional costs associated with the return to 'normal' activity over the remainder of the financial year; and
 - reduced costs - costs saved in specific areas as a result of lockdown.
- 5.2 Each of these areas contributed to the budget gap in the Property & FM Service. Initial mobilisation costs in responding to Covid lockdown are found in staff migrating their essential IT equipment to enable homeworking as Council offices were closing. Staff assisting with helplines and also volunteering with humanitarian assistance including supporting keyworker hubs. Internal recharge fee income (for the design and project management teams) on capital projects fell below target due primarily to initial IT network access difficulties, particularly where staff were unable to log on to key Council systems. These early IT issues in the main have been subsequently resolved and have assisted design and project delivery staff to improve their productivity and fee earning capability.
- 5.3 Lost income is a significant issue for the Property & FM service. Covid disruption severely impacted various service areas in particular:
- Live construction contracts (on both housing HRA and schools) being suspended resulting in projects being prolonged and additional costs having to be met due to sites having to go into care and repair mode and kept safe until Government restart was permitted;
 - Covid lockdown resulting in delays with commencing new capital and revenue projects as design and project management staff were not permitted to visit Council sites/HRA properties in line with national guidance which resulted in professional fee income not being achieved against these planned projects;
 - School meals service suspended resulting in an immediate loss of food sales income;

- Loss of external income from school lets as these were suspended to mitigate potential Covid transmission.

5.4 The service is not expecting to deliver all savings agreed by the Council in previous budget-setting meetings. The need to focus on the service response to Covid has consumed all the management time available. Progress with Property & FM service savings will be reported in quarter 2 monitoring.

5.5 Additional Covid recovery costs are still being identified and more may arise. They include:

- costs associated providing additional cleaning and disinfection to water systems;
- installation of information banners and signage to schools and offices;
- installation of protective perspex screening to payment points in school canteens;
- adjustments to mechanical ventilation in schools and offices;
- provision of enhanced daytime cleaning to schools in line with Government Guidance;
- provision of additional cleaning materials and appropriate PPE;
- extension of school dining periods to accommodate additional cleaning requirements (sanitisation of dining tables and chairs after each sitting)
- additional heating costs to mitigate the impact of increased building ventilation during the winter months.

5.6 Some costs have reduced in quarter 1 during our Covid response. This includes reduced food costs in schools, school lets site management costs, travel costs and delayed engineering service costs due to contractors being in lockdown. However, some of these costs will be deferred into quarter 2 onwards, for example as contractors recommence essential works in our schools. The reduction in expenditure, however, is offset by the essential spend on Covid recovery activities in quarter 1.

6. Mitigation and resourcing developments

6.1 As reported to the Corporate Resources Committee in August 2020, the impact of Covid on the Council's budget and operations and the actions being taken to mitigate it are still very much emergent. Certain aspects of the response are still to be determined and the figures reported here reflect the best information we have at the time of writing this report. Had it not been for the impact of Covid 19 the service would be reporting a near-balanced budget for year end.

6.2 Current mitigation includes:

- achieving specific Covid recovery income in 2020/21;
- compliance with recruitment controls (although challenging due to additional enhanced cleaning required in our schools);
- reviewing budget savings potential;
- identifying new income generating proposals and processes;
- reviewing existing corporate procurement processes and contracts and in particular spend on property related engineering service contracts to explore if in-sourcing provides better value.

Designation: Executive Chief Officer Housing & Property

Date: 25th August 2020

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PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - JUNE MONITORING
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	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(3,101)	(201)	(2,735)	366
Covid 19 Response	0	12	2,312	2,312
CCFM	16,848	4,186	17,446	598
PPP & Wick SFT	28,108	5,434	28,207	99
Revenue Maintenance	6,698	640	6,698	0
Properties	14,573	703	14,326	(247)
TOTAL	63,126	10,774	66,254	3,128
BY SUBJECTIVE				
Staff Costs	26,456	5,464	24,209	(2,247)
Other Expenditure	56,615	7,055	58,345	1,730
Gross Expenditure	83,071	12,519	82,554	(517)
Grant Income	(4,211)	0	(4,111)	100
Other Income	(15,734)	(1,745)	(12,189)	3,545
Total Income	(19,945)	(1,745)	(16,300)	3,645
NET TOTAL	63,126	10,774	66,254	3,128

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2020/21 - JUNE MONITORING												
	GROSS EXPENDITURE				GROSS INCOME				NET TOTAL			
	£'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
BY ACTIVITY												
Project Delivery												
Technical Design & Projects	4,839	1,201	4,466	(373)	(7,509)	(1,380)	(6,819)	690	(2,670)	(179)	(2,353)	317
Project Management	742	172	725	(17)	(1,410)	(289)	(1,326)	84	(668)	(117)	(601)	67
Property Support	254	96	225	(29)	(17)	(1)	(6)	11	237	95	219	(18)
Covid 19												
Covid 19 Response Costs	0	12	2,312	2,312	0	0	0	0	0	12	2,312	2,312
CCFM												
CCFM Business Support	484	122	444	(40)	(36)	0	(36)	0	448	122	408	(40)
Catering	12,462	2,135	10,530	(1,932)	(4,731)	(16)	(2,431)	2,300	7,731	2,119	8,099	368
Cleaning	5,333	1,135	5,369	36	(321)	1	(198)	123	5,012	1,136	5,171	159
Facilities Management	3,984	808	3,848	(136)	(327)	1	(80)	247	3,657	809	3,768	111
PPP & Wick SFT												
PPP & Wick SFT	32,319	5,334	32,418	99	(4,211)	100	(4,211)	0	28,108	5,434	28,207	99
Revenue Maintenance												
Revenue Maintenance	7,562	769	7,511	(51)	(864)	(129)	(813)	51	6,698	640	6,698	0
Properties												
Property Asset Management	1,438	132	1,252	(186)	(216)	(13)	(210)	6	1,222	119	1,042	(180)
Depots	769	170	766	(3)	(73)	0	(69)	4	696	170	697	1
HLH Properties	2,121	256	1,976	(145)	(172)	(16)	(59)	113	1,949	240	1,917	(32)
Other Offices & Properties	580	177	528	(52)	(58)	(3)	(42)	16	522	174	486	(36)
Non Domestic Rates	10,184	0	10,184	0	0	0	0	0	10,184	0	10,184	0
TOTAL	83,071	12,519	82,554	(517)	(19,945)	(1,745)	(16,300)	3,645	63,126	10,774	66,254	3,128