

Agenda Item	6.
Report No	HP/16/22

THE HIGHLAND COUNCIL

Committee: Housing & Property Committee

Date: 17 November 2022

Report Title: Property & Facilities Management Services
Revenue Budget Monitoring Statement Q2 to 30 September 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 Q2 Revenue monitoring position together with a forecast outturn position for end of March 2023.

1.2 In relation to Q2 22/23, the forecast is currently an overspend of £1.546m (2%) of the budget. This variance consists of:

- Projects and Property Maintenance Teams - Fee Income - forecast shortfall: £0.887m
- CCFM Services - Net income under recovery for Catering Services - forecast shortfall: £0.087m
- PPP & Wick Campus Contractual Payments - forecast underspend £0.052m
- Properties - Operational utility costs (HLH/Depots/Office's) - forecast overspend: £0.624m (Increase in utility costs in particular water and gas charges).

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

2. Recommendations

2.1 Members are asked to:

- NOTE** that based on the best available information to date, a service budget gap of £1.546m to the end of 2022/23 is presently forecast. This is an increasing budget gap since the Q1 monitoring report where a budget gap of £1.261m 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 recruiting both CCFM and technical staff in the current job market.
- 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 will result 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 £21.589m 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.
- 3.5.1 **Construction Inflation, Material and Labour Shortages**
Alongside inflation and material shortages, the construction industry is experiencing something of a labour crisis – affecting supply of any materials that are available. The number of job vacancies are at the highest on record with over 48,000 roles available. It was estimated that almost a quarter of the EU construction workforce left the UK during 2020³, while the number of insolvencies in the sector during 2020 were around specialist and supply chain industries. Consequently, the cost of labour has increased – and is driving contractual change, negotiation of new deals on ongoing projects and fluctuation provisions being written into contracts¹.

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

4. **Revenue Budget Monitoring – Q2 2022/23**

- 4.1 **Appendix 1** sets out the monitoring position for Q2 to end September 2022. As can be seen from the Appendix, against a net budget for the year of £66.498m, the forecast is currently a budget gap of £1.546m (2%) 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 section is projecting a year end income shortfall of £0.887m. 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 budget shortfall of £0.087m. 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 impact year end income recovery however the catering team are reviewing options to mitigate the projected budget shortfall.
- 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 £0.052m 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 overspend of £0.180m 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 £0.109m is currently forecast, however building users are working towards reducing their energy consumption, where practicable, in order to minimise the overspend.

- 4.10 HLH Properties: This budget also covers the cost of utility consumption in HLH occupied premises, a year end overspend of £0.324m is currently forecast. A programme of LED lighting installation work is underway, and this along with behavioural change should gradually assist in reducing electricity consumption across the HLH estate.
- 4.11 Other Offices & Properties: This heading also relates to utility consumption across this portfolio, a year end overspend of £0.011m 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, £10.407m, 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: 28 October 2022

Authors: Finlay MacDonald Head of Property & FM
Alistair Bernard Accountant

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

APPENDIX 1

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,474)	(917)	(3,587)	887
CCFM	19,613	9,877	19,700	87
PPP & Wick SFT	29,787	13,532	29,735	(52)
Revenue Maintenance Properties	7,161	4,205	7,161	0
	14,411	12,817	15,035	624
TOTAL	66,498	39,514	68,044	1,546
BY SUBJECTIVE				
Staff Costs	26,656	13,091	26,918	262
Other Expenditure	61,431	32,931	61,640	209
Gross Expenditure	88,087	46,022	88,558	471
Grant Income	(5,727)	(971)	(5,927)	(200)
Other Income	(15,862)	(5,537)	(14,587)	1,275
Total Income	(21,589)	(6,508)	(20,514)	1,075
NET TOTAL	66,498	39,514	68,044	1,546

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2022/23 - SEPTEMBER 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	5,017	2,575	4,932	(85)	(217)	132	(9,245)	(3,568)	(8,190)	1,055	(4,228)	(993)	(3,258)	970
Project Management	984	464	929	(55)	(55)	0	(1,477)	(749)	(1,497)	(20)	(493)	(285)	(568)	(75)
Property Support	264	362	249	(15)	(11)	(4)	(17)	(5)	(14)	3	247	357	235	(12)
COVID 19	0	4	4	4	0	4			0	0	0	4	4	4
CCFM														
CCFM Business Support	461	206	454	(7)	(36)	29	(36)	0	(36)	0	425	206	418	(7)
Catering	14,493	6,243	14,270	(223)	154	(377)	(4,196)	(1,392)	(3,837)	359	10,297	4,851	10,433	136
Cleaning & Facilities Management	9,750	4,892	10,342	592	427	165	(859)	(72)	(1,493)	(634)	8,891	4,820	8,849	(42)
PPP & Wick SFT														
PPP & Wick SFT	33,989	13,432	33,937	(52)	0	(52)	(4,202)	100	(4,202)	0	29,787	13,532	29,735	(52)
Revenue Maintenance														
Revenue Maintenance	8,135	4,886	7,882	(253)	(46)	(207)	(974)	(681)	(721)	253	7,161	4,205	7,161	0
Properties														
Property Asset Management	1,343	723	1,441	98	64	34	(281)	(53)	(199)	82	1,062	670	1,242	180
Depots	819	358	919	100	(18)	118	(73)	(1)	(64)	9	746	357	855	109
HLH Properties	1,881	1,051	2,227	346	0	346	(171)	(43)	(193)	(22)	1,710	1,008	2,034	324
Other Offices & Properties	544	247	565	21	0	21	(58)	(44)	(68)	(10)	486	203	497	11
Non-Domestic Rates	10,407	10,579	10,407	0	0	0	0	0	0	0	10,407	10,579	10,407	0
TOTAL	88,087	46,022	88,558	471	262	209	(21,589)	(6,508)	(20,514)	1,075	66,498	39,514	68,044	1,546

Property & FM - Service Savings - RAG Assessment Q2 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 Q2 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	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	