

The Highland Council

Agenda Item	6
Report No	HP/03/24

Committee: Housing & Property Committee

Date: 31 January 2024

Report Title: Property & Facilities Management Services
Revenue Budget Monitoring Statement Q3 to 31 December 2023

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 Q3 Revenue monitoring position together with a forecast outturn position for end of March 2024.
- 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 £76.244m, with a predicted year end income under-recovery of £1.430m (1.9%). This variance consists of:
- Projects and Property Maintenance Teams - Fee Income - forecast shortfall: £1.897m.
 - CCFM Services - Net income under recovery for Catering Services – overall forecast underspend for CCFM: £0.030m.
 - PPP & Wick Campus Contractual Payments - forecast underspend £0.103m.
 - Property Revenue Maintenance Budget – forecast balanced budget.
 - Properties – Asset Management, (HLH/Depots/Office's) - Operational utility costs Rates payments - forecast underspend due in the main to rates savings/recovery: £0.334m.
 - (Note: The centrally held earmarked energy balance is supporting the increase in utility costs for these properties).

2. Recommendations

2.1 Members are asked to:

- NOTE** the position for the third quarter of the 2023/24 financial year, and the predicted year-end position.

- 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, and identifying new income and procurement opportunities.
- iii. **NOTE** the progress update provided in relation to corporate budget savings delivery.

3. Implications

- 3.1 **Resource** - 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 due to the ongoing inflationary impact on service budgets, as well as challenges in maintaining front-line service delivery within current recruitment controls.
 - 3.1.1 Spend on construction related matters, in particular material costs and utilities, continues to be impacted. This is in addition to the general increases in inflation, fuel cost pressures and wage increase pressures, which also impact the budget. Whilst the general level of inflation in the economy continues to be challenging, construction industry inflation varies, (material dependent), at up to 25%, with timber costs alone as one example of a significant material impact on revenue property maintenance budget spends.
- 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 **Community (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 / Carbon Clever** - 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** - The 2023/24 Property & FM Service budget relies on £22.257m 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.

3.6 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** - Other than what is advised at Para 4.6.1 below there are no additional health & safety implications arising from this report.

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

4. **Revenue Budget Monitoring – Q3 2023/24**

4.1 **Appendix 1** sets out the monitoring position for Q3 to end December 2023. As can be seen from the Appendix, against a net budget for the year of £76.244m, the forecast is currently an overspend of £1.430m (1.9%).

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 **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 44 posts) continues to have a negative impact on the Service achieving its annual income targets and is also affecting project delivery and maintenance works.

4.3.1 The current estimated position is that the fee income target set by Finance will be under-recovered by £1.897m; however, based on the previous years' final position and the challenges that we continue to face, there is potential for this overspend 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 in an effort to improve on the predicted year end income recovery position.

4.4 **CCFM:** Catering, Cleaning and Facilities Management (CCFM) services are currently forecasting a collective underspend of £0.030m. 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 to be at risk.

4.5 **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 £36.440m, with the Wick Campus annual payments supported by SFT grant funding totalling £4.202m. This budget is forecast to be underspent by £0.103m at year-end.

4.6 **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, but this is in the context that the savings targets have resulted in a reduced budget for this financial year which will undoubtedly impact on the overall condition of our built environment. Also, this must be considered a high-risk area due to the construction cost pressures that we continue to face.

- 4.6.1 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.
- 4.7 **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 budget is forecast to be underspent by £0.146m at year-end.
- 4.8 **Depots:** This budget covers the cost of utility consumption in all Council depots, a year end underspend of £0.024m is currently forecast, however building users are working towards reducing their energy consumption, where practicable, in order to minimise the overspend.
- 4.9 **HLH Properties:** This budget also covers the cost of utility consumption in HLH occupied premises, a year end overspend of £0.338m 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.
- 4.10 **Other Offices & Properties:** This heading also relates to utility consumption across this portfolio, a year end underspend of £0.102m is currently forecast.
- 4.11 This budget position for Depots, HLH and Offices may vary depending on the allocation of centrally held funding to cover cost pressures related to utilities.
- 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). An ongoing review of rates payments to identify further savings is underway and this budget is forecast to be underspent by £0.400m at year-end.

5. Corporate Budget Savings Delivery

- 5.1 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.
- 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: 12 January 2024

Authors: Finlay H. MacDonald Head of Property & Facilities Management
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Appendices:

Appendix 1: Monitoring of Revenue Expenditure to 31 December 2023 – Summary

Appendix 2: Monitoring of Revenue Expenditure to 31 December 2023 – Detailed

Appendix 3: Corporate Savings – BRAG Assessment Q3 23/24

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2023/24 - DECEMBER MONITORING

APPENDIX 1

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(4,648)	(739)	(2,751)	1,897
CCFM	24,529	16,773	24,499	(30)
PPP & Wick SFT	32,238	25,083	32,135	(103)
Revenue Maintenance	6,670	6,529	6,670	0
Properties	17,453	14,796	17,119	(334)
TOTAL	76,242	62,442	77,672	1,430
BY SUBJECTIVE				
Staff Costs	31,930	22,395	31,483	(447)
Other Expenditure	66,570	52,394	67,712	1,142
Gross Expenditure	98,500	74,789	99,195	695
Grant Income	(5,726)	(2,924)	(5,661)	65
Other Income	(16,530)	(9,424)	(15,860)	670
Total Income	(22,256)	(12,348)	(21,521)	735
NET TOTAL	76,244	62,441	77,674	1,430

PROPERTY & FACILITIES MANAGEMENT SERVICE BUDGET 2023/24 - DECEMBER 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	4,704	3,876	5,194	490	233	257	(9,246)	(4,074)	(6,620)	2,626	(4,542)	(198)	(1,426)	3,116
Project Management	1,167	782	1,044	(123)	(124)	1	(1,547)	(1,892)	(2,492)	(945)	(380)	(1,110)	(1,448)	(1,068)
Property Support	291	574	132	(159)	(22)	(137)	(17)	(4)	(9)	8	274	570	123	(151)
COVID 19	0	0	0	0	0	0	0	0	0	0	0	0	0	0
CCFM														
CCFM Business Support	508	326	454	(54)	(91)	37	(36)	0	(36)	0	472	326	418	(54)
Catering	17,471	11,282	17,625	154	(441)	595	(4,046)	(2,682)	(4,085)	(39)	13,425	8,600	13,540	115
Cleaning & Facilities Management	12,257	8,082	12,178	(79)	(164)	85	(1,625)	(235)	(1,636)	(11)	10,632	7,847	10,542	(90)
PPP & Wick SFT														
PPP & Wick SFT	36,440	27,129	37,765	1,325	298	1,027	(4,202)	(2,046)	(5,630)	(1,429)	32,239	25,083	32,135	(104)
Revenue Maintenance														
Revenue Maintenance	7,645	7,804	7,341	(304)	(99)	(205)	(974)	(1,275)	(670)	304	6,671	6,529	6,671	0
Properties														
Property Asset Management	1,558	787	1,284	(274)	(40)	(234)	(281)	(68)	(153)	128	1,277	719	1,131	(146)
Depots	1,129	671	1,112	(17)	4	(21)	(73)	(1)	(80)	(7)	1,056	670	1,032	(24)
HLH Properties	3,033	2,101	3,245	212	1	211	(163)	(29)	(37)	126	2,870	2,072	3,208	338
Other Offices & Properties	471	241	396	(75)	0	(75)	(48)	(41)	(75)	(27)	423	200	321	(102)
Non Domestic Rates	11,827	11,136	11,427	(400)	0	(400)	0	0	0	0	11,827	11,136	11,427	(400)
TOTAL	98,501	74,791	99,197	696	(445)	1,141	(22,257)	(12,347)	(21,523)	734	76,244	62,444	77,674	1,430

Corporate Savings - Housing & Property Service - RAG Assessment Q3 2023/24						APPENDIX 3		
Budget Saving Category	Saving Ref	Service	Saving Type	Saving Description	Agreed Savings £m	Savings Confirmed to Date (Blue/Green)	Savings still to be confirmed (Amber)	Status: BRAG
Reducing Waste/ Avoidable Spend	1.3c	H&P	Staffing	Reduce Overtime/Agency Appointments	0.050		0.050	A
Reducing Waste/ Avoidable Spend	1.3d	H&P	Staffing	Reduce Casual and Temp Contracts	0.150		0.150	A
Reducing Waste/ Avoidable Spend	1.5	H&P	Non-Staffing	Reduce council tax payments on School houses	0.040	0.040		G
Reducing Waste/ Avoidable Spend	1.6	H&P	Non-Staffing	Catering Services (Reduction of operational costs)	0.100	0.100		G
Budget Not Required for Original Purpose	2.1e	H&P	Staffing	Reduce 2 FTE equivalent posts in service	0.100	0.100		G
Budget Not Required for Original Purpose	2.1f	H&P	Non-Staffing	General review of all budget lines	0.200		0.200	A
Budget Not Required for Original Purpose	2.7	H&P	Non-Staffing	Further delivery of Asset Rationalisation	0.410		0.410	A
Service Redesign and Efficiency	3.20	H&P	Staffing	Redesign of FM Service	0.250	0.250		B
Service Redesign and Efficiency	3.24a	H&P	Non-Staffing	Changes to the Council's approach to homelessness - Housing Support budget	0.070	0.070		B
Service Redesign and Efficiency	3.24b	H&P	Non-Staffing	Changes to the Council's approach to homelessness - Homelessness budget	0.070	0.070		B
Removal or Reduction in Service	6.6	H&P	Staffing	Redesign of Cleaning Services	0.450	0.450		B
Removal or Reduction in Service	6.9a	H&P	Non-Staffing	Review and reduce Property Maintenance budget - recurring savings	0.500	0.500		B
Removal or Reduction in Service	6.9b	H&P	Non-Staffing	Review and reduce Property Maintenance budget - 2023/24 one-off savings	1.000	1.000		B
Increasing Income - Commercial	7.18	H&P	Non-Staffing	Regularise lease/rental charges	0.040		0.040	A
				Total	3.430	2.580	0.850	
				Savings as a % of Total		75%	25%	