

Agenda Item	5.
Report No	HP/22/24

The Highland Council

Committee: **Housing and Property**

Date: **6 November 2024**

Report Title: **Property & Facilities Management Services Revenue Monitoring Statement to 30 September 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 Q2 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 £76.984m, with a predicted year end income under-recovery of £0.425m (less than 1% of the net budget). This variance consists of:
 - Project Delivery and Property Management Teams - Fee Income - forecast shortfall: £0.903m.
 - CCFM Services - Overall forecast underspend for CCFM: £0.585m.
 - PPP & Wick Campus Contractual Payments - forecast underspend: £0.076m.
 - Property Revenue Maintenance Budget: forecast balanced budget.
 - Properties – *(Offices/HLH/Depots) - Operational utility costs - forecast overspend: £0.182m.
 - Non-Domestic Rates payments - forecast balanced budget.
 - *(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. **NOTE** the position for the second quarter of the 2024/25 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 reflects the Quarter 2 budget monitoring and forecast position. This reflects the first reporting to Strategic Committees using the new Corporate Financial System implemented in April. Members will note from **Appendix 4** an example of the style of blended graphical/tabular data available from the new system to budget holders, with further development work over the course of this year to realise further benefits from the new system. This Appendix is provided as a work-in-progress illustration given aspects of the reporting dashboards are still being developed.

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 £22.633m 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 – Q2 2024/25

5.1 **Appendix 1** sets out the monitoring position for Q2 to end September 2024. As can be seen from the Appendix, against a net budget for the year of £76.984m, there is a predicted year end income under-recovery of £0.425m (less than 1% 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 continues to have an 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 £0.903m; 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 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 £0.585m, 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 £36.167m, with the Wick Campus annual payments supported by SFT grant funding totalling £4.102m. This budget is forecast to be underspent by £0.076m 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 overspent by £0.018m 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 £0.175m 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 balanced at year-end.

5.10 **Other Offices & Properties:** This heading also relates to utility consumption across this portfolio, a year end underspend of £0.011m is currently forecast.

5.11 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.

5.12 **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). A review of rates payments to identify in-year savings is underway and this budget is currently forecast to be balanced 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 Service share of corporately allocated savings.

Designation: Assistant Chief Executive – Place

Date: 16 October 2024

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

Appendices:

- Appendix 1: Monitoring of Revenue Expenditure to 30 September 2024 – Summary
- Appendix 2: Monitoring of Revenue Expenditure to 30 September 2024 – Detailed
- Appendix 3: Corporate Savings – BRAG Assessment Q2 24/25
- Appendix 4: Sample format of future financial reports from the new Finance System

PROPERTY & FACILITIES MANAGEMENT MONITORING STATEMENT QUARTER 2 2024-25

Appendix 1

30/09/2024	£'000 Actual YTD	£'000 Annual Budget	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Project Delivery	(461)	(5,272)	(4,369)	903
CCFM	9,957	24,357	23,773	(585)
PPP & Wick SFT	17,684	32,234	32,158	(76)
Revenue Maintenance	5,174	7,985	7,985	0
Properties	14,693	17,680	17,862	182
Grand Total Property & Facilities Management	47,048	76,984	77,408	425
BY SUBJECTIVE				
Staff Costs	13,844	33,585	32,663	(469)
Other Expenditure	39,514	66,031	69,292	2,807
Gross Expenditure	53,358	99,617	101,955	2,338
Grant Income	(849)	(5,727)	(5,701)	26
Other Income	(5,461)	(16,906)	(18,846)	(1,940)
Total Income	(6,310)	(22,633)	(24,546)	(1,913)
NET TOTAL	47,048	76,984	77,408	425

PROPERTY & FACILITIES MANAGEMENT MONITORING STATEMENT 2024-25

Appendix 2

Q2 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	£'000
	Annual	Actual	Year End	Year End	Annual	Actual	Year End	Year End	Annual	Actual	Year End	Year End	Annual	Actual	Year End	Year End	Annual	Actual	Year End	Year End
	Budget	YTD	Estimate	Variance	Budget	YTD	Estimate	Variance	Budget	YTD	Estimate	Variance	Budget	YTD	Estimate	Variance	Budget	YTD	Estimate	Variance
BY ACTIVITY																				
Project Delivery																				
Technical Design & Projects	5,309	1,906	4,804	(505)	(1,485)	222	575	2,060	(1,481)	(845)	(1,565)	(84)	(7,720)	(1,838)	(7,708)	13	(5,378)	(555)	(3,894)	1,484
Project Management	1,420	895	1,950	531	5	3	8	3	0	0	0	0	(1,547)	(1,260)	(2,729)	(1,182)	(122)	(362)	(770)	(648)
Property Support	394	313	439	45	114	144	126	11	0	0	0	0	(280)	(1)	(269)	12	228	456	295	68
COVID 19	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
CCFM																				
CCFM Business Support	445	181	438	(7)	54	46	59	5	0	0	0	0	(36)	0	0	36	462	227	497	35
Catering	11,604	5,194	11,373	(231)	5,695	1,416	5,695	0	0	0	0	0	(3,892)	(1,547)	(3,996)	(104)	13,407	5,063	13,072	(335)
Cleaning & Facilities Management	11,897	4,577	11,497	(400)	423	165	496	74	0	0	0	0	(1,831)	(74)	(1,790)	41	10,488	4,668	10,204	(284)
PPP & Wick SFT																				
PPP & Wick SFT	268	(45)	313	45	36,167	17,755	36,107	(60)	(4,102)	(3)	(4,109)	(7)	(100)	(22)	(153)	(53)	32,234	17,684	32,158	(76)
Revenue Maintenance																				
Revenue Maintenance	1,435	613	1,390	(45)	7,524	5,161	8,368	844	0	0	0	0	(974)	(601)	(1,773)	(799)	7,985	5,174	7,985	0
Properties																				
Property Asset Management	361	210	460	99	1,258	322	1,035	(223)	(45)	0	0	45	(287)	(75)	(189)	98	1,288	457	1,306	18
Depots	0	0	0	0	1,130	515	1,304	174	0	(0)	(1)	(1)	(79)	(1)	(76)	3	1,051	514	1,226	175
HLH Properties	0	0	0	0	2,996	895	2,912	(84)	(82)	0	(9)	74	(115)	(14)	(106)	10	2,798	881	2,797	0
Other Offices & Properties	0	0	0	0	475	126	478	3	(17)	0	(17)	0	(43)	(28)	(57)	(14)	414	98	403	(11)
Non Domestic Rates	0	0	0	0	12,130	12,743	12,130	0	0	0	0	0	0	0	0	0	12,130	12,743	12,130	0
Grand Total Property & Facilities Management	33,132	13,844	32,663	(469)	66,485	39,514	69,292	2,807	(5,727)	(849)	(5,701)	26	(16,906)	(5,461)	(18,846)	(1,940)	76,984	47,048	77,408	425

Corporate Savings - Housing & Property Service - BRAG Assessment Q2 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 Projects – Shared Space Rental Income	0.100		0.100	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	0.50	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	0.180	0.182	A
10	H&P	Income Generation	Income from Fees & Charges - Delivering additional Cleaning & FM Services to Housing Services	0.016	0.016		G
			Total	£1.100m	0.768m	0.332m	
			Savings as a % of Total		70%	30%	

Example of the future financial report format that will be available from the Council's new Financial System

Appendix 4

Directorate			Nominal Group Summary			Directorate
Directorate	Annual Budg...	Actuals YTD	Nominal Group	Annual Budg...	Actuals YTD	
G - Property & Housing	76,984	47,045	Employees	33,018	13,870	<input type="checkbox"/> Select All
			Premises Related Expenditure	27,751	23,841	<input type="checkbox"/> U - Communities & Place
			Transport Related Expenditure	316	194	<input type="checkbox"/> E - Infrastructure & Environment
			Supplies & Services	38,578	15,450	<input type="checkbox"/> F - Resources & Finance
			Support Services	(263)	0	<input checked="" type="checkbox"/> G - Property & Housing
			Income	(22,416)	(6,310)	<input type="checkbox"/> H - HRA
	76,984	47,045		76,984	47,045	<input type="checkbox"/> I - Capital
Annual Budget			Year to date Actuals			<input type="checkbox"/> J - Financing & Accounting
						<input type="checkbox"/> K - Pension Fund
Monitoring Line						<input type="checkbox"/> L - HITRANS
Monitoring Line AP1 Description	Annual Budg...	Actuals YTD				<input type="checkbox"/> M - Beinn Tharsuinn Windfarm
CCFM	24,357	9,957				<input type="checkbox"/> N - Digital Highland
PPP & Wick SFT	32,234	17,684				<input type="checkbox"/> NA - Not Applicable
						<input type="checkbox"/> O - Highland Opportunities Ltd
						<input type="checkbox"/> P - Trust Funds
						<input type="checkbox"/> Q - Charitable Trust Funds
						<input type="checkbox"/> R - Common Good Funds
						<input type="checkbox"/> S - High Life Highland
						<input type="checkbox"/> T - Valuation Joint Board
						<input type="checkbox"/> U - Depute Chief Executive
						<input type="checkbox"/> V - Welfare