

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Buildings, Land and Procurement Panel
Date:	3 July 2012
Title:	Business Services Group – Annual Report and Accounts 2011/12
Reference:	3841
Report From:	Director of Culture, Communities and Business Services

Contact name: Neil Jones

Tel: 01962 846180

Email: neil.jones@hants.gov.uk

1. Executive Summary

1.1. The purpose of this report is to provide a summary of the financial performance of the principal self-funding units within the Culture, Communities and Business Services department (CCBS) for 2011/12, including an overview of the aggregate accumulated surpluses.

2. Contextual Information

2.1. The business units covered in this report are:

- Hampshire County Council Catering Services
- Hampshire Transport Management
- Hampshire Printing Services
- Corporate Procurement and County Supplies.

Cleaning Services became part of Facilities Management with effect from April 2011 and is not considered in this report.

2.2. The report describes an annual trading surplus for the group as a whole of £214,000 and a minor decrease in the overall accumulated surpluses retained by the businesses. At an overall level, these results are broadly consistent with the revised forecasts which were reported to the Panel in March 2012 alongside the new business plans for 2012/13. The report identifies the key factors in these results and sets out several important notes to the accounts. 2011/12 was another successful year for the businesses and provides a solid foundation for a positive outcome for 2012/13.

3. Financial Performance

3.1. The accounts for each business are shown in Appendix C together with a summary for all four self-funding units. Total income over recent years has been:

2008/09	2009/10	2010/11	2011/12
£38.5m	£40.8m	£40.6m	£40.0m

3.2. A trading surplus of £214,000 (0.6% of turnover) is reported for 2011/12 against an original forecast of £8,000 and a revised projection of £256,000. The reporting position is again more complicated than usual this year and these results no longer include the direct benefit of the School Lunch Grant. The most significant variation against the revised forecasts is for Printing Services, but Members will recall that the final costs for redundancy, decommissioning and relocation were not included in the earlier forecast. The overall financial position of the business units continues to be sound.

3.3. Improvement at HC3S was responsible for an increase in surplus of £99,000. Cash paybacks (excluding investment) from HC3S amounted to £124,000 including payments to the Sir Harold Hillier Gardens, the Lepe Beach Café and the Winchester Discovery Centre. County Supplies returned a surplus of £110,000 while reducing the draw down from the Procurement Improvement Reserve from the planned £220,000 to £120,000. The results of all the individual businesses are summarised in the table below:

Table 1: Summary Financial Performance (£000s)

Business Unit Surplus/(Deficit)	Actual 2006/7	Actual 2007/8	Actual 2008/9	Actual 2009/10	Actual * 2010/11	Plan 2011/12	Actual # 2011/12
Catering	(149)	(28)	284	517	705	121	220
Transport	289	209	78	73	114	85	51
Printing	6	61	73	90	(171)	(50)	(167)
Supplies	160	174	205	251	297	99	110
Total	306	416	640	931	944	256	214
Surplus at a % of income	-	-	1.7%	2.3%	2.3%	-	0.6%

* Results shown after redundancy costs and pension scheme charges of some £0.5million have been incurred; includes School Lunch Grant and transactions relating to the Procurement Improvement Programme (PIP).

Results exclude transactions relating to exceptional employee costs, but include financial support for PIP (£120,000) and costs relating to the reorganisation of Printing Services.

3.4. The impact on the accumulated surpluses of the businesses is shown in Table 2 below:

Table 2: Accumulated Surpluses (£000's)

Surplus at 31/3/11	5,494
Results 2011/12	214
Spending from surpluses	(354)
Depreciation, interest and finance	109
Closing balance at 31/3/12 **	5,463

** After transfers relating to the PIP and corporate adjustments

- 3.5. The accumulated surpluses of the businesses provide a strategic reserve that will protect the County Council from financial risk in the event of adverse trading conditions and unforeseen events and make it possible for the businesses to invest in new activities and improving services. It has previously been reported that the accumulated surplus may be called upon in the event that any liabilities arise in connection with the implementation of the corporate Pay and Benefits project. It is now understood that this is no longer the case and that the surplus as reported at 31 March 2012 can be applied within the businesses or the department or to meet wider corporate priorities.
- 3.6. Spending from the accumulated surpluses in 2011/12 was £354,000. This follows NIL spending in 2010/11 and the £511,000 spent in 2009/10 (largely the re-development of the vehicle workshop at Bishops Waltham). Expenditure in 2011/12 was driven by two major projects – the refurbishment of the Scientific Services building at Southsea to support the shared services arrangement with Hampshire Constabulary (£254,000 on equipment) and by the relocation of Printing Services to the Headquarters building (a contribution of £100,000 to a project that also created an integrated post room and reception facility on the lower ground floor).
- 3.7. The value of interest, depreciation and other finance charges returned to the accumulated surplus was £109,000. Some £73,000 of this was linked to asset charges on the building at Winnall. As a result of the vacation of the building, finance charges that are recycled to the accumulated surplus are expected to fall to just £36,000 in 2012/13.
- 3.8. The combined effect of the surpluses achieved and funding arrangements mean that the closing balance on the accumulated surplus was £5.463 million.
- 3.9. HC3S manages delegated catering budgets on behalf of schools through a Service Level Agreement (SLA). The SLA provides a commitment that any surpluses on these budgets will be used for the benefit of the service in the form of improvement projects and new equipment. The surplus in hand on these budgets at the end of the 2010/11 financial year was £199,741. The funds managed on behalf of schools increased substantially in 2011/12 as a

result of changes to the former School Lunch Grant and the aggregate surplus on those funds has increased to £681,299.

- 3.10. It was reported to Members in May 2010 that Corporate Procurement and County Supplies had established a new financial reserve of £0.5 million to support the implementation of the Procurement Improvement Programme. At the end of March 2012, the balance on this reserve was £280,000 with two years of the programme remaining.

4. Risk & Impact Issues

- 4.1. Key issues and detailed Business Plans for 2012/13 were reviewed by the Panel in March and only the most significant items are described in the paragraphs below.

4.2. Catering Services (HC3S)

- 4.2.1. As was reported to the Panel in March, considerable progress has been achieved by HC3S. Preliminary statistics for 2011/12 indicate that around 6.8 million meals were served in the County Council's primary schools – an increase of 0.5 million or 7.1% on the previous year. These figures include 1.5 million free school meals and 82,000 adult meals. Total income was £19.9 million and this was £0.5 million higher than the revised forecast. The final results for HC3S were some £99,000 better than planned at £220,000. This is of course much lower than the average surplus achieved over the last three years (some £502,000 per annum) when the Government's School Lunch Grant was included directly in the trading accounts of HC3S. In 2010/11, the grant was worth £1.244 million.

- 4.2.2. As already indicated, the take-up of meal numbers in primary schools was again very positive. Total volume has increased by more than 18% over the last five years and this progress on meal numbers is illustrated by the percentages for primary pupil uptake:

2007/08 - 31.5%

2008/09 - 32.5%

2009/10 - 33.8%

2010/11 - 36.0%

2011/12 – 37.9%

- 4.2.3. During the year, HC3S ran a project with the Hampshire Healthy Schools team at a number of schools where pupil take-up was relatively low. This included promotional weeks where five lunches could be purchased for the price of four and a "5 for £5" offer. These arrangements have been developed into a scheme where all reception children in primary schools will be offered lunches "free" for two weeks using funds from Catering Support budgets.

- 4.2.4. Funding from the former grant was accounted for separately and the end of year balance has been added to the funds held on behalf of schools (paragraph 3.9). During 2011/12, the principal areas of expenditure were: improving kitchen facilities and catering equipment (approximately £375,000), additional funding for schools' costs (around £290,000 on fuel,

waste and water) and support for initiatives to improve uptake and streamline administration (around £44,000). In 2012/13, similar commitments are planned: facilities and equipment (£300,000), additional funding of schools' costs (£290,000), front of house improvements (£140,000), health and safety related upgrade to staff uniforms (£85,000), and uptake and administration £70,000).

- 4.2.5. Income at non-schools sites amounted to £2.17 million in 2011/12, which was around 15% higher than forecast. Some two-thirds of this increase was accounted for by the addition of Manor Farm, Titchfield Haven and Staunton and Queen Elizabeth Country parks to the portfolio during the course of the year. However, costs and paybacks at non-schools sites were also higher than forecast and the planned contribution to overheads was not achieved.
- 4.2.6. With the decision made to hold the meal price at £2.00 for a further 12 months, uptake has been very strong in both April and May and the volume targets in the current business plan already look achievable. As in previous years, HC3S has continued to support the use of local produce and this work will continue in 2012/13.

4.3. Hampshire Transport Management (HTM)

- 4.3.1. Total income for HTM was 2.6% above the revised target at £7.09 million. This is a decrease of £212,000 on 2010/11, but total costs were also down (to £7.04 million) and this produced a trading surplus of £51,000, which is some £33,000 below the revised forecast. The reduction in income from 2010/11 was driven by the 1.5% reduction on contract hire rates that was implemented in 2011/12 and by the fact that it became possible for HTM to waive charges to internal customers in March that had a value in excess of £250,000. In line with the switch from vehicle leasing to outright purchase, leasing charges fell by 21% to £1.15 million while capital charges increased to £0.4 million.
- 4.3.2. Of total contract hire income of £3.3 million, some 79% was with internal customers, 11% was with schools and 10% was external income. External customers also account for a substantial proportion of fuel issues and ad-hoc maintenance. The relationship with Amey, the term maintenance contractor, has developed further and has been extended in the areas of winter maintenance and the servicing of light vehicles (the latter following HTM's adoption of the I-link system).
- 4.3.3. The good performance of HTM over many years has afforded funds for improvements that will help to secure the future of the business. However, minor projects are resourced through the trading account and no spending from the accumulated surpluses was made in either 2010/11 or 2011/12. The facilities at the Micheldever workshop, in particular, are in need of improvement and plans are being developed with colleagues in Property Services for this.
- 4.3.4. Both the Courier service and HTM's administration and management staff have now relocated to the County Supplies buildings at Bar End in Winchester. The costs associated with the move have been absorbed within the trading account of HTM.

- 4.3.5. The Courier service extended its remit during the course of 2011/12 by taking on: the delivery of school meals from production kitchens to serveries; the sorting of mail for schools from areas offices; the provision of a service to the new records store at Botley; and a collaborative arrangement with the Southern Health NHS Foundation Trust (for a route centred on Eastleigh for a period of 18 months). The service already supports the Hampshire Fire and Rescue Service and is currently involved in discussions around the provision of a shared service with Hampshire Constabulary.
- 4.3.6. As reported previously, the business units show strong support for the County Council's initiative on apprentices and at the end of March HTM had four apprentices in its workshops.

4.4. Hampshire Printing Services (HPS)

- 4.4.1. A revised estimate for 2011/12 was reported to the Panel in March, but this excluded the final costs for redundancy, decommissioning of equipment and relocation that were to be incurred in the final phases of plans to withdraw from lithographic printing and to restructure the unit into a smaller team based at Headquarters. The new unit is focused on a design and print management service (DPMS) and production using digital equipment. Including the one-off costs of the restructuring, HPS recorded an overall deficit of £167,000.
- 4.4.2. Production on the five colour KOMORI press ceased before Christmas and an increased amount of work is being sourced from the private sector via the DPMS. In 2011/12, this outwork increased to £0.83 million from £0.48 million in 2010/11 and further growth is expected in 2012/13. As has previously been reported, the cost of the early termination of the lease of the KOMORI press was significant (around £180,000), but attempts were made to reduce this through a "purchase and sale" of the equipment. Ultimately, the County Council was able to purchase the press for £290,000 and arranged its disposal to an overseas buyer for £280,000 in February 2012. Other income generated from the sale of surplus and redundant equipment was ahead of target at £83,000.
- 4.4.3. One-off redundancy and pension strain costs of around £130,000 were charged to the trading account. The combined cost of the redundancies and disposal of equipment was, therefore, in the region of £57,000. The closure of the factory also meant that the value of work-in-progress and stocks of materials were significantly lower than at the beginning of the financial year. The impact of these adjustments on the trading account was around £66,000.
- 4.4.4. In summary, the transformation of HPS has been achieved in line with the timetable reported to Members in July 2011 and the net cost of decommissioning equipment (estimated at £124,000) was reversed into a substantial surplus by taking an innovative approach to the lease for the KOMORI press. The combined deficits reported by HPS in 2010/11 and 2011/12 leave the unit's share of the accumulated surplus at a healthy £424,000. A small financial surplus is expected in 2012/13 and the industrial unit at Winnall remains on the market and is expected to achieve a capital receipt in excess of £1 million.

4.5. County Supplies and Corporate Procurement (CPCS)

4.5.1. Total income was slightly above the revised forecast at £11.09 million with stock sales through the warehouse being £74,000 above target at £8.424 million. The overall surplus was £109,852 after £120,000 was drawn down from the Procurement Improvement Programme reserve. Rebate income on contracts of £1.58 million was down on the previous year and this reflected lower spending on some contracts (notably by external customers on IT) and phasing issues. Rebate income continues to include substantial expenditure by external customers. Advertising income achieved for the County Supplies catalogue was in line with the forecast at £398,400, but this was below the amount sold in 2010/11 by some £70,000.

4.5.2. The value of the procurement portfolio influenced or managed by CPCS is estimated to be some £140 million annually (including the participation of external customers). CPCS also plays a central role in the County Council's collaboration with other local authorities through national, regional and local initiatives. In the arena of commodity goods and services, these initiatives include:

- The Hampshire and Isle of Wight Procurement Partnership (CPCS is "host" to the Programme Manager)
- The Central Buying Consortium and other public sector consortia (collectively known as Pro5)

CPCS directs some £30 million of expenditure through these collaborative contracts on behalf of Council departments and external customers.

4.5.3. CPCS continues to lead the County Council's Procurement Improvement Programme, which has been able to contribute ongoing efficiency savings for corporate departments of £7.1 million up to and including 2012/13 from the Phase 1 Procurement Efficiency programme. The team has been involved in a range of reviews and complex procurement projects, which have included Children's Centres, public notice advertising, Extra Care and Broadband Delivery as well as initiatives to support small businesses and the wider improvement agenda (e.g. training, corporate guidance, templates and the County Council's first conference for procurement staff across all departments). The call made by CPCS on the funds earmarked to support the Procurement Improvement Programme was below the revised estimate for 2011/12 by £100,000 and CPCS continues to absorb substantial costs associated with the Programme within its trading account.

4.5.4. Price comparisons with a range of public and private sector organisations show that the warehouse continues to offer customers good overall value-for-money. The warehouse operation has been able to maintain strong support at a time when expenditure by schools in Hampshire with several key brands of Findel plc has fallen by more than 25% over the last three years. Issues to academy schools were £369,000 in 2011/12 (4.4% of the total), but this did not represent overall growth. Purchases by establishments in Portsmouth grew by 10% (£50,000), but this was offset by reductions in expenditure elsewhere. The overall picture is of a rather flat and cautious market as customers husband limited budgets.

Purchases by external customers (including academies) accounted for 36% of stock sales.

4.6. Sickness Absence and Staff Turnover

4.6.1. Absence levels within the businesses continue to improve. The average remains higher than in the CCBS department as a whole, but was lower than the average for the County Council. Over recent years, the percentage of time lost due to absence is as follows:

2005/06 – 4.6%

2006/07 – 3.7%

2007/08 – 3.9%

2008/09 – 3.9%

2009/10 – 4.2%

2010/11 – 3.2%

2011/12 – 2.9% (equivalent to 8.3 days per FTE)

4.6.2. The overall improvement continues to be supported by action taken at HC3S where close co-operation with the Occupational Health Unit and the Employee Practice Centre resulted in an absence level of 3.0%. The average for the CCBS department as a whole was 2.6%.

4.6.3. Against a closing headcount of 1,622 staff, some 260 leavers were recorded in 2011/12. Employee turnover was highest in HPS where the proportion of leavers was in the region of 55%, but the trend across the businesses was to maintain the reduction seen in recent years. At around 16% overall, employee turnover was lower than the average for both the department and the County Council as a whole.

5. **Conclusions**

5.1. The businesses achieved an overall surplus of £214,000 against a plan of £256,000 and, at the end of March 2012, the accumulated surplus was £5.463 million. In aggregate the results are slightly behind the forecasts reported to the Panel at its meeting in March 2012, but the final position gives confidence that the businesses will be well placed to self-fund further investment and retain the support of customers in 2012/13 and beyond. The outlook for 2012/13 is positive and a further surplus of around 0.7% of turnover is anticipated.

5.2. The uncertainty about the scale of any liabilities that may be associated with the implementation of the Council's corporate Pay and Benefits project has been removed and the earmarking of a substantial proportion of the accumulated surplus for this purpose is no longer required.

6. Recommendation

That the Panel advises the Executive Member for Policy and Resources that:

- 6.1. The 2011/12 annual report and accounts for the Business Services Group be approved.

CORPORATE OR LEGAL INFORMATION:

Links to the Corporate Strategy

This proposal does not link to the Corporate Strategy but, nevertheless, requires a decision to enable the business units to demonstrate appropriate reporting mechanisms and operate on a self-funding basis within the County Council's financial regulations.

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

Document

Location

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

- 1.1. An Equalities Impact Assessment has been completed in the development of this report and no adverse impact has been identified.

2. Impact on Crime and Disorder:

- 2.1. The County Council has a legal obligation under Section 17 of the Crime and Disorder Act 1998 to consider the impact of all the decisions it makes on the prevention of crime. The proposals in this report have no impact on the prevention of crime.

3. Climate Change:

- 3.1. The contents of this report will have no adverse impact on the County Council's strategy to tackle climate change.

CCBS Business Services Group

Final Accounts 2011/12

	Target	Actual	Difference
	£'000	£'000	£'000
Income	39,040	40,016	976
Direct Costs	33,428	34,511	1,083
Contribution	5,612	5,505	-107
Overheads	5,577	5,412	-166
Surplus/(Deficit)	35	94	59
Transfer from Corporate Procurement Reserve	220	120	-100
Surplus/(Deficit)	255	214	-41

Results exclude exceptional employee expenses, but include restructuring costs at HPS and a contribution to CPCS from the Procurement Improvement reserve

Hampshire County Council Catering Services (HC3S)			
2011/12 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Sale of meals	19,404	19,911	507
Government grant	0	0	0
Total Income	19,404	19,911	507
Direct Costs	18,293	18,797	503
Contribution to overheads	1,111	1,115	4
Overheads	990	895	-95
Surplus/(Deficit)	121	220	99

Surplus as a % of income 1.1% (3.6% in 2010/11)

Corporate Procurement & County Supplies			
2011/12 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Stores turnover	8,350	8,424	74
Retrospective rebates	1,601	1,584	-17
Other	1,072	1,078	6
Total Income	11,023	11,086	63
Direct Costs	8,374	8,367	-7
Contribution to overheads	2,649	2,719	70
Overheads	2,770	2,729	-41
Trading Surplus/(Deficit)	-121	-10	111
Transfer from Corporate Procurement Reserve	220	120	-100
Net Surplus/(Deficit)	99	110	11

Surplus as a % of income 1.0% (2.6% in 2010/11)

Hampshire Transport Management (HTM)			
2011/12 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Contract Hire	3,576	3,568	-8
Other	3,326	3,520	194
Total Income	6,902	7,088	186
Direct Costs	5,836	6,064	228
Contribution to overheads	1,066	1,024	-42
Overheads	981	973	-8
Surplus/(Deficit)	85	51	-34

Surplus as a % of income 0/7% (1.6% in 2010/11)

Hampshire Printing Services (HPS)			
2011/12 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Main Printworks	1,276	1,434	158
Other	435	496	61
Total Income	1,711	1,930	219
Direct Costs	924	1,283	359
Contribution to overheads	787	647	-139
Overheads	837	814	-22
Surplus/(Deficit)	-50	-167	-117

Deficit as a % of income 8.7% (7.4% in 2010/11)