

HAMPSHIRE COUNTY COUNCIL**Report**

Committee/Panel:	Buildings, Land and Procurement Panel
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Title:	Business Services – 2013/14 Annual Report and Accounts
Reference:	5907
Report From:	Director of Culture, Communities and Business Services

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1. Executive Summary

1.1. The purpose of this annual 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 2013/14. The report also includes an overview of the aggregate accumulated surpluses of these services.

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.

2.2. The report describes an annual trading surplus for the group as a whole of £495,000 and an increase in the overall accumulated surpluses retained by the businesses. These results represent an improved outturn position for each of the units against the revised forecasts that were reported to the Panel in March 2014 in conjunction with the new business plans for 2014/15. The report identifies the key factors in these results and sets out several important notes to the accounts. 2013/14 was another successful year for these services and these results provide a solid foundation for another year of good performance in 2014/15.

2.3. The main aims of the business units are to provide good quality, value-for-money services to a wide range of stakeholders and to make a significant contribution to the County Council's corporate agenda. These links are set out in the business plans of each service and this report only seeks to provide Members with summary information on the financial and business performance of these units.

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	2012/13	2013/14
£38.5m	£40.8m	£40.6m	£40.0m	£42.6m	£45.1m

The increase in income was largely driven by catering services (HC3S), which was up by £1.8million or 8.1% on the previous year through higher take-up in primary schools and the effect of additional sites.

- 3.2. A trading surplus of £495,000 (1.1% of turnover) is reported for 2013/14 against a revised projection of £271,000. The key issues for each business are highlighted in Section 4 of the report. As in 2011/12 and 2012/13, these results do not include the former School Lunch Grant which is now incorporated into funding arrangements for schools. The most significant variation against the revised forecasts is for Corporate Procurement and County Supplies (CPCS) where total income exceeded the revised forecast by almost £0.25million (with over 80% of the increase being turnover through the warehouse). Printing Services also reported a substantial increase on the planned results. Members will recall that this unit was heavily reorganised in 2012 and 2013/14 was just the second trading period in the new format.
- 3.3. HC3S was responsible for a surplus of £70,000. Cash paybacks on top of this sum (excluding investment) from HC3S amounted to £153,300 including payments to secondary schools, the Sir Harold Hillier Gardens and the Winchester Discovery Centre. Performance at Hampshire Transport Management (HTM) also exceeded the forecast but in this instance the additional surplus was returned directly to internal departments and schools (no hire charges were made in the closing weeks of the financial year.) This action returned around £0.25million to internal customers. The results of all the individual businesses are summarised in the table below:

Table 1: Summary Financial Performance (£000s)

Business Unit Surplus/(Deficit)	Actual 2008/9	Actual 2009/10	Actual * 2010/11	Actual # 2011/12	Actual + 2012/13	Plan 2012/13	Actual 2013/14
Catering	284	517	705	220	309	128	70
Transport	78	73	114	51	25	15	35
Printing	73	90	(171)	(167)	199	51	99
Supplies	205	251	297	110	204	89	291
Total	640	931	944	214	737	283	495
Surplus as a % of income	1.7%	2.3%	2.3%	0.6%	1.7%	-	1.1%

* 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 the PIP (£120,000) and costs relating to the reorganisation of Printing Services.

+ Includes transfer of some £112,000 from County Supplies to the Procurement Reserve

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 31/3/13	6,233
Results 2013/14	495
Spending from surpluses	(63)
Depreciation, interest and finance	24
Contribution to Strategic & Business Development	(204)
Closing balance at 31/3/14	6,485

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 or unforeseen events and make it possible for the businesses to invest in new activities and improving services. Specific sums earmarked within the overall surplus as at April 2014 include:

- A contingency provision of 1.25% of income - £0.56 million
- Potential refurbishment/replacement of the vehicle workshops at Micheldever and Petersfield and roof repairs at Bar End in the period up to 2016 - £1.5 million
- Contribution to corporate Strategic Change and Business Development workstream – £0.4 million (remaining balance from original £0.6million provision)
- Other investment identified by the businesses in 2014/15 - £135,000

3.6. There was limited spending from the accumulated surpluses in 2013/14. This follows NIL expenditure in 2012/13, £354,000 in 2011/12, NIL spending in 2010/11 and £511,000 in 2009/10. Expenditure in 2013/14 was linked to the acquisition of a wide format printer and ancillary equipment with a total value of £62,600 for HPS via an outright purchase rather than leasing arrangements.

3.7. The value of interest, depreciation and other finance charges returned to the accumulated surplus was £24,000. This is again lower than previous years due to the release of the print production building at Winnall and the consequent reduction in the finance charges that are recycled to the accumulated surplus.

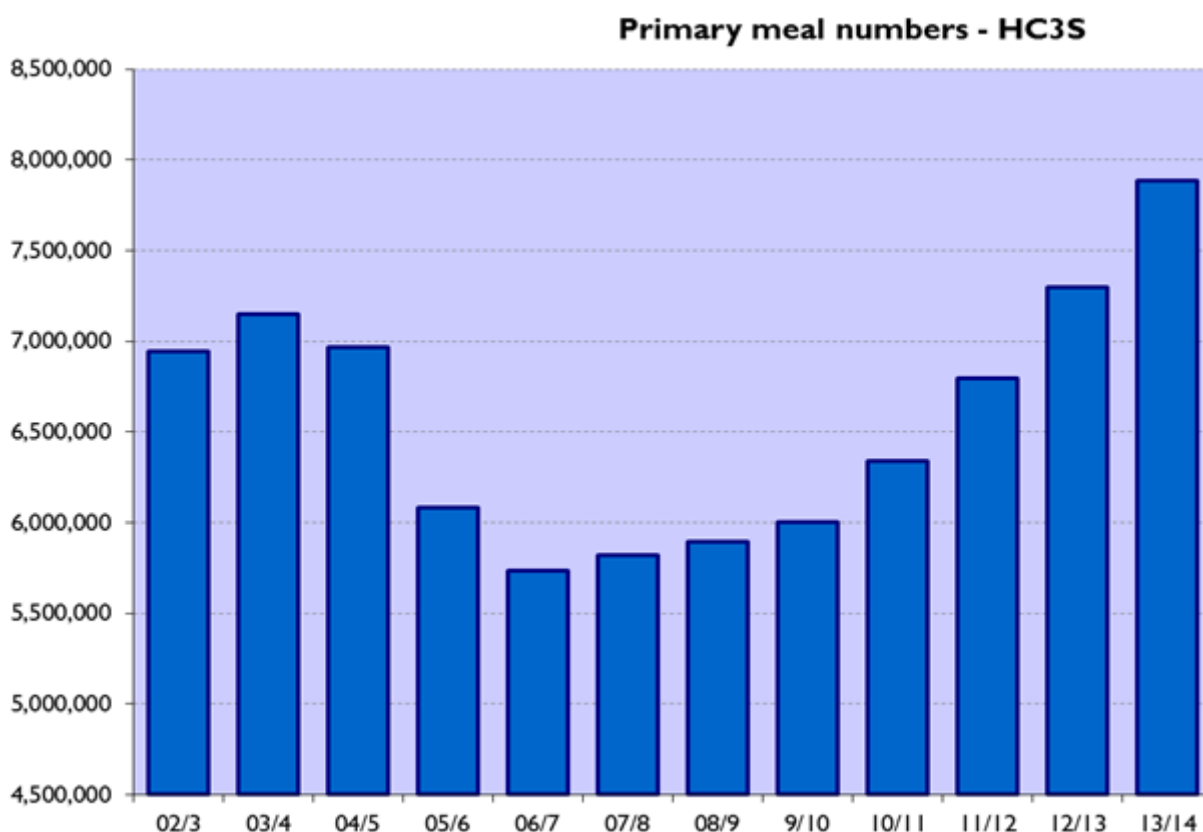
- 3.8. HC3S manages delegated catering budgets on behalf of schools through a Service Level Agreement (SLA) with an aggregate value of some £2.4 million. The SLA provides a commitment that any surpluses on these budgets will be used for the benefit of the service in the form of improvement projects and new equipment. The surplus in hand on these budgets rose significantly in the 2011/12 financial year and the aggregate balance on those funds was £772,616 at the end of March 2013. An extensive programme to modernise kitchen equipment in schools was planned for 2013/14 at sites where the facilities have been under the greatest pressure as a result of increasing meal numbers and there has been a general increase in the funding recycled to schools. The overall impact means that the surplus carried forward on these budgets is now £223,077.
- 3.9. It was reported to Members in May 2010 that Corporate Procurement and County Supplies (CPCS) had established a new financial reserve to support a corporate programme of procurement improvement (a programme which has been largely funded through the trading account of CPCS). At the end of March 2013, the balance on this reserve was some £392,000. It was proposed to draw some £120,000 from the reserve during 2013/14, but the very strong performance of CPCS meant that this was not required.

4. Risk & Impact Issues

- 4.1. Key issues and detailed Business Plans for 2014/15 were reviewed by the Panel in March and only the most significant items relating to 2013/14 are described in the paragraphs below.

4.2. Catering Services (HC3S)

- 4.2.1. As was reported to the Panel in March, considerable further progress has been achieved by HC3S. Preliminary statistics for 2013/14 indicate that almost 7.9 million meals were served in the County Council's primary schools – an increase of around 0.6 million or 8% up on the previous year. Total income for HC3S was some £23.8 million and this was £0.91 million higher than the revised forecast. However, the final results for HC3S were just £2,000 better than planned at £70,000 as costs rose in line with the additional income. The cost of provisions was over £1million higher than in 2012/13 and pay costs for frontline staff rose by more than £0.5million to £10.1million.
- 4.2.2. As already indicated, the take-up of meal numbers in primary schools was again very positive. Total volume has increased by well over 30% over the last six years and this progress on meal numbers is illustrated in the diagram below:



Pupil take up in 2013/14 was around 42% in primary schools and this is the highest figure recorded by HC3S.

- 4.2.3. During the year, HC3S again ran a scheme where all reception children in primary schools were offered lunches “free” for a trial period using funds from Catering Support budgets. This attracted strong support from schools and students. In terms of other business development with schools, HC3S has been successful in growing turnover in secondary schools by £0.25million to £3.88million and income from primary schools outside Hampshire was £0.38million.
- 4.2.4. Funding from the former School Lunch Grant was accounted for separately and, as in 2012/13, the principal areas of expenditure were facilities and equipment improvements and additional funding to offset schools’ costs. In 2014/15, further ‘in year’ funding will be put towards catering facilities and equipment, improvement projects, schools’ costs and administration systems.
- 4.2.5. Income at non-schools sites amounted to £2.93 million against £2.76million in 2012/13. Manor Farm, Titchfield Haven and Staunton and Queen Elizabeth Country parks were added to the portfolio during 2011 and these were joined by Calshot Activity Centre in 2013/14. Costs and financial contributions to the management of these sites and Lepe Country Park (including investment, repairs and costs absorbed on behalf of the customer) were in aggregate higher than forecast and the planned contribution to overheads was not achieved. At ten sites, direct investment with a total value of some £325,000 was made through the trading account.

This includes some set-up costs for the new services that HC3S operate in Eastleigh and at Somerford Primary in Dorset. It is anticipated that this investment will be recovered over the period that HC3S provides these catering services.

- 4.2.6. HC3S continues to place a high priority on the use of 'local' producers and suppliers and has a strong commitment to healthy eating initiatives and food safety (the primary school menu is now completely nut-free and free of seventy additives monitored by the Hyperactive Children's Support Group.) HC3S is now looking forward to the opportunity to extend this service to a much larger proportion of pupils in primary schools with the introduction of Universal Infant Free School Meals in September 2014. HC3S is working with colleagues in Children's and Property Services in support of this initiative and has increased the number of District Managers to twenty one in order to increase capacity to support the expansion of the service and work with schools to establish local solutions.
- 4.2.7. With the decision 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 for 2014/15 already look achievable.

4.3. Hampshire Transport Management (HTM)

- 4.3.1. Total income for HTM was in line with the results for 2012/13 and above the revised target at £7.23 million. Total costs were £7.19 million and this produced a trading surplus of £36,000, which is in line with the revised forecast. The overall fleet of vehicles and plant items has been stable at around 645 with any reduction in requirements being offset by new activity or new customers.
- 4.3.2. As expected, income from contract hire was lower than forecast because internal hire charges were waived by HTM for the final weeks of the year. Other income was strong, particularly for workshop maintenance and the courier service, and the overall total for income was just £35,000 less than in 2012/13. Total fuel issues worth £1.89 million were recorded and, in line with the trend established by the change from vehicle leasing to outright purchase, leasing charges fell by a further £226,000 to £0.71 million while capital charges to HTM increased to £0.87 million.
- 4.3.3. Of total contract hire income of £3.2 million, around 77% is typically with internal customers, 11% with schools and 11% is external income. External customers also account for a substantial proportion of fuel issues and ad-hoc maintenance. Business development initiatives include a range of projects with both internal teams and external customers. These include: vehicle maintenance for the Highways Agency (Enterprise Mouchel), the provision of part time drivers to support sixteen client transport routes for Adults Services and the introduction of pool cars at three locations that are bookable online and accessed by telematics (keyless entry via data tags).
- 4.3.4. The good performance of HTM over many years has afforded funds for improvements that will help to secure the future of the business. Minor

projects are resourced through the trading account and no spending from the accumulated surpluses has been made in the last three financial years.

- 4.3.5. The Courier service has continued to expand its operations is currently working to develop a shared service with Hampshire Constabulary. Consultation with staff is currently underway to finalise these arrangements
- 4.3.6. The Panel previously agreed a recommendation that refurbishment work should be undertaken at the Micheldever workshop to create a modern facility of an equivalent standard to the HTM workshops at Totton and Bishops Waltham. The funding for this work being planned to come from an overall sum of £1.5million earmarked for building improvements within the accumulated surpluses of the business units. This approval was not actively taken forward while discussions were pending with Hampshire Constabulary (HC) and the Hampshire Fire and Rescue Services (HFRS) about the possibility of forming a joint fleet management and maintenance service. The County Council has recently been advised that both HC and HFRS intend to develop existing partnerships with emergency services in the Thames Valley and that the refurbishment of Micheldever will not need to take any wider requirements into account. Property Services has recently invited tenders for the work at Micheldever and the most advantageous of these does exceed the value of the original estimate provided last year. The variance will be approved by the Director of CCBS under delegated authority and the revised cost of some £680,000 will be drawn from the accumulated surpluses of the businesses.
- 4.3.7. As reported previously, the business units show strong support for the County Council's initiative on apprentices and this is strongly evidenced in HTM. Three former apprentices have gained permanent positions within HTM and the business has an on-going commitment to new apprentices and also provides work experience for young people.

4.4. Hampshire Printing Services (HPS)

- 4.4.1. The unit is now focused on a design and print management service (DPMS) and production using digital equipment. After the restructuring and relocation to Headquarters was completed early in 2012, total income has been ahead of expectations and in 2013/14 it was again around £1.8million. This total consists of £1.1million through DPMS, £0.6million digital print (mainly HantsPrint) and (for the first time) costs of around £130,000 arising from Joint Working, which were met by Hampshire Constabulary. This reflects the changes made to HPS during 2013/14, which will result in a change in structure and new cost sharing mechanisms later this year. Joint working was initially established on digital production in July last year. Lithographic printing at the Constabulary's Winnall factory ceased in September and since then this has been purchased from the private sector through an established framework contact.
- 4.4.2. HPS has continued to develop its job control and production systems to support the corporate joint working initiative and potential integration with PrintSmart. An element of integration between print production and mail services is likely to be required by the County Council and its Partners and

HPS is well placed to deliver this. More ambitious plans to develop a full mail fulfilment operation for a wider range of print are being considered and work on a business case for the investment that would potentially be required is being led by the Head of Facilities Management.

- 4.4.3. HPS's share of the overall accumulated surplus was some £668,000 at the end of March 2013. HPS has frequently made use of rental arrangements to obtain its main business equipment, but with a trading surplus of £99,000 in 2013/14, the opportunity has been taken to purchase a wide format printed and its ancillary equipment at a total cost of £62,600. This means that the actual transfer from HPS into the accumulated surplus will be £36,232. The trading account of HPS will now incur depreciation charges for this equipment, but these will be recycled into the accumulated surplus on an annual basis.

4.5. County Supplies and Corporate Procurement (CPCS)

- 4.5.1. Total income was slightly more than 2% above the revised forecast at £12.91 million (up from £11.55million in 2012/13) with the increase being mainly driven by turnover through the warehouse. Stock issues amounted to £9.06 million and were £0.22 million ahead of plan largely due to the introduction of new stock lines. Rebate income of £1.8million was received and this continues to include substantial expenditure by external customers. One example of this is the contract for multi-function devices (photocopiers) with 55% of the 3,800 machines being rented by external customers such as colleges, universities and district and borough councils. The overall surplus was £291,000 and instead of making the draw down of £120,000 that was included in the original forecast, no call was made on the Procurement Improvement reserve in line with the revised estimate produced in December 2013. Advertising income achieved for the County Supplies catalogue was ahead of target forecast at £389,000, although this was 2.3% (some £9,000) down on both 2012/13 and 2011/12. The trading account includes premises and central support charges of around £0.6million.
- 4.5.2. More than 2.6million items were delivered from the warehouse in 2013/14 and over 75% of the stores sales are made to schools and other education customers. Inflationary pressure on stock items was lower than had been anticipated in 2013/14 with an 'in year' effect of just 0.4% and it was possible to provide schools with 'money off' discounts from November 2013 to February 2014. The income sacrificed on these sales amounted to some £65,000 and the deepest reductions on six items triggered a very significant increase in demand. This initiative was well received and reinforced the team's reputation for working in the interests of schools. The trading activity of CPCS continues to provide considerable financial support for corporate procurement and the overall improvement agenda. As previously reported, funds from the accumulated surplus have been used to establish a Procurement reserve which is available to support activities not funded by trading income.
- 4.5.3. The team has been closely involved in the procurement-related workstreams for the Transforming the Council strategy. County Supplies

has continued to take part in a wide range of collaborative arrangements for procurement with local, regional and national partners and directs around £40 million annually through these arrangements.

- 4.5.4. Work to develop a shared procurement service for the County Council, Hampshire Constabulary and Hampshire Fire and Rescue progressed well throughout 2013/14. The shared service came into being in an interim form at the beginning of April 2013 and procurement staff from the partner organisations were formally transferred into the employment of the County Council earlier this year. The delivery of the agreed savings targets is on track and the current focus is on the implementation of a new staffing structure within the joint team. This is expected to be in place by September 2014 and is likely to require external recruitment to a number of positions.
- 4.5.5. CPCS also supports the Council's Sold Services initiatives and, in common with HC3S and Property Services, has been selected as one of six services best placed to grow and further enhance that contribution to the County Council. This work is currently underway and is supported by a small team within the department. In line with the approach previously reported to Members, a contribution of £204,000 was made from the accumulated surpluses of the business units to the costs of the Strategic and Business Development team in 2013/14.
- 4.5.6. Price comparisons with a range of public and private sector organisations show that the warehouse continues to offer customers good overall value-for-money and it has been able to maintain strong support. Issues to academy schools were some £0.78million in 2013/14 (8.6% of the total in 2012/13.)

4.6. Sickness Absence and Staff Turnover

- 4.6.1. Absence levels within the businesses have shown an improving trend over recent years. The average for the 1,703 staff (831 FTE) 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 within the business units as a whole is as follows:

2005/06 – 4.6%

2007/08 – 3.9%

2009/10 – 4.2%

2011/12 – 2.9%

2012/13 – 3.0%

2013/14 – 2.9%

- 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 around 3.6% or some 9.1 days per employee. The average for the CCBS Department as a whole was 2.5%.

5. Conclusions

- 5.1. The businesses achieved an overall total surplus of £495,000 against a revised forecast of £271,000 and, at the end of March 2014, the accumulated surplus was £6.485 million. The results are well ahead of the forecasts reported to the Panel at its meeting in March 2014 and the financial position gives confidence that the businesses will be well placed to self-fund further investment and retain the support of customers in 2014/15 and beyond.
- 5.2. The outlook is positive and the business units continue to fulfil successfully the requirements of the County Council and key customer groups.

6. Recommendations

That the Panel advises the Executive Member for Income and Capital Receipts that:

- 6.1. The 2013/14 annual report and accounts for the Business Services Group be approved.
- 6.2. The revised cost for the renovation and improvement works at the Micheldever vehicle workshop be noted – the costs for the project to be drawn from the accumulated surpluses of the CCBS business units.

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, due to the nature of the report, 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 2013/14

	Target £'000	Actual £'000	Difference £'000
Income	43,421	45,068	1,647
Direct Costs	37,278	38,696	1,418
Contribution	6,143	6,372	229
Overheads	5,872	5,877	5
Trading Surplus/(Deficit)	271	495	224
Expenditure from reserves	0	63	63
Surplus/(Deficit)	271	432	161

Hampshire County Council Catering Services (HC3S)			
2013/14 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Sale of meals	22,508	23,405	897
Other	402	418	16
Total Income	22,910	23,823	913
Direct Costs	21,418	22,266	848
Contribution to overheads	1,492	1,557	65
Overheads	1,424	1,487	63
Surplus/(Deficit)	68	70	2

Surplus as a % of income 0.3% (1.4% in 2012/13)

Corporate Procurement & County Supplies			
2013/14 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Stores turnover	8,840	9,056	216
Retrospective rebates	1,849	1,803	(46)
Other	1,256	1,332	76
Total Income	11,945	12,191	246
Direct Costs	8,822	9,021	199
Contribution to overheads	3,123	3,170	47
Overheads	3,005	2,879	(126)
Surplus/(Deficit)	118	291	173

Surplus as a % of income 2.4% (1.8% in 2012/13)

Hampshire Transport Management (HTM)			
2013/14 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Contract Hire	3,222	3,219	(3)
Other	3,753	4,011	258
Total Income	6,975	7,230	255
Direct Costs	6,022	6,275	253
Contribution to overheads	953	955	2
Overheads	919	919	0
Surplus/(Deficit)	34	36	2

Surplus as a % of income 0.4% (0.3% in 2012/13)

Hampshire Printing Services (HPS)			
2013/14 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
DPMS	1,003	1,116	113
HantsPrint	510	532	22
Other	78	176	98
Total Income	1,591	1,824	233
Direct Costs	1,016	1,133	117
Contribution to overheads	575	691	116
Overheads	524	592	68
Trading Surplus/(Deficit)	51	99	48
Expenditure from reserves	0	63	63
Surplus/(defecit)	51	36	(15)

Surplus as a % of income 1.9% (1.1% in 2012/13)