

HAMPSHIRE COUNTY COUNCIL**Report**

Committee/Panel:	Buildings, Land and Procurement Panel
Date:	30 June 2015
Title:	Business Services – 2014/15 Annual Report and Accounts
Reference:	6511
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 Members with a summary of the financial performance of the principal self-funding units within the Culture, Communities and Business Services Department (CCBS) for 2014/15. The report also includes an overview of the aggregate accumulated surpluses of these services.
- 1.2. 2014/15 was another successful year for these services and these results provide a solid foundation for their performance in 2015/16.

2. Contextual Information

- 2.1. The business units covered in this report are:

- Hampshire County Council Catering Services (HC3S)
- Hampshire Transport Management (HTM)
- Hampshire Printing Services (HPS)
- Corporate Procurement and County Supplies (CPCS)

The 2015/16 Business Plans for these services, together with an overview of key business issues, were reported to the Panel on 31 March 2015.

- 2.2. The report describes an annual trading surplus for the group as a whole of £1.17 million and an increase in the accumulated surpluses retained by the businesses. These results represent an improved outturn position against the revised forecast of £900,000 that was reported to the Panel in March 2015. The report identifies the key factors in these results and sets out several important notes to the accounts.

- 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 seeks only to provide Members with summary information on the financial and business performance for the last financial year.

3. Financial Performance

- 3.1. The accounts for each business are shown in Appendix C together with a summary for the four self-funding units. The trend in total income over recent years is shown below:

2008/09	2010/11	2012/13	2013/14	2014/15
£38.5m	£40.6m	£42.6m	£45.1m	£52.2m

Growth in turnover was seen across the board, but the overall increase in income of more than 15% in 2014/15 was again mainly driven by catering services (HC3S). HC3S's turnover was up by £5.7 million or 23.9% on the previous year through the impact of higher take-up in primary schools and on-going organic growth.

- 3.2. A trading surplus of £1.17 million (2.3% of turnover) is reported for 2014/15 against a revised projection of £900,000. The key issues for each business are highlighted in Section 4 of the report. The most significant variations against the revised forecasts are for HC3S, where the remarkable growth in activity was linked to a higher than expected surplus and for Corporate Procurement and County Supplies (CPCS), where additional stores turnover and rebate income helped to generate total income of £12.8 million (a 5% increase on the revised forecast). The results for Hampshire Transport were below the revised forecasts by around £120,000 and this can be ascribed to the provisions made for the impact of one-off costs and charges relating to the corporate redundancy programme. The results also include the effects in 2014/15 of the County Council's programme of Joint Working with Hampshire Constabulary and the Hampshire Fire and Rescue Service and the transfer of the Procurement Team of the Economy, Transport and Environment Department to CPCS.
- 3.3. HC3S was responsible for a surplus of £789,000. Cash paybacks (excluding investment) made from HC3S to secondary schools and corporate customers had a value of £272,000. This includes payments to secondary schools (£82,000), the Sir Harold Hillier Gardens (£71,000) and the County Council's Country Parks (around £100,000). The results of the individual businesses are summarised in the table below:

Table 1: Summary Financial Performance (£000s)

Business Unit Surplus/(Deficit)	Actual <u>2009/10</u>	Actual * <u>2010/11</u>	Actual # <u>2011/12</u>	Actual + <u>2012/13</u>	Actual <u>2013/14</u>	Plan <u>2014/15</u>	Actual \$ <u>2014/15</u>
Catering	517	705	220	309	70	535	789
Transport	73	114	51	25	35	121	1
Printing	90	(171)	(167)	199	99	68	53
Supplies	251	297	110	204	291	176	331
Total	931	944	214	737	495	900	1,174
Surplus as a % of income	2.3%	2.3%	0.6%	1.7%	1.1%	-	2.3%

\$ Results shown after non-recurring redundancy costs and charges of some £0.65m; no transfers were made to/from the Procurement Reserve.

* 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 01/04/14	6,487
Business results 2014/15	1,174
Spending from surpluses	(718)
Depreciation, interest and finance	32
Closing balance at 31/3/15	6,975

- 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. The accumulated surplus does form a part of the County Council's overall reserves and plans are in place for some £3 million of the surplus to be drawn down by the Council over the next two years (2015/16 and 2016/17). Sums earmarked within the remaining surplus of £3,975 million include:

- A contingency provision of 1.25% of income - £0.7 million

- Potential refurbishment/replacement of the vehicle workshop at Petersfield and roof repairs at Bar End in the period up to 2016/17 – approximately £0.8 million
 - Contribution to corporate Strategic Change and Business Development – £0.4 million (remaining balance from original £0.6million provision)
 - Other investment identified by the businesses - £0.1 million
- 3.6. Charges to the accumulated surpluses in 2014/15 were £0.718 million. This was largely driven by the refurbishment of Hampshire Transport's workshop at Micheldever, which was previously approved by the Panel and Executive Member. Spending against the accumulated surplus over the five years prior to 2014/15 was some £928,000.
- 3.7. The value of interest, depreciation and other finance charges returned to the accumulated surplus was £32,000. Following the refurbishment of the Micheldever workshop, it is anticipated that the recycling of finance charges back into the accumulated surplus will increase to some £72,000 in 2015/16.
- 3.8. HC3S manages delegated catering budgets on behalf of schools through buy-back arrangements and a Service Level Agreement (SLA) with an aggregate value of some £2.4 million. The SLA provides a commitment that surpluses on these budgets will be used for the benefit of the service in the form of improvement projects and new equipment. The aggregate balance on those funds was £772,616 at the end of March 2013. After a programme of modernisation to address previous growth in meal numbers and an increase in the funding returned to schools, the surplus on these budgets carried forward into 2014/15 was £185,004. HC3S has been able to preserve this reserve while making a substantial further contribution in these areas alongside and in support of the implementation of the Government's policy to provide all children in Key Stage 1 with a free school lunch from September 2014. Capital investment of some £6 million made available by Government and the County Council to support implementation of the policy was managed by the Children's Services Department.
- 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 corporate initiatives on procurement improvement (a programme that was largely funded through the trading account of CPCS). At the end of March 2014, the balance on this reserve was some £392,000. No additions to or withdrawals from this reserve were made in 2014/15.

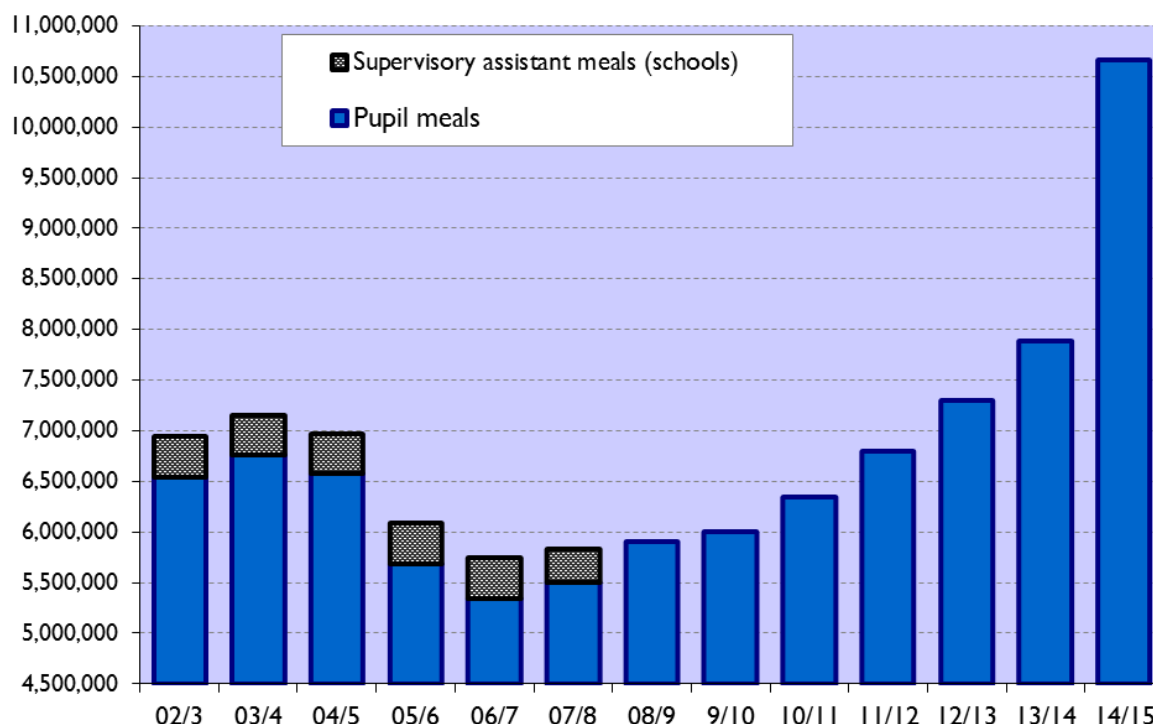
4. Risk & Impact Issues

- 4.1. Key issues and detailed Business Plans for 2015/16 were reviewed by the Panel in March and only the most significant items relating to 2014/15 are described in the paragraphs below.

4.2. Catering Services (HC3S)

- 4.2.1. As reported to the Panel in March, the implementation of the Government's policy of Universal Infant Free School Meals (UFSM) has resulted in a step change in the volume of meals served by HC3S. Preliminary statistics for 2014/15 indicate that more than 10.5 million meals were served in the County Council's primary schools – an increase of around 2.7 million (35%) on the previous year. Total income for HC3S was some £29.5 million and this was £5.7 million or 23.9% higher than in 2013/14. Perhaps the most important statistic is that the daily volume of meals in the primary sector has risen from just over 40,000 to an average of around 60,000 – an increase of nearly 50% on the average for 2013/14. The final results for HC3S were £254,000 better than forecast with total costs coming in below the revised forecast at £28.73 million. The cost of provisions was over £1.5 million higher than in 2013/14 to support the expansion of the service.
- 4.2.2. The take-up of meal numbers in primary schools was clearly very positive and has been assisted by the growth in the Number on Roll in recent years. Total volume has increased rapidly over the last five years and this progress is set to continue in 2015/16 as the full year effect of Government policy is seen (perhaps another 1 million meals). The change is illustrated in the diagram below:

Primary meal numbers - HC3S



Pupil take up across 2014/15 as a whole was around 54% in primary schools and this is the highest figure recorded by HC3S.

- 4.2.3. In terms of other business development, HC3S has been successful in growing turnover in its non-schools business, has maintained income in

secondary schools at around £3.9 million and almost doubled income from primary schools outside Hampshire to £0.75 million.

- 4.2.4. As reported above and in line with the report to Panel in July 2014, further in year funding was provided towards improving catering facilities and equipment, reducing schools' costs, signage and administration systems. The detailed operation of the Service Level Agreement with schools has been reviewed with the Primary Headteachers Resources Group and the changes agreed are being implemented in 2015/16.
- 4.2.5. Income at non-schools sites amounted to £3.38 million against £2.93 million in 2013/14. The refurbished facilities at Calshot Activities Centre are proving successful and further growth in this sector can be anticipated; not least from the addition of the Royal Victoria Country Park to the portfolio in September 2015. However, costs and financial contributions to the management of these sites were in aggregate higher than forecast and the planned contribution to overheads was not achieved. In 2013/14, direct investment with a total value of some £325,000 was made through the trading account. In 2014/15, the total for non-schools sites was £105,000 and £187,000 for secondary schools (15 schools). As with the investment in production facilities for the meals supplied in Wiltshire, 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 completely nut-free and free of seventy additives monitored by the Hyperactive Children's Support Group).
- 4.2.7. With the decision to hold the meal price at £2.00 for a further 12 months, uptake has been maintained at 60% in both April and May. The volume targets in the current business plan for 2015/16 already look achievable and another year of strong financial performance is anticipated.

4.3. Hampshire Transport Management (HTM)

- 4.3.1. Total income for HTM was around 8.5% higher than in 2013/14 and above the revised target at £7.84 million. Total costs including redundancy costs were £7.84 million and this produced a trading surplus of just £1,000. The overall fleet of vehicles and plant items has been stable with any reduction in requirements being broadly offset by new activity or new customers. Workshop income was sharply higher than last year (up 25%) at £1.01 million and this in part reflects the work generated by the Term Maintenance Contactor's fleet as it ages and the success of the separate contract to maintain 43 winter maintenance vehicles owned by the Highways Agency (over £0.4 million in 2014/15).
- 4.3.2. Income from contract hire was 11% up on last year because internal hire charges had been waived by HTM for the final weeks of 2013/14. Total fuel issues worth £1.6 million were recorded, which was around 15% below the figure for 2013/14 (NB falling oil prices). Annual leasing charges fell by

a further £196,000 to £0.54 million while capital charges to HTM increased to £1.07 million.

- 4.3.3. Business development initiatives include the provision of part time drivers to support sixteen client transport routes for Adults Services and the introduction of pool cars that are bookable on-line and accessed by telematics (keyless entry via data tags). Both projects progressed well during 2014/15, but it has recently been agreed that the permanent arrangements for client transport will be hosted within ETE after the conclusion of the fixed-term trial managed by HTM. By October 2015, the entire fleet of pool cars will have been switched to the Alpha City model (telematics).
- 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. Some expenditure is resourced through the trading account, but large individual projects are funded from the accumulated surplus. The Panel previously agreed recommendations to refurbish the Micheldever workshop to create a modern facility of an equivalent standard to the HTM workshops at Totton and Bishops Waltham. Tenders for this work were received by Property Services last year and the work was commissioned in two phases to allow the continuous and unbroken operation of the workshop. Phase Two was recently completed and the refurbished facilities were fully operational on 01 May 2015. Following the recent theft of fuel from Micheldever, the security measures have been further upgraded and the fuel site will be returned to operation by 01 June 2015.
- 4.3.5. The Courier Service has developed into a shared service with Hampshire Constabulary and is operating satisfactorily.
- 4.3.6. The business units support the County Council's initiative on apprentices and this is strongly evidenced in HTM. HTM aims to provide opportunities for an apprentice at each of its maintenance workshops and for an administration apprenticeship at its Bar End headquarters.
- 4.4. Hampshire Printing Services (HPS)
 - 4.4.1. The unit concentrates on a Design and Print Management Service (DPMS) and print production using modern digital equipment. Total income was 5% ahead of expectations and in 2014/15 it was just over £2 million (in 2013/14 it was around £1.8 million). This total consists of £1.05 million through DPMS, £0.62 million digital print (mainly HantsPrint) and 'other' income of £0.34 million with £287,000 of the above coded to work produced for Hampshire Constabulary. This reflects the introduction of formal Joint Working, the transfer of staff and appointments to a joint structure in 2014.
 - 4.4.2. HPS continues to develop its management and production systems to support the Joint Working initiative and developments within the County Council. Hampshire Constabulary has agreed to transfer the printing of Notices of Intended Prosecution to the joint service to take advantage of the expertise that is available and Public Health recently used HPS and the Facilities Management Team to print and post over 200,000 letters to

residents. HPS is well placed to deliver these services and further developments are being considered. This work is led by the Head of Facilities Management.

4.4.3. The trading surplus for 2014/15 was £53,117, which was broadly in line with the revised target.

4.5. County Supplies and Corporate Procurement (CPCS)

4.5.1. Total income was slightly more than 5% above the revised forecast at £12.80 million (up from £12.19 million in 2013/14). The increase was driven by turnover through the warehouse, additional rebate income and a higher than forecast contribution from Hampshire Constabulary. Stock issues amounted to £9.21 million and were £0.24 million ahead of plan. Rebate income of £1.98 million was received and this was £174,000 above the forecast.

4.5.2. External income, particularly from the Education sector, is important in these results with 90% of warehouse turnover coming from customers other than departments of the County Council. One further example of this is the contract for multi-function devices (photocopiers). Some 83% of the 3,800 machines are rented by external customers such as schools, colleges, universities and district and borough councils as below:

Schools	1,675
Sixth Form and Further Education Colleges	582
Other Local Authorities	572
Other Public/Not-for-Profit Bodies	<u>309</u>
Total	3,138

4.5.3. The overall trading surplus was £331,000 after the impact of redundancy costs and the implementation of a voucher-based discount scheme for the Education sector worth some £75,000 to customers. The voucher scheme was well received and helps to cement the Team's reputation for working in the interests of schools.

4.5.4. Advertising income achieved for the County Supplies catalogue was below forecast at £361,000. This continued the downward trend of recent years. The trading account includes premises and central support charges of around £0.6 million and the Corporate Procurement Team continues to benefit from significant financial support from the trading operations of County Supplies.

4.5.5. More than 2.6 million items were delivered from the warehouse in 2014/15; unchanged from the previous year. There was an unusual drop in delivery performance in September 2014, when just 48% of deliveries were made on the due day, but this had been recovered by November and does not appear to have had any lasting negative impact. Across the year, 100% of deliveries were made on the due day in 8 months.

4.5.6. The Team was 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.

- 4.5.7. Work to develop a shared procurement service for the County Council, Hampshire Constabulary and Hampshire Fire and Rescue progressed further in 2014/15. The Joint Procurement Team was re-shaped during Summer 2014 and this was followed by the integration of Procurement staff transferred from ETE. Following an internal promotion for the existing Head of Procurement, the Joint Team was led for much of the year by an Interim, but a permanent replacement joined the Team from Surrey Constabulary at the beginning of April 2015. The new Management Team is starting to focus on additional opportunities for the Transformation to 2017 agenda.
- 4.5.8. CPCS is engaged in the Council's Sold Services initiatives and, in common with HC3S and Property Services, was selected as one of six services best placed to contribute to this work. The Team is currently working on plans approved by the Traded Services Board last Autumn. The immediate focus is on rebate income and this is supported by the growth in the value of food purchasing (through HC3S and other customers spending £19 million annually) and the collaboration with Property Services (on a portfolio of over 30 projects in 2014/15). In line with the previous report to Members, a contribution of £203,000 was made from the accumulated surpluses of the business units to the costs of the Strategic and Business Development Team in 2013/14 and a further call on the remaining £397,000 earmarked within the accumulated surplus is expected in 2015/16.
- 4.5.9. As indicated in the Business Plan, price comparisons with a range of public and private sector organisations show that the County Supplies warehouse continues to offer customers good overall value-for-money. Issues to academy schools were some £1.1 million in 2014/15 (12% of the total) and turnover with the independent sector was £0.65 million (over 7%).

4.6. Staffing and Sickness Absence

- 4.6.1. Staffing numbers grew by some 13% (130 FTE) year-on-year to an FTE total of 1,096 and a headcount of 1,986. This was driven by the changes within HC3S and the further development of Joint Working arrangements (see below).

Team	31/3/14		31/3/15	
	Headcount	FTE	Headcount	FTE
HC3S	1,571	794	1,787	908
HTM	69	63	77	71
HPS	20	19	21	21
CPCS	94	89	101	96
Total	1,754	966	1,986	1,096

4.6.2. Absence levels within the businesses had shown an improving trend over recent years, but this position reversed in 2014/15. The average remains higher than in the CCBS Department as a whole, but is in line with the average for the County Council. Over recent years, the percentage of time lost due to absence within the business units as a whole has been:

2014/15	3.3%
2013/14	2.9%
2012/13	3.0%
2011/12	2.9%
2009/10	4.2%
2007/08	3.9%
2005/06	4.6%

4.6.3. HC3S employs the largest group of staff with relatively little on-site supervision and co-operates closely with the Occupational Health Unit and HR experts. HC3S reports an absence level of around 3.4%. The average for the CCBS Department as a whole was 2.1%.

5. Conclusions

- 5.1. The businesses achieved an overall total surplus of £1,174,000 against a revised forecast of £900,000 and, at the end of March 2015, the accumulated surplus was £6.975 million (including £3 million earmarked for corporate requirements). The results are well ahead of the forecasts reported to the Panel at its meeting in March 2015 and the financial position gives confidence that the businesses will be well placed to self-fund further investment and retain the support of customers.
- 5.2. 2014/15 was an enormously challenging and successful year for HC3S as it played a central role in the delivery of the Government's policy commitment to make a hot meal available to every child at Key Stage 1. The average number of meals served each day in the primary sector increased by around 50% almost overnight and the percentage increase in infant schools was (naturally) even more pronounced. The Team showed great drive and commitment to make this happen on time and simultaneously delivered a strong financial performance. HC3S is well placed to offer further service and financial benefits both to schools and the County Council over the coming years.
- 5.3. The results for 2014/15 include non-recurring net redundancy costs and other charges of some £0.653 million, which have been subject to the appropriate corporate approval processes.
- 5.4. The overall financial outlook is positive and the business units have been successful in meeting the requirements of the County Council and key customer groups in 2014/15.

6. Recommendations

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

- 6.1. The 2014/15 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.)

<u>Document</u>	<u>Location</u>
Business Services Annual Report and Accounts 2013/14	BLPP 15/07/2014 Reference: 5907

IMPACT ASSESSMENTS:

1. Equality Duty

1.1. The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- a) The need to remove or minimise disadvantages suffered by persons sharing a relevant characteristic connected to that characteristic;
- b) Take steps to meet the needs of persons sharing a relevant protected characteristic different from the needs of persons who do not share it;
- c) Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity which participation by such persons is disproportionately low.

1.2. Equalities Impact Assessment:

- (a) This report has no impact on those with protected characteristics as it is a report outlining the financial position of Business Services from 2014/15.

1. Impact on Crime and Disorder:

1.1. This report has no impact on crime and disorder as it is a report outlining the financial position of Business Services.

2. Climate Change:

2.1. How does what is being proposed impact on our carbon footprint / energy consumption? No impact.

2.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? No impact – a report on financial outturn.

CCBS Business Services Group
Final Accounts 2014/15

	Target £'000	Actual £'000	Difference £'000
Total Income	51,021	52,164	1,143
Direct Costs	43,847	44,176	329
Contribution	7,174	7,989	815
Overheads	6,274	6,815	541
Trading Surplus/ (Deficit)	900	1,174	274
Transfer from Corporate Procurement Reserve	0	0	0
Surplus/(Deficit)	900	1,174	274

Hampshire County Council Catering Services (HC3S)			
2014/15 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Sale of meals	29,333	29,094	-239
Other	448	424	-24
Total Income	29,781	29,518	-263
Direct Costs	27,615	26,938	-677
Contribution to overheads	2,166	2,581	415
Overheads	1,631	1,792	61
Surplus/(Deficit)	535	789	254

Surplus as a % of income 2.7% (0.3% in 2013/14)

Corporate Procurement & County Supplies			
2014/15 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Stores turnover	8,972	9,207	235
Retrospective rebates	1,804	1,978	174
Other	1,378	1,606	238
Total Income	12,154	12,801	647
Direct Costs	8,981	9,298	317
Contribution to overheads	3,173	3,503	330
Overheads	2,997	3,172	175
Trading Surplus/(Deficit)	176	331	155
Transfer from Corporate Procurement Reserve	0	0	0
Net Surplus/ (Deficit)	176	331	155

Surplus as a % of income 2.6% (2.4% in 2013/14)

Hampshire Transport Management (HTM)			
2014/15 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
Contract Hire	3,448	3,580	132
Other	3,735	4,262	527
Total Income	7,183	7,842	659
Direct Costs	6,124	6,723	599
Contribution to overheads	1,059	1,119	60
Overheads	938	1,118	180
Surplus/(Deficit)	121	1	-120

Surplus as a % of income 0.0% (0.4% in 2013/14)

Hampshire Printing Services (HPS)			
2014/15 Final Accounts	Target £'000	Actual £'000	Difference £'000
Income			
DPMS	1,154	1,047	-107
HantsPrint	452	619	167
Other	297	337	40
Total Income	1,903	2,003	100
Direct Costs	1,127	1,217	90
Contribution to overheads	776	786	10
Overheads	708	733	25
Surplus/(Deficit)	68	53	-15

Surplus as a % of income 2.6% (1.9% in 2013/14)