

## HAMPSHIRE COUNTY COUNCIL

<b>Committee/Panel:</b>	Buildings, Land and Procurement Panel
<b>Date of Decision:</b>	5 July 2011
<b>Decision Title:</b>	Business Services Group – Annual Report and Accounts 2010/11
<b>Decision Reference:</b>	2945
<b>Report From:</b>	Director of Culture, Communities and Business Services

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### 1. Executive Summary

- 1.1. The main purpose of this report is to provide a summary of the financial performance of the self-funding business units within the former Property, Business and Regulatory Services department for 2010/11, including an overview of the aggregate accumulated surpluses.

### 2. Contextual Information

- 2.1. The business units included within the Business Services Group are:

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

- 2.2. The report describes an annual trading surplus for the group as a whole of £932,000 and a further increase in the overall accumulated surpluses retained by the businesses. At an overall level, these results represent an improvement of £93,000 against the revised forecasts which were completed at the same time as the new business plans for 2011/12. The report identifies the key factors in these results and sets out several important notes to the accounts. 2010/11 was a successful year for the businesses and much groundwork has been done to create the conditions for a positive outcome for 2011/12.

### 3. Financial Performance

- 3.1. The accounts for each business are shown in Appendix C together with a summary for the whole of the Business Services Group. Total income over recent years has been:

2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
£35.4m	£36.8m	£37.8m	£39.1m	£41.5m	£41.2m

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- 3.2. A trading surplus of £932,000 (2.3% of turnover) is reported for 2010/11 and this compares favourably with the forecast of £839,000. The reporting position is again more complicated than usual this year and these results include both the impact of approved redundancy costs in the region of £0.5million and the benefit of the School Lunch Grant. This represents another good result for the group and the overall financial position of the business units continues to be sound.
- 3.3. Improvement at County Supplies and HC3S was responsible for the additional surplus while the anticipated squeeze on turnover and redundancy costs approaching £200,000 resulted in a larger than forecast deficit for Hampshire Printing Services. Cash paybacks and investment from HC3S to eleven secondary schools amounted to £116,000 and some £195,000 went to the Sir Harold Hillier Gardens and Arboretum, the Lepe Beach Café and to the Winchester Discovery Centre in support of the services at those site. The results of all the individual businesses are summarised in the table below:

**Table 1: Summary Financial Performance (£000s)**

Business Unit Surplus/(Deficit)	Actual <u>2005/6</u>	Actual <u>2006/7</u>	Actual <u>2007/8</u>	Actual <u>2008/9</u>	Actual <u>2009/10</u>	Plan <u>2010/11</u>	Actual * <u>2010/11</u>
Catering	(123)	(149)	(28)	284	517	523	705
Transport	213	289	209	78	73	112	114
Cleaning	25	31	22	15	5	4	(12)
Printing	32	6	61	73	90	(23)	(171)
Supplies	116	160	174	205	251	223	297
<b>Total</b>	<b>263</b>	<b>337</b>	<b>438</b>	<b>655</b>	<b>936</b>	<b>839</b>	<b>932</b>
<b>Surplus at a % of income</b>	<b>0.7%</b>	<b>0.9%</b>	<b>1.2%</b>	<b>1.7%</b>	<b>2.3%</b>	<b>-</b>	<b>2.3%</b>

\* 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.

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

**Table 2: Accumulated Surpluses (£000's)**

<b>Surplus at 31/3/10</b>	<b>4,423</b>
Trading surpluses 2010/11	932
Spending from surpluses	Nil
Depreciation, interest and finance	137
<b>Closing balance at 31/3/11</b>	<b>5,492</b>

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- 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. The accumulated surplus may also be called upon in the event that any liabilities arise from claims submitted by employees in connection with the implementation of the corporate Pay and Benefits project.
- 3.6 There was no spending from the accumulated surpluses in 2010/11. This follows the £511,000 spent in 2009/10 which was driven by the re-development of the vehicle workshop at Bishops Waltham for Hampshire Transport Management.
- 3.7 The combined effect of the surpluses achieved and funding arrangements mean that the closing balance on the accumulated surplus was £5.492 million against a previous forecast of £5.368 million. This represents an increase of 75% over three years since March 2008.
- 3.8 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. Renewal of the Catering Support SLA took effect on 1 April 2011 with near universal take-up of the offer in primary schools.
- 3.9 It was reported to Members in May 2010 that Corporate Procurement and County Supplies had established a new financial reserve to support the implementation of the Procurement Improvement Programme. At the end of March 2011, the balance on this reserve was £400,000.
- 3.10 Implementation of the pay and benefits framework in February 2008 increased payroll costs within HC3S and had an impact on income through the withdrawal of paid meals for lunchtime supervisory assistants (staff employed and paid by schools). However, HC3S has been in receipt of a substantial share of the Government's School Lunch Grant over this period and a substantial annual surplus has been achieved between 2008/09 and 2010/11. The grant allocation in 2010/11 was £1.244 million.

## **4. Risk & Impact Issues**

- 4.1. Key issues and detailed Business Plans for 2011/12 were reviewed by the Panel in April and only the most significant items are described in the paragraphs below.
- 4.2. Catering Services (HC3S)
  - 4.2.1 As was recently reported to the Panel, considerable progress has been made in implementing the strategy agreed with Members. Preliminary statistics for 2010/11 indicate that around 6.34 million meals were served in the County Council's primary schools. These figures include 1.48 million free school meals and 132,000 adult meals. Total income was £19.6 million including the grant allocation mentioned above. Income was higher than projected in the revised forecast and the final results for HC3S were some £182,000 better than plan at £705,000. While income was ahead of target, expenditure on items such as provisions and the anticipated costs of redundancies were below the figures contained in

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the revised forecast. HC3S has recently undertaken a voluntary redundancy exercise for non-schools based staff and the costs associated with the release of these volunteers have been accounted for in 2010/11.

- 4.2.2 In terms of meal numbers in primary schools, the overall picture was again very positive. Total volume has increased by more than 9% over the last two 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%.

- 4.2.3 The average number of meals provided each day is climbing towards the level achieved between 2002 and early 2005 and the gap is continuing to close. With the decision made to hold the meal price at £2.00 for a further 12 months, uptake has been strong in both April and May and the growth targets in the new business plan look achievable. In summary, good progress is being made and HC3S continues to work on the implementation of the plans reported to the Panel. As in previous years, HC3S has continued to support the use of local produce and this work has received positive coverage in local newspapers following recent press releases by the County Council.

### 4.3 Hampshire Transport Management (HTM)

- 4.3.1 Total income for HTM was 2.2% above target at £7.30 million, and this is an increase of £220,000 on 2009/10. Total costs were £7.19 million to produce a trading surplus of £114,000 in line with the revised budget.

- 4.3.2 The good performance of HTM over many years has afforded funds for improvements that are intended to secure the future of the business. The recent improvement programme for HTM included the re-development of the Bishops Waltham workshop, and an upgrade to fuel facilities with modern above-ground storage tanks, improved environmental protection and telecommunication links to allow usage data and stock levels to be monitored centrally. No further spending from the accumulated surpluses was necessary in 2010/11.

- 4.3.3 As reported previously, the business units show strong support for the County Council's initiative on apprentices. HTM has appointed apprentices at each of its five workshop locations and is currently working to provide experience of employment to two further young people.

### 4.4 Hampshire Printing Services (HPS)

- 4.4.1 In line with the revised projection, total income fell sharply from £2.8 million in 2009/10 by around 16% to some £2.3 million in 2010/11. Demand for lithographic printing has experienced a sharp downturn as departments have sought to minimise non-essential spending within the tighter financial environment. Direct costs and overheads were reduced by a broadly similar percentage, but an overall deficit of £171,385 was recorded due to the one-off costs associated with the voluntary redundancy of seven members of staff. Without these costs, a small trading surplus of around £22,000 would have been achieved.

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4.4.2 The overall accumulated surplus arising from the trading operations of HPS now stands at some £691,000. It would, therefore, be possible to sustain HPS through a period of difficult trading, but it seems unlikely that Council departments or external customers will return to previous levels of spending. Going forward, the business strategy for HPS seeks to address the weakness of the market for lithographic printing and reposition HPS in order to deliver the following objectives.

- Release the freehold factory unit at Moorside Road, Winnall and achieve a substantial capital receipt for the County Council
- Create a smaller business within the headquarters complex that is based on the Council's requirements for digital printing and copying services and is sustainable for the long-term
- Provide an effective Design and Print Management Service to council departments and schools by maintaining expertise in print technology and knowledge of the third party supply market.

4.4.3 Restructuring costs will include redundancy, termination of existing leases for equipment and relocation costs. An outline of the programme is contained in Appendix D.

### 4.5 County Supplies and Corporate Procurement (CPCS)

4.5.1 Total income was in line with the revised forecast at £11.32 million, although stock sales through the warehouse fell slightly from their previous peak to £8.495 million. The overall surplus was £297,243. As in previous years, rebate income on contracts of £1.75 million includes substantial expenditure by external customers. Advertising income of £470,000 was also achieved for the County Supplies catalogue.

4.5.2 The Corporate Procurement team are now organised in line with the principles of category management and this is already having clear benefits in areas such as IT and professional services (particularly temporary workers). The expansion of the team has also taken in the procurement support staff previously employed within Property Services and the (former) Environment department. Efficiencies were realised when these teams were centralised last October and budgets transfers have been established to support this. The full year effect of these transfers is expected to be some £316,000 in 2011/12.

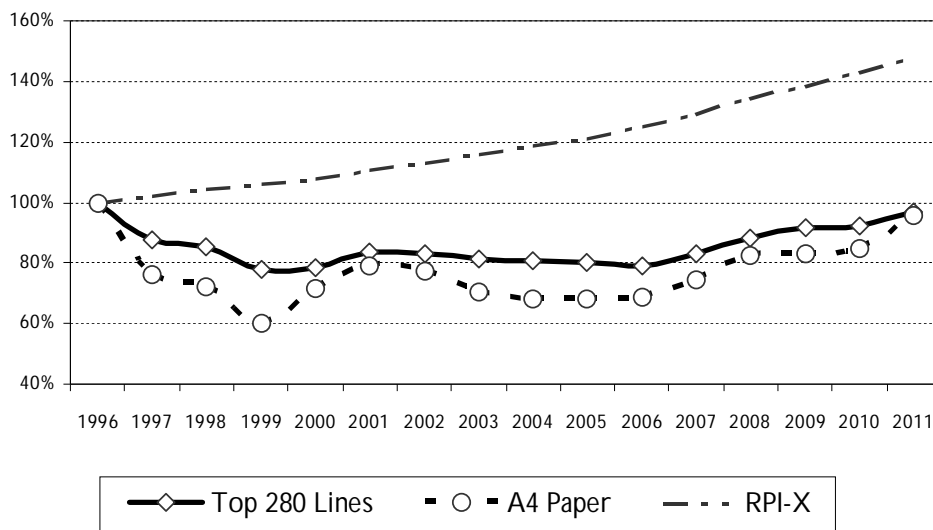
4.5.3 The value of the procurement portfolio influenced or managed by CPCS continues to grow and is estimated to be some £140 million annually (including the participation of external customers). CPCS also plays a central role in the County Council's collaboration with other local authorities through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

- The Hampshire and Isle of Wight Procurement Partnership (CPCS is "host" to the Programme Manager)
- The Central Buying Consortium
- Collaboration with other public sector consortia (collectively known as Pro5) with the support and involvement of the Office of Government Commerce/ Efficiency and Reform Group
- SE7.

4.5.4 CPCS is leading the County Council's Procurement Improvement Programme and has been able to contribute efficiency savings for corporate departments of £1.1 million and £231,000 for schools during 2010/11 from both the Phase 1 Procurement Efficiency programme and routine retendering of the existing contract portfolio. The team has been involved in a range of reviews and complex procurement projects, which have included Children's Centres, public notice advertising, Supporting People (Accreditation Process), Domiciliary Care (Preferred Providers Panel), corporate guidance and templates and the expansion of electronic tendering, which is now routinely used across the County Council. The "call" made by CPCS on the funds earmarked to support the Procurement Improvement Programme was in line with the revised projection for 2010/11 at £100,000.

4.5.5 Prices in the new 2011/12 stores catalogue have increased as a result of inflationary pressures on paper, plastics and fuel, but stock prices as a whole continue to be lower in actual terms than in 1996 (see graph). Price comparisons with a range of public and private sector organisations show that the warehouse continues to offer customers good overall value-for-money.

History of Inflation - Stock Items



4.6 Cleaning Service

4.6.1 On a turnover of £0.639 million, Cleaning Services made a small deficit of £12,400. As has been previously reported to Members, Cleaning Services transferred into Facilities Management with effect from 1 April 2011 and the deficit was entirely due to restructuring (redundancy) costs of £17,000. The unit returned a cumulative surplus of £105,000 over the previous six years and would have finished on target without these one-off costs.

**4.7 Sickness Absence and Staff Turnover**

4.7.1 Absence levels within the businesses are on average higher than in the department as a whole. Over recent years, the percentage of time lost due to absence within the Business grouping 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%

4.7.2 The overall improvement has been driven by action taken at HC3S where close co-operation with the Occupational Health Unit and the Employee Practice Centre has resulted in significant gains.

4.7.3 Against a closing headcount of 1,718 staff, some 246 leavers were recorded in 2010/11. Employee turnover was highest in HC3S where the proportion of leavers was in the region of 15%, but the trend across all the businesses was to maintain the reduction seen since 2008/09 when turnover was 18% and 2007/08 when turnover was 27%.

**5. Conclusions**

5.1. The businesses achieved an overall surplus of £932,000 against a plan of £839,000 and, at the end of March 2011, the accumulated surplus was £5.492 million. The results are better than the forecasts reported to the Panel at its meeting in April 2011 and the final position gives confidence that the businesses will be well placed to self-fund further investment and address trading issues beyond 2011/12. The outlook for 2011/12 is positive and a further surplus is anticipated for the Group.

5.2. There is uncertainty about the scale of any liabilities that may be associated with the implementation of the Council's corporate Pay and Benefits project, but the businesses are now well placed to make an appropriate contribution to these costs should this become necessary.

**6. Recommendation**

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

a) The 2010/11 annual report and accounts for the Business Services Group and the proposals for the Hampshire Printing Service 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.

## PBRs Business Services Group

## Final Accounts 2010/11

	Target	Actual	Difference
	£'000	£'000	£'000
Income	40,962	41,204	242
Direct Costs	33,694	34,040	346
Contribution	7,268	7,164	-104
Overheads	6,529	6,332	-198
<b>Surplus/(Deficit)</b>	<b>739</b>	<b>832</b>	<b>93</b>
Transfer from Corporate Procurement Reserve	100	100	0
<b>Surplus/(Deficit) <sup>(i)</sup></b>	<b>839</b>	<b>932</b>	<b>93</b>

<sup>(i)</sup> Includes charges to the businesses of redundancy commitments at 31/3/11.

<b>Hampshire County Council Catering Services (HC3S)</b>			
2010/11 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
<b>Income</b>			
Sale of meals	18,272	18,376	105
Government grant	1,244	1,244	0
<b>Total Income</b>	<b>19,515</b>	<b>19,620</b>	<b>105</b>
Direct Costs	17,677	17,744	67
Contribution to overheads	1,838	1,876	38
Overheads	1,315	1,170	-145
<b>Surplus/(Deficit)</b>	<b>523</b>	<b>705</b>	<b>182</b>

Surplus as a % of income 3.6%

<b>Hampshire Printing Services (HPS)</b>			
<b>2010/11 Final Accounts</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Main Printworks	1,769	1,792	23
Other	577	532	-45
<b>Total Income</b>	<b>2,346</b>	<b>2,323</b>	<b>-23</b>
Direct Costs	1,148	1,204	56
Contribution to overheads	1,198	1,120	-78
Overheads	1,221	1,291	70
<b>Surplus/(Deficit)</b>	<b>-23</b>	<b>-171</b>	<b>-148</b>

Deficit as a % of income 7.4%

<b>Corporate Procurement &amp; County Supplies</b>			
<b>2010/11 Final Accounts</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Stores turnover	8,421	8,495	74
Retrospective rebates	1,805	1,748	-57
Other	1,095	1,078	-17
<b>Total Income</b>	<b>11,321</b>	<b>11,321</b>	<b>0</b>
Direct Costs	8,404	8,401	-3
Contribution to overheads	2,917	2,920	2
Overheads	2,794	2,723	-71
<b>Trading Surplus/(Deficit)</b>	<b>123</b>	<b>197</b>	<b>74</b>
Transfer from Corporate Procurement Reserve	100	100	0
<b>Net Surplus/(Deficit)</b>	<b>223</b>	<b>297</b>	<b>74</b>

Surplus as a % of income 2.6%

<b>Hampshire Transport Management (HTM)</b>			
<b>2010/11 Final Accounts</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Contract Hire	3,832	3,802	-30
Other	3,310	3,498	188
<b>Total Income</b>	<b>7,142</b>	<b>7,300</b>	<b>158</b>
Direct Costs	5,994	6,222	228
Contribution to overheads	1,148	1,078	-70
Overheads	1,036	964	-72
<b>Surplus/(Deficit)</b>	<b>112</b>	<b>114</b>	<b>2</b>

Surplus as a % of income 1.6%

<b>PBRs Cleaning Services</b>			
<b>2010/11 Final Accounts</b>	<b>Target</b>	<b>Actual</b>	<b>Difference</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
All sites	637	639	2
<b>Total Income</b>	<b>637</b>	<b>639</b>	<b>2</b>
Direct Costs	470	468	-2
Contribution to overheads	167	171	4
Overheads	163	183	20
<b>Surplus/(Deficit)</b>	<b>4</b>	<b>-12</b>	<b>-16</b>

Deficit as a % of income 1.9%

## **Restructuring of Hampshire Printing Services (HPS)**

### Communications

1. An initial staff briefing took place in April 2011 and a firm commitment was given that there would be regular opportunities for staff to be updated on the plans by the management team and to have access to appropriate support from colleagues in HR. A second staff briefing took place in June.
2. A communication plan covering customers and the suppliers in the framework contracts for print and design is currently being developed.

### Timetable

3. The consultancy team within the Policy and Programme Office in the Chief Executive's Department completed an assignment to define the form of the proposed service and to develop an implementation plan in May 2011.
4. It is anticipated that an exit from lithographic printing will be made in December 2011/January 2012 and that a smaller service based on digital printing and the management of the County Council's third-party supply arrangements will be in place at HPS's current offices at Winnall during the first quarter of 2012.
5. The Design and Print Management Service is then expected to relocate into accommodation at the headquarters complex in April 2012.
6. The new unit will also be working on integrating its operations with the remaining in-house design capability, with the Council's PrintSmart initiative and with the Sign Workshop, which is now managed by the Printing Services Manager following the creation of the new Culture, Communities and Business Services (CCBS) department.

### Business Planning

7. As part of its overall asset management strategy, the County Council is seeking to maximise the use of its buildings and to release accommodation where it is viable to do so. In the light of falling demand for lithographic printing, an initial estimate of the market value of the freehold unit was obtained. The valuation of the building provided impetus for the review of HPS.
8. HPS has typically employed a team of 29. Voluntary redundancy arrangements have recently been entered into with seven members of staff (three of these being on a deferred basis). There has been one compulsory redundancy and normal staff turnover has freed two further positions. Proposals for a new service focusing on digital printing and

customer service anticipate a future requirement for a team of around 13-14 FTE.

9. Costs of around £193,000 relating to the existing voluntary redundancies were charged to the trading account of HPS in 2010/11 and it is anticipated that further costs will fall on the trading account in 2011/12. Relocation costs will also be absorbed within the trading account.
10. The net cost of de-commissioning equipment that will no longer be required has been estimated as £124,000. A proposed contribution of £100,000 will be required to ensure that the requirements of the new unit can be accommodated within the headquarters complex. These costs will be met from the accumulated surplus of HPS (which were some £691,000 at 31 March 2011) in order to maximise the value of the capital receipt to the County Council. It is anticipated that the Director of CCBS will bring forward proposals for the application of the funds received from the disposal.
11. Sale of the freehold unit will also necessitate the relocation of Hampshire Transport Management's administration team and the courier sorting office. It is likely that these functions will move into the buildings occupied by County Supplies at Bar End, Winchester. The costs of this relocation will be met by Hampshire Transport Management.
12. Further information on costs, a revised trading account for 2011/12 and a detailed business plan for 2012/13 will be reported to the Panel in due course.