

HAMPSHIRE COUNTY COUNCIL

Decision Maker	Buildings, Land and Procurement Panel
Date of Decision	27 May 2010
Decision Title	Business Services Group – Report and Accounts 2009/10
Decision Reference	1427
Report From:	Director of Property, Business and Regulatory Services

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1) Executive Summary

1.1 The main purpose of this report is to provide a broad summary of the financial performance of the self-funding business units within Property, Business and Regulatory Services for 2009/10, 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 £936,000 and a further increase in the overall accumulated surpluses retained by the businesses. All the businesses returned a better financial performance than planned and the report identifies the key factors in these results. The report describes several important notes to the accounts and key exceptional items. The central conclusion is that 2009/10 has been another successful year with early evidence already pointing to a positive outcome for 2010/11.

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 the last six years was:

2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
£34.98m	£35.39m	£36.81m	£37.81m	£39.08m	£41.45m

A trading surplus of £936,000 (2.3% of turnover) is reported for 2009/10 and this compares favourably with the forecast of £568,000. The reporting position is more complicated than usual this year and the gross surplus before the impact of one-off items was £1.436 million. These items are described in the paragraphs below. This represents another good result for the group and the overall financial position of the business units continues to be sound.

- 3.2. All the business units recorded improved results against plan with County Supplies and HC3S responsible for nearly three-quarters of the additional surplus. HC3S was expected to return a surplus of £390,000 for 2009/10. This forecast was achieved with a further increase to £517,000. Cash paybacks returned to secondary schools and corporate departments (including the Sir Harold Hillier Gardens and Arboretum) under existing trading agreements totalled £77,980 in 2009/10. The results of all the individual businesses are summarised in the table below:

Table 1: Summary Financial Performance (£000s)

<u>Business Unit</u>	<u>Actual</u> <u>2004/5</u>	<u>Actual</u> <u>2005/6</u>	<u>Actual</u> <u>2006/7</u>	<u>Actual</u> <u>2007/8</u>	<u>Actual</u> <u>2008/9</u>	<u>Plan</u> <u>2009/10</u>	<u>Actual *</u> <u>2009/10</u>
Surplus/(Deficit)							
Catering	20	(123)	(149)	(28)	284	390	517
Transport	176	213	289	209	78	41	73
Cleaning	7	25	31	22	15	3	5
Printing	34	32	6	61	73	29	90
Supplies	146	116	160	174	205	105	251
Total	383	263	337	438	655	568	936
Surplus at a % of income	1.1%	0.7%	0.9%	1.2%	1.7%	-	2.3%

* Results shown after the transfer of £0.5 million from the CPCS trading account to a new reserve to support implementation of the Corporate Services Review of Procurement and before the inclusion of exceptional items.

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

Table 2: Accumulated Surpluses (£000's)

Surplus at 31/3/09	3,755
Trading surpluses 2009/10	1,435
Transfer to new procurement reserve	(500)
Spending from surpluses	(511)
Impairment charge (Bishop's Waltham)	(275)
Return of impairment	275
Depreciation, interest and finance	150
Balance from 1681 account	92
Closing balance at 31/3/10	4,421

Balance on new procurement reserve 500

- 3.4 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. The creation of a new financial reserve to support the implementation of the Corporate Services Review (CSR) of Procurement has been achieved (£0.5 million) and is earmarked to part-fund the improvement programme over the next four years.
- 3.5 Actual spending for 2009/10 from the accumulated surpluses was £511,000 and related to the re-development of the vehicle workshop at Bishops Waltham. Total commitments from the surpluses to this project over a three-year period were £709,000. As previously reported to the Panel, a technical accounting adjustment needs to be factored into the final accounts for 2009/10 to meet the requirements of the International Financial Reporting Standards in respect of the new workshop. A corporate charge of some £275,000 relating to the valuation of the building will be made, but this will be recycled back to the accumulated surpluses and the overall position will effectively be unchanged.
- 3.6 A further exceptional item will be included in the final accounts and this also relates to Hampshire Transport Management (HTM). As part of the changes being made to support the move to purchase vehicles outright, it will be necessary to close the temporary holding account used to support the existing processes for the purchase and re-financing of vehicles. The closing balance on this account will be cleared to HTM's trading account and this will have the one-off effect of increasing the surpluses by some £92,000.
- 3.7 The combined effect of the surpluses achieved, expenditure and funding adjustments mean that the closing balance on the accumulated surplus was £4.421 million against a previous forecast of £3.910 million.

- 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 2008/09 financial year was £211,000 and following discussions with representative headteachers, these funds have been used to offset the increased uptake and cost of free school meals in the primary sector during 2009/10.
- 3.9 As has been reported previously, implementation of the new 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 (employed and paid by schools). However, HC3S is in receipt of a large share of the Government's School Meal Grant and it was anticipated that this would provide the foundation for an annual surplus to be achieved between 2008/09 and 2010/11. An aggregate surplus of around £0.8 million has been returned over the first two years of the grant period and this can be taken forward in the financial plans of the business.

4) Business Performance and Issues

- 4.1 Key issues and detailed Business Plans for 2010/11 were reviewed by the Panel in January and only the most significant items are described in the paragraphs below.

Catering Services (HC3S)

- 4.2 Preliminary statistics for 2009/10 indicate that around 6.2 million meals were served in the County Council's primary schools. The results are subject to confirmation, but this represents an increase of 300,000 meals or 5.5% on 2008/09. Total income rose by some £1.5 million to £19.6 million reflecting the combined impact of the 10 pence price increase in April 2009, increased uptake in primaries, trading days, grant and income from other contracts and services. The grant allocation to HC3S was £1.262 million. The increase in income (excluding grant) was higher than projected in the revised forecast, and the final results for HC3S were some £127,000 better at £517,000.
- 4.3 In terms of meal numbers in primary schools, the overall picture was again positive despite the notable fall in January due to school closures following the heavy snow falls. The average number of meals provided each day is some 13% below the level achieved between 2002 and early 2005, but the gap is closing. Careful preparation for the period after March 2011 when the current grant period ends is still very much required and HC3S' forecast for 2010/11 will be revised downwards in the light of the decision to hold the meal price at £2.00 for a further 12 months. However, good progress is being made and HC3S continues to work on the implementation of the plans reported to the Panel.

Hampshire Transport Management (HTM)

- 4.4 Total income for HTM was slightly below target at £7.08 million. This represents a reduction of £181,000 on 2008/9 while total costs were £176,000 lower to produce a trading surplus of £73,000. After the inclusion of the exceptional items described in paragraphs 3.5 and 3.6, a negative amount is carried over to the accumulated surplus, but this is more than offset by other entries in the accounts.
- 4.5 The good performance of HTM over many years has afforded funds for improvements that are intended to secure the future of the business. The main focus of the current improvement programme has been the re-development of the Bishops Waltham workshop and with costs of £511,000 being charged to the accumulated surplus in 2009/10, this project is now complete. The upgrading of systems and facilities has continued in line with the principles set out in the annual business plans and during 2009/10 this included an upgrade to fuel facilities at Totton and Hook with modern above-ground storage tanks, improved environmental protection and telecommunication links to allow usage data and stock levels to be monitored centrally.

Hampshire Printing Services (HPS)

- 4.6 After two years of strong growth, total income was static at £2.78 million. Customers appeared cautious for much of the year, but HPS experienced strong demand in February and March and this gave a boost to the financial results for 2009/10. Total costs were unchanged at £2.69 million and the trading surplus was £90,000.
- 4.7 Detailed accounts were not available at the time of writing, but key factors in the strong performance of HPS were: an ongoing increase in the volume of work produced on the KOMORI five – colour press (and a consequent reduction in non-productive time), the success of HPS Online and increasing take-up of HPS's services by schools and external customers (now approximately £0.25 million annually).

County Supplies and Corporate Procurement (CPCS)

- 4.8 Total income was buoyant and was £232,000 higher than the revised forecast. This was mainly in terms of stock sales through the warehouse, which finished at a new peak of £8.589 million, and strong demand from departments for chargeable work in support of procurement projects. As in previous years, rebate income on contracts includes substantial expenditure by external customers.
- 4.9 Total costs were £39,000 (0.4%) below the revised forecast and the top level surplus was £751,000. CPCS had previously made plans to create funds to support the implementation of the Corporate Services Review of Procurement and these results facilitate the transfer of £0.5 million for this. The net surplus following this transfer is £251,000 against the revised target of £105,000.
- 4.10 The value of the procurement portfolio influenced or managed by CPCS

continues to grow and is now 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 include:

- The Hampshire and Isle of Wight Procurement Partnership (CPCS is "host" to the Programme Manager)
- The Central Buying Consortium
- The South East Improvement and Efficiency Partnership
- Collaboration with other public sector consortia with the support and involvement of the Office of Government Commerce and the Department for Children, Schools and Families

4.11 CPCS is leading the County Council's Procurement Improvement Programme and has been able to contribute efficiency savings for corporate departments of £440,000 and £184,000 for schools during 2009/10, which will be included in NI 179, the value for Money Indicator. The team has been involved in a range of reviews and complex procurements, which have included Phase Three Children's Centres, services for Children with a Disability (Aiming High), Appropriate Adults (Wessex Youth Offending Team) and HPSN2 and has continued the rollout of electronic tendering, which is now routinely used in Property Services, Environment and Children's Services. An extension of the existing pilot project for the Government Procurement Card to a further sixty schools was agreed in January 2010.

4.12 Prices in the new 2010/11 stores catalogue have increased by around 1.7% overall as a result of inflationary pressures on paper, plastics and fuel. Stock prices as a whole continue to be lower in actual terms than in 1996 and price comparisons with a range of public and private sector organisations shows that the warehouse continues to offer customers good overall value-for-money.

Sickness Absence and Staff Turnover

4.13 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 is as follows:

2005/06 – 4.6%
2006/07 – 3.7%
2007/08 – 3.9%
2008/09 – 3.9%
2009/10 – 4.2%

4.14 Against a closing headcount of 1,750 staff, some 251 "leavers" were recorded in 2009/10. Employee turnover was, as always, highest in HC3S where the proportion of leavers was in the region of 15%, but the trend across all the businesses was downwards (falling from 18% in 2008/09 to 14.5%).

5) Conclusions

- 5.1 The businesses achieved an overall surplus of £936,000 against a plan of £568,000 and, at the end of March 2010, the accumulated surplus was £4.421 million with a newly established procurement reserve of £0.5 million. The results are better than the forecasts reported to the Panel at its meeting in January 2010 and the final position gives confidence that the businesses will be well placed to self-fund further investment and address trading issues beyond 2010/11. As has been the case for some time, the principal uncertainties relate to the outlook for HC3S over the medium-term and to the scale of any liabilities associated with the implementation of the corporate Pay and Benefits project. The outlook for 2010/11 is positive and a further surplus is anticipated for the Group.

6) Recommendation

- 6.1 **That the Panel advises the Executive Member for Policy and Resources** that the 2009/10 report and final accounts for the Business Services Group be approved.

CORPORATE OR LEGAL INFORMATION:**Links to the Corporate Strategy**

<i>Hampshire safer and more secure for all:</i>	No
Corporate Business plan link number (if appropriate):	
<i>Maximising well-being:</i>	No
Corporate Business plan link number (if appropriate):	
<i>Enhancing our quality of place:</i>	No
Corporate Business plan link number (if appropriate):	
OR	
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.	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Direct links to specific legislation or Government Directives		
<u>Title</u>	<u>Date</u>	

Section 100 D - Local Government Act 1972 - background documents

The following documents disclose 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.)

DocumentLocation

None

IMPACT ASSESSMENTS:

1. Equalities Impact Assessment:

Race and equality impact assessment has been considered in the development of this report and no adverse impact has been identified.

2. Impact on Crime and Disorder:

The County Council has a legal obligation under Section 27 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:

a) How does what is being proposed impact on our carbon footprint / energy consumption?

No impact identified.

b) How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts?

No impact identified.

PBRS Business Services Group

Final Accounts 2009/10

	Target	Actual	Difference
	£'000	£'000	£'000
Income	41,115	41,454	339
Direct Costs	33,953	34,107	154
Contribution	7,162	7,347	185
Overheads	6,219	5,911	-308
Surplus/(Deficit)	943	1,436	493
Transfer to Corporate Procurement Reserve	-375	-500	-125
Surplus/(Deficit)	568	936	368
Exceptional items ⁽¹⁾		-183	-183
Transfer to accumulated surpluses	568	753	185

⁽¹⁾ The main item, the impairment charge relating to the new HTM workshop at Bishops Waltham, was not quantifiable at the time the revised business plans were developed.

Hampshire County Council Catering Services (HC3S)			
2009/10 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Sale of meals	18,046	18,307	261
Government grant	1,305	1,262	-43
Total Income	19,351	19,569	218
Direct Costs	17,232	17,349	117
Contribution to overheads	2,119	2,220	101
Overheads	1,729	1,703	-26
Surplus/(Deficit)	390	517	127
Surplus as a % of income		2.6%	

Hampshire Transport Management (HTM)			
2009/10 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Contract Hire	3,701	3,762	61
Other	3,421	3,316	-105
Total Income	7,122	7,078	-44
Direct Costs	6,001	6,086	85
Contribution to overheads	1,121	992	-129
Overheads	1,080	919	-161
Surplus/(Deficit)	41	73	32
Exceptional items:			
Lease account balance		92	
Impairment charge		-275	
		-183	
Transfer to/(from) reserves		-110	
Surplus as a % of income		1%	

PBRs Cleaning Services			
2009/10 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
All sites	616	630	14
Total Income	616	630	14
Direct Costs	449	465	16
Contribution to overheads	167	165	-2
Overheads	164	160	-4
Surplus/(Deficit)	3	5	2
Surplus as a % of income		0.8%	

Hampshire Printing Services (HPS)			
2009/10 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Main Printworks	2,400	2,263	-137
Other	463	519	56
Total Income	2,863	2,782	-81
Direct Costs	1,576	1,455	-121
Contribution to overheads	1,287	1,327	40
Overheads	1,258	1,237	-21
Surplus/(Deficit)	29	90	61
Surplus as a % of income		3.2%	

Hampshire County Supplies			
2009/10 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Stores turnover	8,421	8,589	168
Retrospective rebates	1,930	1,939	9
Other	812	867	55
Total Income	11,163	11,395	232
Direct Costs	8,695	8,752	57
Contribution to overheads	2,468	2,643	175
Overheads	1,988	1,892	-96
Trading Surplus/(Deficit)	480	751	271
Exceptional item			
Transfer to Corporate Procurement Reserve	-375	-500	-125
Net Surplus/(Deficit)	105	251	146
Net surplus as a % of income		2.2%	