

HAMPSHIRE COUNTY COUNCIL

Report

Committee/Panel:	Buildings, Land and Procurement Panel
Date:	28 June 2016
Title:	Business Services Group – 2015/16 Annual Report and Accounts
Reference:	7523
Report From:	Director of Culture, Communities and Business Services

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1. Summary

- 1.1. The purpose of this report is to provide Members with a summary of the financial performance of the principal self-funding business units within the Culture, Community and Business Services Department (CCBS) for 2015/16. The report also includes an overview of the aggregate accumulated surpluses of these services.
- 1.2. 2015/16 was another successful trading year for the Business Services Group and this provides a solid foundation for their performance in 2016/17. The report describes an annual trading surplus for the group as a whole of £1.25¹ million. This is an improved outturn position against the revised forecast of £890,000 that was reported to the Panel in March 2016.

2. Contextual information

- 2.1. The business units covered in this report are:
 - Hampshire County Council Catering Services (HC3S)
 - Hampshire Transport Management (HTM)
 - County Supplies (CS).
- 2.2. The 2015/16 Business Plans for these services, which set out the financial targets and service objectives, were reported to the Panel on 31 March 2015.
- 2.3. This report outlines actual performance against these plans during the last financial year. As reported to Members at their meeting on 31 March 2016,

¹ Including Corporate Procurement

the Corporate Procurement team and Hampshire Printing Services (HPS) no longer form part of the Business Services Group (BSG). HPS has been fully integrated within the Facilities Management Service in CCBS and as part of the County Council's strategic review of procurement, most of the Corporate Procurement Service has transferred to the Property branch of CCBS and the remainder has joined the Strategic Procurement Team in Corporate Services.

- 2.4. However, to ensure consistency of reporting with the original business plans and the County Council's 2015/16 budget, the financial figures in this report include Corporate Procurement, unless otherwise stated.
- 2.5. The main aims of the business units are to provide good quality, value-for-money services to a wide range of internal and external customers and to make a significant contribution to the County Council's corporate agenda. These aims are set out in detail in the business plans of each service. This report seeks only to provide summary information on the financial and business performance for the last financial year.
- 2.6. Just over 80% of the BSG's turnover is with the education sector. Whilst the trading focus for the businesses is primarily in Hampshire and the two Cities, the customer base does extend into Berkshire, Dorset, Isle of Wight, West Sussex and Wiltshire.

3. Performance

- 3.1. The 2015/16 final accounts for each business are shown in Appendix 1 together with a summary for BSG as a whole. Total business turnover (income) in 2015/16 was just over £52.5 million, which is an increase on the previous year of just over £300,000. Although income was £123,000 below the revised target, with the effective management of direct costs being £400,000 less than planned, the Group delivered a trading surplus of £1.25 million (2.4% of turnover). This is £364,000 (41%) above the revised target of £890,000 and £612,000 (95%) higher than the original business plan target of £642,000.
- 3.2. Members will note that the final reported figure in Appendix 1 includes an unplanned cost for 'impairment charges' of £501,000 which relate to the revaluation of HTM's workshops at Micheldever and Bishops Waltham. Accounting requirements mean that these charges are made against HTM's trading account for 2015/16, but are then paid back directly into BSG's accumulated surpluses, giving a net effect of zero. However, the total surplus for the year will be shown as £753,000 in the County Council's annual statement of accounts, although in reality the full trading surplus of £1.25 million, which was achieved in the year, is added to the accumulated surpluses.
- 3.3. The key trading issues for each business unit are reported in more detail in section 4 below. The most significant variations against the revised forecast are higher sales than planned (£337,000 of additional income) for HC3S across secondary schools, countryside sites and other non-educational sites and additional stores turnover and rebate income in County Supplies

(including Corporate Procurement). HTM's income was £0.5 million lower than target, but with lower operating costs at the workshops, reduced insurance and pension strain costs, HTM's surplus before impairment charges was £174,000 higher than target. This increased surplus is after a discount of £212,000 was given to County Council departments on their vehicle contract hire charges.

- 3.4. Table 1 below shows the surpluses generated across the businesses over the last five years.

Table 1 – Business Services Group: Summary Financial Performance

Business Unit	Annual Trading Surplus / (Deficit)				
	Actual 2011/12 (£000s)	Actual 2012/13 (£000s)	Actual 2013/14 (£000s)	Actual 2014/15 (£000s)	Actual 2015/16 (£000s)
HC3S	220	309	70	789	591
HTM	51	25	35	1	321 ²
County Supplies ³	110	204	291	331	342
Total	381	538	396	1,121	1,254
Surplus as % of income	1.0%	1.3%	0.9%	2.2%	2.4%

- 3.5. The reduction in surplus for HC3S that was experienced in 2013/14 compared to previous years was due to higher than planned food and wage costs and investment in the catering facilities at Countryside and other non-educational sites. The higher surpluses since 2014/15 are due to higher overall turnover primarily from the Government's Universal Infant Free Schools Meals (UIFSM) funding programme.
- 3.6. HTM's lower than average surplus in 2014/15 was due to one-off redundancy costs and transitional implementation costs for new services including the Adult Services drivers, the joint courier service and the Highways England winter maintenance contract.
- 3.7. The impact on the accumulated surpluses for the businesses is shown in Table 2 below:

² Trading surplus excluding impairment charges

³ Including Corporate Procurement

Table 2 – Accumulated Surpluses (£000s)

Surplus as at 01/04/15	6,209	
Business unit results 2015/16	1,254	*
Spending from surpluses	(1,525)	⁴
Depreciation, interest and finance	131	*
Balance as at 31/03/16	6,069	⁵
Transfer to Corporate Procurement reserve	(238)	
Closing balance as at 31/03/16	5,831	⁶

* Excludes the impact of the accounting adjustment for impairments as this has no impact on the overall balance of the reserves

- 3.8. 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 makes it possible for the businesses to invest in new activities and improving services. The Group's accumulated surplus forms part of the County Council's overall reserves. Of the £1.525 million drawn down in 2015/16, £1.338 million related to the Group's contribution to the County Council's Transforming the Council 2017 (TtC2017) traded services target of £1.5 million. In addition, £85,000 was contributed to the Community Hubs Transformation Programme (which is the County Council's cross-cutting programme led by CCBS) and £103,000 related to the final payment for the refurbishment of HTM's workshop at Micheldever.
- 3.9. Appendix 2 shows the details of the known commitments and earmarks totalling just over £4 million over the next few years, leaving an unallocated balance in the accumulated surpluses of £2.4 million.
- 3.10. 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 £2.2 million. The SLA provides a commitment that surpluses on these budgets will be used for the benefit of the school catering service in the form of improvement projects and investment in new and replacement equipment. The balance of these funds does not form part of the Group's accumulated surpluses. The opening balance of these funds for 2015/16 was £233,489. HC3S has been able to preserve this reserve by

⁴ This includes £1.338m contribution from BSG to the County Council's Transforming the Council 2017 traded services target of £1.5 million

⁵ Balance including corporate procurement's financial results

⁶ Balance for HC3S, County Supplies and HTM only

adding £13,494 to it during the year, leaving a closing balance of £246,983. This contribution to the catering support reserve is in addition to HC3S investing £400,000 from the 2015/16 trading account in refurbishments, improvements and equipment replacement in primary school kitchens and serveries.

- 3.11. It was reported to Members in May 2010 that County Supplies had established a new financial reserve to support corporate initiatives on procurement improvement and transformation. The balance on this reserve at the end of March 2016 is £714,176. This reserve no longer forms part of the Group's accumulated surpluses and will be managed within the County Council's strategic review of procurement programme.

4. Other key issues

Hampshire County Council Catering Services (HC3S)

- 4.1. The continuation of the Government's Universal Infant Free Schools Meals (UIFSM) funding has supported the ongoing rise in the volume of primary school meals served by HC3S. In 2015/16 a total of just under 11.4 million meals were served in primary schools which is a take-up of 60.3%, and is just below HC3S' target for the year of 60.5%. This is an increase of more than 1 million meals when compared to the previous year (2014/15), representing an 11% increase in the number of meals year on year. 60.3% take-up in primary schools is the highest figure ever recorded by HC3S.
- 4.2. Obviously, the potential future removal of the UIFSM funding will have an impact on take-up and turnover and is a business risk for HC3S in the future.
- 4.3. HC3S continues to maintain a steady income in both the secondary schools sector of £3.6 million and from primary schools outside Hampshire of £0.97 million.
- 4.4. Income at non-schools sites in 2015/16 amounted to £3.8 million and this is a growing area of business, having increased by £375,000 (11%) from 2014/15 and by £877,000 (30%) when compared to 2013/14.
- 4.5. HC3S is working in partnership with the Countryside Service to provide catering at their sites that increase visitor numbers, encourage repeat visits and generate shared surpluses for both the Countryside Service and HC3S. HC3S provided a budgeted payback to Countryside of £100,000 (in effect a rental charge for the cafés) and, due to good trading performance, generated a further surplus of £76,000. The Countryside Service has used this income to repay HC3S's original investment in equipment of £52,000 for the café at Royal Victoria County Park (RVCP). This cost was incurred by HC3S when it took over running of the café from the previous contractor, because the contractor removed all equipment on their departure and the Countryside Service did not have their own funding available at that time. In addition, £10,000 has been used for the planned refurbishment of the Empire Room at RVCP. The remaining £14,000 has been put aside in the Group's accumulated surpluses, with match funding from HC3S of £16,000

to create a £30,000 reserve specifically for future replacement and upgrading of catering equipment in the Country Parks. Funding will be drawn down from this reserve in future years as required to ensure continued service delivery and assist with increased income generation at Countryside sites.

- 4.6. As shown in Appendix 2, HC3S is also adding £20,000 to this equipment replacement provision in the accumulated surpluses to cover the estimated cost of equipment re-provisioning over the next few years in Ell Court, because there is no central budget available to cover this.
- 4.7. Whilst the non-schools business is performing well and growing, this is a diversification of HC3S's business and does require a very different approach to both service delivery and menu options, when compared to school catering. There are risks associated with this area of business due to its highly competitive nature and the higher unit cost of service provision. This area of the business will require HC3S to continue to innovate and ensure menu competitiveness and creativity in order that the service meets the needs of visitors to the various sites, whilst remaining financially viable. HC3S is actively developing a business strategy to ensure that it can achieve success for the County Council in this non-schools sector.
- 4.8. In 2015/16, HC3S provided catering services at the following non-schools sites:
 - HCC Headquarters, Winchester
 - Winchester Discovery Centre
 - Basingstoke Discovery Centre
 - Sir Harold Hillier Gardens
 - Lepe Country Park
 - Staunton Country Park
 - Titchfield Haven National Nature Reserve
 - Queen Elizabeth Country Park
 - Manor Farm Country Park
 - Royal Victoria Country Park
 - Calshot Activity Centre - Café
 - Calshot Activity Centre - Residential
 - Eastleigh Borough Council Coffee Shop.

Hampshire Transport Management (HTM)

- 4.9. HTM's surplus for 2015/16 was £174,000 higher than the previous financial year. Income was £540,000 (7%) below the revised target, but this was caused mainly by fuel prices being much lower than forecast. This reduced income was offset by a reduction in fuel costs of £532,000.
- 4.10. Workshop income, including income from the winter maintenance contract with Highways England, was higher than planned. This increase in income, along with effective management of costs, enabled HTM to provide a 'loyalty discount' of £212,000 to internal County Council customers by not charging them for their monthly vehicle contract hire in March 2016.

- 4.11. HTM has focused its business development efforts on promoting the 'minibuses for schools' contract hire service. This initiative is ongoing but had an impact in 2015/16, with the number of vehicles supplied to schools increasing by 6 (9%). HTM has also been working closely with County Council departments on ensuring they have the best value fleet to assist with meeting their savings targets. Although the County Council fleet still accounts for the majority of HTM's contract hire business (78%), this is expected to reduce over time as budgets become tighter. HTM is therefore aiming to continue to increase its business with schools, academies and other external customers over the coming years.
- 4.12. The plan to transfer the Adult Services client transport provision from HTM to Economy, Transport and Environment (ETE) Department at the end of 2015/16, as a result of the wider strategic review of transport, has been deferred until April 2017. This is due to ETE now undertaking a more specific combined community and client transport review. HTM has therefore extended these contracts and service provision to the end of 2016/17.

County Supplies (CS)

- 4.13. The annual turnover for the County Supplies Warehouse continues to increase and reached £9.25 million in 2015/16, which is the highest turnover ever recorded. This was 2.6% above the original business plan target and was after a loyalty discount of £198,000 given to customers in the education sector during February.
- 4.14. As County Supplies' customers can choose to buy from competitors at any time, customer loyalty schemes are seen as an important element in maintaining a healthy trading position. The loyalty of key customers to the County Supplies brand is rewarded through sharing the surplus that is achieved above target. Various loyalty schemes can be put in place as appropriate. In 2015/16, this took the form of discount vouchers to purchase items from the County Supplies warehouse, the value of which were proportionate to the level of each customer's spend for the year.
- 4.15. Income from external customers, which includes 672 maintained schools, 100 academies and 70 independent schools, accounts for 90% of the warehouse turnover, with the remaining 10% from departments of the County Council. With the increasing financial pressures experienced by existing customers, County Supplies is continuing to expand its customer base across both the public and third sectors to ensure continued trading success. Business with schools on the Isle of Wight accounted for £130,000 in 2015/16 (an increase of 355% since 2012/13) and income from universities and colleges was just over £350,000, which is a 13% increase on the previous year.
- 4.16. Income from rebates on direct delivery contracts (these items are delivered directly to customers by contracted suppliers and not supplied from the warehouse) also exceeded target in 2015/16.

- 4.17. Advertising income achieved from the County Supplies catalogue was just over £320,000 and was on target for the year. However, this is 11% lower than the previous financial year and continues the downward trend experienced over recent years. This reflects market trends in which printed broadsheet circulation has declined dramatically due to the ever-growing popularity of electronic media channels. Consequently, advertising income has fallen as County Supplies has realigned page rates with what suppliers perceive as better value when compared with the more cost effective digital advertising platforms. However, page rate prices are beginning to level-out and, over the next eighteen months, it is anticipated that there will be at least a further 7% decline in advertising income, after which equilibrium is expected to have been reached between page rate prices for printed and digital advertising. County Supplies' business development programme is looking at ways of addressing this decline and identifying alternative sources of income. Customers, particularly in the education sector, are very keen to retain the printed County Supplies catalogue as a source of information which is readily available for all staff to access and this approach is still in line with key competitors.
- 4.18. Price competitiveness remains an important consideration, as explained in the County Supplies Business Plan presented to Panel at its meeting on 31 March 2016. Price comparisons with a range of public and private sector organisations show that County Supplies continues to offer customers good overall value-for-money. A recent example of this is that a new customer from the charitable care sector achieved a 60% cost saving by purchasing from County Supplies' contract for photocopiers and multi-functional devices.

5. Recommendation

That the Panel make the following recommendation to the Executive Member for Economic Development:

- 5.1. That the 2015/16 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.

Other Significant Links**Links to previous Member decisions:**

<u>Title</u>	<u>Reference</u>	<u>Date</u>
Business Services – 2014/15 Annual Report and Accounts	6511	30.06.2015
Business Services Group – Business Plans 2015-16	6438	31.03.2015
Business Services Group – Business Plans 2016/17	7172	31.03.2016

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>
None	

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 the Business Services Group for 2015/16.

2. Impact on Crime and Disorder:

2.1. This report has no impact on crime and disorder as it is a report outlining the financial position of the Business Services Group for 2015/16.

3. Climate Change:

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

3.2. How does what is being proposed consider the need to adapt to climate change, and be resilient to its longer term impacts? No impact.

**CCBS Business Services Group
Final Accounts 2015/16**

Business Services Group⁷			
2015/16 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income	52,643	52,520	-123
Direct Costs	45,685	45,285	-400
Contribution	6,958	7,235	277
Overheads	6,068	5,981	-87
Trading Surplus/(Deficit)	890	1,254	364
One-off accounting adjustment for impairment charges (HTM)	0	501	501
Net Surplus/(Deficit)	890	753	-137

Trading surplus as a % of income: 2.4% (2.3% in 2014/15)

Hampshire County Council Catering Services (HC3S)			
2015/16 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Sale of meals	31,705	31,939	234
Other	392	429	37
Total Income	32,097	32,368	271
Direct Costs	29,696	29,768	72
Contribution to overheads	2,401	2,600	199
Overheads	1,917	2,009	92
Surplus/(Deficit)	484	591	107

Trading surplus as a % of income: 1.8% (2.7% in 2014/15)

⁷ Comprising Hampshire County Council Catering Services (HC3S), Hampshire Transport Management and Corporate Procurement and County Supplies

Hampshire Transport Management (HTM)			
2015/16 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Contract Hire	3,521	3,437	-84
Other	4,348	3,892	-456
Total Income	7,869	7,329	-540
Direct Costs	6,606	6,093	-513
Contribution to overheads	1,263	1,236	-27
Overheads	1,116	915	-201
Trading Surplus/(Deficit)	147	321	174
One-off accounting adjustment for impairment charges	0	501	501
Surplus/(deficit)	147	-180	-327

Trading surplus as a % of income: 4.4% (0.0% in 2014/15)

Corporate Procurement & County Supplies			
2015/16 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Stores turnover	9,198	9,253	55
Retrospective rebates	2,030	2,098	68
Other	1,449	1,472	23
Total Income	12,677	12,823	146
Direct Costs	9,383	9,424	41
Contribution to overheads	3,294	3,399	105
Overheads	3,035	3,057	22
Trading Surplus/(Deficit)	259	342	83
Transfer to Corporate Procurement Reserve	200	238	38
Transfer to County Supplies Reserve	59	104	45

Trading surplus as a % of income: 2.7% (2.6% in 2014/15)

Business Services Group (HC3S, HTM, County Supplies)**Estimated Accumulated Surpluses (Reserves)**

	BSG Reserve £000s
Balance as at 31 March 2016	5,831
Forecast BSG Trading Surplus 2016/17	526
BSG Depreciation and Capital Charges	131
Traded Services Contribution to TtC2017 (2016/17) ⁸	(1,338)
HC3S Kitchen & Servery Improvements and Investments	(390)
Other BSG Improvements and Investments	(100)
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Forecast Balance at 31 March 2017	4,660
Further Earmarks and Commitments	
- BSG Contingency (1.25% of income) ⁹	(646)
- HTM Petersfield Workshop Refurbishment	(600)
- Bar End Site Roof Replacement	(200)
- HC3S Equipment Replacement (Countryside and HQ)	(50)
- CCBS Transformation Projects	(356)
- CCBS Investment Projects	(224)
- Community Hubs / Locality Working	(135)
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Unallocated Balance	2,449

⁸ pro-rata contribution to £1.5 million, excluding Hampshire Printing Services

⁹ the contingency is under review to ensure that it is set at an appropriate level