

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Executive Member for Economic Development
Date:	27 June 2017
Title:	Business Services Group – 2016/17 Annual Report and Accounts
Report From:	Director of Culture, Communities and Business Services

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1. Summary

- 1.1. The purpose of this report is to seek approval to and provide a summary of the financial performance of the principal self-funding business units within the Culture, Community and Business Services Department (CCBS) for 2016/17. The report also includes an overview of the aggregate accumulated surpluses of these services.
- 1.2. 2016/17 was another successful trading year for the Business Services Group and this provides a solid foundation for their performance in 2017/18. The report describes an annual trading surplus for the group as a whole of £837,000. This is an improved outturn position against the revised forecast of £449,000 that was reported in the 2017/18 Business Plans.

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 2016/17 Business Plans for these services, which set out the financial targets and service objectives, were reported to the Buildings, Land and Procurement Panel on 31 March 2016. This report outlines actual performance against these plans during the last financial year.
- 2.3. 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 2017/18 business plans of each service, which are reported as a separate item on this agenda. This report

seeks only to provide summary information on the financial and business performance for the 2016/17 financial year.

- 2.4. 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 2016/17 final accounts for each business are shown in Appendix 1 together with a summary for BSG as a whole. Total business turnover (income) in 2016/17 was just over £53 million, which is an increase on the previous year of £564,000. Although income was £850,000 (1.6%) below the revised target, with the effective management of direct costs being £1.2 million (2.5%) less than planned, the Group delivered a trading surplus of £837,000 (1.6% of turnover). This is £388,000 (86%) above the revised target of £449,000, although £144,000 (37%) of this increase relates to stock accounting adjustments at County Supplies relating to previous financial years. As self-funding business units, BSG covers all of its operating costs. This included a £874,000 contribution (1.6% of turnover) in 2016/17 for relevant corporate and departmental overheads (management and support services).
- 3.2. The key trading issues for each business unit are reported in more detail in section 4 below. The most significant variation against the revised forecast related to lower income from HTM's fuel sales (£548,000), though this is offset by lower than planned fuel costs of £540,000, because actual fuel inflation last year was considerably lower than originally estimated.
- 3.3. 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 2012/13 (£000s)	Actual 2013/14 (£000s)	Actual 2014/15 (£000s)	Actual 2015/16 (£000s)	Actual 2016/17 (£000s)
HC3S	309	70	789	591	55
HTM	25	35	1	321 ¹	266
County Supplies	204	291	331	342	516 ²
Total Surplus	538	396	1,121	1,254	837
% of income	1.3%	0.9%	2.2%	2.4%	1.6%

¹ Trading surplus excluding impairment charges.

² The surplus includes a one-off stock accounting adjustment of £144,000.

- 3.4. The lower surplus for HC3S that was experienced in 2013/14 compared to other 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. The lower surplus in 2016/17 is due to the increased wage costs relating to the National Living Wage and a higher than average national pay award for Grade A staff (catering assistants).
- 3.5. HTM's higher than average surpluses from 2015/16 onwards are due to an increase in business from external customers.
- 3.6. 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 surpluses form part of the County Council's overall reserves.
- 3.7. The 2016/17 movements on the accumulated surpluses for the businesses are shown in Table 2 below:

Table 2 – Accumulated Surpluses (£000s)

Surplus as at 01/04/16	5,830
Business unit results 2016/17	837
Depreciation, interest and finance	167
Spending from surpluses	(1,489)
Closing balance as at 31/03/17	5,345

- 3.8. Of the £1.489 million drawn down from the accumulated surpluses in 2016/17, £1.338 million related to the Group's contribution to the County Council's Transforming the Council 2017 (TtC2017) programme and £80,000 was contributed to the Community Hubs Transformation Programme (which is the County Council's cross-cutting programme led by CCBS) and £71,000 related to HC3S's investment in secondary schools.
- 3.9. Appendix 2 shows the details of the forecast balance on the accumulated surpluses by March 2018, which is estimated to increase by £190,000 to £5.5 million, and the known commitments and earmarks over the next few years totalling £2.07 million, leaving an unallocated balance in the accumulated surpluses of just under £3.5 million.
- 3.10. HC3S manages delegated catering budgets on behalf of schools through buy-back arrangements and a Service Level Agreement (SLA) with an aggregated value of some £2.5 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 2016/17 was £246,983. HC3S used £99,762 from this reserve to improve services at Tower Hill Primary School, South View Infant School, Freegrounds Junior School and Owslebury Primary School, leaving a closing balance of £147,221. In addition to this money, HC3S invested £100,000 from the 2016/17 trading account in refurbishments, improvements and equipment replacement in other primary school kitchens and serveries.

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 2016/17 a total of just over 11.5 million meals were served in primary schools which is a take-up of 59.9%, and was just over HC3S's target for the year of 59.6%³. This is an increase of over 211,000 meals when compared to the previous year (2015/16), representing a 1.8% increase in the number of meals year on year.
- 4.2. The UIFSM funding was originally agreed until 2020 (previously anticipated to be the year that the next General Election would be held). However, the earlier than expected General Election this year may mean that the current levels of UIFSM funding will not continue for as long as expected. Any reduction in UIFSM funding will have an adverse impact on meal take-up and business turnover and is a business risk for HC3S, particularly in relation to its current three year financial plans up to 2019/20 as part of the County Council's Transformation to 2019 programme. HC3S will continually review its business development plans and operating model to maintain financial sustainability in light of any changes to UIFSM. HC3S will also ensure that it positions itself to maximise any business opportunities arising from any alternative school meal arrangements that may be put in place in the future.
- 4.3. HC3S continued to maintain a steady income in 2016/17 in both the secondary schools sector of £3.8 million and from primary schools outside Hampshire of £1.3 million.
- 4.4. Income at non-schools sites in 2016/17 amounted to £4.1 million and this continues to be a growing area of business, having increased by a further £380,000 (10%) from 2015/16 and by £1.2 million (42%) when compared to 2013/14.

³ Percentage uptake adjusted for 2016 number on roll.

- 4.5. In 2016/17, HC3S continued providing 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.
- 4.6. In addition, planning work was undertaken to develop a new café facility at Fareham Library as part of the Library Service's refurbishment programme. The café has been developed jointly by HC3S and Library Service staff and is due to be fully operational from May this year.
- 4.7. HC3S has continued to work closely with the Countryside Service on planning and delivering improvements to the catering provision as part of the Country Parks Transformation Programme. HC3S provided a budgeted payback to Countryside of £107,000 in 2016/17 and, in addition, £28,736 was invested from the HC3S trading account in improving the equipment and service at the parks. This means that the earmarked equipment replacement reserve of £30,000 is still in place from 2015/16 and is available for future service delivery improvements and to assist with increased income generation at the Countryside sites.
- 4.8. In addition to the Countryside Service, HC3S also provided a payback to the Library Service (£10,000), Sir Harold Hillier Gardens (£93,462) and the Calshot Activity Centre café (£9,000), which is in effect a rental charge for use of the cafes and this payback contributes to the relevant service's income budgets.

Hampshire Transport Management (HTM)

- 4.9. HTM overachieved on its surplus target by £244,000 and achieved a similar level of income (£7.3 million) to the previous financial year. This good financial result is due to the income from external customers.
- 4.10. Following feedback from internal customers, HTM did not offer an end of year loyalty payback for contract hire, but instead has invested the additional surplus in holding prices in 2017/18 for the seventh consecutive year.
- 4.11. HTM's most significant achievement during 2016/17 was to be awarded the supply and maintenance of a vehicle fleet of approximately 130 Light Commercial Vehicles, Heavy Goods Vehicles and dedicated gritters to

Skanska UK for delivery of the Hampshire Highways Services Contract (HHSC). This new contract fits well with HTM's business development strategy of increasing the proportion of its business with the education sector and other external customers.

- 4.12. This contract is due to start from 1 August 2017 and therefore is not reflected in the financial accounts for 2016/17. The estimated aggregated value of the individual contract hire agreements, including supply and maintenance of the fleet, is just over £12m for the initial HHSC contract term of 6.75 years.

County Supplies (CS)

- 4.13. The annual turnover for the County Supplies' warehouse increased yet again in 2016/17 and reached £9.68 million, which is the highest turnover ever recorded. This was £156,000 (1.6%) above the original business plan target and £123,000 (1.3%) below the revised target.
- 4.14. Income from rebates on direct delivery contracts (these items are delivered directly to customers by contracted suppliers and not supplied from the warehouse) exceeded the target of £1.034 million in 2016/17 by £55,000 (5%).
- 4.15. Whilst the total surplus for 2016/17 was £217,000 higher than the original target of £288,000 and £177,000 more than the revised target of £339,000, £144,000 of this was the result of stock accounting adjustments relating to previous financial years. These adjustments had not been processed earlier because system and process changes meant that considerable analysis needed to be undertaken to ensure the correct procedure was followed, prior to the adjustments being made.
- 4.16. Therefore, as the in-year trading surplus was only £33,000 above target, unfortunately it was not practical to provide customers with a loyalty discount in 2016/17 to share the benefit of this small increase. This is because, with over 3,000 customers, the individual loyalty amounts would have been relatively insignificant. However, as CS's customers can choose to buy from competitors at any time, the customer loyalty scheme is seen as an important element in maintaining a healthy trading position. The scheme will therefore be retained and will be used again in future years if actual trading conditions are considerably better than target.
- 4.17. As the majority of customers are in the public sector, they are experiencing considerable financial pressures and are reducing their spending on commodity goods and services. High-level analysis of schools' spend with CS's key competitors indicates that business during 2016/17 compared to the previous year has reduced by an average of 20%. This compares to CS's turnover increasing by 4.6% in the same period. Therefore, it is important for CS to continue to remain competitive on price and to foster continued customer loyalty in order to sustain a successful and fully self-funding trading position in an increasing challenging and competitive market.

- 4.18. As reported to the Schools Forum at its meeting on 16 May 2017, CS aims to provide schools with a wide range of pre-tendered, value-for-money framework agreements for common-use goods. A key function of CS is to aggregate the expenditure of a wide range of customers (in collaboration with the Central Buying Consortium) in order to establish purchasing and supply agreements which:
- leverage public sector buying power
 - offer value-for-money
 - avoid unnecessary duplication of effort
 - provide the security of the County Council's framework terms and conditions
 - comply with the County Council's Contract Standing Orders and, where applicable, the Public Contracts Regulations 2015.
- 4.19. In 2016/17, a total of £35 million was directed through these collaborative agreements by CS customers in the education sector, leading to an on-going annual saving for these customers of approximately £3.9 million (11%).

Overall Trading Environment

- 4.20. The performance of all three business units in 2016/17 demonstrates continued high levels of support from existing customers (especially in the education sector, the County Council and the wider public and third sectors) and the ability of the Group to be successful in winning new business.
- 4.21. However, there are ever growing trading pressures in the market from a combination of increasing cost pressures (through the National Living wage, pension costs and forecast inflation - particularly on food and other commodity items); reducing customer spend as a result of public sector financial constraints and rising customer expectations especially related to service levels and digital solutions. In addition, the three business units operate in a highly competitive market, which is very price-sensitive.
- 4.22. As these market pressures increase over the next few years, the business units are shaping their business development plans to assist with meeting these challenges. This is likely to require a step change in our thinking and our operating models.

5. Recommendation

- 5.1. That the Executive Member for Economic Development approves the 2016/17 annual report and accounts for the Business Services Group.

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 Group – Business Plans 2015/16	6438	31.03.2015
Business Services – 2015/16 Annual Report and Accounts	7523	28.06.2016

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 2016/17.

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 2016/17.

3. Climate Change:

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

**CCBS Business Services Group
Final Accounts 2016/17**

Business Services Group			
2016/17 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income	53,934	53,084	(850)
Direct Costs	49,127	47,913	(1,214)
Contribution	4,807	5,171	364
Overheads	4,358	4,334	(24)
Surplus/(Deficit)	449	837	388

Trading surplus as a % of income: 1.6% (2.4% in 2015/16)

Hampshire County Council Catering Services (HC3S)			
2016/17 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Sale of meals	34,444	34,384	(60)
Other	131	76	(55)
Total Income	34,575	34,460	(115)
Direct Costs	32,754	32,651	(103)
Contribution to overheads	1,821	1,809	(12)
Overheads	1,733	1,754 ⁴	21
Surplus/(Deficit)	88	55	(33)

Trading surplus as a % of income: 0.2% (1.8% in 2015/16)

⁴ Overheads reduced by £71,000 to reflect the contribution from the approved provision in the Accumulated Reserves for investment in secondary schools services and equipment.

Hampshire Transport Management (HTM)			
2016/17 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Contract Hire	3,651	3,511	(140)
Other	4,345	3,818	(527)
Total Income	7,996	7,329	(667)
Direct Costs	6,847	5,941	(906)
Contribution to overheads	1,149	1,388	239
Overheads	1,127	1,122	(5)
Trading Surplus/(Deficit)	22	266	244

Trading surplus as a % of income: 3.6% (4.4% in 2015/16)

County Supplies			
2016/17 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Stores turnover	9,800	9,677	(124)
Retrospective rebates	1,034	1,089	55
Other	529	529	0
Total Income	11,363	11,295	(68)
Direct Costs	9,526	9,321	(205)
Contribution to overheads	1,837	1,974	137
Overheads	1,498	1,458	(40)
Trading Surplus/(Deficit)	339	516	177

Trading surplus as a % of income: 4.6% (2.7% in 2015/16)

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

	£000s
Balance as at 31 March 2016	5,830
BSG Trading Surplus 2016/17	837
BSG Depreciation and Capital Charges	167
Traded Services Contribution to TtC2017 (2016/17) ⁵	(1,338)
HC3S Kitchen & Servery Improvements and Investments	(71)
Community Hubs / Locality Working	(80)
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Balance at 31 March 2017	5,345
Forecast BSG Trading Surplus 2017/18	563
BSG Depreciation and Capital Charges	150
HC3S Kitchen & Servery Improvements and Investments	(400)
County Supplies Warehouse scanning hardware	(80)
Balance of Community Hubs / Locality Working	(43)
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Forecast Balance at 31 March 2018	5,535
Further Earmarks and Commitments	
- BSG Contingency (1.25% of income)	(678)
- HTM Petersfield Workshop Refurbishment	(600)
- Bar End Site Roof Replacement	(200)
- HC3S Equipment Replacement (Countryside and HQ)	(50)
- HC3S Mobile electronic catering administration software	(122)
- Customer Relationship Management (CRM) system	(200)
- CCBS Investment Projects	(222)
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Unallocated Balance	3,463

⁵ pro-rata contribution to £1.5 million, excluding Hampshire Printing Services.