

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Buildings, Land and Procurement Panel
Date:	20 June 2018
Title:	Business Services Group – 2017/18 Annual Report and Accounts
Report From:	Director of Culture, Communities and Business Services

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1. Recommendation

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

- 1.1. The 2017/18 annual report and accounts for the Business Services Group be approved.

2. Executive Summary

- 2.1. The purpose of this paper is to provide Members with a summary of the financial and business performance of the three self-funding business units within the Culture, Communities and Business Services (CCBS) Department for the 2017/18 financial year. The report also includes an overview of the aggregated accumulated surpluses of these businesses.
- 2.2. The business units operate in a highly competitive environment and their continued strong trading performance is dependent on the success of their business development plans in retaining existing customer loyalty and winning new business.
- 2.3. The annual net trading surplus for the Business Services Group as a whole was £507,000 in 2017/18 compared to an original forecast of £563,000 and a revised forecast of £608,000. The reduced surplus was primarily as a result of a loss of school meals income due to unplanned school closures caused by adverse weather.
- 2.4. Overall, this is a very solid performance in difficult market conditions, which is evidenced by increasing inflationary pressures and funding constraints experienced by our public sector customers.

3. Contextual information

- 3.1. The self-funding business units which form part of the Business Services Group (BSG) in CCBS are:
- Hampshire County Council Catering Services (HC3S)
 - Hampshire Transport Management (HTM)
 - County Supplies (CS).
- 3.2. The 2017/18 Business Plans for these business units, which set out the financial targets and service objectives, were reported to the Panel at its meeting on 27 June 2017. This report outlines the actual performance against these plans during the last financial year.
- 3.3. 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, to be fully self-funding and to make a significant contribution to the County Council's corporate agenda.
- 3.4. BSG's primary trading focus is with the education sector which accounts for just over 80% of turnover. Whilst trading is mainly with customers in Hampshire, Portsmouth and Southampton, the customer base does extend into Berkshire, Dorset (including Bournemouth and Poole), the Isle of Wight, West Sussex and Wiltshire.

4. Finance

- 4.1. The 2017/18 final accounts for each business are shown in Appendix 1 together with a summary for BSG as a whole. Total business turnover (income) in 2017/18 was £53.9 million, which is an increase on the previous year of £791,000 (1.5%). Although income was £392,000 (0.7%) below the target of £54.3 million, the Group delivered a net trading surplus of £507,000 (0.9% of turnover). As self-funding business units, BSG covers all of its operating costs, which includes a contribution of just under £800,000 (1.5% of turnover) in 2017/18 for relevant corporate and departmental overheads.
- 4.2. The most significant variations against the revised trading forecasts relate to a loss of primary school meals income of £560,000 due to unplanned school closures caused by snow (which accounted for a loss in net contribution of approximately £100,000) and a reduction in primary school meals take-up, which was partly off-set by a managed reduction in costs of £326,000.
- 4.3. Table 1 below shows the annual surpluses generated by the business units over the last five years.

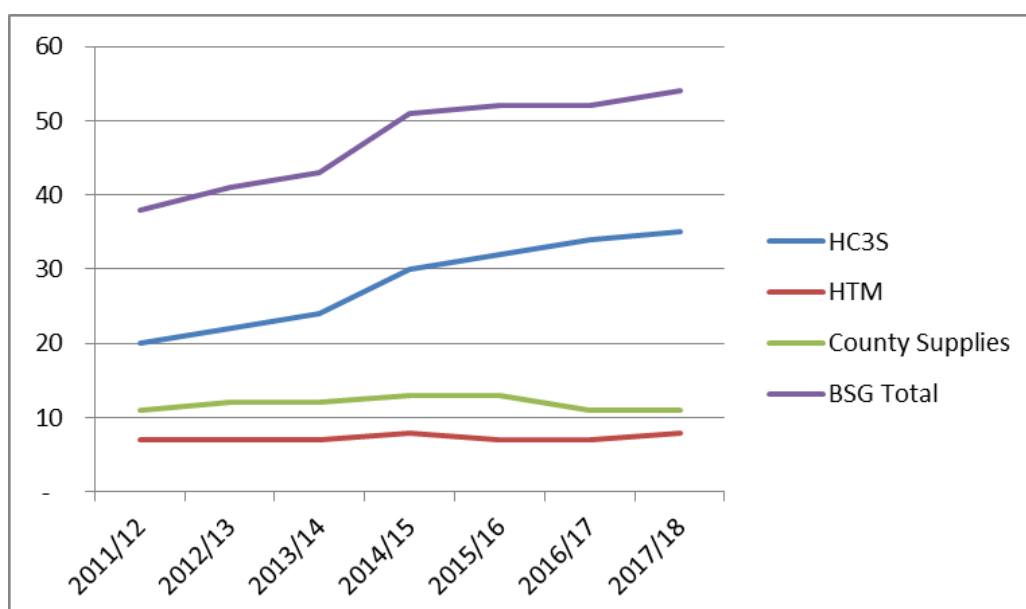
Table 1 – Annual Trading Surplus / (Deficit) 2013/14 to 2017/18

Business Unit	Actual 2013/14 (£000s)	Actual 2014/15 (£000s)	Actual 2015/16 (£000s)	Actual 2016/17 (£000s)	Actual 2017/18 (£000s)
HC3S	70	789	591	55	7
HTM	35	1	321	266	183 ¹
County Supplies	291	331	342	516 ²	317
Total Surplus	396	1,121	1,254	837	507
% of income	0.9%	2.2%	2.4%	1.6%	0.9%

4.4. The lower surplus for HC3S that was experienced in 2013/14 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 in 2014/15 and 2015/16 were due to higher overall turnover primarily from the Government’s Universal Infant Free Schools Meals (UIFSM) funding programme. The lower surplus for HC3S in 2016/17 was 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). HTM’s higher than average surpluses from 2015/16 onwards are due to an increase in business from external customers.

4.5. The graph below shows the increase in turnover for the three business units (and BSG as a whole) over the last five years, rising by 42% in that period. This demonstrates a steady increase in turnover year on year. The slight reduction in County Supplies’ turnover from 2015/16 relates to the Corporate Procurement service moving from County Supplies in CCBS to the Strategic Procurement Team in Corporate Services.

Annual Turnover (£m) for the Business Units 2011/12 to 2017/18



¹ Net of a transfer to Accumulated Surpluses of £340,000 to cover final year capital charges.

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

4.6. The accumulated surpluses of the businesses provide a strategic reserve that help 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. BSG's accumulated surpluses form part of the County Council's overall reserves. The 2017/18 movements on the accumulated surpluses for the businesses are shown in table 2 below:

Table 2 – Accumulated Surpluses (£000s)

Surplus as at 01/04/17	5,346
Business unit results 2017/18	507
HTM surplus for 2017/18 relating to final year capital charges	340
Depreciation, interest and finance	150
Spending from surpluses	(214)
Closing balance as at 31/03/18	6,129

4.7. The accumulated surpluses increased by £783,000 (15%) during 2017/18 to £6.13 million. £340,000 of this increase related to income for new contract hire vehicles which needs to be set aside in the accumulated surplus to cover capital charges which will be incurred by HTM in the year after the contracts have ended, when no income will be received. Of the £214,000 drawn down from the accumulated surpluses in 2017/18, £19,000 was contributed to the Community Hubs Transformation Programme (which is the County Council's cross-cutting programme led by CCBS) and £195,000 related to HC3S's investment in four secondary school catering contracts.

4.8. Appendix 2 shows the details of the forecast balance on the accumulated surpluses by March 2019, which is estimated to reduce by £114,000 to just over £6 million. This is due to the required investments set out in the 2018/19 business plans to ensure the continued success of the business units as noted by Panel at its meeting on 29 March 2018. Taking account of future potential commitments and earmarks totalling £2.7 million, there is currently an unallocated balance in the accumulated surpluses of just under £3.3 million.

4.9. HC3S manages delegated catering budgets on behalf of schools through buy-back arrangements and a Service Level Agreement (SLA) which had an annual value of £2.1m in 2017/18. 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 BSG's accumulated surpluses. The opening balance of these funds for 2017/18 was £147,221. HC3S used £52,284 from this reserve to improve services at Shamblehurst Primary, Grayshott CE Primary, Bentley CE

Primary, Four Marks CE Primary and Kempshott Junior Schools. In addition to these projects, HC3S invested £16,087 from its 2017/18 trading account in kitchen and equipment improvements at Woodcot Primary and Calmore Infant Schools.

5. Performance

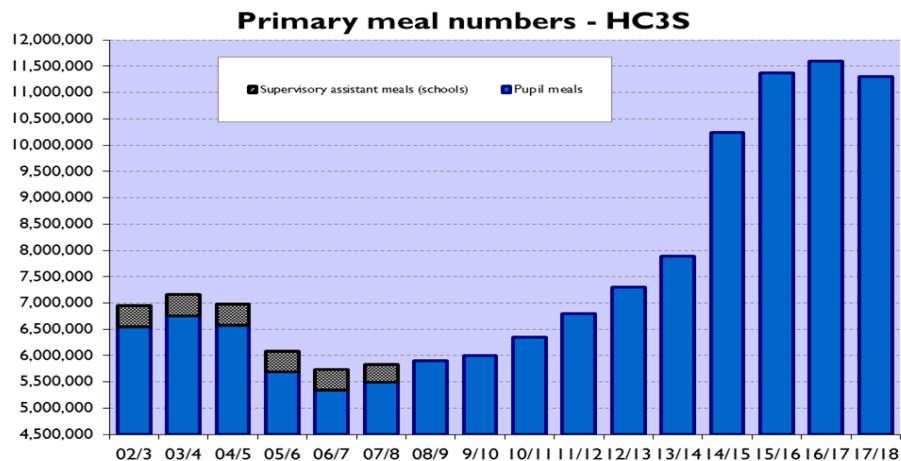
5.1. BSG's actual performance against the main target key performance indicators for 2017/18 is shown in table 3 below.

Table 3 – Key Performance Indicators 2017/18

Key Performance Indicators - Targets and Actuals for 2017/18			
	Targets	Actuals	Variance
	2017/18	2017/18	
<u>HC3S</u>			
Primary school pupil meals take-up	59.4%	57.8%	-1.6%
Primary school food cost per meal	£0.90	£0.90	0
Unit labour cost as % of income	44.4%	45.9%	+1.5%
<u>HTM</u>			
Pool car utilisation	90%	89.1%	-0.9%
Fleet downtime	1%	0.5%	-0.5%
Fleet size (schools and external customers)	130	294	+164
Contract hire conversion rate (quotes to orders)	60%	49.1%	-10.9%
<u>County Supplies</u>			
Stores turnover	£9.9m	£9.7m	-£0.2m
Stores purchase price inflation	0.65%	1.47%	+0.82%
Service levels - Top 400 lines	98%	99.2%	+1.2%
Deliveries on due day	98.5%	99.5%	+1.0%

5.2. HC3S successfully achieved the target for primary school cost per meal of 90 pence. The unit labour cost was 1.5% above target due to higher than budgeted employer's pension contribution costs and reduced income. The percentage meal take-up and the total number of meals provided in primary schools fell below target. This reduction was caused by the unplanned school closures due to adverse weather and also a pressure on household incomes.

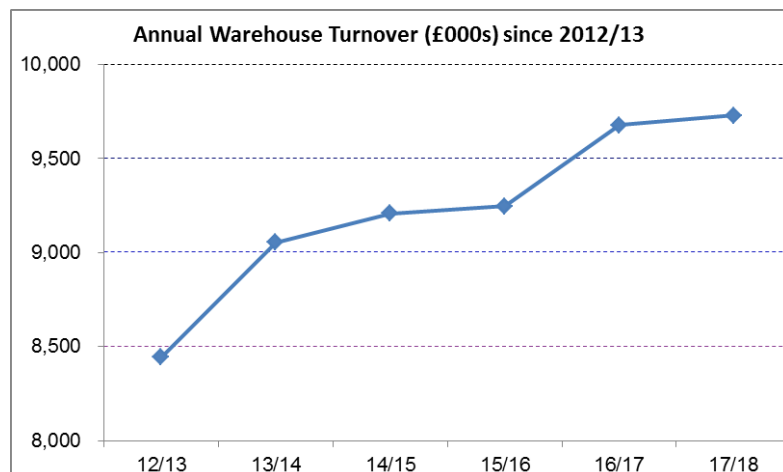
5.3. 11.29 million primary school meals were provided in 2017/18 compared to 11.59 million in the previous financial year and 11.37 million in 2016/17. 2017/18 has therefore seen a reversal of the upward trend in meal numbers since 2006/07 as illustrated in the graph below.



5.4. In light of this reduction in meal numbers, HC3S will focus on encouraging meal take-up through targeted publicity and marketing, especially through social media, which emphasises HC3S's aims of providing high quality and nutritious meals, locally sources food and competitive pricing.

5.5. The size of the HTM fleet was much higher than originally planned due to the new business for the supply of vehicles (and associated equipment) to the Hampshire Highways Services Contract and HTM's success in winning new business with a number of other new external customers and schools. Despite this significant increase in the number of vehicles supplied, the contract hire conversion rate (49.1%) was lower than the target of 60%. This was a new KPI for 2017/18 and HTM will carry out some further research in 2018/19 into both the reasons for the unsuccessful quotes and whether the target is in line with the industry norm.

5.6. County Supplies continued to perform above target for deliveries on due day and service levels. Inflation on purchase prices increased higher than target though this inflationary increase was considerably lower than RPI, due to proactive management of, and negotiation on, any price increases within the supply chain. Warehouse turnover was slightly (2%) below target, which reflects the public sector funding pressures experienced by customers. However, the turnover for 2017/18 was £53,000 higher than the previous year and continued the upward trend since 2012/13 as shown in the graph below.



6. Other Key Issues

Hampshire County Council Catering Services (HC3S)

6.1. In addition to generating £24.4 million of income in Hampshire primary schools, HC3S maintained a portfolio of customers in other sectors and achieved income from:

- secondary schools of £3.9 million
- schools outside Hampshire of £1.7 million
- non-school sites of £4.2 million.

6.2. As shown in table 4 below, in 2017/18 HC3S also returned just over £139,000 to secondary schools and the financial payback to other County Council services from HC3S's catering operations in non-schools sites amounted to £222,066.

Table 4 – Financial Payback to Services from HC3S in 2017/18

Site / Service	Catering Payback 2017/18
Countryside Service	£107,000
Sir Harold Hillier Gardens	£92,853
Calshot Activity Centre	£12,213
Library Service	£10,000
Total for Hampshire County Council Services	£222,066
Secondary Schools	£139,211
Total payback to customers	£361,277

6.3. The number of catering contracts and service level agreements remained relatively static during 2017/18. HC3S started one new contract and three others were renewed in the secondary school sector, 22 contracts with Wiltshire primary schools were extended and three contracts with Hampshire schools ceased. A new cafe was opened in Fareham Library in May 2017 and the loss-making café servery in Basingstoke Discovery Centre was closed in March 2018.

6.4. HC3S recently achieved the Soil Association's *Food for Life Served Here* Bronze award for all primary schools. HC3S was also re-accredited by the Hyperactive Children's Support Group (HACSG). This accreditation is reviewed annually and confirms the removal of specific additives from primary school meals (HC3S was first accredited by HACSG in 2005). A Gold *Eat Out, Eat Well* award was gained for the café at Titchfield Haven National Nature Reserve and Allergy UK accredited the EII Restaurant and Coffee Shop and the catering facilities at Sir Harold Hillier Gardens under its *Allergy Aware* scheme. HC3S staff achieved success at the Lead Association for

Catering in Education's national *Finishing Touches* competition, winning 'Best in Show' and eleven other awards across three classes.

- 6.5. HC3S provided apprenticeship training opportunities for 54 catering staff in 2017/18, accessing £106,000 of apprenticeship levy funding to undertake the following staff development programmes:
- Level 2 Food Production and Cookery
 - Level 2 Team Leading
 - Level 3 Hospitality Supervision and Management.

Hampshire Transport Management (HTM)

- 6.6. HTM exceeded its income targets for all the services provided during 2017/18, primarily due to gaining new and additional business with external customers and schools. Despite the inflationary pressures experienced within the fleet industry during 2017/18, HTM held contract hire prices for the existing fleet for the seventh consecutive year and reduced short term hire costs as a result of internal efficiency savings.
- 6.7. HTM employed six apprentices across the business and, in addition, provided four traineeship placements and three work experience placements in its workshops during 2017/18. HTM continues to work closely with County Council colleagues and schools on the Home to School Transport 'spend to save' initiative. Through the successful provision of an additional three vehicles in 2017/18, the Home to School Transport budget will make estimated recurring savings of £125,000 a year.

County Supplies (CS)

- 6.8. CS achieved its highest ever warehouse turnover in 2017/18 of £9.73 million and also generated income from rebates on direct delivery framework agreements and contracts of £1.178 million, which was £48,000 (4%) above target. Although warehouse turnover was slightly below target, CS continued to perform well in the market compared to its competitors. Whilst CS increased its total turnover by 0.6% in 2017/18 compared to the previous financial year, Hampshire schools spend with CS's key competitors reduced by 17.5% in the same period.
- 6.9. During 2017/18, CS successfully expanded its portfolio of direct delivery framework agreements for schools to include education catering (school meals), which was awarded to 13 suppliers (including HC3S). This framework is for use by schools which choose not to sign up to the school meals service level agreement with HC3S and wish to go out to competition in the market. It is also open for use by all Academies and Colleges in Hampshire. This service generated £28,800 of new and additional income for the business unit in 2017/18 and it is planned to grow this income further in future years.

7. Future direction

- 7.1. The performance of all three business units in 2017/18 continues to remain strong in spite of ever growing trading pressures in the market from a combination of increasing cost pressures and reducing customer spend as a

result of both public sector financial constraints and a squeeze on household incomes.

- 7.2. As previously reported to Members, BSG's business development plans, which focus on customer retention, winning new business and expanding into new customer sectors are critical to its on-going success in what is a highly competitive marketplace.

CORPORATE OR LEGAL INFORMATION:**Links to the Strategic Plan**

This proposal does not link to the Strategic Plan 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>Date</u>
Business Services Group – 2016/17 Annual Report and Accounts	27 June 2017
Business Services Group – Business Plans 2017/18	27 June 2017
Business Services Group – Business Plans 2018/19	29 March 2018

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.)

DocumentLocation

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:

This report outlines the financial position of the Business Services Group for 2017/18 and therefore an Equalities Impact Assessment has not been considered necessary in the development of this report as it is not proposing any changes to current service provision and therefore will have no impact on groups with protected characteristics

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 2017/18.

3. Climate Change:

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

There is 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?

The proposals in this report do not need to adapt to climate change.

CCBS Business Services Group

Final Accounts 2017/18

Business Services Group			
	Target	Actual	Difference
2017/18 Final Accounts	£'000	£'000	£'000
Income	54,267	53,875	(392)
Direct Costs	49,099	49,176	77
Contribution	5,168	4,699	(469)
Overheads	4,605	4,192	(413)
Surplus/(Deficit)	563	507	(56)

Trading surplus as a % of income: 0.9% (1.6% in 2016/17)

Hampshire County Council Catering Services (HC3S)			
2017/18 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Sale of meals	34,951	34,520	(431)
Other	301	142	(159)
Total Income	35,252	34,662	(590)
Direct Costs	33,098	33,158	60
Contribution to overheads	2,154	1,504	(650)
Overheads	1,896	1,497	(399)
Surplus/(Deficit)	258	7	(251)

Trading surplus as a % of income: 0.02% (0.2% in 2016/17)

Hampshire Transport Management (HTM)			
2017/18 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Contract Hire	3,520	3,716	196
Other	4,045	4,137	92
Total Income	7,565	7,853	288
Direct Costs	6,404	6,510	106
Contribution to overheads	1,161	1,343	182
Overheads	1,151	1,160	9
Trading Surplus/(Deficit)	10	183	173
Surplus/(deficit)	10	183	173

Trading surplus as a % of income: 2.2% (3.6% in 2016/17)

County Supplies			
2017/18 Final Accounts	Target	Actual	Difference
	£'000	£'000	£'000
Income			
Stores turnover	9,850	9,730	(120)
Retrospective rebates	1,130	1,178	48
Other	470	452	(18)
Total Income	11,450	11,360	(90)
Direct Costs	9,597	9,508	(89)
Contribution to overheads	1,853	1,852	(1)
Overheads	1,558	1,535	(23)
Trading Surplus/(Deficit)	295	317	22

Trading surplus as a % of income: 2.8% (4.6% in 2016/17)

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

Balance at 1 April 2017	5,346
2017/18 Actuals	
BSG trading surplus 2017/18	507
HTM surplus for 2017/18 relating to final year capital charges	340
BSG depreciation & capital charges	150
HC3S kitchen and servery improvements / investments	(195)
Community hubs / locality working	(19)
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Balance at 31 March 2018	6,129
Earmarks and Commitments 2018/19	
Forecast BSG trading surplus 2018/19	559
BSG depreciation & capital charges	141
County Supplies warehouse scanning software	(200)
HC3S mobile electronic catering administration system	(230)
HC3S kitchen and servery improvements / investments	(360)
Balance of community hubs / locality working	(24)
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Forecast Balance at 31 March 2019	6,015
Further Earmarks and Commitments	
- BSG contingency (1.25% of income)	(717)
- HTM Petersfield workshop refurbishment	(800)
- HTM provision for final year capital charges	(340)
- Bar End site roof replacement	(200)
- HC3S equipment replacement (Countryside and HQ)	(50)
- HC3S mobile electronic catering - devices refresh	(175)
- CRM system - full implementation	(234)
- CCBS investment projects	(222)
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Unallocated Balance	3,277