

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Buildings, Land and Procurement Panel
<b>Date:</b>	13 October 2020
<b>Title:</b>	Business Services Group – 2019/20 Annual Report and Accounts
<b>Report From:</b>	Director of Culture, Communities and Business Services

**Contact name:** Shaun Le Picq

**Tel:** 0370 779 0482

**Email:** shaun.lepicq@hants.gov.uk

#### Purpose of this Report

1. The purpose of this report 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 2019/20 financial year. The report also includes an overview of the aggregated accumulated surpluses of these businesses.

#### Recommendation

That the Panel make the following recommendation to the Executive Member for Commercial Strategy, Human Resources and Performance:

2. That the 2019/20 annual report and accounts for the Business Services Group be approved.

#### Executive Summary

3. This report provides Members with a summary of the financial and business performance of the three self-funding business units, known collectively as the Business Services Group (BSG) in the Culture, Communities and Business Services Department (CCBS) for the 2019/20 financial year. The three business units within BSG are:
  - Hampshire County Council Catering Services (HC3S)
  - Hampshire Transport Management (HTM)
  - County Supplies (CS).

4. The business units operate in a highly competitive environment and their continued trading performance is dependent on the success of their business development plans in retaining existing customer loyalty and winning new business.
5. The annual net trading deficit for 2019/20 was £1.624 million, compared to an original business plan target surplus of £604,000 and a revised forecast deficit of £921,000. The deficit was primarily due to school meal uptake being lower than target, food and staffing costs being higher than forecast, lower turnover than target in the County Supplies warehouse and the adverse impact of the Covid-19 pandemic. In March 2020, the Covid-19 lockdown cost an estimated £944,000 due to a considerable reduction in income as schools and other sites closed at short notice, whilst food and staffing costs had already been incurred. It has recently been agreed that corporate funding of £931,000 will be made available to the Business Services Group to cover the net cost (after furlough income) of the HC3S Covid-19 related financial loss incurred in 2019/20. This report shows the income loss as being met from the BSG accumulated surpluses in Appendix 2, as that reflects the position as at March 2020.
6. If the adverse financial impact of Covid-19 had not occurred, HC3S would have achieved a better financial outturn of £1.086 million deficit compared to its revised forecast deficit of £1.292 million. This would have been an improvement against forecast of £206,000. This illustrates that HC3S's financial recovery plan, as previously reported to Members, was having a positive effect prior to the Covid-19 lockdown. Meal uptake was above target in January and February 2020 combined and staffing and meal costs had been reduced.
7. This financial result also continues to reflect the significant pressures in the market in which the businesses operate. These pressures include increases in overall staffing costs due to local government pay for Grade A catering assistants being higher than the National Living Wage, increases in employer pension contributions, general inflationary pressures across food and other commodities and reduced spend by customers due to the financial constraints within the public sector and an overall squeeze on household disposable incomes.
8. Despite these trading pressures and the overall deficit for the year, the business units continue to perform well against their competitors in the local area. HC3S received several accreditations and awards for the quality and sustainable sourcing of its meals, including being re-accredited for the Soil Association's 'Food for Life Served Here' bronze award. This accreditation is reviewed annually and confirms that at least 75% of food is cooked fresh, is good quality and sourced locally where possible. County Supplies has retained business with 100% of all schools (including academies) in Hampshire, Southampton and Portsmouth and attracted 21 new customers in

the year. HTM has continued to be successful in winning new business from new external customers and schools, supplying them with a total of 335 vehicles, which exceeded the business plan target by 34 vehicles.

9. The business units have also supported the delivery of a number of County Council initiatives and objectives including:
  - working in partnership with Children’s Services to achieve savings on their contribution to the cost of the courier service
  - leading on three climate change workstreams in CCBS
  - replacing 41 existing diesel vehicles with fully electric vehicles
  - providing and promoting healthy and nutritious meals for school children
  - supporting UK suppliers.
  
10. The businesses are continuing their work, in line with their business plans and T21 programmes, to generate efficiencies, focus on customer retention, exploit digital technologies and win new business. The investment required for these business development programmes is funded by the accumulated surpluses generated by the business units and this ensures that no financial support is provided by the County Council for this investment.
  
11. However, the Covid-19 pandemic has caused considerable disruption to the level of income generated and this means that the financial sustainability of the business units is at risk as the Business Services Group’s accumulated surpluses may not cover the forecast deficit for 2020/21. The forecast impact of a loss of income of at least £4.4 million from Covid-19 on the business units has been included in the County Council’s submission to MHCLG and also in the County Council’s Medium Term Financial Strategy. The financial position will be monitored closely through the year and the businesses will continue to seek out further efficiencies and income generation opportunities to try to safeguard the financial sustainability and success of the business units.
  
12. All three businesses have provided a range of Covid-19 response and recovery services since the start of the pandemic and have been providing flexible and responsive services to customers and the County Council throughout lockdown and into the lockdown easing and recovery phases. This included providing an emergency catering service to 5 primary schools whose private sector catering suppliers were unable to provide the service required.

## **Contextual information**

13. The three self-funding business units (HC3S, HTM and County Supplies) in CCBS are required to be financially self-sufficient by generating income through trading with the County Council, schools, other educational establishments and the wider public and third sectors in and around Hampshire. The income is intended to cover all costs, including relevant and appropriate departmental and corporate overheads. The business units are required to generate reasonable surpluses to enable them to re-invest in new initiatives and technology to maintain competitiveness and business success.
14. The 2019/20 business plans for the three business units, which set out the financial and performance targets and service delivery objectives, were reported to the Buildings, Land and Procurement Panel and approved by the Executive Member for Economic Development on 26 March 2019. This report outlines the actual performance against these plans during the last financial year.
15. 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. Due to difficult trading conditions, the business units have made an overall deficit in 2019/20 and this will also need to be funded by the accumulated surpluses earmarked for the business units. £944,000 of this deficit was attributable to the Covid-19 pandemic. Prior to the Covid-19 pandemic, HC3S had put in place a financial recovery plan which was intended to bring HC3S back into surplus by 2021/22 at the latest.
16. 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 extends into parts of Berkshire, Dorset (including Bournemouth, Christchurch and Poole), Isle of Wight, Surrey, West Sussex and Wiltshire.

## **Finance**

17. The 2019/20 final accounts for BSG are summarised in table 1 below and the summary accounts for each business unit are shown in Appendix 1.

**Table 1 – Business Services Group Actuals 2019/20**

	<b>Revised Target</b>	<b>Actuals</b>	<b>Variance to revised target</b>	<b>Variance</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Income	56,691	55,026	(1,665)	(2.9%)
Costs	57,612	56,650	(962)	(1.7%)
<b>Surplus / (deficit)</b>	<b>(921)</b>	<b>(1,624)</b>	<b>(703)</b>	<b>(76.3%)</b>

18. The key points to note for 2019/20 are:

- Total business turnover (income) was £57.1 million, which is an increase of £400,000 on the previous year.
- This turnover was £1.7 million (2.9%) below the revised target.
- Total costs were £56.7 million, which was £962,000 (1.7%) lower than the revised target.
- BSG made a deficit of £1.6 million and this was a £703,000 worse position than the revised target.
- £944,000 of this variance was directly attributable to loss of school meal income from the Covid-19 pandemic.
- If the pandemic had not occurred, BSG would have improved on its forecast deficit by £241,000. This impact is reflected in table 2 below.

**Table 2 – Business Services Group Actuals 2019/20 - with Covid-19 impact**

	<b>Revised Target</b>	<b>Actuals</b>	<b>Including Covid-19 impact</b>	<b>Variance to revised target</b>	<b>Variance</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>
Income	56,691	55,026	55,970	(721)	(1.3%)
Costs	57,612	56,650	56,650	(962)	(1.7%)
<b>Surplus / (deficit)</b>	<b>(921)</b>	<b>(1,624)</b>	<b>(680)</b>	<b>241</b>	<b>26.2%</b>

19. Table 2 above illustrates that HC3S's financial recovery plan was having a positive effect prior to the Covid-19 impact, with food and staffing costs being below the revised target in the last quarter of 2019/20 prior to the Covid-19 lockdown in March.

20. As self-funding business units, BSG also covers the cost of relevant departmental and corporate support services. In 2019/20, BSG contributed over £800,000 towards the cost of corporate and departmental overheads. In addition, BSG funded the cost of the past pension deficit for its staff, which cost £753,000 in 2019/20.
21. Table 3 below shows the annual surpluses generated by the business units over the last five years.

**Table 3 – Annual Trading Surplus / (Deficit) 2015/16 to 2019/20**

	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
<b>Business Unit</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
HC3S	591	55	7	(280)	(2,030)
HTM	321	266	183	98	14
County Supplies	342	516	317	225	392
<b>Total Surplus / (Deficit)</b>	<b>1,254</b>	<b>837</b>	<b>507</b>	<b>43</b>	<b>(1,624)</b>
<b>% of income</b>	<b>2.4%</b>	<b>1.6%</b>	<b>0.9%</b>	<b>0.1%</b>	<b>(3.0%)</b>

22. The reduction in HC3S's financial performance over the last five years reflects the increase in staffing and food costs, a continued reduction in primary school meal take-up and lower returns at some secondary and commercial sites than planned. HC3S's financial recovery plan is in place with the aim of increasing meal uptake, increasing staff productivity, reducing the cost per meal and reducing management costs. Unfortunately, the Covid-19 pandemic has meant that the financial situation has worsened and in 2019/20 accounted for an additional financial pressure of £944,000 which increased the deficit to £2.03 million.
23. HTM's reducing surpluses from 2015/16, are due to increases in the cost of staffing and vehicle spares and consumables, whilst contract hire rates have been held throughout the life of those contracts. HTM is reviewing prices and margins across the range of its services in 2020/21 to ensure that it can generate a reasonable surplus whilst still remaining price competitive. There were no direct adverse impacts from Covid-19 in 2019/20 as services which were affected by lockdown such as short-term hire, ad-hoc vehicle maintenance and fuel usage will be accounted for in 2020/21 due to the timing of transactions.
24. County Supplies continues to achieve a steady surplus each year as it maintains its price competitiveness and successfully retains income levels and customers. There were no adverse impacts of Covid-19 on County Supplies in 2019/20 as turnover in March 2020 was slightly above target for

that month due to customers increasing their purchase of hygiene products and PPE.

25. In addition to generating £24.5 million of income from Hampshire primary school meals, HC3S continued to maintain a portfolio of customers in other sectors and outside of Hampshire achieving turnover (income) as follows:
- secondary schools: £3.3 million
  - schools outside Hampshire: £2.1 million
  - non-school sites: £4.6 million
  - other income: £0.2 million.
26. As shown in table 4 below, in 2019/20 HC3S also returned surpluses of £69,000 to secondary schools and provided a financial payback of £214,500 to other County Council services from the catering operations at these services' sites.

**Table 4 – Financial Payback to Services from HC3S in 2019/20**

<b>Site / Service</b>	<b>Catering Payback 2018/19 £'000</b>
Countryside Service	90
Sir Harold Hillier Gardens	98
Calshot Activity Centre	9 <sup>1</sup>
Library Service	17.5
<b>Total for Hampshire County Council Services</b>	<b>214.5</b>
Secondary Schools	69
<b>Total payback to customers</b>	<b>283.5</b>

27. HTM's total income was £8.67 million, which was only 0.7% below target. This was mainly due to workshop income being £180,000 (25%) below target, because the Highways England (HE) fleet was all replaced with new vehicles during the year and HE decided to send all vehicles back in their existing condition with no remedial work undertaken, which was not as originally forecast in the trading account. All other income was slightly above target, leading to an overall surplus of £14,000 which was £37,000 below target. The income for each of HTM's five core services was as follows:

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<sup>1</sup> The payback to Calshot is rent paid to Calshot Activity Centre for the café

- contract hire: £4.96 million
- fuel: £1.18 million
- courier service: £1.04 million<sup>2</sup>
- spot hire: £0.94 million
- workshop income: £0.56 million.

28. HTM's costs were very close to target at £28,000 (0.3%) below target.

29. County Supplies warehouse income, at £9.69 million, was on a par with the previous financial year, though was below target by 8%. This reflects spending pressures for schools, leading to a reduction in their purchases of curriculum supplies. Income from the County Supplies' portfolio of framework agreements continues to hold up well, despite the current public sector financial constraints and generated £1.13 million of income, which was £11,000 (0.98%) above target. Proactive management of costs and delivery of efficiencies led to costs being £100,000 (2.8%) below budget, which enabled the business unit to generate a reasonable surplus of £392,000 (3.5% of turnover).

30. 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 initiatives that retain customer loyalty and win new business, whilst also enabling the replacement of assets and equipment, upgrading technology and improving services. BSG's accumulated surpluses form part of the County Council's overall reserves. The 2019/20 movements on the accumulated surpluses for the businesses are shown in table 5 below.

**Table 5 – Accumulated Surpluses – movements 2019/20**

	<b>£'000</b>
<b>Surplus as at 01/04/19</b>	<b>5,669</b>
Business Services Group deficit 2019/20	(1,624)
Depreciation, interest and finance	146
Spending from accumulated surpluses	(430)
<b>Closing balance as at 31/03/20</b>	<b>3,761</b>

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<sup>2</sup> The courier service also includes the transport service for Adult Services clients at day services, transport of school meals, MIDAS driver training and library book movements.

31. The accumulated surpluses reduced by £1.9 million (34%) during 2019/20 to £3.8 million. The trading deficit of £1.6 million accounted for the majority of the reduction and spending of £430,000 related to investments included in the Business Plans for 2019/20, as approved by the Executive Member, for kitchen and servery improvements, technology and equipment upgrades and replacements and other Transformation to 2021 (T21) projects which will deliver efficiencies and retain or increase income in future years. Further detail of this spending from the accumulated surpluses is shown in Appendix 2. It has recently been agreed that corporate funding of £931,000 will be made available to the Business Services Group to cover the net cost (after furlough income) of the HC3S Covid-19 related financial loss incurred in 2019/20. This will be reflected in the BSG Accumulated Surpluses in 2020/21. This report shows the income loss as being met from the BSG accumulated surpluses in Appendix 2, as that reflects the position as at March 2020.
32. It is currently difficult to forecast the movements on the accumulated surpluses for 2020/21 as the Covid-19 pandemic is having a significant adverse impact on the income levels of all three of the business units. The deficit for 2020/21 is currently estimated to be £4.3 million (excluding furlough income) assuming that all pupils are attending school from September 2020 and some level of social distancing continues until the end of the financial year. The accumulated surpluses will therefore only cover some of the trading deficit.
33. The forecast Covid-19 impact on loss of income for the business units in 2020/21 ranges from £4.4 million to £10.9 million, depending on whether school meal numbers continue to be as low as they have been during lockdown for the rest of the financial year or whether they recover to normal levels from September. These forecasts currently exclude any furlough income. The Covid-19 impact of £4.4 million has been included in the County Council's submission to MHCLG and also in the County Council's Medium Term Financial Strategy. The financial position will be monitored closely throughout the year and the businesses will continue to seek out further efficiencies and income generation opportunities to try to safeguard the financial sustainability and success of the business units.
34. Appendix 2 shows the planned spending from the accumulated surpluses in line with the original approved 2020/21 Business Plans. All spending requires a business case approved by the Departmental Management Team and only items which are business critical or have a clear payback are now included as firm commitments for 2020/21. A number of projects previously reported to Members will have to be deferred until the financial position for 2020/21 is clearer.
35. Taking account of future potential commitments and earmarks, particularly arising from the Business Units' Transformation to 2021 (T21) programme, there is currently an unallocated balance in the accumulated surpluses of only

£3,000. This is after some of the earmarks have been reduced compared to previous estimates to reflect the limited funds available within the accumulated surpluses. This balance does not take account of the potential estimated £4.3 million to £10.8 million end of year deficit for 2020/21 from reduced trading turnover as a direct result of the Covid-19 pandemic. Therefore, the forecast balance in the accumulated surpluses assumes that any 2020/21 Covid-19 related trading losses, as detailed above, will be funded corporately by the County Council.

36. HC3S also manages delegated catering budgets on behalf of schools through buy-back arrangements and a Service Level Agreement (SLA) which covers the costs of equipment maintenance and replacement in schools' kitchens and serveries. This SLA had an annual value of £2.1 million in 2019/20. This pooled fund does not form part of HC3S's trading account as it is managed on a break-even basis on behalf of schools.

## Performance

37. BSG's actual performance against the target key performance indicators for 2019/20 is shown in table 6 below.

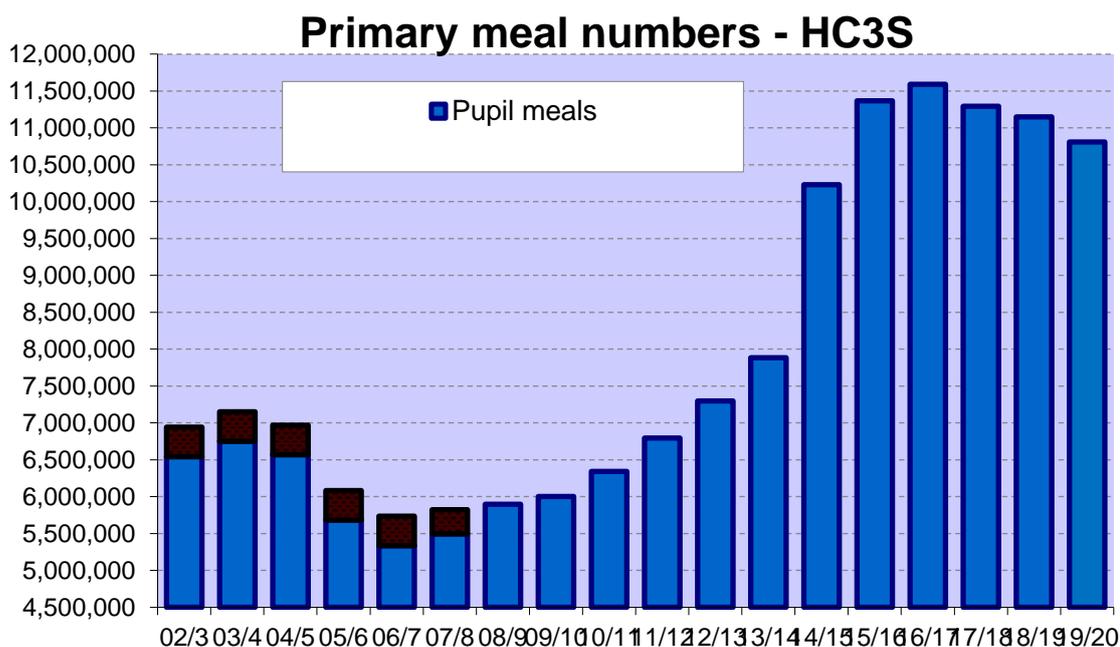
**Table 6 – Key Performance Indicators: Targets and Actuals for 2019/20**

KPI	Target	Actuals	Variance
	2019/20	2019/20	2019/20
<u>HC3S</u>			
- Primary school pupil meals uptake	55.8%	53.5%	-2.3%
- Primary school food cost per meal	£0.90	£0.94	+£0.02
- Unit labour cost as % of income	53%	53%	0%
<u>HTM</u>			
- Pool car utilisation	90%	80.1%	-9.9%
- Fleet downtime	1%	0.36%	-0.64%
- Fleet size (external customers)	211	223	+12
- Contract hire conversion rate: quotes to orders	50%	57.8%	+7.8%
<u>County Supplies</u>			
- Stores turnover	£10.5m	£9.7m	-£0.8m
- Stores purchase price inflation	+1.2%	-0.18%	-1.38%
- Service levels – Top 400 lines	98%	98.5%	+0.5%
- Deliveries on due day	>98%	99.8%	+1.8%

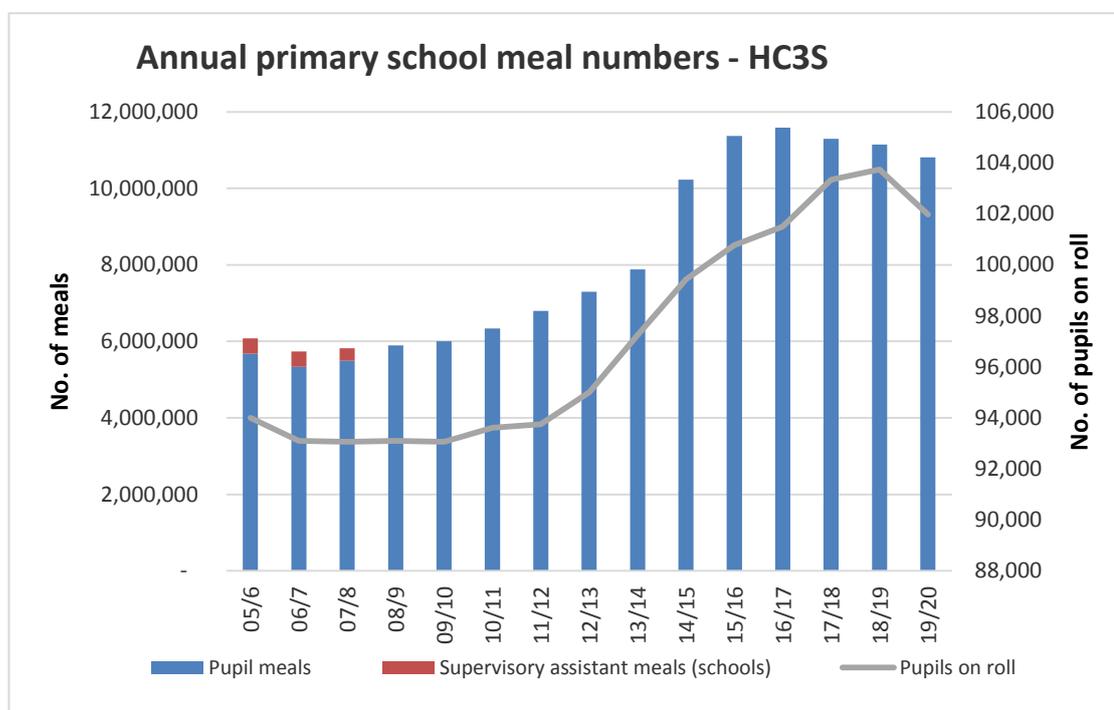
38. Lower meal uptake and higher food costs have been the main factor in the lower than planned turnover and surplus for HC3S in 2019/20. The number of meals provided was also adversely affected by the Covid-19 pandemic impact in March 2019 as the number of meals was 31% lower than target, due to

school closures for the last two weeks of March. This accounted for a 17.5% variance in percentage uptake.

39. However, the number of meals served in January and February 2020 combined was 3% higher than target. Unit labour costs were also exactly on target for the year. Although the cost per meal for the year was higher than target by 2 pence per meal, there was a downward trend in meal costs. In Autumn term 2019 the cost per was 98 pence and by the Spring term 2020 it was 89 pence, which is a reduction of 9 pence (9.2%) per meal. This demonstrates that the elements of the financial recovery plan relating to increasing meal uptake, reducing staff costs and reducing food costs, that had been put in place in autumn 2019, was starting to have a positive impact prior to the Covid-19 pandemic. Food costs have been reduced further in the current financial year to 75 pence per meal from the autumn term 2020/21.
40. 10.61 million primary school meals were provided in the year, which equates to over 55,200 primary school meals served on average each day by HC3S. This compares to 11.15 million meals in the previous year and 11.29 million meals in 2017/18.
41. As previously reported to Members, this reduction appears to be a national trend and HC3S has been working on a programme to increase its marketing activity including effective use of social media and commissioning external specialist support to undertake social marketing research. Unfortunately, this social marketing work has been put on hold temporarily due to the pandemic, though HC3S has increased its social media reach during the pandemic with nearly 9,000 followers and this is significantly higher than competitors. The trend in meal numbers over the last 18 years is shown in the graph below.



42. HC3S mobilised three new contracts for the provision of catering services in primary schools outside of Hampshire during the year. In addition, four secondary schools extended their contract with HC3S. Unfortunately, HC3S lost business with three primary schools and two secondary schools during the year. In addition, three further contracts came to an end and HC3S decided it was not commercially viable to bid to retain them. Two of these contracts were in Wiltshire and HC3S also terminated a contract with a secondary school in Hampshire as it was not providing the required financial returns due to a change in the catering service required by the school. The graph below reflects the recent reduction in the number of pupils on roll, due to these lost contracts, compared to the change in meal numbers. This shows a broad correlation between changes in the number of meals and changes to the number of pupils on roll for those schools at which HC3S provides the catering.



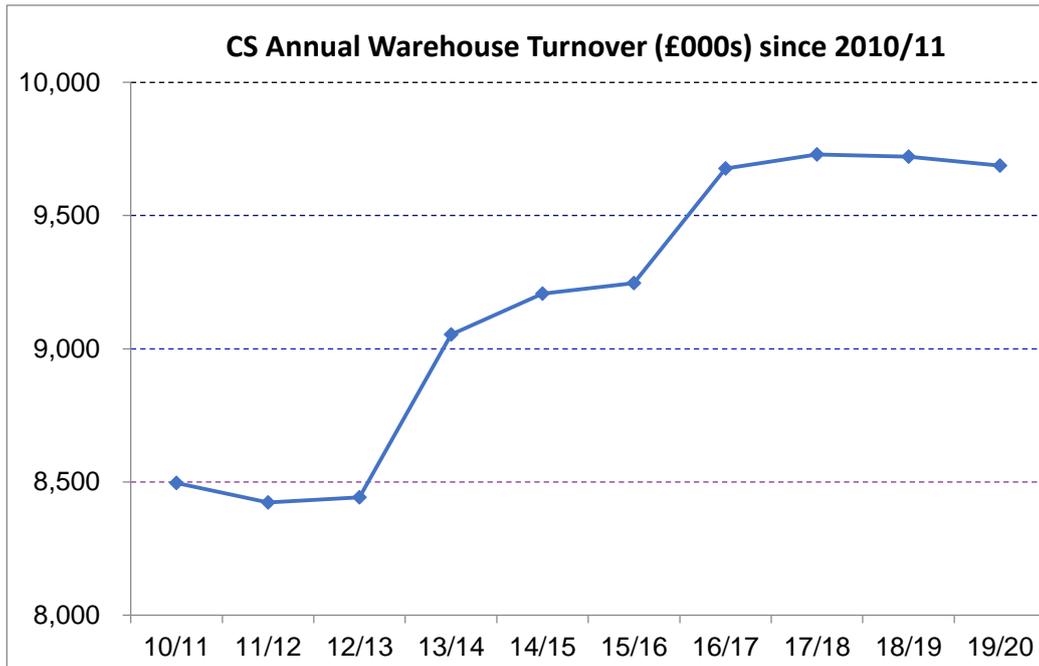
43. Following a joint strategic catering review with the Countryside Service, it was decided to transfer catering at the five County Parks and Titchfield National Nature Reserve to the Countryside Service on 1<sup>st</sup> December 2019.

44. The impact of these changes means that as at March 2020, HC3S were providing catering services to customers at 491 schools and 6 non-school sites. This is an overall reduction during the year of 5 schools and 6 non-school sites.

45. HC3S has been re-accredited with the Soil Association's 'Food for Life Served Here' Bronze award for all primary schools. This accreditation is reviewed annually and confirms that at least 75% of food is cooked fresh, is good quality and sourced locally where possible. The HC3S service in

primary schools has also achieved a Gold 'Eat Out, Eat Well' award, which recognises how HC3S makes it easier for pupils to make healthier choices and demonstrates how these healthier choices are actively promoted.

46. HC3S was named 'Education Caterer of the Year' by the Foodservice Cateys and was also the winner of the Cateys' Innovation Award. HC3S was also successful in the EDUCatering awards and won both 'Primary School Caterer of the Year' and the 'Marketing' awards. HC3S's marketing initiatives, especially through social media, were also recognised by the Lead Association for Catering in Education's (LACA) Marketing Award.
47. HTM's external customer fleet exceeded target by 12 vehicles taking the total number of external customer vehicles to 223. This demonstrates very good progress on HTM's business development objectives of increasing the number of external customers. This success in winning new business is also reflected in the percentage contract hire conversion rate (quotes to orders) being nearly 8% above target. Fleet downtime continues to be well below the minimum expected at 0.36% compared to a target of 1%, which reflects good performance at the vehicle workshops by keeping downtime as low as possible for customers.
48. For the second year running, the utilisation of the Alphacity pool car scheme was particularly disappointing at 80.1%, which is 9.9% below target. This was caused by poor utilisation of a small number of vehicles that were made available at a number of the County Council's offices and hubs outside of Winchester, despite action being taken during the year to move vehicles to locations which had expressed an interest in using a pool car. In light of the Covid-19 pandemic, the size of the Alphacity fleet will be reviewed and some vehicles will be returned early if the savings warrant doing so.
49. Good progress has been made with replacing the current diesel fleet (where vehicles have reached the end of their useful life) with electric vehicles. During the year, the number of electric vehicles in operation increased to 41 as at the end of March 2020.
50. County Supplies continues to perform above target for deliveries on due day (99.8%) and service levels (98.5%), which is important for retaining customer loyalty. Inflation on purchase prices was 1.38% lower than forecast, which reflects effective supplier negotiation and leveraging of purchasing power with key partner authorities. Warehouse turnover remained relatively static, for the fourth consecutive year at £9.7 million. As shown in the graph below, this is the first time since 2012/13 that warehouse turnover has not increased for a sustained period. This reflects difficult trading conditions with our public sector customers, particularly due to the financial pressures experienced by schools, which continue to be County Supplies' core customers.



51. During the year, 21 new customers registered with County Supplies, most of which were as a result of a business development campaign to attract new customers within the business unit's 'deliverable radius', including parts of Dorset, Surrey and Berkshire. County Supplies has successfully retained 100% of all schools and academies in Hampshire, Portsmouth and Southampton as customers during 2019/20.

### **Sustainability and Climate Change**

52. All three business units have continued to deliver a range of sustainability initiatives and carbon reduction actions during the year to contribute to the County Council's climate change programme. These include:

- Drinks purchased only in recyclable, reusable or refillable containers
- Takeaway cutlery and straws are recyclable or compostable
- Recycling cooking oils into biofuels
- Use of UK seasonal vegetables and other UK produce to reduce food miles and support British farmers and growers
- Traceable and sustainable food purchasing policy
- HC3S implemented electronic and digital communications with all kitchens which reduces use of paper, printing and transport
- Primary school meal ordering, portion control and food unit cost management has reduced food waste
- 41 fully electric vehicles now in the fleet
- HTM recycles all spent oils and lubricants, scrap metal and batteries

- Putting arrangements in place for a hydrotreated vegetable oil (HVO) fuel pilot for some of the current diesel LGVs and vans which will start in 2020/21
- County Supplies' packaging is made of at least 70% recycled material and recycles all waste cardboard from its warehouse operations
- The three business units are leading on three of the County Council's climate change workstreams: food, travel and transport and product lifecycle.

## **Apprenticeships**

53. BSG continues to provide opportunities for apprenticeships within the businesses, supported by funding from the apprenticeship levy. During the year, HTM had five vehicle technician apprentices in the workshops and two business administration apprentices at HQ (shared with County Supplies to broaden their skill base). HTM has engaged fully with the apprenticeship programme since 2006 and has enabled 23 apprentices to be trained and qualified during that time. The apprentices have been an integral part of HTM's succession planning strategy from the outset. Without the workshop apprentices coming through the system, HTM would struggle to maintain operations in a hard to recruit market, with a decreasing number of trained technicians available.
54. County Supplies currently has three members of staff undertaking a Level 4 apprenticeship in Commercial Supply & Procurement. They are over halfway through the apprenticeship and are planning to finish their apprenticeships and qualify early in 2021. County Supplies also have a member of staff undertaking a Customer Service Practitioner apprenticeship. Our marketing and project support officer is undertaking a level 3 apprenticeship in Team Leadership and Management, leading to a recognised ILM qualification.
55. HC3S registered 14 members of staff for a variety of level 2 and level 3 hospitality & catering apprenticeship programmes. Due to staffing issues with the learning provider, applications had to be put on hold for 3 months as they were unable to support new apprentices for that period. This has led to a backlog of applications and a further 10 staff still awaiting sign up to programmes, which have also been adversely affected by the Covid-19 lockdown. 16 staff completed their apprenticeship qualifications during the year. During 2019/20, HC3S has also employed a Business Development Apprentice who is undertaking a Level 3 Marketing Assistant Apprenticeship. HC3S's Catering Operations Management Trainee, who is due to complete her apprenticeship shortly has secured a permanent post with HC3S as Continuous Improvement Manager.

## **Covid-19 Response and Recovery**

56. The business units have been assisting the County Council, schools, other customers and partners in Covid-19 response and recovery activities. The business units have also adapted their services to be Covid-19 secure for staff and customers and to support social distancing and other government requirements.
57. All three businesses have been working fully since lockdown started on 23 March and throughout the Covid-19 pandemic. HC3S has supported schools by providing meals for income assessed free school meal pupils and vulnerable and key worker children who were attending school. HC3S also provided an emergency catering service to 5 primary schools whose private sector catering suppliers were unable to provide the service required, especially over the Easter and half-term holidays when schools remained open.
58. The County Supplies warehouse has been fully operational and delivering to all customers who have remained open. County Supplies has also been supporting the Local Resilience Forum PPE warehouse operation.
59. All five of HTM's vehicle workshops have remained open, supporting all customers including Hampshire Highways, Highways England, County Council departments and schools.
60. There is obviously pressure on income and turnover in 2020/21. Meal numbers are much lower than usual, demand for short term hire and related services provided by HTM is very low and sales from the County Supplies warehouse are below target as schools require less curriculum supplies with pupil numbers affected by lockdown. Over 500 staff have been furloughed for a few months where they are funded by income that has been affected by the pandemic.
61. Further information on the range of services that the business units have been providing during the pandemic and the financial and operational impact will be reported in more detail to a future meeting of the Panel.

## **Conclusions**

62. The performance of all three businesses has been adversely affected by unplanned cost increases and a downturn in customer spend in 2019/20 and, in the case of HC3S, by the Covid-19 pandemic affecting school meal numbers in March 2020. This reflects the financial constraints that are affecting our public sector customers and has been highlighted in the business units' annual reports and business plans for the last few years.

63. The businesses have continued to win new customers and have contributed to a number of County Council initiatives and objectives during the year, including climate change, increasing the number of fully electric vehicles in the County Council's fleet to 41, providing and promoting healthy and nutritious meals for school children, offering a range of apprenticeship opportunities and supporting local suppliers within their supply chains.
  
64. BSG's business development plans, which focus on on-going efficiencies, exploiting digital technologies, meeting customers' changing expectations, retaining customer loyalty and winning new business remain critical to achieving on-going success and long-term financial sustainability for the three business units in a highly competitive marketplace. The Covid-19 pandemic has added significant financial and operational challenges in both 2019/20 and 2020/21.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because it enables the business units to demonstrate appropriate reporting mechanisms and to 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 – 2018/19 Annual Report and Accounts	8 October 2019
Business Services Group – Business Plans 2019/20	26 March 2019

**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	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

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 by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

This report outlines the financial position of the Business Services Group for 2019/20 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 protective characteristics.

**CCBS Business Services Group  
Final Accounts 2019/20**

<b>Hampshire County Council Catering Services (HC3S)</b>						
	<b>Original Target</b>	<b>Revised Target</b>	<b>Actuals</b>	<b>Variance to revised target</b>	<b>Variance</b>	<b>Deficit as %age of income</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>%</b>
Income	38,127	36,797	35,126	(1,671)	-4.5%	
Costs	38,013	38,089	37,156	(933)	-2.4%	
<b>Surplus / (deficit)</b>	<b>114</b>	<b>(1,292)</b>	<b>(2,030)</b>	<b>(738)</b>	<b>57.1%</b>	<b>-5.8%</b>

<b>County Supplies</b>						
	<b>Original Target</b>	<b>Revised Target</b>	<b>Actuals</b>	<b>Variance to revised target</b>	<b>Variance</b>	<b>Surplus as %age of income</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>%</b>
Income	12,032	11,159	11,230	71	0.6%	
Costs	11,593	10,839	10,838	(1)	0.0%	
<b>Surplus / (deficit)</b>	<b>439</b>	<b>320</b>	<b>392</b>	<b>72</b>	<b>22.5%</b>	<b>3.5%</b>

<b>Hampshire Transport Management (HTM)</b>						
	<b>Original Target</b>	<b>Revised Target</b>	<b>Actuals</b>	<b>Variance to revised target</b>	<b>Variance</b>	<b>Surplus as %age of income</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>%</b>
Income	8,735	8,735	8,670	(65)	-0.7%	
Costs	8,684	8,684	8,656	(28)	-0.3%	
<b>Surplus / (deficit)</b>	<b>51</b>	<b>51</b>	<b>14</b>	<b>(37)</b>	<b>-72.5%</b>	<b>0.2%</b>

<b>Business Services Group</b>						
	<b>Original Target</b>	<b>Revised Target</b>	<b>Actuals</b>	<b>Variance to revised target</b>	<b>Variance</b>	<b>Surplus as %age of income</b>
	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>	<b>2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>%</b>	<b>%</b>
Income	58,894	56,691	55,026	(1,665)	-2.9%	
Costs	58,290	57,612	56,650	(962)	-1.7%	
<b>Surplus / (deficit)</b>	<b>604</b>	<b>(921)</b>	<b>(1,624)</b>	<b>(703)</b>	<b>76.3%</b>	<b>-3.0%</b>

## Appendix 2

<b>Business Services Group</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Estimated Accumulated Surpluses (reserves)</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance as at 1st April 2019</b>	<b>5,669</b>	
<b>Actuals 2019/20</b>		
BSG trading deficit 2019/20	(1,624)	
BSG depreciation & capital charges	146	
HC3S kitchen and servery improvements / investments - primary	(159)	
HC3S kitchen and servery improvements / investments - secondary	(35)	
HC3S equipment replacement (Countryside)	(8)	
HC3S mobile electronic catering administration system	(101)	
HC3S staff recruitment and retention programme	(8)	
HC3S Crimson Tide Mpro system replacement	(5)	
HC3S income generation (social marketing research)	(13)	
HC3S School Meal Income system replacement	(8)	
County Supplies warehouse scanning system	(42)	
HTM workshop pit covers (H&S requirement)	(28)	
HTM fleet management system reprocurement	(23)	
<b>Balance at 31 March 2020</b>	<b>3,761</b>	
<b>Forecast 20/21 Commitments</b>		
Forecast BSG Surplus 2020/21 (original target)		115
BSG depreciation & capital charges		148
HC3S kitchen and servery improvements / investments - primary		(35)
HC3S kitchen and servery improvements / investments - secondary		(20)
HC3S digital efficiencies (allergen system)		(30)
HC3S School Meal Income system replacement		(165)
County Supplies Bar End site roof replacement		(500)
County Supplies customer ordering system modernisation		(261)
HTM IT infrastructure upgrades at workshops		(30)
HTM fleet management system reprocurement		(152)
HTM Micheldever lift and brake rollers for MOT bay		(37)
SHHG extension contribution		(200)
<b>Forecast balance at 31 March 2021</b>		<b>2,594</b>
<b>Future Potential Earmarks and Contingencies</b>		
HTM Petersfield workshop refurbishment		(1,290)
HC3S Alternative Service Delivery Model analysis & implementation		(175)
HC3S mobile electronic catering - devices refresh (earliest 2023/24)		(176)
HTM provision for final year capital charges (2024/25)		(340)
Traded Services Online system (HCC Sold Services) – BSG contribution		(50)
CRM system (HCC Sold Services) – BSG contribution		(50)
BSG contingency (1.25% of 2020/21 original target turnover)		(710)
Repayment by SHHG (over 6 years)		200
<b>Forecast Uncommitted Balance</b>		<b>3</b>

Note – excludes potential estimated Covid-19 related deficit of £4.3m to £10.8m (excluding furlough income) for 2020/21