

**6<sup>th</sup> November 2006**

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**REPORT BY DIRECTOR OF TECHNICAL SERVICES**

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**SBc Contracts**

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**1 Purpose of Report**

- 1.1 To update the members of the Trading Operations Sub-Committee on the performance of SBc Contracts for the period 1<sup>st</sup> April to 30<sup>th</sup> September 2006.

**2 Business Performance**

**2.1 Financial Performance 1<sup>st</sup> April to 30<sup>th</sup> September 2006**

Appendix 1 provides an analysis of the income and expenditure achieved up to the 30<sup>th</sup> of September and the projected outcome for 2006/07 relative to budget. Based on the available data to 30<sup>th</sup> September 2006, we are forecasting that SBc Contracts will generate a surplus of £332K for the 2006/07 financial year, against a revised budget target of £280K.

We are forecasting total year expenditure of £21.1M against an approved budget for the year of £19.3M. This higher level of expenditure is more than offset by a higher level of income which is expected to reach £21.4 million against an approved budget of £19.6 million for 2006/07. All of the forecast growth in income relative to budget is expected to come from external sources.

**2.2 Business Performance and Monitoring**

In view of the manpower retention pressure being felt, we will continue to closely monitor the level of chargeable hours generated. During the period from 1<sup>st</sup> of April to 1<sup>st</sup> of October (Week 26), SBc Contracts generated a total of 183,775 chargeable hours. This is below the level of 188,332 hours generated in the comparable period of 2005/06. This fall is a direct result of a lower number of direct workers available this year.

The average weekly chargeable hours generated per worker up to the end of September was 37.7, slightly below the level of 37.9 generated in the comparable period last year and above the 3 year average of 37.4. The drop in employee numbers has been slightly offset by an increase in chargeable hours from the remaining workers.

The split of the chargeable labours hours generated up to the end of September this financial year was:

SBC Funded Work	= 56.5%
Non-SBC Work	= 33.2%
Council Winter Maintenance	= 1.7%
Non-Recoverable Work	= 8.6%

The external portion of work, which accounts for 33% of the labour hours recovered to date, makes a very important financial contribution to SBC. Not only is it the source of almost all the surplus generated, but also produces a high level of fixed overhead cost recovery. It is calculated that over £4.60 of every labour hour charged out and 55% of every plant hour charged out is related to fixed overhead costs. On that basis the external non-SBC work undertaken so far this year has generated over £605,000 in recovery of the council's fixed costs.

For this reason, maintaining the level of external work is very important for SBC Contracts and the council as a whole. We are still actively seeking new work to replace the external contracts which are coming to completion in the coming months. There remains a shortage of new private sector schemes coming forward for tender at the moment and this may lead to a shortfall of external work during the final quarter of this financial year. We are at an advanced stage of negotiations to secure work on the Eyemouth and Berwickshire High School projects. If we are successful in these this will give some additional workload in the form of ground-works this year. However the major work component will not arise until the 2007/08 financial year and is likely to be lower margin work. Thus there remains a degree of uncertainty about the level and nature of our future external workload and the associated level of job profits for the final quarter of this year.

### 2.3 Summary of Contracts Won to End of August

The value of tenders issued and won on a monthly basis so far this year is shown in Appendix 2. The overall success rate in terms of number of tenders won is 40%, whilst the value success rate has dipped to only 24%. The value rate however is heavily influenced by the high value tender submitted for the Berwickshire High School project which was not confirmed as won at the time of writing. If this contract is won the overall value of tenders won to date will rise to 39%.

	<b>April to August 2006</b>
Number of tenders completed	<b>331</b>
Number of tenders confirmed as won	<b>135</b>
% Success	<b>40%</b>
Value of tenders completed	<b>£15,752,693</b>
Value of tenders confirmed as won	<b>£3,849,201</b>
% Success	<b>24%</b>

### Other Main Issues

#### 3.1 Office Space

We are taking delivery of additional office accommodation portacabins at the Reiver Complex on the 21<sup>st</sup> of October. These are being fitted out to provide additional and more flexible office space which will allow the street-lighting team to relocate from HQ and will see a number of the client and contracting staff relocate to more logical working groups within the expanded office space available.

#### 3.2 Trunk Road Contract

The trunk road contract which AMEY currently holds with the Scottish Executive expires at the end of March 2007. This is currently being re-tendered with both AMEY and BEAR bidding for this contract. If BEAR is successful we will have to begin negotiations with them to win work on the trunk roads. It is possible that AMEY may bid for the contract using a partnership arrangement with a third party which may preclude SBC Contracts from obtaining the trunk road work we have had in the past. Either outcome could pose a potential threat to our trunk road work which was worth almost £2.0 million on routine, winter and scheme work in the 2005/06 financial year.

### 3.3

#### **Staffing**

As highlighted at the previous Trading Sub-Committee meeting the issue of workforce retention remains of high importance. At the end of September the workforce stood at 200, 9 down from 209 at the start of this financial year.

Efforts are continuing to recruit suitable road-workers and the situation will be monitored closely with regard to both staffing and future workload.

#### **4 Financial Implications**

4.1 SBc Contracts is projecting a surplus of £332K for 2006/07, £52K above target.

#### **5 Consultation**

5.1 The Heads of Corporate Finance, Financial Administration, Corporate Administration, and Legal Services have been consulted and their comments have been incorporated into the report.

#### **6 Equality**

6.1 It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals contained in this report.

#### **7 Environment**

7.1 There are no environmental issues directly associated with this report.

#### **8 Risk Commentary**

8.1 The retention of our skilled workforce and maintaining adequate productive capacity is the main risk at present.

#### **9 Recommendations**

9.1 I recommend that the Trading Operations Sub-Committee:

a) agree the contents of this report

b) approve the projected outturn as revised approved budget.

**Approved by**

Name	Designation	Signature
Callum Hay	Director of Technical Services	[insert signature]

**Author(s)**

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**Note** – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Collette Lamb can also give information on other language translations as well as providing additional copies.

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