

18th JUNE 2007

REPORT BY DIRECTOR OF TECHNICAL SERVICES

SBc CONTRACTS TRADING OPERATION

1 Purpose of Report

To report to the members of the Trading Sub Committee on the performance of the SBc Contracts trading organisation on its Financial Outturn for 2006/07 and an update on trading for 2007/08.

2 Business Performance and Monitoring 2006/07 Financial Outturn

2.1 Financial Performance 1st April 2006 to 31st March 2007

Appendix 1 provides an analysis of the variance between the income and expenditure achieved at £333k and the projected outcome reported at the February Trading Sub Committee meeting of £282k. A higher than expected level of activity in the final quarter contributed to our increased profitability and turnover. The level of surplus generated over the last ten years trading is shown in chart 1.

2.2 SBc Contracts turnover expanded its turnover by 6% in 2006/07 to reach its highest ever level of £24.12 million (see Chart 2). This exceeded the turnover predicted on the 27th of February, which was based on figures up to the end of December. The increase was due to several factors including ;-

- the mild winter which allowed high value work on major external contracts to proceed well ahead of schedule.
- Additional work was also carried out for AMEY in the run-up to the end of their trunk road contract.

The additional turnover was achieved with a 3% decrease in average employee numbers compared to the previous year. This contributed to an increase in sales per direct employee to £115,416 per person (See chart 3).

2.3 Total income was £2.6M higher than projected at the February meeting, due to a very strong fourth quarter. The additional work undertaken in the fourth quarter also resulted in additional costs of £2.4M relative to the figure previously reported. SBc Contracts generated 419,451 chargeable labour hours in 2006/07. This was a decrease of 2.4% on the previous year due workforce retention problems reported earlier in the year. Whenever possible, SBc takes opportunities to sub-contract elements of its workload to local companies. This not only helps the local economy but also enhances our surplus potential, and is the main reason why our revenue is increasing at a faster rate than our chargeable man hours. Strong efforts are made to achieve our growth through a combination of higher efficiency and appropriate sub-contracting. This can clearly be seen when viewing the changes in turnover against changes in direct manpower as shown in Chart 4.

- 2.4 A key measure used by many businesses today to measure their effectiveness and to benchmark performance is "Added Value per Person". Many organisations today record their added value rating and aim to improve this value by increasing turnover, improving efficiency and productivity and reducing material costs. SBc has shown a consistent improvement in the added value per direct worker (see chart 5). In 2006/07 this value increased again to reach £59,886. This is a performance indicator which compares very favourably with private sector competitors
- 2.5 Main income in 2006/07 arising from council work across the Borders was, winter maintenance £1,761,000, Eshiels access road £561,706, surfacing dressing of roads £554,670, and Duns Amenity site £313,079. In total in 2006/07, SBc Contracts performed 1,560 jobs (capital and revenue) for SBC council with an average value of £6,709.
- 2.6 Main income in 2006/07 arising from external clients was, David Wilson Homes £1,856,469, Border Construction £986,591, A.B Hamilton at Jenny Moore's Road St Boswells £697,327 and Charles Church Homes £657,463. In total in 2006/07 SBc Contracts performed 601 jobs non SBC council jobs with an average value of £14,183. Additionally SBc Contracts also undertook various trunk road works on behalf of AMEY Highways valued at £3,671,940

3 Business Update

- 3.1 It is important to recognise the significant and growing contribution that SBc makes to the council as a whole and to the wider local economy. SBc Contracts provides a multi-skilled labour force which can be rapidly deployed to assist in a wide range of emergency situations such as flooding, storm damage, landslides, road oil spillages and in unique situations such as the foot and mouth outbreak.

SBc Contracts:-

- a) Maintains around 209 high added value local jobs within SBc (see Chart 5)
- b) Maintains at least a further 15 high added value jobs in Fleet Maintenance
- c) Contributed £333,000 of Income Surplus in 2006/07 to council funds.
- d) Has contributed over £1,200,000 in Surplus in the 3 year trading period to 31st of March 2006 against a legal obligation to achieve only break-even.
- e) Contributed over a further £1,000,000 in 2006/07 indirectly to the council in the form of payments made for using other council services and facilities used.
- f) SBc has a range of fixed overhead expenses which arise. By growing the level of external work undertaken, these costs are spread over a larger amount of hours. In this way the average hourly charge-out rates are kept lower for Network Roads client. This helps to provide Best Value for the available revenue budget.
- g) Maintains a high level sub-contracting work to other mainly local companies, which helps to support indirect local employment. Total SBc sub-contracted services and plant hire was worth £4.7 million in 2006/07.

3.2 Contracts tendered and won

	2006/07	2005/06
Number of tenders completed	753	635
Number of tenders confirmed as won	320	294
% Success	42%	46%
Value of tenders completed	£42.6m	£21.5m
Value of tenders confirmed as won	£ 17.3m	£7.7m
% Success	40%	35%

4 Issues and Risk Commentary

- 4.1 **Future Workload:** The business has been actively tendering for work and as shown previously has been successful in winning over £17 million of work during the last financial year. As a result, SBc Contracts now has a very full order book until the end of the 2007 calendar year.
- 4.2 **Workforce Expansion:** In view of the very strong order outlook and to replace the losses of personnel experienced during 2006/07 it is now essential to increase the level of our direct workforce. We have been actively recruiting over the past weeks and will be looking to take on around an additional 20 employees to return our productive capacity to a more appropriate level. The response to adverts placed has been good and we are optimistic we can find the additional workers required.
- 4.3 **BEAR Update:** We now have the completed contract awarding us the trunk road winter maintenance work on behalf of BEAR for the coming 5 years. The surfacing work on the trunk road network has been awarded to Aggregate Industries. We have been in discussion with Aggregate Industries who have indicated that they would like to sub-contract surfacing work on trunk roads within the Borders to SBc Contracts. We are confident that this sub-contracting arrangement on behalf of BEAR will be successfully concluded. We are also in direct discussions with BEAR on undertaking a range of other road and street lighting works in the Borders.

5 Consultation

- 5.1 The Heads of Financial Administration, Corporate Administration, and Legal Services have been consulted and their comments have been incorporated into the report. Head of Corporate Finance has also been consulted and his comments will be tabled at the meeting.

6 Equality

- 6.1 There are no equality issues directly associated with this report.

7 Environment

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

8 Financial Implications and Summary

- 8.1 SBc Contracts generated a surplus of £333k in 2006/07. The turnover of £24.12 m.

9 Recommendation

9.1 I recommend that the Trading Operations Sub-Committee:

- (a) **Agree the content of this report.**

Approved by

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

Author(s)

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Background Papers:

ADD AS APPROPRIATE

Previous Minute Reference: