

**28th August 2007**

**REPORT BY DIRECTOR OF TECHNICAL SERVICES**

**SBc CONTRACTS TRADING OPERATION**

**1 Purpose of Report**

- 1.1 To update the members of the Trading Operations Sub-Committee of the activities of the SBc Contracts trading operation for the period 1<sup>st</sup> of April to 30<sup>th</sup> of June 2007.**

**2 Background**

- 2.1** SBc Contracts is the councils only Significant Trading Organisation and performs a range of capital and revenue contracted and ad-hoc roads related maintenance and construction work for Network Roads, other SBC departments, other public sector bodies, and a wide range of external companies and private individuals.

**3 Business Performance and Update**

**3.1 Workload:**

SBc Contracts has had a very successful first quarter in terms of tenders, winning a further £5.6 million of tendered work at a success rate of 37% on value. This compares very favourably with the same period last year when only £2.5 million of work was won at a success rate of 39% on value. This new work won coupled with the high level of tender work secured in 2006/07 supports our belief that SBc Contracts will exceed last year's turnover in this financial year.

|                                    | <b>Apr-Jun 2007</b> | <b>Apr-Jun 2006</b> |
|------------------------------------|---------------------|---------------------|
| Number of tenders completed        | 235                 | 200                 |
| Number of tenders confirmed as won | 73                  | 94                  |
| % Success                          | 31%                 | 47%                 |
| <br>                               |                     |                     |
| Value of tenders completed         | £15.1m              | £6.3m               |
| Value of tenders confirmed as won  | £ 5.6m              | £2.5m               |
| % Success                          | 37%                 | 39%                 |

We are now beginning to receive the first trunk road surfacing work from BEAR which is being awarded to SBc Contracts through the BEAR sub-contractor Aggregate Industries. In the first quarter expenditure on work undertaken for BEAR was only £28k compared to a value of £348k for AMEY work undertaken during the same three months last year. We expect the volume of surfacing work awarded to us by Aggregate Industries to increase over the coming months. We also remain in direct discussions with BEAR on undertaking a range of other road and street lighting works

in the Borders on their behalf. The relatively slow start on trunk road work arising from BEAR has allowed us to press ahead planned internal client works on the local road network arising from the revenue budget and the additional £3 million in the capital programme. The additional capital programme work on surface dressing and surfacing has been hampered to a certain extent by the very wet summer weather. Major works are also underway as part of the additional £3 million capital programme. The larger scale of these works allow more efficient and effective methods such as more extensive use of machine patching to be employed to the benefit of the roads client.

### 3.2 **Budget:**

We are currently increasing our direct manpower closer to our budgeted establishment figure. This should help to increase the volume of work under-taken in-house and boost our labour recovery performance in the coming months at the expense of some sub-contracting.

The business remains on target to meet our 2007/08 budgeted surplus target of £318k.

### 3.3 **Updated Projections:**

Based on the most recent financial information arising from our analysis of trading between April and June, the business has started the year strongly. Despite an expected downturn in the overall level of trunk road work available this year due to the change of trunk road contractor, see point 3.1, we expect SBc Contracts to surpass the record turnover of £24.12 million generated in 2006/07 and achieve a turnover of £24.4 million in this financial year. The gap caused by the decline in available trunk road work is being bridged by the capital programme works and winning additional external tendered work as highlighted under point 3.1.

We further expect the 2007/08 surplus target of £318k to be met. Full analysis based on the current monitoring round, which is still in progress at the time of writing, will be provided at the next trading sub-committee meeting.

### 3.4 **Resources:**

Following the recommendations made in a report by our Asset Management and Building Maintenance department some two years ago there is now a planned programme to maintain and improve our depot facilities in line with the reports recommendations. The latest improvement will be the replacement of our Peebles depot with the new Eshiels facility. Improvements were effected last year with regard to our Duns depot.

### 3.5 **Staffing:**

As advised at the previous meeting, we have been actively recruiting additional employees to replace workers lost over the last 12 months and to ensure that we can fulfil our future order book. The latest recruitment exercise has been relatively successful and we have made offers of employment to 20 applicants who will be taken on over the coming weeks pending successful reference checks. We have however since lost a further two members of our existing staff. SBc Contracts currently have 224 employees and still remain five posts below our budget establishment figure of 229. These new employees should contribute positively to this year's financial outcome by boosting our labour account recovery and reducing our reliance on sub-contractors.

### 3.6 Training :

The training of our workforce to undertake a range of appropriate SVQ's and CPCS accreditations remains an on-going commitment. An additional three members of SBc Contracts staff employees have now embarked on SVQ's and we have also identified a further four estimators and surveyors within the department who would also benefit from appropriate SVQ's and it is our intention to undertake this in the near future.

The training portacabin at our Newtown depot is now in a very poor condition and is becoming increasingly unfit for purpose and leaking rainwater. This was a second-hand unit relocated from Peebles which is now effectively at the end of its useful life. A decision will have to be made about finding a suitable replacement for this portacabin which should incorporate appropriate storage, welfare and office facilities.

### 3.7 Health and Safety ;

SBc Contracts was recently involved in a court case relating to an incident which occurred when an elderly pedestrian had a fall at one of our road works sites in Kelso. SBc Contracts were found guilty of a breach of the Health & Safety at Works etc. Act 1974, and fined a total of £2,500 as a result of the court case which followed. The offence involved carried a maximum penalty of a £20,000 fine, but the court took full account of the mitigating factors we had cited and the range of measures we had taken to prevent such an incident, when setting the level of the fine.

To prevent any further occurrences of this type we will now be making even more extensive use of barriers around the site of works. We have in addition increased our training and frequency of site audits.

Due to Health and Safety legislation it is expected that in future road works are likely to lead to more road closures in order to comply with regulations on available carriageway widths during road works.

## 4 Financial Implications

4.1 It is expected that SBc Contracts will meet its budgeted trading surplus of £318k in the current financial year.

## 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 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 Risk Commentary

8.1 Attracting and retaining employees and staff remains an on-going risk. The final outcome of the job families re-structuring is still awaited and remains a potential risk for SBc Contracts.

8.2 Health & Safety issues can also pose a risk to all contracting organisations such as SBc. We have invested heavily in the training of our workforce and try to learn lessons from any incidents which do occur in order to mitigate and minimise these risks, going forward.

## 9 Summary

- 9.1 Contract work is progressing well and the order book for the period ahead is strong. The recent recruitment drive has gone well and the additional employees who will be joining us will give us the capacity to undertake more work in-house instead of relying so heavily on sub-contractors.
- 9.2 First quarter work has started well and the business looks to be on course to achieve its budgeted £318k level of surplus for this financial year.

## 10 Recommendations

### 10.1 I recommend that the Trading Operations Sub-Committee:

- (a) Agree the contents of this report

#### Approved by

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

#### Author(s)

| Name | Designation |
|------|-------------|
|      |             |

Background Papers:

**ADD AS APPROPRIATE**

Previous Minute Reference: