

10th March 2008

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 1st November to 31st December 2007.

2 Background

- 2.1 SBc Contracts is the Council's only Significant Trading Organisation and performs a range of capital and revenue 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

3.1.1 Existing Workload:

SBc Contracts has continued to have success in tendering for external work. In the first nine months of this fiscal year a total of £9.7 million of tendered work has been won at a success rate of 25% on value. This compares favourably with the same period last year when £7.6 million of work had been won at this stage. Although last years success rate of 33% remains considerably higher, as always there are a number of tender decisions in the current year where the client has yet to make the final award of contract. Success in some of these will further boost the value of work won and the overall success rate.

	Apr - Dec 2007	Apr - Dec 2006	+/- % base 2006
Number of Tenders Completed	564	575	-2%
Number of Tenders Won	185	241	-23%
% Success Rate	33%	42%	
Value of Tenders Completed (£ mn)	39.1	22.7	72%
Value of Tenders Won (£ mn)	9.7	7.6	28%
% Success Rate	25%	33%	
% Increase in external work secured	28%	-	

Trunk road work orders through BEAR via their sub-contractor Aggregate Industries remain disappointing and we estimate the total income from BEAR will not exceed £500k (including winter maintenance) compared to a total value of AMEY work undertaken last year of £3.6M last year.

3.1.2 Future Workload Outlook

We are aware that there may very well be a slowdown in the local housing market over the coming year and we will need to look for alternative sources of work. We would like to re-focus activity back towards roads construction works which is the core business strength of SBc Contracts. To this end, we will be tendering for a major road re-construction project on the A702 at Candymill in South Lanarkshire. This project, which is geographically only a few miles outside of the Borders region is estimated to be worth over £2 million and is being tendered by BEAR on behalf of the Scottish Executive.

We have also noted that in the absence of any major trunk road work from BEAR, and without any roads Prudential capital funding in place during 2008/09, we are likely to have a significant volume of spare capacity on our specialist equipment for surfacing and surface dressing roads which we will need to fill.

We have developed a good working relationship with Grahams through our collaboration on the Borders High School projects and we are continuing to work with them on a housing development on the site of the old Eastern Infirmary in Edinburgh. We are also hopeful of working with Grahams on the construction of a new Park & Ride facility at Straiton in Edinburgh worth around £350k.

We are also in discussions with the R.J Macleod to act as a sub-contractor on a further Park & Ride facility due to be constructed at Wallyford in Mid-Lothian.

We have also been successful in winning work worth £5.0 million over 2.5 years on the large Taylor-Wimpey housing development project at Peebles. This project has just started in February 2008, and is due to be complete in September 2010.

3.2 Budget:

SBc Contracts is forecasting a surplus of £310k after making a provision for the deduction of £48k in internal interest charges which are paid to the council's loan fund against an original budget provision of zero. This interest charge is calculated based on SBc Contract's monthly cash flow position. A number of actions have been put in place to accelerate the accounts payable position of SBc Contracts over the last year in order to meet a corporate KPI on accounts payable with significant improvements now becoming apparent. This has however had a detrimental effect on our cash flow which has been reflected in this higher than budgeted interest charge.

The surplus shortfall which is some £19k below the current approved budget can be explained largely by interest charges.

3.3 Updated Projections:

Appendix 1 shows the updated SBc Contracts financial results based on the revised budget. The forecast surplus target is £310k.

Increased turnover of £26.6m is forecast against the previously reported value and current budget of £24.3m. This additional turnover, which has been generated mainly from external customers, is necessary to help achieve the surplus target. SBc Contracts has experienced downward margin pressure in this financial year. The major reduction in the volume of profitable trunk road work available from BEAR has exacerbated this trend.

As highlighted under point 3.1 we have been successful in winning further works from outside bodies which has helped us expand our external turnover overall despite the lack of work emanating from BEAR. We will make extensive use of sub contractors to help undertake this additional work. As shown in Appendix 1, we now expect sub-contractor costs to be reach £5.1m this year providing a strong boost to the local economy, as most of the contractors we use are Borders based.

3.4 Single Status Issues:

Awaiting further updates on this issue.

3.5 Staffing:

SBc Contracts currently has 218 manual workers in place against a budgeted establishment figure of 228.

During November and December 2007 the SBc Contracts level of absence and sickness averaged 2.64%

3.6 Training :

We continue to develop our training facilities and are installing a deep manhole unit and pipe section at the Langlee site to allow confined space and deep shoring training to take place.

SBc Contracts recently had an external verifier visit from the Scottish Qualifications Authority (SQA) who was very impressed with our training facilities. The SQA centre has indicated that they are planning to channel their future training through our Langlee training centre. We are hopeful that our on-going training development efforts and the very strong emphasis we place on training within SBc Contracts will stand us in good stead with both Construction Industry Training Board (CITB) and the SQA and make us a natural choice for their training programmes.

3.7 Health and Safety :

SBc Contracts have recently had a visit from the Health and Safety Executive (HSE) regarding an operative with Hand and Arm Vibration Syndrome (HAVS). They have indicated that they are satisfied with SBc Contracts occupational health procedures and the ongoing yearly reviews of all our manual workers which we are undertaking.

4 Financial Implications

4.1 It is expected that SBc Contracts will make a trading surplus of £310k in the current financial year including provision for £48k of internal interest charges. This interest charge is calculated based on our average cash balance position throughout the 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 The proposed changes to the Sunday overtime multiplier creates a risk that we have difficulties in providing non-contractual overtime cover on a Sunday for winter and emergencies.

8.2 The proposed phased removal of essential car user allowances also poses a risk to business continuity if staff choose not to make private cars available for business travel.

8.3 Due to the reduction in the volume of any major trunk road work from BEAR, and without any roads Prudential capital funding in place during 2008/09, there is a risk that

we will have a significant volume of spare capacity on our specialist equipment for surfacing and surface dressing roads which we will need to fill. This risk is detailed above in 3.1.2.

9 Summary

- 9.1 The volume of external tender work won remains strong and is running comfortably ahead of 2006/07 and strongly ahead of 2005/06 levels.

10 Recommendations

10.1 I recommend that the sub committee

- (a) **Agree the contents of this report**
- (b) **Approve the projected outturn as the revised approved budget.**

Approved by

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

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Background Papers:

Previous Minute Reference: