

HERTFORDSHIRE COUNTY COUNCIL**RESOURCES AND PERFORMANCE CABINET PANEL
WEDNESDAY, 6 JUNE 2018 AT 10:00AM****HERTS FULLSTOP – INVEST TO TRANSFORM BID**Report of the Director of Resources

Author:- Glenn Facey, Head of Hertfordshire Business Services
(Tel: 01707 292364)

Executive Member:- Ralph Sangster (Resources and Performance)

1. Purpose of report

- 1.1 This paper seeks approval to an invest to transform bid for Herts FullStop (HFS) in support of its newly developed business plan.
- 1.2 Members are requested to consider and agree to an investment of £1.967m in the infrastructure of HFS, with investment split as follows:
- £1.585m ICT infrastructure (software/hardware platforms/implementation resource and project management)
 - £0.125m waste disposal infrastructure (confidential waste/recycling)
 - £0.257m contingency (15%)
- 1.3 Members should is to note that:
- HFS is the collective name for the externally focused trading businesses within Hertfordshire Business Services (HBS), which is a department within the Resources directorate.
 - Surecare Supplies Limited is a company wholly owned by Hertfordshire County Council which sells services/products purchased from HFS to private sector companies.
 - The business plan is attached to the accompanying Part II report as supporting information. All key facts, recommendations and considerations in relation to this invest to transform bid are included in the body of the part I report.
 - The business plan has been through a process of due diligence prior to being included with this paper.

2. Summary

- 2.1 This report relates to investment of £1.967m in the infrastructure of HFS. This investment will ensure the operational viability of HFS moving forward, and support delivery of the business plan, leading to increased returns for the County Council.

- 2.2 Members should understand that by approving the investment they are agreeing to support the delivery of the HFS business plan.
- 2.3 The HFS business plan is focused on growing sustainable income in the near to medium term for the County Council with a managed risk exposure, while developing the foundations of the business to create an asset that can be favourably realised should the County Council wish to sell or merge the business in future.
- 2.4 Members should consider the appropriateness of the key strategic outcomes to be delivered through capital investment in ICT:
- A prioritised customer experience, offering the optimum customer journey
 - Creation of an agile business better able to respond to market conditions
 - Increased value of HFS as an asset
 - An infrastructure that has resilience, which creates multiple support options
 - Tangible productivity improvements to deliver a realistic Return On Investment (ROI)
 - Mitigation on the need for large scale capital investment in ICT infrastructure in future

3. Recommendations

That the Resources and Performance Cabinet Panel recommends to Cabinet that it;

- 3.1 approves an Invest to Transform Allocation to enable investment of £1.967m in the infrastructure of Herts FullStop (HFS).
- 3.2 delegates to the Director of Resources authority to determine and carry out the required procurement processes in relation to any contract for services, goods or works required in accordance with the agreed HFS infrastructure investment, referred to in 3.1.
- 3.3 delegates to the Director of Resources authority to award any contract for services, goods or works required in accordance with the agreed HFS infrastructure investment, referred to in 3.1.
- 3.4 notes the continued use of Surecare Supplies Limited as the trading vehicle for HFS.

Note: This paper is not seeking the approval of Cabinet in respect to the business plan.

4. Business Background

4.1 Hertfordshire Business Services is part of the County Council (within Resources) that includes the following functions:

- Herts Full Stop (HFS - see 4.2 and 4.3 below)
- Reprographics unit
- Fleet Services (acting as a client lead between departments and the external provider)

The ITT bid, and this report, focuses on HFS.

4.2 HFS is largely a traditional local authority stores business that has evolved out of Hertfordshire County Supplies with a trading history of over 60 years (founded in 1954); HFS is built on the premise of being a “supermarket” for educational establishments

4.3 HFS has returned significant trading surpluses of circa £1m per annum over the last 10 years through trading with other public sector bodies, under the Local Authorities (Goods and Services) Act 1970. These surpluses are used by County Council to help support the cost of front line services.

4.4 During this time HFS has made the second biggest return to a single local authority from a trading entity in the UK , based on County Council officer's knowledge of the wider trading carried out by public sector entities and public sector wholly owned companies across the UK (this includes all wholly owned companies (teckal and non-teckal), trading departments and joint committees).

4.5 HFS predominately operates in the Home Counties (including Hertfordshire), the bordering counties and the North London Boroughs. The services offered are in two main areas:

- HFS - Educational Resources currently trades with 2,770 (57.1%) educational establishments in its geographic catchment, which provide 73.3% of its revenue with an overall market share for the business of circa 9.8%.
- HFS - Facilities Management Services is a soft facilities management business focusing on Cleaning, Grounds and Tree works. The business is focused on the education sector in Hertfordshire where it derives 83.2% of its income through contractual work with 365 of the schools in Hertfordshire.

4.6 As part of the refocusing of marketing activities both businesses will be pulled under a single Herts FullStop banner and thus are referred to HFS - Educational Resources and HFS - Facilities Management Services individually in the paper and as HFS collectively.

- 4.7 While this report focuses on HFS, it should be recognised that the non-trading service areas within HBS are facing operational/financial challenges and are being reviewed.
- 4.8 Returns over the previous three financial years (although still healthy and now improving) have fallen below targeted expectations as spending across the education sector has come under pressure, and this has exposed some historical weaknesses in the HFS operation and levels of investment:
- HFS has seen little investment in infrastructure in the past 14 years
 - The current ICT infrastructure has a fundamental lack of resilience with the associated risks
 - The service levels able to be provided to customers (given this lack of investment) are below modern industry standards
 - Operational productivity on these ageing platforms is 20-25% below industry standards across distribution, customer services and warehousing
 - The warehouse is oversized by circa 30% for the business throughput and stock levels are too high compensating for lack of visibility of key decision making information
 - Distribution mechanisms are struggling to meet the requirements of all customers
 - Invoicing and payment mechanisms are outdated and no longer reflect the requirements of all customers
- 4.9 These weaknesses combine to mean the business is vulnerable to competitor activities and needs to act to ensure surpluses can be maintained.
- 4.10 A new business plan has been developed and is being implemented, with a number of elements already yielding benefits, Fig 4.1 shows the positive progress to date and the financial expectations set out in the business plan for future years:

(Fig 4.1)

	2016/17	2017/18	2018/19	2019/20	2020/21
Sales Revenue	£31,608,046	£33,647,888	£35,819,612	£37,423,302	£39,118,600
Increase		6.45%	6.45%	4.48%	4.53%
Trading Surplus	£898,907	£1,125,708	£1,499,605	£2,031,754	£2,268,076
Increase		25.23%	33.21%	35.49%	11.63%

- 4.11 The business plan itself is focused on delivering growing sustainable income in the near to medium term for the County Council with a managed risk exposure, while developing the foundations of the business to create an asset that can be favourably realised should the County Council wish to follow that path.

- 4.12 The business plan outcomes will be delivered through the strategic objectives outlined in Section 1.0/2.0 of the accompanying Part II report.
- 4.13 This is supported by the development and introduction into the business of a new vision, mission and values statement for HFS in support of HFS strategic objectives:
- *Our **vision** is to enable schools to deliver an education every child deserves*
 - *Our **mission** is to continually satisfy our customers through delivering educational services and resources that teachers trust, that purchasers' value and that brings quality to life*
- Our **core values** that we are building our business around are:*
- *Customer Centred: Our customers at the centre of our thinking*
 - *Ownership: I can make the difference*
 - *Get it right: first time, every time*
- 4.14 The vision, mission and values support the overriding aim of transforming the culture within HFS and ultimately adding value to our customer base through our relationships.
- 4.15 HFS has been able to deliver the traded activity whilst remaining part of the County Council, as the bulk of that activity is with the public sector. Where trade steps outside these boundaries, HFS has used Surecare Supplies Limited as the trading vehicle for private sector relationships.
- 4.16 Surecare was established by the County Council in November 2011, originally with the purpose of providing living aids into the care sector, making a return to the County Council and as a vehicle to mitigate prices in that sector. That original requirement has not materialised as expected, and the County Council has taken the opportunity to use that existing company, rather than set up an entirely new company for the HFS activity.
- 4.17 Surecare Supplies Limited has three nominated directors, including two officers and an Executive Member.
- 4.18 During 2018 work will be undertaken to review the current organisational structure for HFS, and whether any alternatives, such as fully transferring to an arms length company, would be more suitable for the longer term.

5. Proposed Investment

5.1 To support the business plan, address the weaknesses outlined previously and continue the positive progress already made we are now seeking a capital investment of £1.967m in improved infrastructure split as follows:

- £1.585m ICT infrastructure (software/hardware platforms/implementation resource and project management)
- £0.125m waste disposal infrastructure (confidential waste/recycling)
- £0.257m contingency (15%)

5.2 The investment in ICT buys new systems on a software as a service basis, technical expertise, programme management support, together with a separable managed hardware and software infrastructure, externally hosting modern commonly used “best of breed” solutions for the business to take advantage of as standard within the scope of the investment.

5.3 The new systems include warehouse management system, transport management solution, invoicing and payments as well as improved e-commerce capability, (Fig 5.1 provides a functionality overview). The investment also provides for voice and barcoding hardware to be introduced into the warehouse and for sign on glass (ePod) technology to be introduced within the transport function.

(Fig 5.1)



5.4 The platform provides robust business solutions that improve business efficiency and would be an asset for the business should the County Council wish to realise its investment in HFS in the future.

5.5 The County Council would also be buying into an infrastructure that would have the capability to be adopted by other trading companies in future.

5.6 Continuation of the business without this investment will limit HFS ability to address the challenges it faces and will see projected trading surpluses outlined in Fig 5.2 not being achieved. Indeed as customer experience deteriorates in comparison with the wider market, it is likely that customers will shop elsewhere, leading to reducing returns to the County Council. A forecast of the potential impact of such customer churn is outlined below.

(Fig 5.2)

	2018/19	2019/20	2020/21
Forecast Trading Surplus with Investment	£ 1,499,605	£ 2,031,754	£ 2,268,076
Forecast Trading Surplus without Investment (-6%)	£ 1,409,629	£ 1,325,051	£ 1,245,548
Change	-£ 89,976	-£ 706,703	-£ 1,022,528

5.7 Doing nothing does not represent a prudent option; the challenges will remain, returns will decrease and while it may still be possible to sell the business any return will not be favourable.

5.8 On two occasions in the last seven years options to externalise the business through sale and mergers have been explored and on both occasions this has been unviable. This has been due to a range of factors, including the fact that HFS is an integral part of the County Council. Current market conditions indicate that potential sales proceeds would offer a lower return than the annual surpluses provide.

5.9 Closure is also not a prudent financial option as the one off cost would be significant and the loss of ongoing income would create further budget pressures across the County Council.

5.10 As such it is recommended that continuation of the positive work already undertaken underpinned with this proposed investment in infrastructure represents the best value solution for the County Council.

5.11 The Capital Investment in ICT will address the following challenges:

- ICT infrastructure that is no longer supported adequately within a modern environment
- Poor levels of resilience
- Systems data quality issues
- Outdated Warehouse Management System and the inefficiencies associated with that
- Increased support costs (premiums are paid on keeping outdated software supported)
- Restrictive hardware platform
- Low operational productivity, accountability and visibility

- Uncoordinated and slow customer response
- A high error rate
- Limited e-commerce functionality and lack of competitive opportunity that provides
- An infrastructure that is not distinct from the remainder of the County Council which therefore carries unnecessary overheads for this type of business as well as limiting externalisation opportunities

5.12 The solution provided through capital investment in ICT will seek to achieve:

- Mitigation on the need for large scale capital investment in ICT infrastructure in future; delivered by adopting a platform and solution that operates as a service and continues to be updated by the solution providers
- Creation of an agile business better able to respond to market conditions
- Increased value of HFS as an asset; delivered by an up to date, discreet, scalable ICT infrastructure
- An infrastructure that has resilience, which the market is familiar with, creating multiple and more efficient support options
- A prioritised customer experience, offering the optimum customer journey
- Tangible productivity improvements to deliver a realistic ROI

5.13 The ICT investment will support delivery of the business plan. In summary this will enable:

- Increased income through increased sales revenue
- Reduced cost through greater efficiency within the HFS operation

5.14 This was summarised in section 4.10 (Fig 4.1), and is detailed in the business plan.

5.15 The ROI period for the proposed programme of ICT investment is between 5.9 and 6.9 years (dependent on utilisation of the contingency fund), with the full benefit realisation starting from December 2019.

5.16 The capital investment proposed in waste infrastructure is focused on creating a point of difference with national competitors.

5.17 This service will support the green credentials of HFS and the County Council, through making productive use of the fleet of vehicles that return empty from deliveries and reducing the amount of waste going to landfill. In addition the investment will provide a new revenue stream for the business.

- 5.18 The initial investment in waste infrastructure is £125k (added to the capital investment bid) and will provide a ROI of between 5 and 7.2 years (dependent on utilisation of contingency fund).
- 5.19 Alongside HFS management's own work and internal scrutiny on these proposals we have also employed external challenge to the investment levels and type being put forward. As such Waterston's Limited have independently validated the proposed investment, its strategic objectives and ROI as valid, appropriate, and supportive of the key goals outlined in the business plan, with no material causes for concern being identified.
- 5.20 All procurements required will be carried out in compliance with the County Councils Constitution, and in particular, where applicable with the Public Contracts Regulations 2015, by the Director of Resources in accordance with recommendation 3.2 and 3.3 above.

6. Financial Implications

- 6.1 This report outlines the ITT bid for HFS and associated benefits. Full detail is included in the business plan, which is included as part of the accompanying Part II report.
- 6.2 A risk register is in place to monitor the business plan, and the ICT implementation.
- 6.3 If Cabinet approval is given this will allocate funding to the project. It will enable associated tender exercises to be run (subject to agreement of 3.2) and allow award of associated contracts (subject to the agreement of 3.3).
- 6.4 A 15% contingency has been included. This is considered sensible as the Council has not undertaken an ICT programme for warehousing/transport ICT before.

7. Equality impact assessment

- 7.1 When considering proposals placed before Members it is important that they are fully aware of, and have themselves rigorously considered the equality implications of the decision that they are making.
- 7.2 Rigorous consideration will ensure that proper appreciation of any potential impact of that decision on the County Council's statutory obligations under the Public Sector Equality Duty. As a minimum this requires decision makers to read and carefully consider the content of any Equalities Impact Assessment (EQIA) produced by officers.

- 7.3 The Equality Act 2010 requires the County Council when exercising its functions to have due regard to the need to (a) eliminate discrimination, harassment, victimisation and other conduct prohibited under the Act; (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it and (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The protected characteristics under the Equality Act 2010 are age; disability; gender reassignment; marriage and civil partnership; pregnancy and maternity; race; religion and belief, sex and sexual orientation.
- 7.4 Overall impact for external stakeholders (customers) will be positive as a result of a more modern and streamlined customer experience supported by greater visibility of information and positive utilisation of touch points. The new solutions will be implemented to approved accessibility standards and Equality Impact Assessments will be carried out prior to implementation.
- 7.5 The impact of changes on internal stakeholders (staff) will be positive and see an increase in capability, visibility and accountability across the business.
- 7.6 The impact of this significant systems change is not underestimated, and engagement and training of staff are key lynch pins of the programme plan. This aspect is being managed alongside a new people strategy for the business.
- 7.7 Individual assessments will need to be carried out in respect to those staff with protected characteristics and HR is fully engaged in this respect.

8. Implications for the County Council's carbon footprint

- 8.1 The County Council's carbon footprint will be positively impacted by transport productivity improvements. Improved utilisation of vehicles will increase the number of deliveries per hour, reducing the carbon foot print per delivery.
- 8.2 Indirect carbon footprint benefits will be delivered through the collecting of confidential waste, paper/card and plastic film for shredding and recycling. This will support customers reducing their own carbon footprint and support the County Council in ensuring less recyclable waste goes to landfill.

9. Timeline

- 9.1 The target timeline if Cabinet approves the recommendations in section 3, will enable award of contracts in or around August 2018.

- 9.2 Subject to an award of contracts in or around August 2018, the system will be delivered for go live by March 2019; with a fall back date of August 2019, with full benefit realisation by December 2019.
- 9.3 Progress will be monitored on a quarterly basis by Senior Officers.
- 9.4 High level KPI's will be reported quarterly in respect to HFS's overall performance.
- 9.5 Alongside the high level KPI's a number of programme specific measures are to be monitored and reported on a quarterly basis to ensure benefits identified are realised in line with expectations.

Background Information

None