

Shelforce

Business Plan 2013/14

Section	Content
1	Shelforce Vision and Background Information
	<p>The vision for Shelforce is to provide meaningful and fulfilling employment and training opportunities for disabled people in Birmingham in a conducive and rewarding environment. In doing this the business model for Shelforce must be self sustaining and be structured in such a way as to be able to operate in a competitive commercial environment whereby it does not require longer term subsidies and can compete both commercially and technically with other organisations that operate in this space. Birmingham City Council (BCC) has a clear objective that aspires to increase the number of disabled people into mainstream employment, of which Shelforce forms a key part.</p> <p>The origins of Shelforce can be traced back to the late 19th Century, when the Royal National Institute for the Blind established a workshop in Harborne to provide employment for people with visual impairments. Shortly after its inception it started employing people with other disabilities. In the early 1950's the workshop was absorbed into Birmingham City Council where it became part of Social Services. In the early 1980's the organisation became known as Shelforce and moved to its current site in Erdington.</p> <p>Shelforce provides employment, training and support for disabled people, primarily through the Government's Department for Work and Pensions (DWP) Work Choice programme, in the manufacture of windows and doors. In total, Shelforce employs 65 permanent staff (plus 2 agency staff) and operates as a trading account within Birmingham City Council's Development & Culture Directorate. For 12 years until 2011 the City Council's Decent Homes programme contracted Shelforce to supply PVCu windows and doors, which provided a stable level of income and the majority of Shelforce's revenue.</p> <p>A key marketing strength of Shelforce is the ability to sell products to organisations that have Corporate Social Responsibility as part of their core business philosophy and who are willing to consider slightly higher product prices in order to fulfil their corporate vision and ambitions.</p>
2	Review and Context: 2012/13
	<p>Over the past few years, since the completion of the Housing Service's Decent Homes programme, Shelforce has found it increasingly difficult to secure profitable sales in the highly competitive and unpredictable construction market covering both the private and public sectors which has been significantly impacted by the recession.</p> <p>The Shelforce trading deficit has increased year on year and is now considered to be unsustainable due to budget reductions that are currently being implemented across BCC, declining market conditions within the construction industry and a significant reduction in orders from BCC Housing contracts.</p> <p>Sales in 2012/13 amounted to £1.354m (provisional figures) made up of orders from BCC Housing (placed through Acivico and the West Midlands Construction Alliance) and from other external sources (Bowater etc) but such sales have been at low profit margins or in some instances at a loss in what is a very competitive tendering environment. All of these factors impact on profitability which in turn has created the trading deficit which is expected to reach some £1.7m in 2012/13. This level of trading deficit is expected to remain in place</p>

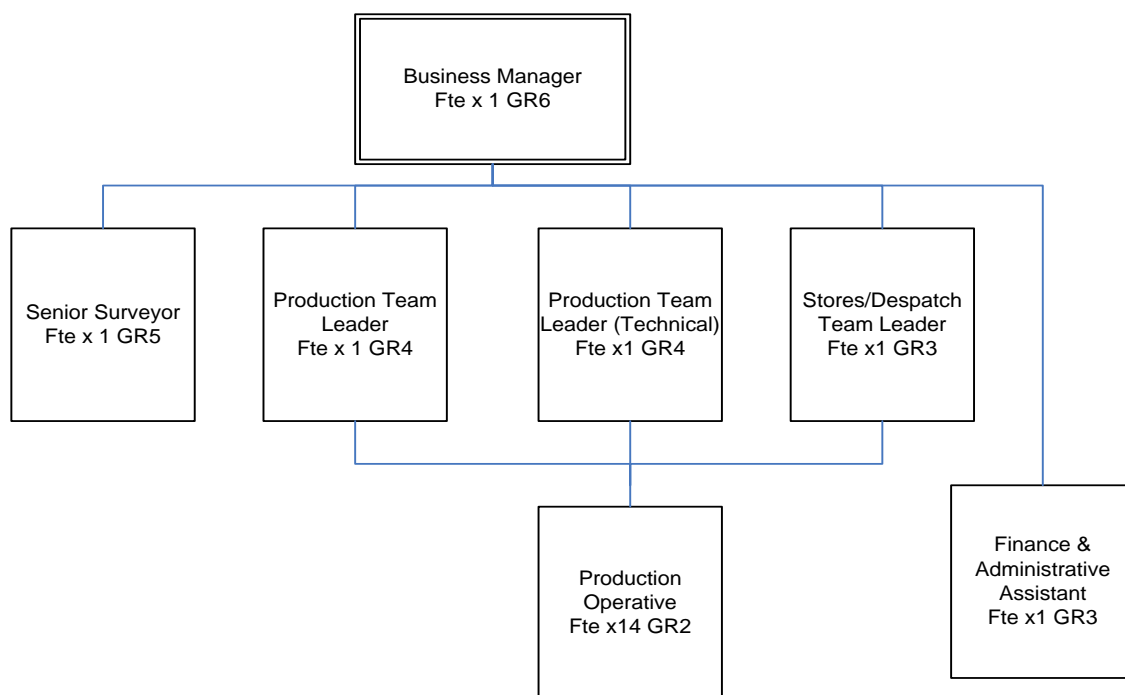
	<p>unless a complete business service redesign takes place.</p> <p>The following table identifies the current trading positions and the recovery required for Shelforce to breakeven with the current overhead costs in place:</p> <p>* 65 permanent and 2 agency staff</p> <table> <tr> <td>Costs</td><td>Existing 67 staff*</td></tr> <tr> <td></td><td>£000</td></tr> <tr> <td>Staff salaries, NI and Superannuation</td><td>1,409</td></tr> <tr> <td>Work Choice Protected Place income (assumed 65 places)</td><td>(204)</td></tr> <tr> <td>Other fixed costs e.g. premises rent, utilities, vehicles etc</td><td>528</td></tr> <tr> <td>Central Support Costs</td><td>73</td></tr> <tr> <td>Sub Total</td><td>1,806</td></tr> <tr> <td>Material costs (70%)</td><td>4,214</td></tr> <tr> <td>Sales Required To Break-Even</td><td>6,020</td></tr> </table> <p>With the total projected sales forecast for 2012/13 expected to be £1,353m it is therefore necessary for the current operating model to be overhauled so as to bring it more into line with the actual and projected sales forecasts with a view to eliminating the on-going trading deficit.</p> <p>Previous losses, for the 5 year period 2007/12 are £4.6m (a further loss of £1.7m is expected for 2012/13) and have been subsidised by Birmingham City Council over this period to ensure that the support for disabled staff was kept in place but, in light of the budget cuts that are now taking place, BCC can no longer afford to underwrite continual losses and so therefore a revised operating model needs to be created.</p>	Costs	Existing 67 staff*		£000	Staff salaries, NI and Superannuation	1,409	Work Choice Protected Place income (assumed 65 places)	(204)	Other fixed costs e.g. premises rent, utilities, vehicles etc	528	Central Support Costs	73	Sub Total	1,806	Material costs (70%)	4,214	Sales Required To Break-Even	6,020
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3	Desired outcomes for 2013/14																		
	<p>For the business to become self-sustaining and to eliminate the need for financial subsidy a minimum sales target of £1.7m pa will need to be achieved by 2014/15 with an increased sales margin on all products that are currently manufactured within Shelforce and a reduction in material costs. Staffing levels would need to be reduced to 20 Fte's as outlined in the attached budget proposal and a reduction to one factory bay from the current three bays would reduce costs sufficiently so that Shelforce can become a self sustaining proposition and become more commercially viable.</p> <p>In order to achieve this BCC is undertaking an organisational redesign that will reduce the overhead costs of the business so that they are more aligned to the sales projections that have been forecast and the market projections as a whole.</p> <p>The market intelligence that has been gathered indicates that the losses that have been encountered over the last few years look set to continue as the construction market remains stagnant. It is therefore necessary to look at the entire organisation in light of both past performance and market predictions at identifying the most suitable model for the continuation of the delivery of the services that are provided by Shelforce.</p> <p>BCC have aspirations to move towards a more sustainable support model for disabled people which provide greater opportunities for disabled people to achieve mainstream employment. To support this objective staffing levels at Shelforce could be supplemented with the offer of apprenticeships and work experience placements which attracts additional government funding.</p> <p>A key aspect of the business plan for 2013/14 is to secure contracts for work that originates from BCC (Housing contracts, School contracts) that are placed with Acivico and the West Midlands Construction Alliance who are expected to place other non BCC work with Shelforce. Shelforce is also forecasting sales from the Housing repairs and renewals programme in BCC placed with Travis Perkins, which is expected to have a budget of £0.5m</p>																		

	<p>for 2013/14. Private sales to individuals (BCC employees) will also be targeted to maximise the sales and revenue potential for Shelforce.</p> <p>A key marketing tool that will need to be better promoted, will be selling products to organisations that have Corporate Social Responsibility as part of their core philosophy and who are willing to consider slightly higher product costs to achieve this. This will be achieved by working more closely with Acivico and other key strategic partners in this field who are able to collaborate with major construction companies and main construction contractors to promote the work and products of Shelforce across a wider customer base than currently available.</p> <p>To compliment the above, Shelforce would need to continue to develop its relationship with other construction companies such as Bowater, that are not part of the West Midlands Construction Alliance, as they have identified a potential of significant sales opportunities for the current financial period.</p> <p>It is imperative that improved sales v cost analysis is undertaken so that sales, income and expenditure can be reviewed monthly, identifying any shortfalls and non-delivery of performance targets so that an appropriate action plan can be implemented promptly.</p>
4	Current and Forecast Financial Performance Information
	<p>The financial performance of Shelforce has continued to decline over a sustained period as is explained in sections 2 and 3 above.</p> <p>This report should also be read in conjunction with the <i>Business Plan Financial Breakdown</i> report which show the sales forecast for 2013/14 and 2014/15.</p>
5	Business & Commercial Considerations
	<p>Market Intelligence: The construction sector clearly felt the onset of the recession before many other parts of the local economy, with the credit crunch placing a sharp break on construction activity from 2008.</p> <p>The most recent GDP results for the UK for Q1 2012 have shown a very negative picture for the construction sector. The output of the construction sector in the first three months of the year contracted by -4.8% compared to the previous quarter and was one of the biggest contributing factors to the UK economy as a whole contracting by -0.3 in Q1 and going back into recession. In the short to medium term, industry analyst expect the construction sector to remain relatively weak as both residential and commercial development activity is subdued by the generally depressed economic climate. Continuing government austerity measures are placing a brake on public sector house building and other publically funded construction activity and private sector house building and commercial development is being constrained by tight credit conditions affecting the ability of developers to finance schemes and the ability of people (particularly first time buyers) to access mortgage finance.</p> <p>The outlook for the construction sector in the UK in the short to medium term is likely to be constrained by the same issues that have been affecting the sector during the economic downturn outlined above.</p> <p>Political & Social Factors - Sayce Report: The Government report produced by Liz Sayce questions the sheltered employment model as a way of supporting disabled people. There is now a view by both practitioners and disabled people that the Shelforce sheltered business model is no longer fit for purpose. The Sayce report states that both employers and disabled employees feel that this model does not align to the needs of the current or future labour markets, and a more individual focussed delivery model needs to be developed to help disabled people gain full time, sustainable jobs in main stream employment. It is therefore appropriate for BCC to consider</p>

	<p>a Birmingham offer to disabled people which is not based on a sheltered business model but instead supports disabled people to access employment opportunities working with non disabled staff in mainstream employment.</p> <p>The Government has taken some radical steps since the publication of this report and have initiated a closure programme for a large number of their operations across the UK, which are similar in both size and configuration to the Shelforce model. BCC have however developed a vision that aspires to achieve mainstream employment and training opportunities for disabled people. To do this BCC is looking at ways in which it can develop new, more personalised and individually focused opportunities for people with disabilities.</p> <p>Technological Factors: Much of the PVCu manufacturing industry has become more automated in a drive towards reducing overhead costs whilst increasing productivity. A major concern if the current operation were to be maintained would be the need to consider extensive capital investment in both plant and machinery. Presently the current sales and future sales projections do not allow for such investment so this reinforces the need for a complete review of the current operating model.</p>																																				
6	Equalities Assessment (EA)																																				
	<p>The equality analysis of the potential impact on staff within Shelforce according to the protected characteristics has been undertaken and has identified the potential for adverse impacts on people with disabilities if certain factors are not addressed at the time of the redesign. The potential impact on people who share other 'protected characteristics' was identified as a key question for the consultation, as data was insufficient to make any clear assessment at the time of the Cabinet decision.</p> <p>Whilst the actual impact could not be fully known at the time of the Cabinet decision, potential effects were to be identified in the course of the ongoing consultation and equality analysis of the proposals, in particular in relation to staff and service users, including the potential impact on other businesses and service areas.</p>																																				
7	Workforce																																				
	<p>Shelforce provides employment and support to 56 disabled people, primarily through the Government's Department for Work and Pensions (DWP) Work Choice programme, in the manufacture of windows and doors. In total, Shelforce employs 65 permanent staff. It is proposed that to bring the overhead in line with the future sales forecasts that this would need to reduce to 20FTE's.</p>																																				
	<p>Work Force Breakdown Pre Implementation</p> <table><tr><th>Job Role</th><th>Grade</th><th>FTE</th></tr><tr><td>Systems manager</td><td>5</td><td>1</td></tr><tr><td>Senior surveyor</td><td>5</td><td>1</td></tr><tr><td>Finance & admin manager</td><td>5</td><td>1</td></tr><tr><td>Finance & admin assistant</td><td>4</td><td>1</td></tr><tr><td>Production supervisor</td><td>4</td><td>2</td></tr><tr><td>Production coordinator</td><td>4</td><td>1</td></tr><tr><td>Assistant transport/stores supervisor</td><td>3</td><td>1</td></tr><tr><td>Surveyor</td><td>3</td><td>1</td></tr><tr><td>Admin support</td><td>2</td><td>3</td></tr><tr><td>Production workers</td><td>2</td><td>53</td></tr><tr><td>TOTAL</td><td></td><td>65</td></tr></table>	Job Role	Grade	FTE	Systems manager	5	1	Senior surveyor	5	1	Finance & admin manager	5	1	Finance & admin assistant	4	1	Production supervisor	4	2	Production coordinator	4	1	Assistant transport/stores supervisor	3	1	Surveyor	3	1	Admin support	2	3	Production workers	2	53	TOTAL		65
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Work Force Breakdown Post Implementation

Job Role	Grade	FTE
Business Manager	6	1
Supervisor	5	1
Supervisors	4	2
Supervisor	3	1
Business Support	3	1
Production Operatives	2	14
TOTAL		20



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Property and other physical assets

Shelforce currently occupies three factory units on Erdington Industrial Park at an annual cost of £207,000. To produce the level of sales anticipated for 2013/14 and to meet the required budget proposal there would only be a requirement for one factory unit which would enable Shelforce to become more commercially viable and would align more to the future sales projections as outlined in this business plan. Formal negotiations have been on-going for the last 12 months with the current landlord to secure a more appropriate lease for the Shelforce facility.

The current asset base would also need to be reduced in line with the sales and unit output forecasts and with the proposed structure within the available space of one unit. It is recognised however that should the proposal to reduce the number of units from three to one be agreed, Birmingham City Council will be liable for the dilapidation costs for the vacated units which could be in the region of £250,000 - £500,000.

9	Risk management strategy
	<p>Shelforce uses the corporate policy for risk management within BCC and the risk register is reviewed on a monthly basis by the management team to discuss and capture any additional risks and remove those that are no longer relevant. .</p> <p>The main business risk to the continuation of the business is a failure to significantly reduce the labour and other overhead costs of the business to better align it to the sales forecasts and the market projections that have been identified for the business as a whole. Should the business plan not realign the business as proposed Shelforce will continue to lose money and put at risk the business and the continued employment of all the staff at Shelforce.</p>
10	Milestones and critical targets
	<p>The key milestones for this business plan are identified below. Should these milestones not be achieved then the financial impact will be that the trading deficits that have been incurred over recent years will carry forward into the next financial year which will create a budget pressure across Development & Culture Directorate which equates to approximately £120,000 per month.</p> <p>The other impact on any potential delays will be on clients who are aware of the proposals contained within this business plan. Should the milestones not be achieved, then this may impact on the sales potential, as clients seek to procure products from what may be perceived as a more stable and sustainable supplier.</p> <p>The impact on staff must also be considered as a critical factor, because should the key milestones not be achieved then this may again lead to a reduction in productivity which will affect what are already tight margins of profitability.</p> <p>Key Milestones:</p> <ul style="list-style-type: none"> • Cabinet Approval of Shelforce Redesign future operating model <ul style="list-style-type: none"> ○ December 2012 • Commencement of further formal consultation with Trade Unions and staff on the proposed new operating model <ul style="list-style-type: none"> ○ January 2013 – June 2013 • Cabinet approval for the implementation of new operating model <ul style="list-style-type: none"> ○ July 2013 • New operating model in place <ul style="list-style-type: none"> ○ February 2014
11	Continuous improvement
	<p>A formally quarterly management reporting mechanism is to be introduced that will review the following on a monthly basis:</p> <ul style="list-style-type: none"> • Sales – actual v budget reports • Sales forecasts • Overhead and variable costs reports • Profit and loss accounts <p>The implementation of the business plan will be the responsibility of the Business Manager within Shelforce and will be reported to the Assistant Director on a monthly basis via a Monthly Business Performance report. Any necessary changes will be implemented by the Business Manager with the assistance of the Shelforce senior management team, corporate finance team and HR.</p>