



Audit & Governance Committee
1 December 2014

**Babcock 4S Limited – Annual Report and Financial
Statements for the Year Ended 31 March 2014**

Purpose of the report:

The Annual Report and Financial Statements of Babcock 4S for the year ended 31 March 2014 are formally presented to the Audit & Governance Committee.

Recommendations:

It is recommended that:

- i. The committee note the attached Annual Report and Statements;
- ii. The committee note the findings at the informal meeting of the Audit & Governance Committee; and,
- iii. The committee consider if it has any further questions.

Background:

1. It has previously been agreed that Audit & Governance Committee would include the Annual Report and financial statements of Babcock 4S on its agenda when publically available. The committee has since then publically reviewed the accounts at a formal meeting in 2012 and 2013. This year, it was not possible for the representatives of Babcock 4S to attend a formal meeting of the committee when it would have been timely to review the accounts. It was agreed to review the Annual Report and financial statements at an informal meeting of the committee and bring any findings and the accounts in full to the next formal meeting of the committee.
2. The Annual Report and financial statements were circulated to the committee on 23 September 2014 and are attached as Annex 1 to this report. The committee held an informal meeting at the Babcock 4S Head Office on 2 October 2014. Nick Harrison (Chairman), Bill Barker (Vice-Chairman) and Tim Hall were in attendance. Apologies had been

received from Tim Evans, Will Forster and Denis Fuller. The Cabinet Member for Schools and Learning and the Chairman of the Children, Schools and Families Select Committee were invited but had to send apologies. Kevin Kilburn (Deputy Chief Finance Officer), Julie Stockdale (Strategic Lead for School Commissioning) and Cheryl Hardman (Regulatory Committee Manager) were in attendance from Surrey County Council. The following attended from Babcock 4S:

- Amanda Fisher, Managing Director
- John McGrath, Finance Director
- Michelle deBeer, Finance Manager

Summary of discussion:

3. The discussion of the meeting on 2 October 2014 is summarised below:

- a) Babcock's Finance Director explained that Babcock 4S was in a period of change and that the Board faced the challenge of growing the business in a time of reduced funding.
- b) The Finance Director assured Members that the Joint Venture with Surrey was a very different situation to the contract with Lewisham. In Lewisham, Babcock 4S had recently exited from an IT contract. This had been a mutual decision. A facilities management contract with Lewisham remains in place. It was confirmed that the reduction in funding from Babcock Education and Skills (Training) Limited was related to the Lewisham contract.
- c) The Chairman queried the increase of approximately £1m funding from Surrey County Council to Babcock 4S. The Finance Director explained that this was related to the additional funding of £1.9m over three years pledged by the Leader of the Council to support school improvement. The aim of this was to make every Surrey school a good school by 2017. It is an intensive and focussed school improvement programme which aims to provide earlier intervention with more schools. It covers every area of school improvement including curriculum, SEND and safeguarding. It is a highly monitored and outcome-focused programme. Babcock 4S reports in detail to Children and Education Select Committee.
- d) It was confirmed that funding through academy school buy-back is listed separately to Surrey County Council.
- e) The Managing Director informed Members that Surrey has a good family of schools approach which includes the academies. It was acknowledged that Surrey County Council and Babcock 4S were held accountable for performance in schools over which they have no authority. Influence and persuasion, as well as a collaborative approach allow Babcock 4S to support improvement in academies.

- f) Members felt generally that more information about the company could be included in the Annual Report. The Finance Director offered to provide more detail on income from non-Surrey County Council and non-Babcock International Group parties in the 2014/15 report.
- g) Babcock 4S was involved in building and maintaining schools for three London Borough Councils as part of the Building Schools for the Future programme. The company was looking at how it could add value in the new school capital programme. As the programme has very tight funding, it was unclear what value Babcock 4S could add.
- h) The Chairman queried the doubling of charges from Surrey County Council to Babcock 4S. The Finance Manager explained that the Council charges Babcock 4S venue hire and business rates on the building used for Head Office. She agreed to find out why costs had increased significantly and report back to the committee.
- i) Charges from Babcock Corporate Services Ltd had decreased because of the exit from the Lewisham IT contract.
- j) The Chairman asked for an explanation for the large sum of cash held by the company. The Finance Director informed Members that the company has a large number of liabilities, with a number of parties being slow to charge to the joint venture. For example, the accounts show that corporation tax has not been paid for the last two years. This has actually been paid to the Treasury but has not been recharged within the Babcock group. Babcock 4S sees peaks and troughs in its amount of cash. The level is normally £5-7m and is relatively stable. At the end of 2013/2014 Babcock owed a high number of creditors, many of whom were paid just after the end of the financial year.
- k) There is a £1m provision for costs should the Surrey contract not be continued.
- l) The dividend policy is laid out in the contract. This is always paid out after the end of the financial year.
- m) The auditors for Babcock 4S are PWC.
- n) It was confirmed that Babcock 4S owns no fixed assets. IT is provided corporately and there is a service charge. This is included within the inter-company related party disclosure.
- o) The Managing Director informed the Members that Babcock 4S has a number of smaller contracts with local authorities. Surrey County Council had been an innovator when it set up the Joint Venture. With the changing political and education environment, more local authorities were looking at different models of delivery.

Conclusions:

4. The Annual Report and Financial Statements of Babcock 4S have been discussed in detail with representatives from 4S. The original documents and notes of the meeting between members of Audit & Governance Committee and representatives of Babcock 4S are presented here for the information of the committee and for transparency.
5. The following actions were agreed:
 - More detail on income from non-Surrey County Council and non-Babcock International Group parties to be included in the 2014/15 report.
 - An explanation of the increase in charges from Surrey County Council to Babcock 4S between 2013 and 2014.

Financial and value for money implications

6. There are no direct financial and value for money implications of this report.

Equalities and Diversity Implications

7. There are no direct equality and diversity implications of this report.

Risk Management Implications

8. There are no direct risk management implications of this report.

Next steps:

Review the Annual Report and financial statements of Babcock 4S for the year ended 31 March 2015 when timely.

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Sources/background papers:

- None