

BlindCraft

City of Edinburgh Council

18 November 2010

1 Purpose of report

- 1.1 This report follows on from the report considered by the Council on 16 September 2010 which outlined the two remaining options being considered at BlindCraft with a view to achieving the £700,000 savings required from 2011/12.
- 1.2 On approval of the report, a period of Statutory Consultation with staff at BlindCraft, to address the need to avoid/mitigate the need for redundancies, was commenced and this report outlines the outcome of that Consultation.

2 Summary

- 2.1 Since 2003, the Council has funded a level of deficit which cumulatively has totalled around £12m. Over recent years, stringent cost controls have been put in place and the level of subsidy required has stabilised at £1m per annum.
- 2.2 This level of subsidy is unaffordable given the pressures facing the Council and, as noted above, the Council requires a budget saving of £700,000 for 2011/12.
- 2.3 Given this challenging target, extensive discussions have been held with the Trade Unions at BlindCraft in order to find a way to reduce the level of deficit. During these discussions several options have been explored including moving to a reduced working week, pressing on to achieve higher margin sales and moving to an arms-length structure possibly as a social enterprise and/or registered charity.
- 2.4 In the report to the Council on 16 September 2010 two options were highlighted, a re-focus to become a more training oriented business or full closure. Of these options, only the closure delivers the full £700,000 savings.
- 2.5 Given the foregoing, and the fact that both options required extensive redundancies, employment law required the Council to formally consult with its staff on ways to mitigate the need for redundancies. The Consultation has involved every member of staff being met on a one-to-one basis to explain the situation facing the organisation and to explore their future options. An Equalities Impact Assessment (EIA) has been undertaken to ensure that staff

are appropriately supported. Impact will be continually monitored and the EIA form will be updated to reflect any changes to impact. More detailed action planning will be undertaken once the future of BlindCraft is determined.

- 2.6 The formal Consultation period (minimum 30 days) started on 28 September and this involved extensive and intensive meetings between the Unions and management.
- 2.7 During the Consultation, two further options were considered as ways of delivering the £700k savings required, a move to a four day week and also a three day week. However, these are only short term solutions and only worthwhile taking forward if a long term solution could be identified.
- 2.8 In summary, the financial outturn of the options has been modelled as follows:

Option	Savings possibly achievable	Shortfall from £700k savings target	Staff potentially redeployed/made redundant
Three day week	£650,000	£50,000	12.5 FTE
Four day week	£518,000	£182,000	12.5 FTE
Training Option (After Pay Protection)	£374,000 (£457,000)	£326,000 (£243,000)	23.0 FTE (23.0 FTE)
Closure	£700,000	NIL	53.0 FTE

3 Main report

Background

- 3.1 In the period since re-organisation, the Council has subsidised BlindCraft in excess of £1m annually. The table below shows how in the last eight years, the subsidy (c£12m overall) has been addressed by management action but has now stabilised at approximately £1m annually. This level of subsidy equates to support in excess of £30,000 per disabled employee and is unaffordable to the Council in the face of current financial pressures.

2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
£2.34m	£1.74m	£1.72m	£1.7m	£1.02m	£1.3m	£1.0m	£1.0m

- 3.2 As part of the management action referred to above, in October 2004, the Council took a decision to discontinue uPVC window manufacturing and metal products at BlindCraft and to concentrate its focus on strengthening the bed manufacturing business with a view to reducing the financial deficit. At that time, the staffing complement of the factory was reduced from approximately 100 to 70 staff.
- 3.3 BlindCraft currently employs 53 permanent staff and 4 temporary staff with the undernoted age profile:

Age Band	Able Bodied	Disabled
18-24	2	1
25-29	1	3
30-34	1	2
35-39	0	1
40-44	1	3
45-49	4	8
50-54	5	11
55-59	6	3
60+	2	3
Totals	22	35

3.4 By way of context, it is worth noting that BlindCraft is a Significant Trading Operation (STO) of the Council as opposed to a free-standing “company”. An STO is required by the Local Government in Scotland Act 2003 to break-even taking one year with another on a three-yearly cycle.

3.5 Failure to achieve this duty will be highlighted in the report of the External Auditors within the Council’s Annual Report and Accounts; repeated failure could possibly lead to Ministerial intervention in the management of the organisation. As an STO, BlindCraft has the same unlimited financial liability as the rest of the Council.

Options Considered

3.6 During the course of negotiations, several options have been considered and some discounted. Appendix One shows seven options raised originally in July 2009.

3.7 The table overleaf summarises why, in consultation with the Trade Unions, the options were discounted. It should be noted that these were the headline options, some of which were modified in discussions with the unions and characteristics of other options were adopted.

Option Number	Narrative	Consideration
1	3 Day week	40% pay cut seen as unacceptable in 2009.
2	Seek increased margins and reduce costs	Preferred option, unions supported management quest to increase contributions by way of seeking sales with enhanced profit margins whilst at the same time cutting costs. Unions started a shop floor productivity group to seek cost-saving measures. NB: It is recognised that this option, in and of itself, will not be sufficient to make BlindCraft viable.
3	Training focus limited manufacturing/sales	Unions agreed that this option had some merit and, in tandem with the policy outlined above on margins, agreed to explore this option with management
4	Training only operation	Not seen as financially or practically viable, would simply be a day centre.
5	Closure & capital receipts	Not acceptable to unions.
6	Closure & alternative use of site	Not acceptable to unions. Note: site sharing, and hence defraying fixed costs would be acceptable to the unions and it may also allow some horizontal integration of BlindCraft staff into mainstream employment within a co-located body.
7	Arms Length Company and possible charitable registration.	Not ruled out by unions as a downstream measure but key initial phase would be to ensure the survival of the organisation before changing its governance vehicle.

3.8 In considering the viability of BlindCraft it has often been suggested that the organisation should move to a limited liability status and register as a charity. In exploring any move to change the structure of BlindCraft, it is vital to understand that any change of governance vehicle e.g. taking the organisation into an arms length limited company or social enterprise company would, by law, necessitate a TUPE transfer of Council employees into the new body. In this context, given that the current payroll costs exceed £1.4m, such a transfer would be inherently unattractive in financial terms.

3.9 It is also noteworthy that the Council has been approached by a number of interested parties who were keen to take on BlindCraft and seek to engender more efficient working and hence make the organisation more financially viable. In discussion with such groups, the legal TUPE requirements have caused such groups to cease their interest.

- 3.10 Finally in this context, much has been made in the media and Parliament of the Glencraft situation in Aberdeen. It is essential to note that prior to its closure, Glencraft was already an arms length limited liability company. The company was having solvency problems and thus ceased trading in November 2009 and, at that time, all of the staff were made redundant.
- 3.11 When the new Glencraft (Social Enterprise) Limited company was started in the spring of 2010, most, but not all, of the previous employees were hired though terms and conditions of employment are different to those previously offered. The major differences in terms and conditions were that staff were no longer in the local government pension scheme and the new company did not pay sick pay when staff were absent.

Options at September 2010

- 3.12 As reported to the Council on 16 September 2010, there were two options outlined, these are summarised below.
- A re-focus to become more of a training entity. Under this option the organisation will change its focus from a permanent employment model to a training and through-flow of employment basis. This change of focus mirrors newly announced changes in the government grant regime for supporting disabled workers which will also reduce subsidies to councils. The establishment would reduce from 58 FTE to 44.5 FTE however in order to move to this model there would be a requirement to redeploy 23 of the disabled staff and recruit 22 trainees each on a 0.5FTE employment basis. The proportion of disabled employees in this option will be at least 51%. Based on a sales level of £1.445m, this option delivers a saving of £374,000, and £457,000 after pay protection.
 - Closure. This option delivers the £700,000 saving requirement outlined in the budget motion approved by the Council in February 2010. In this option the Council would retain £365,000 to invest in employment opportunities for disabled people.

3.13 The report noted that only closure delivered the £700,000 savings required.

3.14 As both of these options involved the potential for a significant number of redundancies, a Statutory Consultation period was required as set out in the Employment Rights Act 1996. Approval was given by the Council on 16 September to enter this Consultation and the formal Consultation commenced on 28 September 2010.

Statutory Consultation Update

- 3.15 On the day of the commencement of the Statutory Consultation period, 28 September, a meeting was held with the Trade Unions followed by a meeting with all BlindCraft staff.
- 3.16 Constructive consultation meetings were held with the Trade Unions on the following dates:

- 28 September
- 8 October
- 12 October
- 14 October
- 21 October
- 26 October
- 3 November

- 3.17 During the Consultation period, each staff member was consulted on a one-to-one basis with management encouraging the accompaniment of a family member or friend and a Trade Union representative.
- 3.18 During the Union meetings, the financial position in the current year was shared with staff-side colleagues and this showed a worsening position vis-à-vis sales (forecast down to £1.2m as at September 2010) though strong management was applied on contribution directive, pricing and keeping costs down and hence the forecast was that the organisation would still live within its £1,064,750 budgeted deficit.
- 3.19 Given this decline in sales and the fact that the payroll costs, of £1.4m, exceeded sales, the unions asked that all options previously considered be revisited in order to save BlindCraft.
- 3.20 Appendix Two gives the financial models and related assumptions that underpin the options considered during the Consultation. These options were:
- Training Option per 16 September 2010;
 - Three Day week option considered during Consultation; and
 - Four day week option also raised during Consultation.

Three Day Week Consideration

- 3.21 The key attributes of this option were that the majority of staff move, by a Local Agreement, to a three-day week and hence take a temporary 40% pay cut. In dialogue with unions, it was agreed that to move everyone to a three-day week could prove detrimental to the business e.g. the sales team. In light of this agreement, detailed modelling on key staffing positions was undertaken. In addition to moving to a three day week, this option also includes a reduction of 12.5 posts. Appendix Two shows the key assumptions made.
- 3.22 This move would be temporary and re-increasing of working days would be conditional on an improvement in the organisation's trading position. On this matter, it is noteworthy that the broad-brush costs of re-instating a full working week would be in the order of £350,000 and hence, achieving a reasonable profit margin, sales would require to be increased by £1.25m to allow this to be affordable.
- 3.23 The Council would not wish to impose such a significantly detrimental change on staff and hence a large majority of employees in BlindCraft would need to accept this offer in order to allow this option to be pursued. Employees who would not wish to reduce hours would need to be assessed whether BlindCraft could continue with their absence due to redeployment or redundancy. Union colleagues cannot guarantee this option will be accepted as they have not consulted their members on this yet.

Four Day Week Consideration

- 3.24 As noted above, the Unions also requested that a four day week model to be costed. This option also includes a reduction of 12.5 posts.
- 3.25 The conditions applicable to this option would be as for the three day week insofar as it would take the form of a Local Agreement and would be temporary in nature. The Unions have indicated acceptance of Pay Modernisation grades and conditions after a period of 3 years pay protection. At the end of the three year pay protection period, a further saving would be realised.

Longer Term Strategy

- 3.26 It is important to note that whilst the options outlined above may offer a short term future for BlindCraft, both management and Trade Unions agreed that these could only be implemented if a longer term solution was found.
- 3.27 As referred to above, the key ability to re-instate working days would be to increase the profit margins generated from new sales – the contribution. This would require sales of up to £2.24 million. This compares to current sales of £1.2 million in the current financial year. In the current economic climate, this is not felt to be achievable.
- 3.28 During consultations, Trade Unions have expressed agreement with the opinion that a commitment is required for a national approach to sheltered workshops and have raised the need for a sharing of common procurement best practices in order to achieve economies of scale and a reduction and de-layering of management positions across the organisations.

Ministerial Meeting 9 November 2010

- 3.29 On 7 October 2010, there was a discussion held in the Scottish Parliament concerning the future of Sheltered Workshops across Scotland; at the meeting, the future of BlindCraft was raised on a number of occasions. As a result of the discussion, the Minister for Enterprise, Energy and Tourism, Jim Mather MSP agreed to facilitate a meeting of BlindCraft stakeholders to explore what action, if any, could be taken to make BlindCraft more viable. The meeting was held on 9 November 2010.
- 3.30 Attendees at the meeting included Scottish Government officials (Third Sector, State Aid and Employability teams), Glencraft, Social Firms Scotland, RNIB, DWP, BlindCraft management and trades unions representing staff at BlindCraft.
- 3.31 A number of issues were raised, which reinforced the thinking behind earlier options considered.
- 3.32 The issues raised, however, did not succeed in identifying a long-term solution, and it was recognised that, given the financial savings facing councils, elected members within the Council would require to reach a decision on 18 November about the immediate future of BlindCraft.

4 Financial Implications

- 4.1 Appendix Two shows the forecast financial position in 2011/12 for various options considered. The financial implications are summarised in the table below:

Option	Subsidy Required (Previously £1,065k)	Savings possibly achievable	Shortfall from £700k savings target	Staff potentially redeployed/ made redundant
Three day week	£416,000	£650,000	£50,000	12.5 FTE
Four day week	£547,000	£518,000	£182,000	12.5 FTE
Training Option (After Pay Protection)	£692,000 (£609,000)	£374,000 (£457,000)	£326,000 (£243,000)	23.0 FTE (23.0 FTE)
Closure	NIL	£700,000	NIL	53.0 FTE

- 4.2 As the target subsidy level is £365,000 (i.e. current budgeted subsidy of £1,064,750 less £700,000 savings requirement), the paragraph above shows that of the options considered, only closure achieves the target saving.
- 4.3 In keeping with this narrative, it should be noted that the retained £365,000 is designed to facilitate support for employees transitioning from BlindCraft. The exact pattern of support will be determined by an individual's circumstances but may take the form of subsidising a future employer or offering a one-off dowry payment to allow suitable changes and adaptations to be made for a transferring employee.
- 4.4 None of the modelling presented includes:
- the impact of redundancy/severance costs; these have been estimated as an average of c£30,000 per employee; and
 - factory support grant possible clawback of up to £340k. The DWP provided these grants, with £318k advanced over 7 years ago towards property and machinery with the last grant of £22k provided in 2007 for machinery. It is understood these grants would require to be repaid to the DWP in the event of closure

5 Environmental Impact

- 5.1 There are no detrimental environmental implications arising from this report.

6 Equalities Impact Assessment

- 6.1 Given the significant potential impact on BlindCraft staff of these issues, a detailed Equalities Impact Assessment (EIA) has been undertaken and this has

directly influenced the staff support arrangements under preparation for possible redundancy. The Equalities Impact Assessment was considered during consultations with staff.

- 6.2 Impact will be continually monitored and the EIA form will be updated to reflect any changes to impact. More detailed action planning will be undertaken once the future of BlindCraft is determined.

7 Staffing Support

- 7.1 During the consultation period, each staff member of BlindCraft was consulted on a one-to-one basis, with management encouraging the accompaniment of a family member or friend and a Trade Union representative.
- 7.2 A team has been established to support the staff throughout the implementation of either option. The team involves Human Resources, Supported Employment, Job Centre Plus, Skills Development Scotland, RNIB, and Social Work. A support package has been developed and this will be ready to initiate when a decision has been taken on the future of Blindcraft
- 7.3 The planned support will be individually tailored and includes life skills training, job application and job skills training, together with advice and information on entitlement to benefits. Each employee will have one-to-one support in action planning where required and will be given support with job hunting, both within the Council and with external employers. In addition, support will be given with social integration in the community where required.
- 7.4 It is proposed that individuals will receive a follow up call at 13 weeks after exit, 26 weeks after exit and 1 year after exit to chart their progress and/or offer additional support where practicable.


8 Conclusions

- 8.1 Following the period of statutory consultation, during which the engagement of staff-side representatives was exemplary, the only option remaining that fully delivers the £700,000 required saving is the closure of BlindCraft.
- 8.2 The move to a reduced working week is only workable as a short term option to allow the business to recover. However, there is no foreseeable prospect of this being achieved within the next 3 years.

9 Recommendations

- 9.1 The Council is asked to:
- a) Note the contents of this report and the comprehensive Consultation that has been undertaken in seeking to deliver financial viability at BlindCraft;
 - b) Note that the only option that delivers the required level of ongoing saving of £700,000 is the closure of the organisation;
 - c) Agree to the closure of BlindCraft;

- d) Agree to giving every support to employees to seek redeployment and to support them through the transition period; and
- e) Agree to retain £365,000 for ongoing investment in support for disabled people into employment.



Peter Gabbitt
Director of Health & Social Care

11-11-10

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- Appendices
- 1 Options considered in July 2009
 - 2 Analysis of the three day week option

Contact/tel/Email

Wards affected

Single Outcome
Agreement

Background
Papers

APPENDIX ONE

LIST OF OPTIONS ANALYSED

OPTION 1	OPTION 2	OPTION 3	OPTION 4	OPTION 5	OPTION 6	OPTION 7
<p>3 day week:</p> <p>As a temporary measure, from 1 October 2009 (until further notice), reduce the working week to three days and seek to exploit higher margin business opportunities to the fullest extent, probably at the expense of university business.</p> <p>Efficiency during the three days must increase significantly in order to deliver against sales and allow hours to be re-instated.</p>	<p>Increasing margins & reducing costs:</p> <p>Seek to shift the sales focus from universities to clients offering higher margin (hotels, JLP, MoD, BAe etc) hence reducing the necessary deficit funding from the council.</p> <p>This option also necessitates a significant cost-reduction programme including reducing the number of posts in the organisation.</p>	<p>Training organisation:</p> <p>Become a training organisation only and offer management of the function to the H&SC supported employment team.</p>	<p>Training operation with limited sales:</p> <p>Shrink to training focus with sales output to CEC, neighbouring councils and the public via the shop.</p>	<p>Closure and capital receipts:</p> <p>Close and sell the factory and equipment to achieve the capital receipt.</p>	<p>Closure and alternative site use:</p> <p>Close BlindCraft and cease manufacturing activity altogether.</p> <p>Use the site as a storage and transport (CTU) facility.</p>	<p>Alternative model:</p> <p>Take the business arms-length into a limited liability vehicle and register all or part as a charity.</p> <p>Push hard for all sales and/or grants opportunities.</p> <p>Seek to incentivise new terms and conditions.</p>

APPENDIX TWO

Predictive costs for a reduced week option Week Option and recalculation of the Training Options using current assumptions.

P&L	2011/12 Forecast 3 Day Week for some Staff Reduction of 12.5 FTE £	2011/12 Forecast 4 Day Week for some Staff Reduction of 12.5 FTE £	2011/12 Forecast 4 Day Week Pay Modernisation No Pay Protection Reduction of 12.5 FTE £	2011/12 Forecast 5 Day Week Pay Modernisation No Pay Protection Reduction of 12.5 FTE £	Full Year Budget Training Option 44.5 FTE Current Grades 2011/12 £	Full Year Budget Training Option 44.5 FTE Pay Modernisation No Pay Protection 2011/12 £
Sales	(1,445,000)	(1,445,000)	(1,445,000)	(1,445,000)	(1,445,000)	(1,445,000)
Less Cost of Sales						
Salaries Wages	310,930	418,557	390,023	485,094	512,993	447,996
Materials	837,498	837,498	837,498	837,498	837,498	837,498
Transport	196,322	1,452,378	196,322	196,322	196,322	196,322
Gross (Profit)/Loss	(100,249)	7,378	(21,156)	73,915	101,814	36,817
Less Expenses						
Salaries: Production Control	212,242	232,562	202,335	230,265	257,405	249,254
Salaries: Administration	266,169	305,337	280,836	319,548	352,030	343,121
Advertising and Marketing	42,000	42,000	42,000	42,000	42,000	42,000
Premises	130,577	130,577	130,577	130,577	130,577	130,577
Operating Equipment	8,460	8,460	8,460	8,460	8,460	8,460
Other operating costs	64,143	64,143	64,143	64,143	64,143	64,143
Plus Other Operating Income	623,341	790,456	707,194	868,907	956,428	874,371
Sheltered Employment Grant	(98,400)	(98,400)	(98,400)	(98,400)	(81,600)	(81,600)
Other Operating Income	0	(98,400)	(98,400)	(98,400)	0	(81,600)
Operating (Profit)/Loss	524,941	692,056	608,794	770,507	874,828	792,771
Less Funding Allocation Other Local Authorities	(108,478)	(144,637)	(144,637)	(180,796)	(183,430)	(183,430)
CEC Contribution	416,463	547,419	464,157	589,711	691,398	609,341
Note: Additional sales required to deliver savings of £700k		642,000	349,000	791,000	1,148,000	860,000

Notes on 3-day week Option

1: Sales of £1,445k are predicted for 2011/12. This compares to a sales outturn of £1,528 in 2009/10 and a forecast sales outturn of £1,200k in the current year.

The sales strategy is driven by the need for BlindCraft to achieve a higher margin contribution, whilst at the same time controlling costs.

2: It is assumed that most staff will reduce their hours by 40%, although some key posts will be required to work longer hours or existing vacancies filled to maintain business processes and maximise business opportunities. In addition there will be a reduction of 12.5 FTE posts.

3: Sales and marketing budget is left intact to develop the website and allow the business to be promoted to counteract current adverse publicity.

4. Savings will be achieved in premises costs due to more efficient production and inventory management.

5: This option with the above assumptions would require a CEC subsidy of £416k. This is £51k higher than the budget target of £365k and therefore does not meet budgetary requirements.

6: This option assumes that 12.5 FTE staff would potentially be made redundant. Based on an average projected redundancy cost of £30k, redundancy costs for this option could be £375k. It is estimated that this figure would include about £160k of pension strain costs which would have to be funded by BlindCraft. This figure is not included in the Profit and Loss statement above as it is unclear if it is assumed they would fall in the current year. If this cost was amortised over five years there would be an annual charge of about £32k to cover these costs.

4- Day Week Option

This assumes that staff would reduce their hours by 1/5th except the staff outlined above who would be required to work their current hours. This option includes a reduction of 12.5 FTE.

This option would require a subsidy of £547k which does not meet budget requirements. Additional sales of £642k would be required to meet deliver the £700k savings target under this option. These sales have not yet been identified.

4- Day Week Option with Pay Modernisation

Under this option all staff would move over to pay modernisation grades. While pay protection would exist for three years, this option indicates what the costs would be without pay protection. This option includes a reduction of 12.5 FTE.

This option would require a CEC subsidy of £464k. To reduce this subsidy to £365k would require an additional £349k of sales. These sales have not yet been identified.

5- Day Week Option with Pay Modernisation

This shows what the costs would be if all staff resumed to 5 days a week under these proposals. It includes the reduction 12.5 FTE outlined above.

This scenario would require a subsidy of £590k. To reduce this to £365k would require additional sales of £791k.

Notes on the Training Option:

The training options have been restated using the assumptions above for Sales income and non-salary costs. This option would require a CEC subsidy of £691k based on current grades or £609k based on a full staff move to pay modernisation with no pay protection. Neither of these options deliver the required savings.