



Remploy

Department for Work and Pensions
Remploy – Review of Future Business Options

10 July 2006

*connectedthinking

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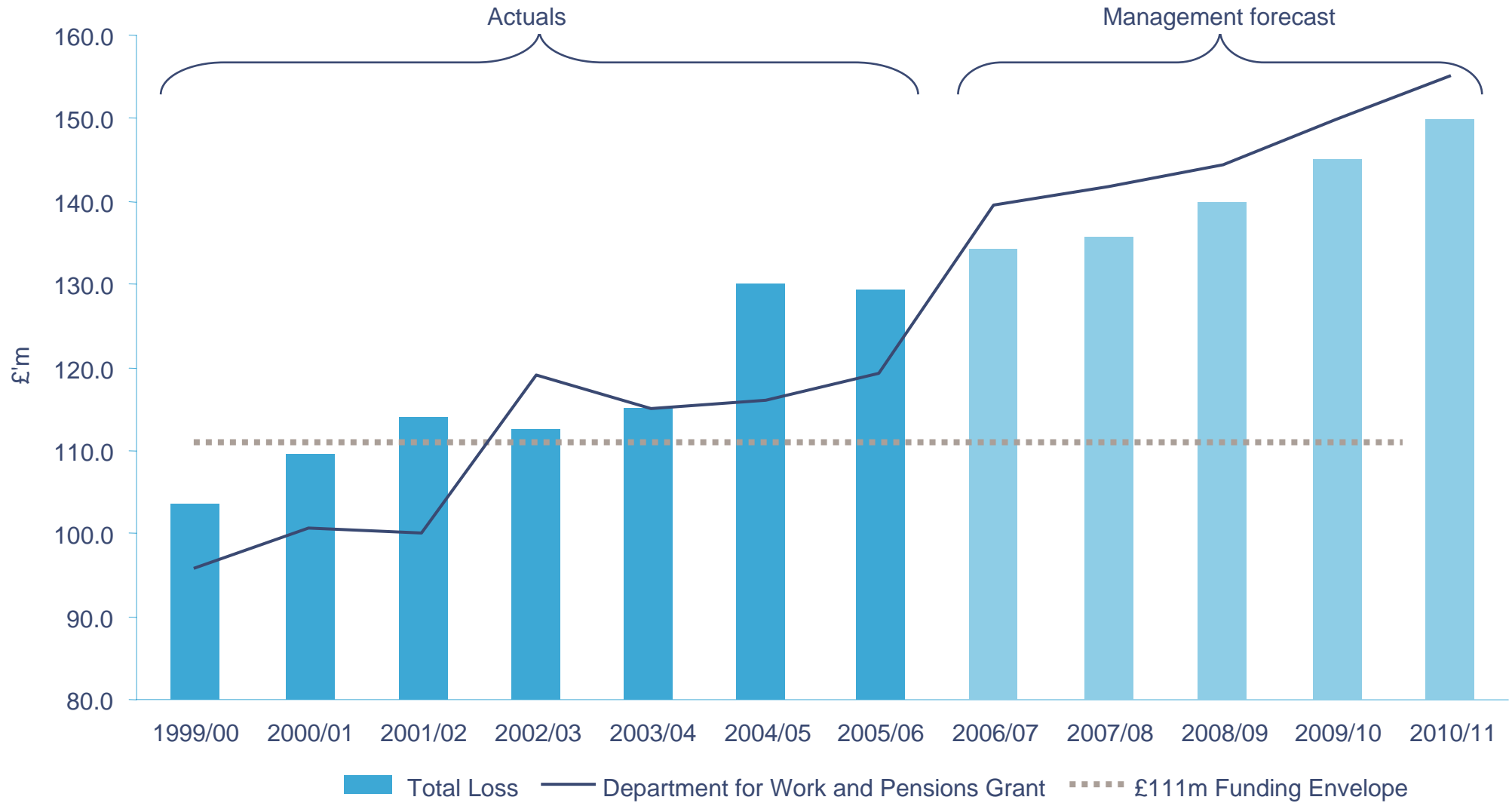
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Remploy

Section 3

Summary: Remploy and its businesses

Chart 1: Historical & forecast losses and funding requirement (repeated from page 6)



Overview of Remploy's recent financial performance and funding requirements

- Remploy has been supported by the Department for Work and Pensions (and predecessor departments) since its inception.
- Remploy currently supports circa 9,000 disabled people in its factories, Managed Services and Interwork businesses. It currently has 83 factories and 11 Interwork geographical areas.
- Remploy's business is structured into 14 Business Units including Managed Services and Interwork.
- The chart on the facing page shows that Remploy's loss (before any grant income from the Secretary of State) has risen from £103.5m in 1999/2000 to £129.4m in 2005/06.
- In 2005/06, factories accounted for £95.9m of the loss, with Managed Services and Interwork accounting for £5.5m and £15.5m respectively. Central overheads and other costs (e.g. £6m for Pensions) represented a further £12.5m.
- Over the same period, actual grant funding has risen from £95.7m to £119.3m -- exceeding the agreed funding envelope -- with no significant increase in the number of supported disabled people employed by Remploy. Overall this has led to an increased burden on the Department's annual disability employment budget.

Cost / supported employee £k	Site numbers	Actual 2005/06
Textiles	9	(7.0)
Healthcare	7	(20.6)
Electronics	5	(19.3)
Household & toiletries	1	(48.8)
Ecycle	15	(24.4)
Print & packaging	7	(20.4)
Building products	4	(24.6)
Automotive	9	(16.6)
Library services	2	(22.5)
Officescope	5	(21.6)
Furniture	11	(21.9)
Workscope	17	(19.3)
Business average		(18.1)
Business average incl unallocated central costs		(22.8)
Managed services		(12.9)
Interwork		(3.3)

Table 2: Business Unit cost per supported employee

- The main reasons behind the rising losses have been:
 - A general worsening of trading conditions, with margins eroding due to competition, particularly from overseas affecting a number of industries in which Remploy's Business Units operate
 - Ongoing inflation -- both wage and cost -- on a fixed cost base, of between 3% and 3.5% per annum (impact £4–6m per annum)
 - An additional £6m per annum in respect of payment of deficit on Remploy's defined benefit pension scheme
 - Additional one-off costs 2005/06 incurred in relation to the Household & Toiletries reorganisation (£2m)
 - The growing complexity of the business, with the addition of product lines to ensure factories were kept busy as far as possible. Business was often done on low cost terms, thus further eroding margins.
- Finally we draw your attention to the chart on page 18 showing that over the last two years losses have exceeded funding requirements. This is partly as a result of non-cash items such as depreciation and partly as a result of the beneficial impact from the temporary use of a bank overdraft and other one-off transactions (e.g. asset disposals, leases).
- Over the coming years, assuming no reorganisation or restructuring, required funding will exceed losses as a result of the reversal of some of these one-off items, and the bank overdraft being fully drawn throughout the whole year.