

North Lanarkshire Council

Draft Report

Environment and Transportation Committee

approval noting

Ref NP/GS//RMcN

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Amey Public Services LLP: Operational and Financial Performance Monitoring Report for Year End 2018/19 and Year 8 Best Value Review Outcome

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Executive Summary

This report outlines Amey Public Services (APS) Limited Liability Partnership (LLP) performance against its' business objectives and council priorities for year ending 2018/19, as well as financial performance as at 31 December 2018.

Following consideration of the year 8 Best Value Review by the former Policy and Resources Committee in December 2018, and approval to extend the contract subject to successful market testing of rates and prices, this report summarises the outcome of the market testing and confirms invoking the extension delivers Best Value for the council.

Recommendations

It is recommended that the Environment and Transportation Committee:

- (1) Note APS LLP's operational performance for 2018/19, along with service delivery highlights over the past six months;
- (2) Note APS's financial performance as at 31 December 2018;
- (3) Note the market testing exercise recently undertaken demonstrates amending APS LLP rates provides value for money for the council;
- (4) Note that as a result of this exercise, the existing contract will be extended for a period up to June 2024, as previously approved at Policy and Resources Committee on 6 December 2018, and;
- (5) Note the work currently underway to encapsulate APS' contribution to The Plan for North Lanarkshire and the associated Programme of Work.

The Plan for North Lanarkshire

Priority Improve North Lanarkshire's resource base

Ambition statement (24) Review and design services around people, communities, and shared resources

1. Background

- 1.1 The council created the roads, street lighting and winter maintenance services LLP in 2010, following a tender exercise for a strategic partner to deliver such services over a ten year period. The successful bidders were Amey Local Government Limited and the contract commenced on 21 January 2011. Amey LG Ltd (now Amey Public Services LLP) owns a 67% shareholding in the strategic partnership with the council owning the remaining 33%.
 - 1.2 The council expected the partnership to secure local employment, source local supplies and services, and ultimately secure continuous improvement in the repairs services delivered to North Lanarkshire residents. Assessment against these council expectations took place during the year 4 and 8 Best Value Reviews referenced in section 2.5 below.
 - 1.3 A Management Committee consisting of representatives from both APS and North Lanarkshire Council is responsible for the LLP's governance, which includes operational delivery and management, staffing, financial control and reporting, health and safety, performance monitoring and risk management. The Management Committee meets quarterly, with council representation consisting of one senior officer and one Elected Member, and APS LLP membership comprising up to four representatives.
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2. Report

2.1 2018/19 Performance Indicators

- 2.1.1 The outcomes from the 2018-19 performance indicators are detailed within appendix 1, with all agreed indicators meeting or exceeding target.
- 2.1.2 Business Solutions are currently working with APS to determine where the partnership is contributing to The Plan for North Lanarkshire and the associated Programme of Work. The outcomes from this exercise, and future reporting arrangements, will be presented to Committee in due course.

2.2 Overview of Governance Arrangements

- 2.2.1 As referenced in section 1.3 above, council representation on the Management Committee enables the council to maintain an overview of the LLP's overall performance and governance arrangements.
- 2.2.2 APS LLP largely satisfies the council's required oversight arrangements, and routinely submits the monitoring information expected by council officers in line with the timeframes specified within the LLP Agreement. In previous years, APS have failed in their requirement to prepare a Business Plan, however a detailed Business Plan for the period to June 2021 was presented to the APS Management Committee at their meeting on 22 March 2019.

2.3 Comments, Compliments and Complaints

- 2.3.1 APS do not receive complaints directly, instead they are filtered and managed through the council's internal complaints management system. APS has only received one complaint directly during this reporting period from a resident living near to the Bargeddie depot regarding the noise being generated at night from the loading shovel (reversing alarm) when filling the gritters. This was dealt with by retrofitting the shovel with a white noise alarm to reduce the impact of the reversing alarm. No further complaints have been received.

2.3.2 As reported to this Committee at its previous meeting on 24 January 2019, APS received one compliment during 2018/19 relating to resurfacing works at Townhead in Coatbridge.

2.4 Service Delivery Highlights

2.4.1 The following service delivery highlights were achieved during the past six months of 2018/19:-

- APS continued to progress the LED replacement programme on residential roads and footpaths. As at end March 2019, over 12,000 new lanterns have been installed;
- APS also successfully delivered NLC's Main Roads LED replacement contract, installing 1,700 lanterns ahead of schedule;
- APS have been successful in the delivery of a significant programme of carriageway and footpath resurfacing;
- There has been a continued downward trend in overdue works instructions (down 80% in number and 70% in value since the end of March 2018);
- During the reporting period APS took delivery of 13 new 18T Unibody vehicles to replace the ageing front-line fleet. These were put straight to work and are providing a more reliable and efficient service. In addition, APS is ordering replacement footpath tractors for the 2019/20 winter season.

2.4.2 APS staff have also undertaken a number of activities in support of the local and wider community:-

- Assisted in running mock interviews for S4/S5 pupils at the NLC organised Get Ready for Work conference in November;
- Hosted a stall at the Braidhurst High School Careers event in February;
- Volunteers worked at Airdrie Foodbank as part of Community Involvement Days;
- Donations were made to Coatbridge Foodbank and Maggie's Centre Lanarkshire following APS being awarded a prize at Amey Highways Conference;
- APS undertook works for Glenboig Community Trust at their allotment;
- APS collected donations of toys as part of NLC's Annual Toy Appeal;
- APS hosted a visit by local MP (Hugh Gaffney) in March as part of the Apprentice Week events.

2.5 ALEO Year 8 Best Value Review Outcome

2.5.1 As per the Works Agreement, service reviews require to be carried out jointly at year 4 and 8 of the strategic partnership. The former Planning and Transportation Committee considered the findings of the Year 4 review and approved the requirement for the council to continue working with APS LLP to identify opportunities for the business to establish a stable financial position.

2.5.2 The Year 8 review commenced in July 2018 with the outcome initially reported to Infrastructure Committee in November 2018, but then carried forward to Policy and Resources Committee in December 2018. The review recommended that the Head of Environmental Assets conduct a market testing exercise to identify whether amending some of the existing contract rates and prices for a term beyond June 2021 will be more beneficial to the council than ceasing the contract at its natural termination date.

2.5.3 The benchmarking exercise is now complete and of the 2,745 items contained within the contract schedule of rates, agreement has been reached on the amendment of 114 of these items.

2.5.4 Given the complexity of the contract and the range of work activities, a benchmarking exercise was undertaken using the original tendered rates by APS

and the second place contractor to enable a like for like comparison to be undertaken.

- 2.5.5 A model was created using the actual work quantities obtained through the contract over the last three years, with minimum, maximum and average quantities being examined. This exercise shows that the change to the rates would see an increase in contract rates by 9.9% using minimum quantities, 11.54% for maximum quantities and 11.26% for average quantities. Although there is no guarantee that the same composition of works would apply to the extension period. While the proposed amendments to the contract result in a general increase in contract rates, the overall value of works will continue to be in line with the annual road, street lighting and winter maintenance budgets.
- 2.5.6 A comparison exercise was then undertaken using APS's original tendered rates and the second place tenderer. This showed APS's rates to be 12.33% lower than the second place tenderer. Therefore with the increase described above, extending the contract does represent best value to the council.

3. Equality and Diversity

3.1 Fairer Scotland

There are no considerations which require to be addressed at this time.

3.2 Equality Impact Assessment

An equality impact assessment was completed as part of the year 8 Best Value review and there are no perceived adverse impacts as a result of the associated recommendations.

4. Implications

4.1 Financial Impact

Public Accountability Obligations – Financial year 2018/19

- 4.1.1 To satisfy the council's duty to ensure the organisation delivering roads, street lighting and winter services on its behalf is financially sound, the council's Section 95 Officer maintains appropriate and proportionate processes and procedures for scrutinising APS LLP's financial performance.
- 4.1.2 The council's Legal Agreements with APS LLP specify the financial information which the company must submit to the council including an annual business plan, monthly management accounts, audited financial statements etc., to enable Financial Solutions to assess and report any financial risk likely to arise as a result of the council using APS LLP to deliver these services.
- 4.1.3 The council expends both revenue and capital resources annually with APS LLP to deliver services which assist the council in achieving its priority outcomes. For the council's financial year 2018-19, sums of £11.747m and £13.228m were budgeted in respect of revenue and capital respectively for roads and lighting maintenance. APS operates a financial year ending 31 December 2018, and revises its forecast twice throughout the year. Based on APS revised forecast (RF2), works from the council represent around 94% of annual anticipated net turnover.

Financial Performance as at 31st December 2018

- 4.1.4 Based on their draft unaudited financial accounts to 31st December 2018, members will wish to note the LLP is reporting an annual accounting profit of £2.284m, which is a £1.266m favourable variance to the RF2 forecast profit of £1.018m. Appendix 2 provides further details regarding the LLP's financial position as well as commentary to explain the key variances reported.
- 4.1.5 Members will wish to note the RF2 forecast annual profit of £2.284m includes writeback of £1.350m to the Profit and Loss in respect of previous provision for estimated future contract losses of £1.956m incorporated in the 2017 accounts, which when excluded results in an underlying annual trading forecast profit of £0.934m.
- 4.1.6 The Works Agreement with the LLP also provides for the council to receive financial benefits in the form of Best Value Efficiency Savings (BVES), the agreement provides for an annual 0.22% adjustment to be applied to the schedule of rates paid by the council on 1st July each year. This equates to circa £0.499m due to the council for 2018 which was received in April 2019.
- 4.1.7 Although the contract provides scope for the council to receive dividends from this partnership agreement, the cumulative negative trading position evidenced in the balance sheet means the LLP has not yet had an opportunity to declare any dividends.
- 4.1.8 In return for satisfactory service delivery and effective financial performance through the LLP, Amey Local Government Limited is entitled to receive a management fee which comprises both fixed and variable elements, and is partially linked to level of works delivered through the contract. However, the payment of the management fee is dependent upon generation of cumulative profits and given the LLP currently has cumulative net liabilities, the management committee has agreed that no management fee is payable for 2018.

Overall Financial Standing – Balance Sheet as at 31st December 2018

- 4.1.9 Appendix 3 provides key balances to give members an update on the overall financial standing of the company, as at 31st December 2018, along with the previous year's comparator figures. Key balances and indicators worthy of specific note include:
- a) As a result of previous year losses the company has cumulative net liabilities of (£8.087m), an improvement on the previous year position of £2.313m which primarily reflects the 2018 accounting profit.
 - b) A comparison of the LLP's current assets to its current liabilities equates to a net current liability of (£0.336m) and a low current ratio of 0.90. A ratio of less than 1 is generally an indication of an organisation having insufficient resources to meet its obligations, and in this instance, indicates the LLP continues to rely upon the approved parent company loan outlined below.
 - c) The cumulative losses materially affects the management of cash, which totalled £1.284m and must be closely monitored to ensure the LLP can pay salaries, creditors and HMRC etc.
 - d) The LLP has a long-term liabilities balance of (£7.145m), which predominantly reflects loan support (£5.966m) provided by the parent company Amey LG to enable the LLP to continue delivering services. In recognising the LLP is largely dependent upon the support received from the parent company, officers from Financial Solutions regularly obtain assurances from the LLP and Amey LG regarding their continued loan support.

Public Accountability Obligations – Financial year 2019/20

4.1.10 For the council's financial year 2019-20, sums of £9.909m and £9.555m are budgeted in respect of revenue and capital respectively for roads and lighting maintenance. APS operates a financial year ending 31 December 2019, and revises its forecast twice throughout the year. Based on APS revised forecast (RF1), works from the council represent around 93% of annual anticipated net turnover.

Approved Budget 2019

4.1.11 In line with Amey group timelines, the 2019 budget had been prepared by the LLP, and indicates an anticipated accounting profit of £0.338m on turnover of £15.7m. Members should note this budget includes the favourable impact of £0.500m writeback of contract loss provision to the Profit and Loss, and therefore the underlying trading operational budget was a loss of (£0.162m). A revised operational RF1 forecast was recently approved and better reflects the current and projected financial performance for 2019. This provides a forecast trading breakeven position for the year, with no contract loss provision write-back in 2019 Profit and Loss due to the increased writeback of £0.800m included in 2018 accounts.

Financial Performance as at 30th April 2019

4.1.12 Based on their financial statements to 30th April 2019, members will wish to note the LLP is currently reporting a year to date profit of £0.346m, which is a minor favourable variance to the RF1 YTD forecast profit of £0.343m. Appendix 4 provides further details regarding the LLP's financial position as well as commentary to explain the key variances reported.

Overall Financial Standing – Balance Sheet as at 30th April 2019

4.1.13 Appendix 5 provides key balances to give members an update on the overall financial standing of the company, as at 30th April 2019, along with the previous year's comparator figures. Key balances and indicators worthy of specific note include:

- a) As a result of previous year losses the company has cumulative net liabilities (£7.736m), an improvement on the previous year position of £0.351m which primarily reflects the 2019 YTD trading profit.
- b) A comparison of the LLP's current assets to its current liabilities equates to a net current liability of £0.310m and an increased current ratio of 0.91.
- c) The cumulative losses materially affects the management of cash, which totalled £0.503m. The LLP have current cash forecasts of a high of £1.712m in June reducing to £1.153m in July 2019.
- d) The LLP has a long-term liabilities balance of (£6.819m), which predominantly reflects current loan support (£5.973m) provided by the parent company Amey LG to enable the LLP to continue delivering services. Currently, there are no expectations that any additional loan support will be required in 2019 being provided by the parent company.

4.2 HR/Policy/Legislative Impact

This report does not require consideration of any HR/Policy or Legislative impacts.

4.3 Environmental Impact

There are no environmental impacts arising from this report.

4.4 Risk Impact

4.4.1 APS is deemed to have well established risk management arrangements in place and these are routinely considered by the Management Committee to ensure any impact on service delivery, and therefore council reputation, is minimised.

4.4.2 Work is ongoing between the LLP and the council to finalise a Partnership Improvement Plan (PIP) which aims to bring the contract back to a forecast annual break even position to the contract end in 2021. However, in the absence of this being finalised, the Amey Group auditors deemed the LLP contract onerous, which resulted in all future years forecast losses being written off in 2017 accounts. This resulted in a contract provision of £1.956m being included in 2017 accounts (see 4.1.5 above). Due to improvements in financial performance in 2018, the provision was reduced by £1.350m to £0.606m and will continue to be closely monitored going forward

5. Measures of success

5.1 These reports are intended to give Members an insight into how the LLP is performing and where it is supporting delivery or adding value to the council's priorities.

5.2 The year 8 service review confirmed that the partnership is delivering on a number of its key objectives although it has fallen short in terms of overall financial expectations. The price uplift outlined in section 2.5 above will ensure continuity of service for Roads, Street Lighting and Winter Services up to June 2024, providing sufficient time to consider the scope of the service and future delivery models.

5.3 As outlined in section 2.1.2, future measures of success will be aligned with The Plan for North Lanarkshire and the associated Programme of Work.

6. Supporting documents

6.1 The following appendices support this report:-

Appendix 1	2018/19 Performance Indicators & Outcomes
Appendix 2	Financial Performance as at 31 December 2018
Appendix 3	Balance Sheet as at 31 December 2018
Appendix 4	Financial Performance as at 30 April 2019
Appendix 5	Balance Sheet as at 30 April 2019



Nicole Paterson

Head of Environmental Assets

2018/19 Performance

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	2018/19 Actual	Comments
Improve economic opportunities and outcomes					
OBJECTIVE: Provide supported routes out of unemployment or underemployment					
Number of Modern Apprenticeships	Contribute to the long-term economic sustainability of North Lanarkshire.	3	3	5	By the end of 2018 APS had five Apprentices working on the contract. This increased to six by the end of April 2019. All the Apprentices employed by APS live in the North Lanarkshire Council area.
Number and % of LLP workforce within age 16-24 age bracket	Contribute to the long-term economic sustainability of North Lanarkshire by recruiting locally based employees	9 of 140 (6.4%)	5%	13 of 152 (8.6%)	APS continues to commit to the long term sustainability of the contract through ongoing recruitment of employees in this age bracket.
OBJECTIVE: Improve infrastructure to help current and incoming businesses to grow and create employment					
Number and % of street lighting repairs completed	To enable vulnerable people to feel safe in their local area	95.5%	95%	96.4%	APS continues to perform very well in completing street lighting repairs on time.
OBJECTIVE: Help current and incoming businesses to grow and create employment					
Number of local suppliers	Contribute to the long-term economic sustainability of North Lanarkshire	7	7	7	APS has maintained its relationships with and use of local suppliers across contract works activities. APS will continue to seek to identify and use local SMEs where appropriate.
Supporting all children and young people to realise their full potential					
OBJECTIVE: Maximise employment opportunities through our Education Provision					
School engagement activities	Provide young people with an opportunity to get an insight into a possible career and route to work	1	2	4	Given that APS are limited in the type of work they can expose school children to on site, the target for school engagement activities was reduced this year from four to two. However, APS proceeded to provide four 1-week school work placements.
<p>In addition, APS undertook a number of other activities across 2018/19 including:</p> <ul style="list-style-type: none"> - Two rounds of mock interviews (over 30 participants) with school leavers as part of NLC's 'Get Ready for Work' conferences (May and Dec); - Ongoing sponsorship of and attendance at Junior Roads Safety Officer (JRSO) programme awards ceremony; - Attendance by Amey vehicle (TRISS) at Bargeddie PS fun /open day; - One 1-day work taster session for a pupil as part of council's Family Firm Programme - Attended three JRSO programme induction mornings; - Attendance at Braidhurst HS careers event (Feb 2019) speaking with over 40 students on the night. 					

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	2018/19 Actual	Comments
Improving North Lanarkshire's resource base					
BVES efficiencies	To positively support the partnership, deliver efficiencies to the Schedule of Rates payable via the works agreement	£341,706.98 (2017 BVES)	N/A	£498,733.62 (2018 BVES)	There is no target for BVES as this is calculated as a percentage of annual spend. The BVES is paid to NLC annually (based on calendar year spend). The 2018 BVES was paid in April 2019.
Links with NLC and its subsidiary companies - Premises	Contribute to the long-term economic sustainability of North Lanarkshire.	2	2	3	APS continues to lease two depots from North Lanarkshire Properties LLP at Bargeddie and Blairlinn depots. In addition, for the APS Open day in September, APS hired Burnhead Community Centre, Viewpark via Culture NL.

Amey Public Services LLP

Financial Performance as at 31 December 2018

Income & expenditure	2018 Annual Forecast (RF2) £m			Commentary	2017 £m
		Outturn £m	Variance £m		
Income from NLC	15.666	17.883	2.217	Revenue & capital funding	13.191
Strategy WIP (net of provision)	0.241	0.672	0.431	Write down strategy to 2021	(1.367)
Other 3rd party income	1.071	1.042	(0.029)	Other clients inc. other local authorities	1.222
Total Income	16.978	19.597	2.619	Increased income due to increase NLC works primarily LED and surfacing works	13.047
Expenditure;					
Employee costs	(5.557)	(6.653)	(1.095)	Increased employee costs, offset by increased revenue	(6.107)
Sub-contractor costs	(1.700)	(2.391)	(0.691)	Increased costs due to utilisation to undertake additional works, offset by increased revenue	(1.297)
Materials	(5.944)	(6.366)	(0.422)	Increased expenditure primarily due to purchase of LED materials to deliver Council programme, and surfacing works	(3.980)
Plant & Vehicle costs	(2.735)	(2.686)	0.049		(2.679)
Property, Communications & Other	(0.573)	(0.567)	0.006		(0.603)
Total resources expended	(16.510)	(18.663)	(2.153)		(14.666)
Trading profit/(loss)	0.468	0.934	0.466		(1.619)
Contract Provisions	0.550	1.350	0.800	Write-back of provision for estimated contract losses provision for remainder of contract. Increase of £0.800m due to improved financial performance in year.	(1.956)
Management Fee	0.000	0.000	0.000		0.340
Accounting profit/(loss)	1.018	2.284	1.266		(3.235)

Amey Public Services LLP

Overall Financial Standing - Balance Sheet as at 31 December 2018

Balances/ Indicator	2018 £m	Commentary	2017 £m	2018 Movement £m
Stock	0.812	Primarily LED materials and salt	0.411	0.401
Trade Debtors	0.483	£0.369m not yet due for payment - balance of £0.114m relates to Crown Damage which is being pursued/managed	0.831	(0.348)
Accrued Debtors inc. prepayments	0.375	Predominantly work in progress, and rent & rates prepayments	0.172	0.202
Trade Creditors	(1.131)	Material balance which Amey aim to pay within agreed terms of 60 days	(0.584)	(0.548)
Other Creditors inc. VAT & other taxes	(2.159)	Predominantly relates to accrual of goods and services received but not invoiced, VAT and deferred income due to NLC	(2.379)	0.220
Cash/ Bank	1.284		0.517	0.768
Net Current Assets/ (Liabilities)	(0.336)		(1.032)	0.696
Long term Liabilities	(7.145)	Predominantly parent co. Loan of £5.966m and payroll costs to group of £0.914m. Cash management to ensure payments to suppliers has resulted in higher balances due to group for payroll costs.	(7.412)	0.268
Contract Loss Provision	(0.606)	Provision for estimated future contract losses until contract termination in 2021	(1.956)	1.350
Net Asset / (Liabilities)	(8.087)		(10.400)	2.314
Current Ratio	0.90	Less than 1.0 which reflects the reliance on parent company loan	0.65	0.25

Amey Public Services LLP

Financial Performance as at 30 April 2019

Income & expenditure	2019 Annual Forecast (RF1) £m	2019 Year to Date			2018 Final Outturn £m	Commentary
		Revised Forecast (RF1) £m	Actual £m	Variance £m		
Income from NLC	15.603	5.421	5.693	0.272	17.883	Increased revenue due to Highways and LED works
Strategy WIP (net of provision)	(0.211)	0.166	0.340	0.174	0.672	
Other 3rd party income	1.184	0.370	0.423	0.053	1.042	Other clients inc. other local authorities
Total Income	16.577	5.957	6.456	0.499	19.597	Increased revenue due to surfacing, LEDs and 3rd party works
Expenditure;						
Employee costs	(6.679)	(2.580)	(2.870)	(0.290)	(6.653)	Increased employee costs due to programme of works undertaken
Sub-contractor costs	(1.966)	(0.546)	(0.742)	(0.196)	(2.391)	Increased costs due to utilising sub-contractors for highway surfacing and overdue works
Materials	(5.133)	(1.747)	(1.867)	(0.120)	(6.366)	Increased expenditure due to increased LED works
Plant & Vehicle costs	(2.192)	(0.601)	(0.495)	0.107	(2.686)	Reduced expenditure on plant and vehicles maintenance due to investment in new fleet
Property, Communications & Other	(0.607)	(0.139)	(0.136)	0.003	(0.567)	
Total resources expended	(16.577)	(5.614)	(6.110)	(0.497)	(18.663)	
Trading profit/(loss)	0.000	0.343	0.346	0.003	0.934	
Contract Provisions	0.000	0.000	0.000	0.000	1.350	No write-back of contract losses provision projected for year due to increased write-back in previous year of £0.800m
Accounting profit/(loss)	0.000	0.343	0.346	0.003	2.284	

Amey Public Services LLP

Overall Financial Standing - Balance Sheet as at 30 April 2019

Balances/ Indicator	2019 YTD Actual £m	Commentary	2018 £m	2019 Movement £m
Stock	0.949	Primarily LED materials and salt	0.812	0.137
Trade Debtors	1.511	£1.386m not yet due for payment - balance of £0.125m relates to Crown Damage which is being pursued/managed	0.483	1.028
Accrued Debtors inc. prepayments	0.297	Predominantly work in progress, and rent & rates prepayments	0.375	(0.078)
Trade Creditors	(1.321)	Material balance which Amey aim to pay within agreed terms of 60 days	(1.131)	(0.189)
Other Creditors inc. VAT & other taxes	(2.250)	Accruals, deferred income and VAT	(2.159)	(0.091)
Cash/ Bank	0.503		1.284	(0.781)
Net Current Assets/ (Liabilities)	(0.310)		(0.336)	0.026
Long term Loans	(6.819)	Predominantly parent company loan of £5.973m and payroll costs to group of £0.846m. Cash management to ensure payments to suppliers has resulted in higher balances due to group for payroll costs.	(7.145)	0.325
Contract Loss Provision	(0.606)	Remaining provision for estimated future contract losses until end of term 2021	(0.606)	0.000
Net Asset / (Liabilities)	(7.736)		(8.087)	0.351
Current Ratio	0.91	Less than 1.0 which reflects the reliance on parent company loan	0.90	0.02