
Report To:	Policy & Resources Committee	Date:	31 March 2009
Report By:	Chief Financial Officer	Report No:	FIN/27/09/AP/SC
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Subject:	Significant Trading Operations – 2009/10		

1.0 PURPOSE

- 1.1 The purpose of this report is to obtain Committee approval for the Significant Trading Operations to be operated by the Council for the financial year 2009/10.

2.0 SUMMARY

- 2.1 Following the introduction of the Local Government Scotland Act 2003 which brought a formal end to compulsory competitive tendering (CCT), the Council has on an annual basis considered which of its operations it would define as significant trading operations thus requiring the need for statutory trading accounts.
- 2.2 For the last number of years the Council has operated three STOs as follows:
- a) Building Services
 - b) Roads Maintenance
 - c) Vehicle Management
- 2.3 The Council's policy direction has been to try and reduce the number of STOs, but only where Best Value Indicators are in place to clearly demonstrate that Best Value is being achieved.
- 2.4 Building Services and Roads Maintenance STOs have achieved their three year rolling surplus for the last three audited financial years. For the period ending 31 March 2008 Vehicle Maintenance made a cumulative three year deficit of £10,000. Indications are that by 31 March 2009 all three STOs will achieve their statutory target of break even over the three year rolling period.
- 2.5 It is proposed that the Council retains the three STOs during 2009/10 in lieu of approval and implementation of Street Scene, and a clear demonstration following the Vehicle Efficiency Review that the Vehicle Management STO is achieving Best Value.
- 2.6 Financial performance for each of the three STOs will continue to be reported separately in each Committee cycle in addition to progress against approved performance targets.
- 2.7 Audit Scotland's Members letter for the 2007/8 Accounts included the need for the Council to carry out a fundamental review of its arrangements for Significant Trading Operations with a view to maximising operational performance. The Chief Executive is nearing completion of this Review and is intending that it will be reported to the next Policy & Resources Committee.

3.0 RECOMMENDATIONS

- 3.1 That the Committee consider the contents of this report and thereafter confirm the number of Significant Trading Operations to be operated by the Council during 2009/10.
- 3.2 That the Committee note that the Chief Executive will submit a report to the next Policy & Resources Committee following a fundamental review of the Council's arrangements for identifying and reviewing Significant Trading Operations.

Alan Puckrin
Chief Financial Officer

4.0 BACKGROUND

- 4.1 The Local Government Scotland Act 2003 brought a formal end to CCT and the requirement for activity defined on the previous Acts (1998 and 1990) to be operated on the basis of Trading Accounts which set financial targets. The 2003 Act introduced the need for Significant Trading Operations in those circumstances where a Service is provided on a commercial basis, thus requiring the publication of Accounts to provide assurance that the Service is not being subsidised by the taxpayer.
- 4.2 The Council has reviewed the number and nature of STOs on an annual basis and currently has three such operations as follows:
- a) Building Services
 - b) Roads Maintenance
 - c) Vehicle Management
- 4.3 There is a statutory requirement for all STOs to make a three rolling surplus after the application of certain statutory adjustments. For the period ending 31 March 2008, two of the STOs (Building Services and Roads Maintenance) achieved their statutory target by some distance, whilst Vehicle Management made a cumulative three year deficit of £10,000.
- 4.4 Following on from the Vehicle Management STO not achieving its statutory target for the three year period ending 31 March 2008, Officers have been carrying out a fundamental review of all aspects of the Vehicle Maintenance and Management Service. This Efficiency Review is due to be reported to the next Policy & Resources Committee, and part of the Review will identify a new and improved charging regime which should more clearly demonstrate the performance of the Service. Over time this should allow this operation to have its Significant Trading Operation status removed.

5.0 CURRENT POSITION

- 5.1 Appendix 1 shows the rolling three year financial performance of each of the existing STOs, and it can be seen that based on projections being reported in the current cycle of Committee Reports then all three STOs are on target to meet the three year rolling surplus target for the period ending 31 March 2009.
- 5.2 Observations in respect of the three current STOs are as follows:
- a) Building Services

Building Services has now operated for over 12 months in its new delivery model based on the reduction in workload following the transfer of the housing stock and the greater reliance on external income. Given the significant volume of external work generated by Building Services and the risks contained therein, it is proposed that Building Services remains as a Significant Trading Operation during 2009/10.
 - b) Roads

It can be seen that the Roads STOs has comfortably achieved its statutory target for each of the last three financial years. However, as reported to last years Policy & Resources Committee there are changes expected in the operation of the Roads Service following the implementation of Street Scene and until this Review is carried out and implemented, it is proposed that its STOs status remains.

c) Vehicle Management

As indicated earlier in the report, Vehicle Management did not achieve its statutory target for the period ending 31 March 2008. Officers have been working on a comprehensive review of Fleet Management, Procurement and Maintenance including the recharging methodology. This Review is nearing completion and it is intended that a detailed report on the subject will be reported to the Policy & Resources Committee in the next Committee cycle.

Once this report has been considered and approved by Committee then Officers are confident that a more accurate impression of the performance of Vehicle Management will be achieved. Thereafter, the intention would be to review the need to continue to keep Vehicle Management as an STO from 2010.

5.3 In the Member's letter for the 2007/8 Annual Accounts a risk to the Council was identified by the Auditors in respect of Significant Trading Operations. The Council's response was to agree to carry out a fundamental review of its arrangements for Significant Trading Operations with a view to maximising operational performance. The Chief Executive is close to completing a draft report in this regard and it is intended that this will be presented to the next Policy & Resources Committee for consideration.

6.0 IMPLICATIONS

6.1 An Annual Review of the number and designations of STOs is accepted as being good practice, especially in the dynamic environment which surrounds Local Government.

6.2 It is the nature of STOs that there exists a greater element of risk, and therefore there is a need for greater transparency in financial and performance reporting. It is therefore important that the three year business plans and performance information are reported to Committee in addition to financial information.

7.0 CONCLUSIONS

7.1 The CMT have endorsed the contents of this report.

8.0 BACKGROUND PAPERS

8.1 Local Government Scotland Act 2003 Trading Advisory Note published by the Scottish Executive in November 2004.

Significant Trading Operations - Performance v Statutory Target

<u>STO</u>	<u>2005/6</u> <u>£000</u>	<u>2006/7</u> <u>£000</u>	<u>2007/8</u> <u>£000</u>	<u>3 Year Total</u> <u>£000</u>	<u>2008/9 Projection</u> <u>£000</u>
Building Services	-341	-111	-34	-486	-53
Roads Maintenance	-95	-230	-290	-615	-127
Vehicle Maintenance	31	9	-30	10	-34
	<u>-405</u>	<u>-332</u>	<u>-354</u>	<u>-1091</u>	<u>-214</u>