

---

<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>30 March 2010</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/22/10/AP/GJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Significant Trading Operations – 2010/11</b>		

---

## 1.0 PURPOSE

- 1.1 The purpose of this report is to obtain Committee approval on the Significant Trading Operations to be operated by the Council for the financial year 2010/11.

## 2.0 SUMMARY

- 2.1 Following the introduction of the Local Government in 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 (STO).
- 2.2 For the last number of years the Council has operated 3 STOs as follows:
- (a) Building Services
  - (b) Roads Maintenance
  - (c) Vehicle Management
- 2.3 As part of last year's report it was agreed that subject to alternative mechanisms being in place it was intended that both Roads Maintenance and Vehicle Management would no longer be Significant Trading Operations come 2010/11. The Committee agreed that Building Services is in a different position given its high reliance on external income for which it competes in the open market place.
- 2.4 In May 2009 the Chief Executive submitted a report in respect of the need for the Council to demonstrate effective use of resources via a move towards a competitiveness assessment for all Services of the Council. This work has been taken forward by a work stream within the Organisational Improvement Plan and the revised Directorate Planning Guidance, makes it a requirement for all Directorates to demonstrate competitiveness for all Services it delivers by the end of 2013/14.
- 2.5 In light therefore of the requirement for all Services to demonstrate competitiveness and the very low level of external income generated by Roads Maintenance and Vehicle Management it is proposed to no longer require Roads Maintenance and Vehicle Management to be classified as Significant Trading Operations with effect from 2010/11.

## 3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee approve the designation of Building Services as the only Significant Trading Operation for 2010/11.

- 3.2 It is recommended that the Committee approve the recommendation from the Corporate Management Team that Roads Maintenance and Vehicle Management be treated the same as all other Council Services and demonstrate competitiveness via the requirements of Directorate Planning Guidance.

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. The 2003 Act introduced the need for Significant Trading Operations in those circumstances where a Service provided on a commercial basis, thus requiring the publication of accounts to provide assurance that the Service is not being subsidised by the tax payer.
- 4.2 The Council has reviewed the number and nature of STOs on an annual basis for a number of years 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 year rolling surplus after the application of certain statutory adjustments. For the period ending 31 March 2009 all three of the STOs achieved their statutory target.
- 4.4 As part of last year's report it was highlighted by Officers that it was the intention that Roads Maintenance and Vehicle Management were intended to be no longer Significant Trading Operations from 2010/11 subject to the progression of an alternative methodology of Council Services demonstrating competitiveness.

## **5.0 CURRENT POSITION**

- 5.1 In June 2009 a detailed report was submitted to the Policy & Resources Committee in respect of Vehicle Management Service and the proposed Vehicle Replacement Programme. Within this report there was a detailed option appraisal which clearly demonstrated the value for money achieved by the current operation and also demonstrated the need for the Council to significantly invest in its vehicles and equipment.

The Corporate Management Team believes that this detailed piece of work gives the reassurance required to remove the Significant Trading Operation requirement for Vehicle Management.

- 5.2 The Roads Maintenance Operation has previously reported to the relevant Committee the extent of benchmarking which is carried out in respect of the rates it charges both internally and externally. In 2009/10 less than 5% of the income projected to be generated by the Roads Trading Operation is generated externally and as such it is the clear recommendation of the Corporate Management Team that Roads Maintenance no longer be classified as a Significant Trading Operation.
- 5.3 The position in respect of Building Services is different as approximately 50% of the income it generates is either generated externally or comes from Council budgets but has to be competed for in formal tender processes. In line with the guidance in respect of categorising Significant Trading Operations this does indicate a level of risk to the organisation which requires that the Council maintains the Significant Trading Operation status for Building Services.

## **6.0 COMPETITIVENESS**

- 6.1 In May 2009 the Committee agreed that Officers develop proposals in respect of demonstrating the effective use of resources via competitiveness.
- 6.2 Work has progressed in this area over the last nine months and the revised Directorate Planning Guidance reflects this work. In summary it will be a requirement for all Directorates to ensure that over the next four years 100% of the Services that they provide are reviewed in terms of competitiveness. The methodologies for developing competitiveness are not prescriptive and could involve options such as benchmarking with fellow Councils, benchmarking with other parts of the Public Sector or the Private Sector.
- 6.3 Where it is apparent from benchmarking that improvements are required in Services then other options require to be developed and considered in terms of learning from best practice and reviewing process and ultimately potentially market testing.
- 6.4 In light of this development it is recommended by the Corporate Management Team that Officers time is focussed upon demonstrating competitiveness for all Council Services rather than concentrating on a small number of former CCT Services which make up well under 5% of the overall Council budget.

## **7.0 SUMMARY**

- 7.1 An annual review of the number and designation of STOs is accepted as being good practice especially in the dynamic environment which surrounds Local Government at present.
- 7.2 It is the nature of STOs that there exist 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 in performance information are reported to Committee in respect of STOs.

## **8.0 CONSULTATION**

- 8.1 The Corporate Management Team have endorsed the contents of this report.
- 8.2 Discussions have taken place with External Audit who have not raised any concerns regarding the proposals.