

Report

Report to:	Financial Resources Scrutiny Forum
Date of Meeting:	9 May 2019
Report by:	Executive Director of Finance and Corporate Resources

Subject:	Review of Trading Services – 2019/20 Update
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ Provide the Forum with the outcome of the Review of the Council's current Trading Services, and provide an annual update on the consideration of any potential Trading Operations.

2. Recommendation(s)

2.1. The Forum is asked to approve the following recommendation(s):

- (1) that the review of the current Trading Services resulting in Executive Committee Approval to transfer the budget for Property Services to Housing and Technical Resources, and for Roads and Fleet Services to Community and Enterprise Resources (section 5.4), be noted;
- (2) that the annual review of potential Trading Services has resulted in no new Trading Services for 2019/20 (section 6.5), be noted; and
- (3) that based on the outcome of the current review, formal annual reviews of Trading Services will not be required in the future (section 7.1), be noted.

3. Background

- 3.1. It was reported to this Forum on 7 September 2017 that a phased approach to changing the Trading Services may be required in the future. On the basis that work was continuing in this area, the annual review in May 2018 recommended that the three Current Trading Services continue to be regarded as Trading Services for 2018/19 pending the outcome of the ongoing Finance Review. The Council operated three Trading Services during 2018/19, all of which involve the process of recharging for works: Fleet Trading, Roads Trading and Property Trading.
- 3.2. Section 4 of the report provides details of what constitutes a Trading Service and the criteria that require to be met, while Section 5 will provide the outcome of the review of the current Trading Services.
- 3.3. The report goes on to detail the consideration given to the activities of the Council which are currently operated as client services, but which CIPFA suggest could be considered as possible Trading Services. This is detailed in Section 6.

4. Trading Services

- 4.1. The Local Government in Scotland Act 2003 sets out the requirements which govern Trading Services. The main implications of this are that significant trading services have to maintain statutory trading accounts and achieve a break-even financial position over a 3 year period. The test of what constitutes a trading service is a matter for each individual authority and should be based on thorough consideration of a wide range of services.
- 4.2. The Chartered Institute of Public Finance and Accountancy (CIPFA) provides guidance on this issue and suggests that before an activity can be deemed a trading service, the service should be:
 - operating in a competitive environment; and
 - charging for the services provided should be on a basis other than cost.
- 4.3. In addition, suggested financial and non-financial criteria are recommended to assess potential trading service areas.
- 4.4. The CIPFA Guidance was taken a stage further in a report issued by LASAAC in June 2013: Recommendations on Significant Trading Operations (Trading Operations Review Group Findings). The report recommended that the identification of a **Statutory** Trading Organisation should focus only on those services or activities which are external to the 'single entity' local authority and which are not statutory in nature. In terms of South Lanarkshire Council, there are limited areas where external services are provided.
- 4.5. The process of reviewing a current or potential Trading Service is based on the CIPFA guidance, approved by the Trading Services Forum in 2004. The Forum agreed to a set of financial and non-financial criteria being used to determine whether an activity should be deemed a trading service and if significant enough, maintain statutory trading accounts. In relation to the financial aspect, a significance level of 2% of the Council's net revenue budget was approved.
- 4.6. The non-financial criteria that are considered in reviewing the appropriateness of Trading Services are:
 - Does the service operate in a competitive environment?
 - Would a trading service demonstrate further service improvement / achievement of targets?
 - Is the authority exposed to the risk of the service/loss of reputation in carrying out the operation?
 - Is the authority exposed to the risk of financial loss in carrying out the operation?
 - Is there separate disclosure of interests to key stakeholders?
 - Would reclassification necessitate a restructure of budget/charging policies?

5. 2019/2020 Annual Review – Current Trading Services

- 5.1. As noted in Section 4.1 above, the test of what constitutes a Trading Operation is a matter for each individual authority to consider. Work in this area has continued to progress during 2018/19, and an update was provided to Executive Committee on 1 May 2019.

- 5.2. The review proposed that for 2019/20 Property, Roads and Fleet should no longer be classified as Trading Services.
- 5.3. The rationale for this decision is outlined below:
- the level of income generated from external sources is not significant,
 - best value can be measured in the service/client department regardless of trading status,
 - the level of scrutiny is greater in non-trading services,
 - the duplication of monitoring would be removed – the separate Trading Operations report would not be required, and,
 - removing the Trading status would result in a more streamlined approach to monitoring and savings allocation.
- 5.4. A recommendation to transfer the budget for Property Services to Housing and Technical Resources, and for Roads and Fleet Services to Community and Enterprise Resources was presented to the Council's Executive Committee on 1 May 2019.
- 5.5. The decision to no longer classify Property, Roads and Fleet Services as Trading Operations will not change the services provided across the Council by these operations. Work is ongoing regarding any requirement to transfer budgets and the need for recharging. Where appropriate recharging will continue between services.

6. 2019/2020 Annual Review – Potential Trading Operations

- 6.1. The second part of the Review is the consideration of the activities of the Council which are currently operated as client services but which CIPFA suggest could be considered as possible Trading Services.
- 6.2. Activities which the accounting guidelines suggested as possible Trading Services, are to be assessed annually to determine if they are significant. The services which are to be tested for significance are noted below.

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|---------------------------------------|---|
| ◆ Investment Properties | ◆ Legal Services |
| ◆ Building Control | ◆ Personnel Services |
| ◆ Car Parks | ◆ Office Services |
| ◆ Environmental Cleaning and Sweeping | ◆ Administrative Education Support Services |
| ◆ Refuse Collection | ◆ Housing Management |
| ◆ Construction & Property Services | ◆ Specialist Education Support Services |
| ◆ Finance Services | ◆ Social Services Residential Homes |
| ◆ IT Services | ◆ Social Services Home Care Services |

Note – The guidance also suggests Civic Halls, Museums and Theatres as potential trading services, however, these services are under the remit of South Lanarkshire Leisure and Culture (SLL&C).

- 6.3. Services are considered to be potential trading services when expenditure exceeds 2% of the Council's overall budgeted expenditure. Services exceeding this threshold would then be considered in terms of the non-financial criteria.
- 6.4. While some of the potential Trading Services have previously breached the test of significance level, the annual review has consistently discounted the creation of any

additional trading services. This is on the basis that the services do not meet the non-financial criteria, regardless of whether or not the financial criteria was satisfied.

- 6.5. Given that there has been no material changes in the services provided, and therefore no changes in the non-financial criteria for each service, it is proposed that no new trading services are created for 2019/20.

7. Future Review of Trading Operations

- 7.1. On the basis that there are no services currently continuing to be deemed as Trading Operations, and no potential new trading services have been identified, it is proposed that formal annual reviews of trading services are no longer required. Any significant change in circumstances, which may prompt reconsideration of Trading status would, in the future, be reported to this forum.

8. Employee Implications

- 8.1. None.

9. Financial Implications

- 9.1. There are no financial implications of removing the Trading Services, however, work is ongoing regarding the transfer of budgets and the need for recharging. This will be reported to a future Executive Committee and the Forum, as appropriate.

10. Other Implications

- 10.1. None.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and therefore no impact assessment is required.
- 11.2. There is also no requirement to undertake any consultation in terms of the information contained in the report.

Paul Manning

Executive Director of Finance and Corporate Resources

16 April 2019

Link(s) to Council Values/Ambitions/Objectives:

- ◆ Value: Accountable, Effective, Efficient and Transparent

Previous References

- ◆ Financial Resources Scrutiny Forum, 7 September 2017
- ◆ Financial Resources Scrutiny Forum, 24 May 2018
- ◆ Executive Committee, 1 May 2019

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact:-

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