

# Report

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Report to:	<b>Financial Resources Scrutiny Forum</b>
Date of Meeting:	<b>24 May 2018</b>
Report by:	<b>Executive Director of Finance and Corporate Resources</b>

Subject:	<b>Review of Trading Services – 2018/2019 Update</b>
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## 1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise on the annual requirement to review existing and potential trading services.

## 2. Recommendation(s)

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

- (1) that the current Trading Services be retained with no additional activities being proposed as Trading Services for 2018/2019, be noted; and
- (2) that the work to consider the current Trading Services, be noted.

## 3. Background

3.1. 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.

3.2. 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.

3.3. In addition, suggested financial and non-financial criteria are recommended to assess potential trading service areas.

3.4. 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.

3.5. The report also states that where services are provided internally, trading accounts can still be operated but this would be the choice of the local authority. Taking this into account, the Council has continued to monitor its trading activities in the normal way, and has continued to review the position on an annual basis, with a report to the Financial Resources Scrutiny Forum being the outlet for this annual review. Section 4 of this report provides details of the process re the annual review for 2018/19, while sections 5 and 6 provide the results of the review process.

3.6. In a report to this meeting on 7 September 2017, an update was provided on the status of the trading services for 2017/18, including the transfer of two services (Grounds and Facilities) from trading services to client departments. This left the Council with 3 trading operations operating during 2017/18: Property, Roads and Fleet.

#### **4. Annual Review Process**

4.1. The annual review 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.

4.2. 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?

4.3. 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.

- |                                       |   |
|---------------------------------------|---|
| ◆ 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).

- 4.4. Accounting guidelines also recommends that on an annual basis, the current trading services should be reviewed. Since the process' inception, there have been subsequent annual reviews to determine the status of the Council's active Trading Services. In the 2017 exercise, three operations were confirmed as being Trading Services:
- ◆ Property Services
  - ◆ Roads
  - ◆ Fleet Services
- 4.5. While these three services are treated as trading services by the Council, on the basis of their budgetary value and recharge mechanisms, only Property Services has the statutory requirement to break even over a 3 year period. This is due to the fact it provides some services externally.
- 4.6. As noted in Section 3.6., during 2017/18, two services (Grounds and Facilities) were no longer treated as trading operations in order to remove the need for recharges and to streamline service provision. There were no changes to the service delivered across the Council by these operations.
- 4.7. The remainder of this report considers the two distinct areas of the annual review of Trading Services:
- ◆ Section 5 considers the three Current Trading Services
  - ◆ Section 6 considers Potential Trading Operations

## **5. 2018/2019 – Current Trading Services**

- 5.1. As noted above (4.4.), the Council operates three Trading Services, all of which involve the process of recharging for works. These 3 Trading Services meet the criteria for a Trading Service.
- 5.2. 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. This work is ongoing and will review the benefit of continuing the remaining trading services or removing them. In arriving at the proposed recommendations, changes in expected activity in the coming years will be taken into account.
- 5.3. On the basis that work is continuing in this area, it is 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.

## **6. 2018/19 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 (as noted in 4.2. and 4.3. above).
- 6.2. 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.
- 6.3. 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.

- 6.4. 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 2018/19.

## **7. Employee Implications**

- 7.1. None

## **8. Financial Implications**

- 8.1. None

## **9. Other Implications**

- 9.1. None

## **10. Equality Impact Assessment and Consultation Arrangements**

- 10.1. 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.

- 10.2. 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**

30 April 2018

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

- ◆ Value: Accountable, Effective, Efficient and Transparent

### **Previous References**

- ◆ Financial Resources Scrutiny Forum, 7 September 2017

### **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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