

Report

7

Report to:	Financial Resources Scrutiny Forum
Date of Meeting:	14 July 2011
Report by:	Chief Executive

Subject:	Review of Trading Services – 2011/12 Update
----------	--

1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ advise on the exercise carried out in order to fulfil 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 based on the financial analysis carried out and the information supplied by Executive Directors, the current Trading Services be retained with no additional activities being proposed as Trading Services for 2011/12.

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 is a trading operation 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.

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

3.3. Based on the CIPFA guidance, in April 2004 the Trading Services Forum approved a set of financial and non financial criteria which South Lanarkshire Council could use in determining whether an activity should be deemed a Trading Service and if significant enough, maintain statutory trading accounts. As the financial aspect, a significance level for gross expenditure of 2% of the Council's net revenue budget was approved.

3.4. As part of this review, activities which the accounting guidelines suggested as possible Trading Services were assessed to determine if they were significant. The Executive Directors of each Resource were then asked to comment on whether these activities adhered to the non financial criteria established.

- 3.5. Since the development of these criteria, there have been subsequent annual reviews which have identified the following as being Trading Services:
- Property and Development Services
 - Roads
 - Grounds Maintenance
 - Land and Fleet Services
 - Facilities Management.

4. 2010/11 Review

- 4.1. Accounting guidelines in this area recommend that this exercise be reviewed on an annual basis.
- 4.2. The size of the turnover of the current trading operations relative to the Council's net revenue budget in years 2010/11 to 2011/12 is attached in Appendix 1 to this report. It can be seen that current Trading Services each have a turnover expressed as a percentage of the council's net revenue budget of between 2.33% and 12.43% for 2011/12.
- 4.3. Appendix 2 lists those remaining activities of the Council which are currently operated as client services but which could be considered as possible Trading Services. An analysis of their net expenditure, gross expenditure and turnover expressed as a percentage of the Council's net revenue budget is provided. The figures highlight that both Housing Management and Social Services Home Care Services have a gross expenditure expressed as a percentage of the Council's net revenue budget of 3.72% and 2.88% respectively for 2011/12. This is above the significance threshold of 2% as noted in section 3.3 above. In addition, both of these Services exceed the 2% threshold in terms of net expenditure. This would indicate that they meet the agreed financial criteria and are significant enough to be deemed trading.
- 4.4. The Executive Director of each Resource has been asked for their views on whether these services should be Trading Services within South Lanarkshire Council, taking into consideration any changes in circumstances which have occurred during 2010/11. Executive Directors have been asked to review all Services, not only those which would meet the benchmark of 2%. This is to ensure that not only financial information is taken into account but also non financial information.

5. 2010/11 Review – Results

- 5.1. The information received from Executive Directors is summarised in a table in Appendix 3.
- 5.2. The exercise has shown that the current trading activities should still be regarded as Trading Services.
- 5.3. In addition, the analysis of potential trading activities against the financial and non-financial criteria results in no additional services being proposed as Trading. This reflects the fact that Housing Management and Social Services Home Care Services meet the financial threshold of 2% as noted at 4.3 above but are discounted on the basis of not meeting the non-financial criteria.

6. Employee Implications

- 6.1. None

7. Financial Implications

7.1. None

8. Other Implications

8.1. None

9. Equality Impact Assessment and Consultation Arrangements

9.1. 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.

9.2 There is also no requirement to undertake any consultation in terms of the information contained in the report.

Archibald Strang
Chief Executive

13 June 2011

Link(s) to Council Values/Improvement Themes/Objectives:

◆ Value: Accountable, Effective and Efficient

Previous References

◆ Trading Services Forum, 13 May 2010

List of Background Papers

◆ None

Contact for Further Information

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

Paul Manning, Head of Finance

Ext: 4532 (Tel: 01698 454532)

E-mail: paul.manning@southlanarkshire.gov.uk

EXISTING TRADING SERVICES**TURNOVER EXPRESSED AS A PERCENTAGE OF THE COUNCILS NET REVENUE BUDGET**

		2010/2011 £m	2011/2012 £m
Activity	Councils Net Revenue Budget	663.219	661.605
<u>Building Maintenance (Property and Development Services TS)</u>	Gross Expenditure Expressed as percentage	73.036 11.01%	76.230 11.52%
	Turnover Expressed as percentage	78.233 11.80%	82.249 12.43%
	Net Expenditure Expressed as percentage	(5.197) (0.78)%	(6.019) (0.91)%
<u>Highway Maintenance (Roads TS)</u>	Gross Expenditure Expressed as percentage	21.791 3.29%	23.534 3.56%
	Turnover Expressed as percentage	23.436 3.53%	25.356 3.83%
	Net Expenditure Expressed as percentage	(1.645) (0.25)%	(1.822) (0.28)%
<u>Grounds Maintenance</u>	Gross Expenditure Expressed as percentage	14.659 2.21%	14.516 2.19%
	Turnover Expressed as percentage	15.548 2.34%	15.445 2.33%
	Net Expenditure Expressed as percentage	(0.889) (0.13)%	(0.929) (0.14)%
<u>Transport (Fleet TS)</u>	Gross Expenditure Expressed as percentage	20.559 3.10%	21.741 3.29%
	Turnover Expressed as percentage	20.811 3.14%	21.992 3.32%
	Net Expenditure Expressed as percentage	(0.252) (0.04)%	(0.251) (0.04)%
<u>Facilities Management</u>	Gross Expenditure Expressed as percentage	22.688 3.42%	22.293 3.37%
	Turnover Expressed as percentage	23.381 3.53%	22.986 3.47%
	Net Expenditure Expressed as percentage	(0.693) (0.10)%	(0.693) (0.10)%

Note

1) The figures show the revised budget for 2010/11 and the original budget for 2011/12.

POSSIBLE TRADING SERVICES**TURNOVER EXPRESSED AS A PERCENTAGE OF THE COUNCILS NET REVENUE BUDGET**

		2010/2011 £m	2011/2012 £m
Activity	Councils Net Revenue Budget	663.219	661.605
Investment Properties	Gross Expenditure Expressed as percentage	2.915 0.44%	2.911 0.44%
	Turnover Expressed as percentage	6.000 0.90%	6.159 0.93%
	Net Expenditure Expressed as percentage	(3.085) (0.47)%	(3.248) (0.49)%
Building Control	Gross Expenditure Expressed as percentage	1.236 0.19%	0.999 0.15%
	Turnover Expressed as percentage	1.633 0.25%	1.833 0.28%
	Net Expenditure Expressed as percentage	(0.397) (0.06)%	(0.834) (0.013)%
Car Parks	Gross Expenditure Expressed as percentage	1.533 0.23%	1.362 0.21%
	Turnover Expressed as percentage	2.195 0.33%	2.322 0.35%
	Net Expenditure Expressed as percentage	(0.662) (0.10)%	(0.960) (0.15)%
Civic Halls	Gross Expenditure Expressed as percentage	0 0.00%	0 0.00%
	Turnover Expressed as percentage	0 0.00%	0 0.00%
	Net Expenditure Expressed as percentage	0 0.00%	0 0.00%
Museums	Gross Expenditure Expressed as percentage	0 0.00%	0 0.00%
	Turnover Expressed as percentage	0 0.00%	0 0.00%
	Net Expenditure Expressed as percentage	0 0.00%	0 0.00%
Theatres	Gross Expenditure Expressed as percentage	0 0.00%	0 0.00%
	Turnover Expressed as percentage	0 0.00%	0 0.00%
	Net Expenditure Expressed as percentage	0 0.00%	0 0.00%
Construction & Property Services	Gross Expenditure Expressed as percentage	7.096 1.07%	7.653 1.16%
	Turnover Expressed as percentage	3.319 0.50%	3.020 0.46%
	Net Expenditure Expressed as percentage	3.777 0.57%	4.633 0.70%
Finance Services	Gross Expenditure Expressed as percentage	6.548 0.99%	5.842 0.88%
	Turnover Expressed as percentage	2.308 0.35%	2.248 0.34%
	Net Expenditure Expressed as percentage	4.240 0.64%	3.594 0.54%

		2010/2011 £m	2011/2012 £m
Activity	Councils Net Revenue Budget	663.219	661.605
IT Services	Gross Expenditure Expressed as percentage	12.278 1.85%	11.766 1.78%
	Turnover Expressed as percentage	3.179 0.48%	3.346 0.51%
	Net Expenditure Expressed as percentage	9.099 1.37%	8.420 1.27%
Legal Services	Gross Expenditure Expressed as percentage	2.297 0.35%	2.252 0.34%
	Turnover Expressed as percentage	0.110 0.02%	0.110 0.02%
	Net Expenditure Expressed as percentage	2.187 0.33%	2.142 0.32%
Personnel Services	Gross Expenditure Expressed as percentage	3.064 0.46%	3.266 0.49%
	Turnover Expressed as percentage	0.629 0.09%	0.651 0.10%
	Net Expenditure Expressed as percentage	2.435 0.37%	2.615 0.40%
Office Services	Gross Expenditure Expressed as percentage	1.130 0.17%	1.100 0.17%
	Turnover Expressed as percentage	1.135 0.17%	1.135 0.17%
	Net Expenditure Expressed as percentage	(0.005) (0.00%)	(0.035) (0.01%)
Housing Management	Gross Expenditure Expressed as percentage	25.766 3.88%	24.631 3.72%
	Turnover Expressed as percentage	6.643 1.00%	6.643 1.00%
	Net Expenditure Expressed as percentage	19.123 2.88%	17.988 2.72%
Administrative Education Support Services	Gross Expenditure Expressed as percentage	3.676 0.55%	4.354 0.66%
	Turnover Expressed as percentage	0.020 0.00%	0.012 0.00%
	Net Expenditure Expressed as percentage	3.656 0.55%	4.342 0.66%
Specialist Education Support Services	Gross Expenditure Expressed as percentage	0.659 0.10%	0.473 0.07%
	Turnover Expressed as percentage	0.000 0.00%	0.000 0.00%
	Net Expenditure Expressed as percentage	0.659 0.10%	0.473 0.07%
Social Services Residential Homes	Gross Expenditure Expressed as percentage	9.542 1.44%	9.357 1.41%
	Turnover Expressed as percentage	1.727 0.26%	2.203 0.33%
	Net Expenditure Expressed as percentage	7.815 1.18%	7.154 1.08%

		2010/2011 £m	2011/2012 £m
Activity	Councils Net Revenue Budget	663.219	661.605
<u>Social Services Home Care Services</u>	Gross Expenditure Expressed as percentage	17.855 2.69%	19.078 2.88%
	Turnover Expressed as percentage	2.477 0.37%	2.477 0.37%
	Net Expenditure Expressed as percentage	15.378 2.32%	16.601 2.51%

Notes

- 1) The figures show the revised budget for 2010/11 and the original budget for 2011/12.
- 2) The figures have been removed for Civic Halls, Theatres and Museums as these services transferred during 2010/11 to South Lanarkshire Leisure and Culture Trust.
- 3) Social Work Residential Homes only includes Elderly Homes budget. Children's Homes have been excluded as there is a statutory obligation to provide these facilities, where no competitive environment exists.

POSSIBLE TRADING SERVICES

SUMMARY OF NON FINANCIAL INDICATORS

	<u>Does Service Operate in a Competitive Environment?</u>	<u>Would a Trading Service demonstrate further Service Improvement / Achievement of Target?</u>	<u>Is Authority exposed to the risk of the service / loss of reputation in carrying out operation?</u>	<u>Is Authority exposed to the risk of financial loss in carrying out operation?</u>	<u>Is there separate disclosure of interest to key stakeholders?</u>	<u>Would reclassification necessitate a restructure of budget / charging policies?</u>
<u>Investment Properties</u>	X	X	X	✓	X	X
<u>Building Control</u>	X	X	X	✓	X	X
<u>Car Parks</u>	X	X	X	✓	X	X
<u>Civic Halls</u>	N/A	N/A	N/A	N/A	N/A	N/A
<u>Museums</u>	N/A	N/A	N/A	N/A	N/A	N/A
<u>Theatres</u>	N/A	N/A	N/A	N/A	N/A	N/A
<u>Construction & Property Services</u>	X	X	✓	✓	X	✓
<u>Finance Services</u>	✓	X	X	X	X	✓
<u>I.T. Services</u>	✓	X	X	X	X	✓
<u>Legal Services</u>	✓	X	X	X	X	✓
<u>Personnel Services</u>	✓	X	X	X	X	✓
<u>Office Services</u>	✓	X	X	X	X	✓
<u>Housing Management</u>	X	X	✓	✓	X	✓

	<u>Does Service Operate in a Competitive Environment?</u>	<u>Would a Trading Service demonstrate further Service Improvement / Achievement of Target?</u>	<u>Is Authority exposed to the risk of the service / loss of reputation in carrying out operation?</u>	<u>Is Authority exposed to the risk of financial loss in carrying out operation?</u>	<u>Is there separate disclosure of interest to key stakeholders?</u>	<u>Would reclassification necessitate a restructure of budget / charging policies?</u>
<u>Administrative Education Support Services</u>	X	X	X	X	X	✓
<u>Specialist Education Support Services</u>	X	X	X	X	X	✓
<u>Social Services Residential Homes</u>	X	X	X	X	X	X
<u>Social Services Home Care Services</u>	X	X	X	X	X	X