

EAST RENFREWSHIRE COUNCIL

CABINET

20 February 2014

Report by Director of Finance

TRADING UNDER BEST VALUE

PURPOSE OF REPORT

1. The purpose of this report is to reconsider the classification of Council activities in terms of trading operations as defined by the Local Government in Scotland Act 2003.

RECOMMENDATION

2. The Cabinet is requested to approve that there are no trading services operated by the Council that should be classified as "significant".

BACKGROUND

3. Following a report to the Cabinet on 17 February 2011 it was approved that the Council no longer classify any of its trading operations as significant.

4. This decision was reached after taking account of the CIPFA/LASAAC guidance, which defined a trading operation as having to meet **both** the following criteria: -

- the service is provided in a 'competitive environment' - i.e. the user has discretion to use alternative providers.
- the service is provided on a basis other than straightforward recharge of cost - i.e. users take the service on the basis of quoted lump sums, fixed periodical charges, or rates, or a combination of these.

5. The guidance further advised that using the above criteria trading operations may include: -

- services to the public or client groups that are subject to charging.
- work for other Council services where the Council has decided to subject it to a test of competition as part of a best value review.
- services where users are free to buy services from outside the Council.

6. Finally the guidance affirms that there is no compulsion to maintain trading accounts where the Council believes best value can be demonstrated without market testing or tendering and where users are not allowed to buy services externally. The Council would however have to be able to clearly demonstrate that best value is being achieved in the absence of the use of any form of competition for services that have active external markets.

7. It is appropriate that the Council reviews services with a view to considering Significant Trading Operations on an annual basis. This report reviews activities for the year ending 31 March 2014.

MATTERS TO BE REVIEWED

Competitive Environment

8. A competitive environment exists simply where there is a mature marketplace with a choice of alternative suppliers.

9. A competitive environment also exists where the user is a member of the public who has a choice of alternative providers for e.g. leisure facilities or a local business which can choose who will collect its commercial waste.

10. **Conclusion - some services are operating in a competitive environment.**

Recharge at Cost

11. In house services are provided mainly on an estimated recharge of cost basis. Any profit or loss is reallocated back to user departments at the year-end. Within Environmental Services there are several activities that include a profit element within their service recharges.

12. **Conclusion - some services do not operate on a recharge of cost basis.**

Integration of Services

13. The Council has decided in terms of paras. 1.3 and 7.8 of the guidance that it wants "to avoid unnecessary use of internal market processes for the purpose of maintaining trading accounts if it serves no real purpose in practice and adds no value to the work of the Council".

14. This has involved reviewing the provision of services with a view to removing client/contractor arrangements where they are now superfluous. For those services where the client/contractor functions have become integrated there will no longer be any need to render internal accounts. This will apply to Refuse Collection, Street Cleaning, Ground Maintenance, Construction Services and Roads as the user is the Council as the corporate body and there is little point in continuing with an artificial billing arrangement. Those in-house services, which are provided to more than one user department, will continue to render charges for their services.

15. **Conclusion - services that are integrated are not trading.**

Basis of Charges

16. The Council adopts a number of different methods of charging for services but not all of these are within the scope of trading operations.

- Charges for commercial and industrial properties are not related to cost as they are levied on a rental basis.

- Some charges have no direct relationship to full cost recovery as they are intended to promote particular policies e.g. fitness and health. Activities in this category would include swimming and sports coaching.

17. Conclusion - charging for services does not necessarily mean the service is trading.

Test of Significance

18. In addition to the fundamental tests of competitive environment and recharge at cost, the guidance emphasises the importance of applying a test of significance. This test is important as it determines which trading operations require to maintain a statutory trading account, distinct from other non-statutory trading accounts which can be kept for internal purposes. The criteria for considering the test of significance should be set corporately and applied consistently across different trading operations although they should not be regarded as fixed and final as they will have to adapt to the changing circumstances of the Council. Suggested criteria in the guidance are:

- Financial criteria
 - Turnover of the trading operation relative to the Council's gross operating expenditure.
 - Risk of financial loss to the authority being exposed in carrying out the operation
- Non Financial Criteria
 - Whether the trading account is important in demonstrating service improvement and the achievement of targets
 - Whether the authority is exposed to risk of service or reputational loss in carrying out the operation
 - Whether the service areas are likely to be of interest to key stakeholders and their needs.

19. The classification of whether a trading operation is regarded as significant will depend on whether the answers to these questions are mainly yes or no.

20. Conclusion – there may be some services' trading operations that are significant.

CONCLUSION

21. Taking the above conclusions into account a detailed review of services is attached at Appendix A. In addition a summary of trading operations and the criteria used to determine if they are significant is shown at Appendix B.

22. The outcome of the review is that there are no trading operations classified as significant for statutory purposes, this is consistent with last year's findings.

RECOMMENDATION

23. The Cabinet is requested to approve that there are no trading services operated by the Council that should be classified as “significant”.

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KEY WORDS

Best Value, Trading Operation, Competitive environment

TRADING OPERATIONS CRITERIA TEST

NOTES	ACTIVITY	COMPETITIVE ENVIRONMENT YES/NO	RECHARGE AT MORE THAN COST YES/NO	APPLY TEST OF SIGNIFICANCE YES/NO	REASONS
EDUCATION	Pre 5	Yes	No	No	No Charge to Users except for wraparound care
	Primary	Yes	No	No	No Charge to Users/Statutory Duty
	Secondary	Yes	No	No	No Charge to Users/Statutory Duty
	Psychological	Yes	No	No	Nominal recharge made for teachers on secondment
	Music Tuition	Yes	No	No	Partial Cost Recovery/Encourage Musicianship
	Special Needs	Yes	No	No	Marginal Cost Recovery/Service to Other Local Authorities
	Wrap Around Care	Yes	No	No	Part Cost Recovery/Integrated to Pre-5 Education
	Janitors	No	No	No	Integrated Service – Cost only
	School Crossing Patrols	No	No	No	Integrated Service – Cost Only
	School Transport	Yes	No	No	Recovery at cost
Although there are external providers in the sphere of Education none of the above services could realistically be described as trading					
	Sports Services	Yes	No	No	Partial Cost Recovery/Similar but not same marketplace as external providers
	Libraries	No	No	No	Nominal charges made to users for fines, renting DVDs and sales for books and Learning in Libraries
	Theatre	Yes	No	No	Recovery at cost
Although there is a leisure marketplace, local authority provision is not viewed as being in competition with private clubs and has a particular responsibility to promote Health/ fitness/community activity					
	Cleaning	Yes	No	No	Recovery at cost
	Catering	Yes	No	No	Recovery at cost

TRADING OPERATIONS CRITERIA TEST

NOTES	ACTIVITY	COMPETITIVE ENVIRONMENT YES/NO	RECHARGE AT MORE THAN COST YES/NO	APPLY TEST OF SIGNIFICANCE YES/NO	REASONS
ENVIRONMENT	Roads Consultancy	Yes	Can Be Yes	Yes	<i>Charges Applied/Specialist Services to Scottish Government</i>
	Property Enquiries	Yes	Can Be Yes	Yes	<i>Charges Applied</i>
	Development Management	No	No	No	<i>Scottish Government Sets Charges</i>
	Commercial Properties	Yes	Yes	Yes	<i>Rental from Tenants/Provider of Last Resort</i>
	Building Standards	No	No	No	<i>Scottish Government Sets Charges</i>
	Development Planning	No	No	No	<i>Not a Trading Activity</i>
	Roads Maintenance	Yes	No	No	<i>Non Trading - integrated service / cost only</i>
	Burials	No	No	No	<i>Statutory Duty</i>
	Commercial Waste	Yes	Yes	Yes	<i>Trading Operations</i>
	Special Uplifts	Yes	Yes	Yes	<i>Trading Operations</i>
	Refuse Collection	Yes	No	No	<i>Non Trading - Integrated Services</i>
	Street Cleaning	Yes	No	No	<i>Non Trading - Integrated Services</i>
	Grounds Maintenance	Yes	No	No	<i>Not Trading - Integrated Service</i>
	Vehicle Maintenance	Yes	Yes	Yes	<i>Trading Operations/Number of Users</i>
	Vehicle Management	Yes	Yes	Yes	<i>Trading Operations/Number of Users</i>
	Pest Control	Yes	Can be Yes	Yes	<i>Charges Applied</i>
	Pitches Lets	Part	No	No	<i>Partial Cost Recovery</i>

TRADING OPERATIONS CRITERIA TEST

NOTES	ACTIVITY	COMPETITIVE ENVIRONMENT YES/NO	RECHARGE AT MORE THAN COST YES/NO	APPLY TEST OF SIGNIFICANCE YES/NO	REASONS
ENVIRONMENT (continued)	Environmental Health	No	No	No	Not a Trading Activity
	Refuse Disposal	Yes	Minimal (Small Traders)	No	External Providers
	Technical	Yes	No	No	Cost Allocation and Fees Charged
	Health and Safety	No	No	No	Not Trading Activity

CEO	Emergency Planning	No	No	No	Not Trading Activity
	Policy	No	No	No	Not Trading Activity
	Public Relations	Yes	No	No	Cost Allocation
	Personnel	Yes	No	No	Cost Allocation
	Licensing	No	No	No	Not Trading Activity
	Legal	Yes	No	No	Cost Allocation
	Printing	Yes	No	No	Cost Allocation
	Administration	No	No	No	Not Trading Activity
	Registrar	No	No	No	GRO Sets Charges
	Community Facilities	Part	No	No	Partial Cost Recovery/Hall Lets for Community Activities
	Community Planning	No	No	No	Not Trading Activity
	Internal Audit	Yes	No	No	Not Trading Activity
	Customer Services	No	No	No	Not Trading Activity
	Equal Opportunities	No	No	No	Not Trading Activity
	Community Learning and Development	No	No	No	Not Trading Activity

TRADING OPERATIONS CRITERIA TEST

NOTES	ACTIVITY	COMPETITIVE ENVIRONMENT YES/NO	RECHARGE AT MORE THAN COST YES/NO	APPLY TEST OF SIGNIFICANCE YES/NO	REASONS
CEO (Continued)	Community Safety (including Decriminalised Parking)	No	No	No	<i>Not Trading Activity</i>
	Auchenback Resources Centre	No	No	No	<i>Not Trading Activity</i>

FINANCE	Accountancy	Yes	No	No	<i>Cost Allocation</i>
	E-Government	Yes	No	No	<i>Cost Allocation</i>
	Revenues	Yes	No	No	<i>Cost Allocation</i>
CHCP	Home Helps	Yes	No	No	<i>Not Trading Activity</i>
	Meals	Yes	No	No	<i>Not Trading Activity</i>
	Lunch Clubs	No	No	No	<i>Not Trading Activity</i>
	Community Alarms	No	No	No	<i>Not Trading Activity</i>
	Respite Charges	Yes	No	No	<i>Not Trading Activity</i>
HOUSING	Housing Management	Yes	No	No	<i>Rental Income from Tenants</i>
	Commercial Properties	Yes	No	No	<i>Rental Income from Tenants</i>
	Maintenance Services	Yes	No	No	<i>Non Trading – integrated service/ cost only</i>

TRADING OPERATIONS CRITERIA TEST

ACTIVITY	FINANCIAL TURNOVER	RISK OF EXPOSURE TO FINANCIAL LOSS	RISK OF REPUTATIONAL LOSS	INTEREST TO KEY STAKEHOLDERS	IMPORTANCE OF DEMONSTRATING SERVICE IMPROVEMENT	OUTCOME
Roads Consultancy	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>
Property Enquiries	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>
Pest Control	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>
Commercial Waste	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>
Special Uplifts	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>
Vehicle Services	<i>Possible</i>	<i>Low</i>	<i>Low</i>	<i>Yes</i>	<i>Low</i>	<i>Not Significant</i>
Commercial Properties	<i>No</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Low</i>	<i>Not Significant</i>