

ABERDEEN CITY COUNCIL

COMMITTEE : FINANCE AND RESOURCES
DATE : 11 MAY 2010
DIRECTOR: STEWART CARRUTH
TITLE OF REPORT : TRADING SERVICES REVIEW
REPORT NUMBER: CG/10/070

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to inform members of the initial outcome of the on-going service reviews concerning the Council's Statutory Trading Services and to recommend changes to reporting requirements.

2. RECOMMENDATION(S)

- 2.1 It is recommended that members:

- a) Note the contents of this report; and
- b) Approve the change in classification of the Council's Catering (School), Catering (Other) and Building Cleaning Services, from Statutory Trading Services to General Services with effect from 1 April 2010; and
- c) Instruct that future service re-design work takes into consideration the impact of maintaining Statutory Trading Accounts, and that these be reported back to the relevant committee

3 FINANCIAL IMPLICATIONS

- 3.1 There is no change to the Council's overall Revenue Budget as a result of the recommendations made, but the 3 services identified will be included within General Services reporting arrangements, rather than Trading Services reports for the 2010/11 financial year onwards.

4. SERVICE & COMMUNITY IMPACT

- 4.1 There will be no immediate impact to service operations by approving the re-classification of Cleaning and Catering services. Elected members will be aware that an update and action plan for Catering Services was reported to the Corporate Policy and Performance Committee on 29 April 2010. Any further changes in Trading Services will be dealt with through the Council's on-going strategic reviews and restructuring processes. These should include consideration of the impact on the competitive environment, charging regime, and need or otherwise for trading accounts.

5. OTHER IMPLICATIONS

- 5.1 There are no other implications.

6. REPORT

6.1 **Background**

Formal accounts for Trading Services are required to be maintained under the Local Government in Scotland Act 2003 and the associated Best Value Code of Practice 2007 (Scotland). This legislation provides local authorities with guidance on how to identify Trading Services, but allows each Council the freedom to develop its own framework for doing so.

- 6.2 Aberdeen City Council carried out a full review of Trading Services when the legislation was introduced, and this was reported to Finance Monitoring Sub-Committee on 9 March 2004. The outcome of this review is summarised in Appendix A.

- 6.3 Information available from other Councils in Scotland has shown that some have conducted strategic reviews of their service portfolios in the intervening period, resulting in the de-classification of Trading Services, and the removal of the need to maintain Statutory Trading Accounts.

6.4 **Aberdeen City Council**

Aberdeen City Council currently defines ten services to be of Trading status and maintains Statutory Trading Accounts. An initial review carried out by Accountancy Services suggested that this may be sustaining overly complex accounting and administrative relationships between former "Client" and "Contractor" services, as previously defined by the now repealed Compulsory Competitive tender (CCT) legislation.

- 6.5 Services may now be sustaining these relationships simply due to habit rather than any legislative requirement or practical benefit. In some services there may be justifiable reasons for continuing with the existing arrangements; others may be taking staff resources to sustain them, but with no real benefit for the Council.

- 6.6 Each service should be considered on its own merits, and staff from Accountancy Services have conducted initial discussions with the Service Management Teams involved. Changes are possible in some cases, but this should only be attempted if initiated by the service involved, supported by strategic service review, and driven by the service managers. Accountancy arrangements should be driven by the operational set up, not the other way round.
- 6.7 Appendix B summarises the review undertaken in March 2010, showing the changes in the circumstances in which services now operate.
- 6.8 Analysis of the review has revealed that Building Cleaning, Catering (School) and Catering (Other) no longer appear to need to be declared as Statutory Trading Accounts as the services are running on an actual cost basis.
- 6.9 **Next Steps**
If the recommendation for change is approved, then the implementation will involve identifying new methods of demonstrating Best Value for Catering and Cleaning services.
- 6.10 In the past the Council has relied heavily on the use of tendering exercises in the open market for demonstrating Best Value for its Statutory Trading Services. An extensive range of alternatives for demonstrating Best Value in non-trading services is available, and can include a suite of measures such as environmental analyses; process analyses; benchmarking; market analyses; stakeholder analyses; peer review and challenge; development of service level agreements; stakeholder consultation; and elected member scrutiny and challenge.
- 6.11 The financial ledgers for Catering and Cleaning services can be sustained in their current format so that internal management accounts can be provided to the service managers involved, but remove the administrative requirement to declare them as “trading”. This will simplify some of the Council’s Accountancy arrangements by reducing the total number of Trading Services.
- 6.12 The Council’s remaining Statutory Trading Services will be Building Services, Ground Services, Environmental Services, Roads Services, Fleet Services, Property Letting and Car Parks. The current operational set up for each of these services indicates that Statutory Trading Accounts must be sustained for the duration of the 2010/11 financial year, as their charges are not predominantly based on actual cost recoveries.
- 6.13 Options to change will be taken forward by the relevant SMT and service managers involved. Recommendations arising from this strategic review work will be reported back to Committee at the appropriate time.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

None

**Aberdeen City Council
Local Government in Scotland Act 2003 - Statutory Trading Accounts
Trading Operations - Original Criteria Tests from 2004**

Appendix A

Is the Service provided in a Competitive Environment?									Is the Service provided on a basis other than cost?		
Service	Covered by former CCT legislation	Subject to Competitive Tender?	Competes in Open Market	Subject to Market Testing	Subject to Benchmarking	Provided in Partnership?	Part of Democratic Process?	Comment (from 2004)	Result	Comment	Result
Building Cleaning	Yes	Yes	Yes	No	Yes	No	No	Service review ongoing. Customers nearly all internal to Council. Trading account used to demonstrate operating efficiency and facilitate benchmarking.	Yes	Schedules of Rates.	Yes
Building Maintenance	Yes	Yes	Yes	No	Yes	No	No	Principal client is Housing Revenue Account. Trading account used to demonstrate operating efficiency and facilitate benchmarking.	Yes	Tenders and Schedules of Rates	Yes
Car Parking	No	No	Yes	Yes	Yes	No	No	A substantial amount of the income produced is earned from multi-storey and off street surface car parks in competition with the private sector.	Yes	Charges set in comparison to open market.	Yes
Catering (Other)	Yes	Yes	Yes	No	No	No	No	Abolition of CCT could allow Catering services to be merged under one management structure. Service includes civic catering and special events.	Yes	Schedules of Rates.	Yes
Catering (School)	Yes	Yes	Yes	No	No	No	No	Abolition of CCT could allow Catering services to be merged under one management structure. Competition exists for alternative sources of school lunches and snacks.	Yes	Schedules of Rates.	Yes
Environmental Services	Yes	Yes	Partial	No	No	No	No	Includes Refuse Collection and Street Sweeping; previously reported separately under CCT arrangements.	Yes	Schedules of Rates.	Yes
Grounds Maintenance	Yes	Yes	Yes	No	No	No	No	Most customers are internal; includes parks, open spaces, golf courses and amenity areas around Council housing / operational buildings.	Yes	Tenders and Schedules of Rates	Yes
Property Letting	No	No	Yes	Yes	No	Partial	No	Properties are generally available for rent on the open market at commercial rates, though some are let at rates to encourage economic growth and local employment. Some industrial estates developed in conjunction with Scottish Enterprise Grampian.	Yes	Charges set in comparison to open market.	Yes
Roads Services	Yes	Yes	Yes	No	No	No	No	Service is predominantly internal, either on actual cost or tender basis.	Yes	Tenders and Schedules of Rates	Yes
Vehicle Maintenance	Yes	Yes	Yes	No	No	No	No	Service is predominantly internal; Council services do not have the option to outsource.	Yes	Tenders and Schedules of Rates	Yes

Note: Sport & Leisure was originally considered a Statutory Trading Service, however following an individual review this was removed for the 2004/05 Annual Accounts.

**Aberdeen City Council
Local Government in Scotland Act 2003 - Statutory Trading Accounts
Trading Operations - Criteria Tests for 2010**

Appendix B

Is the Service provided in a Competitive Environment?								Is the Service provided on a basis other than cost?			
Service	Covered by former CCT legislation	Subject to Competitive Tender?	Compete in Open Market	Subject to Market Testing	Subject to Benchmarking	Provided in Partnership?	Part of Democratic Process?	Comment	Result	Comment	Result
Building Cleaning	Yes	Yes	Yes	No	Yes	No	No	Customers nearly all internal to Council. Some contracts have recently been exposed to tender and won by the in-house contractor.	Yes	Schedule of Rates exists, but service ran at a deficit in 2008/09 which was funded from Education service at the end of the year, effectively making the charge actual cost.	No
Building Maintenance	Yes	Yes	Yes	No	Yes	No	No	Principal client is Housing Revenue Account. Trading account used to demonstrate operating efficiency and facilitate benchmarking.	Yes	The service is actively tendering for contracts and using Schedules of Rates for recharges.	Yes
Car Parking	No	No	Partial	Partial	Yes	No	No	The Council has vacated 3 large off street car parks and implemented 6 new on street parking zones since 2004. A much lower proportion of the service is now in direct competition with the private sector.	Yes	Charges set in comparison to open market for off street parking, but on street charges are primarily used as a traffic management tool.	Partial
Catering (Other)	Yes	Yes	Yes	No	No	No	No	Abolition of CCT could allow Catering services to be merged under one management structure. Service includes civic catering and special events.	Yes	The service is still subsidised, but not to the same degree as in 2004, and is much closer to actual cost.	No
Catering (School)	Yes	Yes	Yes	No	No	No	No	Abolition of CCT could allow Catering services to be merged under one management structure. Competition exists for alternative sources of school lunches and snacks.	Yes	Schedule of Rates exists, but service ran at a deficit in 2008/09 which was funded from Education service at the end of the year, effectively making the charge actual cost.	No
Environmental Services	Yes	Yes	Partial	No	No	No	No	Includes Refuse Collection and Street Sweeping; previously reported separately under CCT arrangements.	Yes	A Schedule of Rates is still in place (and dates back to CCT) but newer elements of the service related to recycling activities are based on actual cost.	Partial
Grounds Maintenance	Yes	Yes	Yes	No	No	No	No	Most customers are internal; includes parks, open spaces, golf courses and amenity areas around Council housing / operational buildings.	Yes	A Schedule of Rates is still in place (and dates back to CCT) but the service is considering the merits of moving to an actual cost basis for all internal works.	Yes

(cont.)

Aberdeen City Council
Local Government in Scotland Act 2003 - Statutory Trading Accounts
Trading Operations - Criteria Tests for 2010

Appendix B (Continued)

Is the Service provided in a Competitive Environment?								Is the Service provided on a basis other than cost?			
Service	Covered by former CCT legislation	Subject to Competitive Tender?	Compete in Open Market	Subject to Market Testing	Subject to Benchmarking	Provided in Partnership?	Part of Democratic Process?	Comment	Result	Comment	Result
Property Letting	No	No	Yes	Yes	No	Partial	No	Properties are generally available for rent on the open market at commercial rates, though some are let at rates to encourage economic growth and local employment. Some industrial estates developed in conjunction with Scottish Enterprise Grampian.	Yes	Charges set in comparison to open market.	Yes
Roads Services	Yes	Partial	Partial	No	Yes	No	No	More work is being directly awarded than in 2004 as work packages shrink due to budget cuts. The service works with BEAR Scotland for the provision of trunk road services. Benchmarking available through Roadstat and APSE.	Partial	The service is considering the merits of moving to an actual cost basis for all internal works. Competitive rates would need to be maintained for the Bear Scotland contract.	Partial
Vehicle Maintenance	Yes	Yes	No	No	Yes	No	No	The old CCT arrangements are still in place, largely as a result of the support systems operating within Fleet Services. This division is largely artificial and the legislative requirement to maintain it no longer exists, but will take time and resources to remove. This will link to works already planned to replace the SAVE system with Tranman.	Yes	Schedules of Rates	Yes

Note: Changes from the 2004 assessment are highlighted.