

ANGUS COUNCIL

RESOURCES AND CENTRAL SERVICES COMMITTEE

29 JANUARY 2004

SUBJECT: TRADING ACCOUNTS

REPORT BY DIRECTOR OF FINANCE

<p>Abstract: This report recommends what actions the Council should take in respect of Trading Accounts.</p>

1 RECOMMENDATION

It is recommended that the Committee –

- i. notes the requirements for trading accounts to be kept for significant trading operations;
- ii. notes the requirements for such trading accounts to show revenue not less than expenditure (ie at least a break even position) for every three year period on a rolling basis;
- iii. agrees that trading accounts be established for the services as set out in paragraph 4.1;
- iv. notes that the external auditor will be consulted on the terms of this report; and
- v. notes that further reports will be submitted as the 'trading arrangements' are revised.

2 INTRODUCTION

- 2.1 Section 10 of the Local Government in Scotland Act 2003 which came into force on 1 April 2003 requires local authorities, through adhering to proper accounting practices, to maintain and disclose trading accounts for significant trading operations for the current financial year and each financial year thereafter.
- 2.2 A trading account would capture all expenditure and income relating to a particular service, or group of services and the Act requires the local authority to so conduct operations relating to each trading account, that revenue is not less than expenditure in relation to every three year period, and taking every year with the two previous years, i.e. there requires to be a surplus on the trading account on a 3 year rolling basis.
- 2.3 It should be noted that whilst the minimum 3 year rolling period position must at least break even, the Council's budgeting process will determine the actual trading position.

3 TRADING ACCOUNTS

- 3.1 The tests to be applied as to whether a trading account should operate is firstly whether the service is being provided in a competitive environment and secondly whether the service is charged for on a basis other than a straight recharge of cost.

- 3.2 A competitive environment would be deemed to exist where users of the service (whether that be members of the public or other service departments) can use an alternative provider.
- 3.3 As noted above a trading account only has to apply to 'significant operations'. It is suggested that a reasonable test of significance is the relationship that the turnover of the activity bears to the gross expenditure of the Council's services as revealed by the Consolidated Revenue Account. That total was some £244m for 2002/3. Applying a rate of 0.15% would set a threshold of £366k.
- 3.4 The Best Value Accounting Code of Practice (BVACOP) as laid down by the Chartered Institute of Public Finance and Accountancy (CIPFA), and therefore representing 'proper accounting practice', holds that trading operations would be deemed to exist for –
- trading services or undertakings with the public or with other third parties;
 - external trading operations which have won contracts from other public bodies;
 - continuing CCT arrangements;
 - work carried out by internal trading operations arising from voluntary competitive tendering; or
 - support services provided in a free internal market to budget holders who have freedom to buy externally.

4 TRADING ACCOUNTS FOR ANGUS COUNCIL

- 4.1 The activities of the Council have been reviewed and the following services have been determined as operations requiring trading accounts:

Former CCT activities and former non-defined work undertaken by Contract Services

Ground Maintenance
Vehicle Maintenance
Refuse collection
Street Cleansing
Building Cleansing
Leisure Management
Refuse Disposal

Other Activities

Print Unit
Commercial Waste Collection

- 4.2 The Best Value Accounting Code of Practice suggests that certain other activities should be considered as activities provided in a competitive environment, in particular industrial sites and buildings operations. However these sites and buildings have not been included in the above list because the local provision is viewed as a result of market failure rather than being undertaken in a competitive environment. Market failure is one of the tests that can be used to exclude an activity from the trading account regime.

- 4.3 It is intended to consult the External Auditor regarding the review which has been undertaken and in particular the decision to exclude industrial sites and buildings operations from trading accounts, although it should be emphasised that it is the Council's rather than the Auditor's responsibility to actively seek out all potential trading operations.

5 THE FUTURE

- 5.1 As Members will know the current Contract Services trading account is to be disaggregated to Leisure Services and to Environmental and Consumer Protection as from 1 April 2004.
- 5.2 As such the operations will come under new management and both of the successor departments will be reviewing all aspects of the operations. That will include a review of the 'trading arrangements' established for CCT services under competitive tendering. It needs to be stressed however that any revised 'trading arrangement' will impose a commercial discipline for surpluses to be achieved, and it is also important to note that failure to achieve the rolling 3-year break even would mean having to expose the activity to external competitive tendering.
- 5.3 Reports will be submitted to relevant Committees in due course.

6 FINANCIAL IMPLICATIONS

- 6.1 There are no financial implications arising from this report as such. However the requirement for the Council to identify all potential trading operations and disclose these in the Council's financial statements, and for such trading accounts to return surpluses over three year rolling periods should be noted.

7 HUMAN RIGHTS IMPLICATIONS

- 7.1 There are no Human Rights implications arising from this report.

8 CONSULTATION

- 8.1 The Chief Executive, the Director of Law and Administration, the Director of Leisure Services, the Director of Environmental and Consumer Protection and the Contract Services Manager have been consulted.

9 CONCLUSION

- 9.1 Trading Accounts need to be established for relevant services. This report outlines the approach recommended for the Council to adopt.

NOTE

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973, (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

DSS/JC/PH - 12.01.04

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