
12 MARCH 2007

REPORT BY DIRECTORS OF CORPORATE RESOURCES & TECHNICAL SERVICES

TRADING OPERATIONS' FINANCIAL PLANS 2007/08 TO 2009/10

1 PURPOSE

- 1.1 To seek approval of the Revenue Financial Plans for 2007/08 to 2009/10 for the Council's Trading Operations (former DLO/DSO).**

2 BACKGROUND

- 2.1 At its meeting on 30 March 2004, the Executive agreed that the following activities would be managed as trading operations:-

- SBc Contracts (former Roads DLO)
- Fleet Management (former Vehicle Maintenance DSO)
- Catering and Building Cleaning (former Schools and Welfare Catering, Other Catering and Building Cleaning DSOs)
- Grounds Maintenance (former Grounds Maintenance DSO)

The Executive also determined that only the Roads Trading Operation was "significant" in terms of the Local Government in Scotland Act 2003 which imposes a statutory requirement for each "**significant** trading operation" to break even over rolling 3-year periods.

- 2.2 It should be remembered that Financial Plans simply represent trading activities in financial terms. Preparing, and monitoring against, a Financial Plan is sound management practice and provides a basis for measuring whether turnover and costs are at expected levels and whether planned headline financial targets e.g. break-even or surplus are likely to be achieved. This is essential in ensuring that the statutory obligation for significant trading operations to break even is met and that surpluses assumed in the Council's General Fund Financial Plan are achieved.

3 FINANCIAL PLANS 2007/08 TO 2009/10

3.1 A Financial Plan for each trading operation covering the 3-year period 2007/08 to 2009/10 is appended.

3.2 For 2007/08, the plans are based on current and projected levels of activity. Provision has been made for

- pay awards and the effect of increased employers National Insurance and Pension contributions from 1 April 2007
- price increases on energy, rates, insurances and water charges (consistent with the General Fund position)
- increased income from charges to clients.

3.3 For 2008/09 and 2009/10, provision for inflation has been made in each year as follows:-

- | | |
|-----------------------------|---------------|
| • Income | - 2.0% |
| • Pay awards | - 2.5% |
| • Central Support Recharges | - 3.0% |
| • Insurances | - 3.0% |
| • Energy | - up to 5.00% |

In addition to the price-based increases in income and expenditure referred to above, the budgets in the appendices also reflect any activity-based adjustments and efficiencies.

3.4 It must be recognised that as business is won and lost in the future, Trading Operations' Financial Plans will need to be adjusted to reflect the resultant increases and reductions in both expenditure and income.

3.5 For trading operations other than SBc Contracts, the vast majority of work is carried out for Council clients and, whilst the SBc Contracts trading operation is carrying out more and more work for third parties, around half of business is still for the Council. It is essential therefore that the assumptions which underpin the Trading Operations' Financial Plans and the Council's General Fund Financial Plans are consistent. In this regard,

- expenditure in client financial plans has been reconciled with income in trading operations financial plans
- the assumed surplus for 2007/08 included in the Technical Services budget is £403k which is consistent with the total planned surpluses in the Trading Operations budgets
- the provisional surpluses for 2008/09 and 2009/10 included in the Technical Services provisional budgets are consistent with the planned surpluses in the Trading Operations' provisional budgets for these years.

4 CONSULTATION

- 4.1 The appendices to this report have been prepared jointly by Corporate Finance and appropriate Technical Services business support and management staff.
- 4.2 The Heads of Corporate Administration, Financial Administration and Legal Services are being consulted and any comments will be reported to the meeting.

5 FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications for the Council arising from these Financial Plans other than those mentioned at paragraph 3.5 above.

6 RISK COMMENTARY

- 6.1 If the trading operations' financial plans are not approved, there is a risk that:

- over/underspendings will arise
- target surpluses will not be achieved

since managers will have no approved budget against which to measure actual turnover/expenditure.

- 6.2 Whilst there are no environmental risks arising directly from the proposals in this report, such risks may well be inherent in the operational activities of the trading operations.

7 EQUALITIES

- 7.1 There are no equality issues associated with this report.

8 RECOMMENDATIONS

- 8.1 It is recommended that the Sub-committee:-**

(a) approve the Financial Plans for 2007/08 to 2009/10 appended

(b) note that Financial Plans will need to be amended to reflect future changes in activity levels

(c) note that figures for 2008/09 and 2009/10 are provisional and will be firmed up when future 3-year plans are prepared.

Approved by

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Background Papers:**Previous Minute Reference:**

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