

## **AGENDA ITEM**

### **REPORT TO EXECUTIVE SCRUTINY SELECT COMMITTEE**

**17<sup>TH</sup> FEBRUARY 2010**

### **REPORT OF HEAD OF DIRECT SERVICES**

## **EFFICIENCY, IMPROVEMENT AND TRANSFORMATION (EIT) REVIEW - COMMERCIAL TRADING SERVICES**

### **SUMMARY**

This report presents the findings of the Efficiency, Improvement and Transformation (EIT) Review of Commercial Trading Services, which was undertaken from May 2009 to January 2010 by a Project Team reporting-in to the Executive Scrutiny Select Committee.

The Executive Scrutiny Select Committee previously noted the proposed scope and project plan of the EIT Review of Commercial Trading Services at its meeting on 10<sup>th</sup> June 2009.

Further to this, the Executive Scrutiny Select Committee noted the detailed baseline and initial challenge information at its meeting on 22<sup>nd</sup> September 2009 and received a further report on progress and emerging findings on 17<sup>th</sup> November 2009.

### **RECOMMENDATION**

That the findings on the EIT Review of Commercial Trading Services are noted.

### **BACKGROUND**

The overall aim of the EIT review was to investigate options for the future strategy and business development of the Commercial Trading Services. This will help to ensure that these services are commercially focused and at least maintain their market share and profitability during the economic downturn and are fully prepared to take advantage of the opportunities for appropriate growth afforded by economic recovery. Services included were:

- Heating, ventilation and electrical works
- Civic catering
- Fleet management
- Vehicle maintenance
- Highway schemes and improvements
- Commercial trade waste collections

There is a built-in expectation within the Medium Term Financial Plan that trading profits will be generated by the Commercial Trading Services to help the Council as a whole to deliver its key objectives. As the financial position becomes tighter in terms of grant, investment and subsidy income, the need to generate income from external commercial operations and to maximise the opportunities to deliver services to internal customers becomes more pressing, if the expectations of residents in terms of service delivery are to be met whilst keeping Council Tax increases to reasonable levels.

## REVIEW METHODOLOGY

The EIT Review of Commercial Trading Services was undertaken in line with the EIT Review guidance, by a Project Team reporting-in to the Executive Scrutiny Select Committee. The Project Team consisted of:

- Jamie McCann (EIT Lead Officer);
- Esme Hall (EIT Independent Officer);
- Paul Diggins (EIT Performance Support);
- John Bailey (EIT Finance Support);
- Anita Brown (Catering);
- Darren Robinson (HV&E);
- Maurice Stephenson (Fleet Management);
- Michelle Burnett (Care For Your Area); and
- Craig Willows (Care For Your Area).

The Project Team met regularly from May to November 2009, which allowed the collation of detailed baseline and service challenge information and the development of a number of options for the services, which were then considered for their viability.

## SUMMARY OF WORK UNDERTAKEN

The Project Team undertook the following key pieces of work to inform the EIT Review of Commercial Trading Services:

**Baseline analysis** – full details of baseline information was collated for each of the services within the scope of the EIT Review. This baseline information is provided at **Appendix 1** to this report.

**Analysis of key current clients** – collation of information on companies and organisations currently using the Commercial Trading Services, with data on their expenditure with Commercial Trading Services during 2008-09 and qualitative data on their satisfaction with the services.

**Analysis of key potential clients** – qualitative data on companies and organisations that do not currently use the Commercial Trading Services (narrowed down to previous clients and those similar in nature to key current clients).

**Analysis of SBC procurement of external Commercial Trading Services** – collation of SBC procurement of Commercial Trading Services from external sources, with data on expenditure during 2008-09.

**Analysis of non-productive costs** – analysis of the costs of non fee-earning activities in each Commercial Trading Service. Productive costs are those for a member of staff working directly on the service provided. All other staff such as managers, office staff, supervisors who are not earning fees or resource allocation have been classed as non-productive as they are not directly providing a fee-earning service.

**Options Appraisals** – preliminary analysis of the options developed as a result of these exercises for their potential to deliver efficiency savings and potential impact on service delivery.

## STRATEGIC FINDINGS OF EIT REVIEW

From the analysis undertaken it is clear that several of the services labelled as “Commercial Trading Services” for the purposes of this EIT Review, actually do not easily fit within that categorization.

These services are defined as Commercial Trading Services because they are also provided by private sector companies and organisations, but that could also be said of any number of other services within the authority, such as Legal, Design and Print and Information Technology services.

The analysis of existing SBC procurement of these services from external providers has shown examples where substantial sums are being spent outside of the Council for services that are effectively provided in-house. There are clear efficiencies that can be made if the Commercial Trading Services were utilised as the majority of other services within the Council currently are as the first choice provider, with external providers used only in circumstances where the Commercial Trading Services are unable to effectively deliver that service due to capacity or other specific issues.

## **CUSTOMER FOCUS**

Where appropriate, in order for these services to take advantage of the significant opportunities that exist for limited diversification in an ever-changing competitive marketplace, it is necessary for them to operate in a more entrepreneurial and flexible way than most of the services provided by the Council.

The Civic Catering Service has operated under the name of “Tees Cuisine” for several years. This has enabled the service to market itself to local authorities and other organisations that would be less inclined to purchase the services branded as “Stockton-on-Tees Borough Council Catering Services”.

Other Commercial Trading Services have also benefitted from similar branding exercises, such as the Heating, Ventilation and Electrical service which operates in direct competition with national and local companies in many aspects of its work.

## **KEY PROPOSALS**

As a result of the EIT Review a number of proposals have been developed which are likely to lead to significant efficiencies. These proposals are outlined below, although further work is required to fully appraise the financial benefits to the Council, as well as the impact on the service provided. Initial Options Examples of the option appraisal analysis sheets for these key proposals are provided at **Appendix 2** to this report.

The key proposals are:

1. Dedicated procurement/contracts officer to generate savings through improved buying of materials and negotiation of contracts (**estimated savings of £50k per annum**).

There is annual expenditure of over £5m on materials and other services relating to the delivery of Commercial Trading Services. Given that level of expenditure, small percentage improvements in the procurement of materials and negotiation of contracts can realise significant savings, after salary and related costs. This post is being appointed to y

2. Use of re-useable green waste sacks rather than disposable sacks (**estimated savings of £34k per annum**).

Rolls of disposable green waste sacks have been provided to over 65,000 homes with a garden since the roll-out of the green waste collection service in 2005. Replacing these disposable sacks with a large capacity re-useable bag will reduce the annual costs to approximately £25k from the current £59k, and will also provide benefits in terms of service delivery and link with the Council’s commitments to reduce carbon emissions.

3. Increase charges for bulky household waste collection service from £10 to £15 for the removal of up to six items (**estimated additional income of £35k per annum**).

Over 10,000 requests are received each year for the removal and disposal of bulky household waste items. The delivery of this service currently costs approximately £40k more than the income received, which would be reduced to approximately £5k if the charge is increased to £15. These estimates have factored in a reduction in the number of requests received at the higher rate.

4. Expansion of customer base for commercial waste collection services (**estimated additional income of £30k per annum**).

Currently SBC services spend £85k with external providers of commercial waste collection services, with the majority of this spend being by schools. As part of the EIT Review of Commercial Trading Services, these sites are being contacted to find out why they are using external providers and this contact is being used as a good marketing opportunity to advise of the internal services available.

There are further opportunities to expand the trade waste collection service to other private companies and organisations, with improved marketing of the service.

5. Retention of electrical works currently provided by external providers in-house (**estimated additional income of £70k per annum**).

A large amount (over £130k in 2008/09) is currently spent with external providers of electrical works, the majority of which can be provided effectively through the Commercial Trading Services.

6. Improved partnership working with Technical Services on Highways Improvement Schemes, reducing non-value adding processes and associated costs (proposal shared with EIT Review of Highways, Lighting and Network Management).

Improving partnership working with Technical Services will assist in reducing the duplication of responsibilities that currently exists, particularly on the management of scheme delivery. No specific estimated saving has been attached to this proposal at this stage.

7. The withdrawal of the tea service currently provided at several administrative buildings (**estimated savings of £35k per annum**).

A tea service is currently provided at Municipal Buildings, 16 Church Road, Stratford House and Kingsway House, totalling 101 hours per week. The cost of the service is currently £45k per year, with income received of approximately £10k. There may be scope for redeploying the tea service staff into other catering activities such as school kitchen roles.

In addition to these key proposals which are suitable for implementation in 2010/11, there are several other opportunities available which could deliver additional efficiencies and/or generate additional income over the medium term.

**Partnering with one or more Tees Valley authority** may be a viable option for some of the Commercial Trading Services, delivering savings through economies of scale and additional purchasing power. More detailed work is required to ensure that available efficiencies are achieved through these delivery vehicles.

**Provision of additional services** – options were discussed for expanding the Vehicle Maintenance Service to offer vehicle checks to members of staff who use their vehicles on Council business. This service could clearly link with the Council's plans to reduce carbon emissions, as well as producing benefits in reducing accidents and increased income to the service. However, given the current issues regarding the changes to car mileage allowances, it would be more appropriate to analyse this option at a later date.

