

# Finance and Resources Committee

10.00am, Thursday, 4 March 2021

## Edinburgh Catering Services - Other Catering Significant Trading Operation (STO) - Update

Executive/routine Wards Council Commitments	Executive Citywide
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### 1. Recommendations

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- 1.1 It is recommended that the Finance and Resources Committee:
- 1.2 Approve the “de-badging” of Edinburgh Catering Services - Other Catering Significant Trading Operation (STO) with effect from 1 April 2020; and,
- 1.3 Agree a report is presented to a future meeting of the Finance and Resources Committee, setting out a business case for re-commencement of Edinburgh Catering Services - Other Catering trading activities.

**Stephen S. Moir**

Executive Director of Resources

Contact: Iain Shaw, Principal Accountant,

Finance Division, Resources Directorate

E-mail: [iain.shaw@edinburgh.gov.uk](mailto:iain.shaw@edinburgh.gov.uk) | Tel: 0131 469 3117



# Report

## Edinburgh Catering Services - Other Catering Significant Trading Operation (STO) - Update

### 2. Executive Summary

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- 2.1 As a consequence of the COVID-19 pandemic and the move to home working, Edinburgh Catering Services - Other Catering STO has been unable to trade during 2020/21 financial year.
- 2.2 There remains uncertainty as to future office working arrangements. As this has a significant impact on the business case for the STO to trade, it is recommended that the STO be “de-badged”, with effect from 1 April 2020.
- 2.3 When current restrictions have eased to permit sufficient occupation of corporate offices to enable consideration of re-commencement of trading, a business case will require to be developed.

### 3. Background

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- 3.1 Significant Trading Operations (STOs) were created by the Local Government in Scotland Act 2003 and have the power to trade externally as well as internally. An STO is required to break-even on income and expenditure, taking one year with another on a three-year cycle. Each STO is required to maintain accounts, which are reported separately within the Annual Report and Accounts of the Council.
- 3.2 The Council approved the designation of Edinburgh Catering Services - Other Catering as an STO in 2005.

### 4. Main report

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- 4.1 Edinburgh Catering Services - Other Catering is a quality accredited trading operation providing a catering service to staff and the public across seven Council buildings. This includes civic hospitality in the City Chambers and employee catering services in Waverley Court.
- 4.2 In the Council's Audited Annual Accounts for 2019/20, it was noted Edinburgh Catering Services - Other Catering failed to achieve its statutory obligation to break

even over a three-year period. The trading deficit in 2019/20 was £48,000 on a turnover of £921,000. There was a cumulative deficit of £126,000 against the requirement to break-even over a three-year period. The reasons for these losses were explained to and scrutinised by the Governance, Risk and Best Value Committee on 31 October 2017 and 20 March 2018.

- 4.3 The Annual Accounts noted the impact of COVID-19 would make achievement of a breakeven position in 2020/21 challenging. A tariff increase in line with inflation is anticipated on re-commencement of services. Re-modelling the service will require to be considered, to accommodate changes in demand and the lack of commercial activity at the City Chambers and Waverley Court.
- 4.4 The Chartered Institute of Public Finance and Accountancy (“CIPFA”) published Significant Trading Operations Consolidated Guidance in June 2013. The Guidance notes it is a matter for individual authorities to determine what is a trading operation, but it is likely to be based on a whether a service is provided:
  - 4.4.1 in a competitive environment - i.e. the customer has discretion to use an alternative provider, and
  - 4.4.2 on a basis other than straightforward recharge of costs – i.e. customers take the service based on quoted lump sums, fixed periodical charges or rates, or a combination of these.
- 4.5 The Guidance provides that trading operations may include:
  - 4.5.1 services to the public or client groups, which are liable to charging; or
  - 4.5.2 work for other council services where the council has decided to subject the trading operation to a test of competition as part of a Best Value review; or
  - 4.5.3 services where customers are free to buy services from outside the council.
- 4.6 Edinburgh Catering Services - Other Catering is classified as a Significant Trading Operation on the basis that services are provided in a competitive environment and are charged on a basis other than straightforward recharge of costs .
- 4.7 During 2020/21, Edinburgh Catering Services – Other Catering has not traded due to the impact of the COVID-19 pandemic. Council offices have, in the main, been closed, with councillors and council employees working from home.
- 4.8 In 2020/21, the Council recovered £53,000 of Other Catering employee costs from the UK Government’s Coronavirus Job Retention Scheme for the period until the end of October 2020. All Edinburgh Catering Services - Other Catering employees have now been temporarily redeployed to posts elsewhere in the School Catering service.
- 4.9 As there remains significant uncertainty as to future office working arrangements, with a consequent impact on the development and operation of a viable trading business case for Edinburgh Catering Services - Other Catering, it is recommended that the Significant Trading Operation be “de-badged”, with effect from 1 April 2020.

- 4.10 The Consolidated Guidance issued by CIPFA in 2013 refers to a Test of Significance to ensure that not only are the disclosure requirements of the 2003 Act satisfied, but also to ensure that disclosures are not voluminous. It is noted that criteria which a council may wish to consider in determining whether a trading operation is deemed 'significant' could include the following:
- 4.10.1 the size of the turnover of the trading operation, relative to the council's net revenue budget;
  - 4.10.2 the risk of financial loss the council is exposed to in carrying out the operation;
  - 4.10.3 the importance of a trading account to demonstrating service improvement and achievement of targets;
  - 4.10.4 whether the council is exposed to the risk of service or reputational loss in carrying out the operation;
  - 4.10.5 the service areas likely to be of interest to its key stakeholders and their needs.
- 4.11 When current restrictions have eased to permit sufficient occupation of corporate offices to enable consideration of re-commencement of trading, it is recommended a business case be developed prior to re-commencement of services. Any business case should take account of the criteria identified at paragraph 4.10 in determining whether the Other Catering service is re-badged as a Significant Trading Operation.
- 4.12 A future business case should seek to deliver Best Value and to operate at no net cost to the Council.
- 4.13 Consultation will be undertaken with staff groups and their Trade Unions.

## **5. Next Steps**

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- 5.1 Any change to the designation of a Significant Trading Operation should be formally notified to Audit Scotland.

## **6. Financial impact**

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- 6.1 The forecast deficit in 2020/21 as a consequence of the pandemic is estimated to be £655,000. This deficit is included in the Council's revenue expenditure monitoring forecasts reported to the Finance and Resources Committee on a regular basis throughout 2020/21.
- 6.2 If the recommendations of this report are approved, a cost re-alignment will be undertaken for 2021/22 to reflect the temporary re-deployment of Other Catering employees.

## **7. Stakeholder/Community Impact**

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- 7.1 There is no direct relevance to the report's contents.
- 7.2 There is no direct relevance of the report's contents to impacts on carbon, adaptation to climate change and sustainable development.

## **8. Background reading/external references**

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- 8.1 [Edinburgh Catering Services - report to Governance, Risk and Best Value Committee 31 October 2017](#)
- 8.2 [Corporate Catering Service - Update report to Governance, Risk and Best Value Committee 20 March 2018](#)
- 8.3 [Significant Trading Operations Consolidated Guidance; Chartered Institute of Public Finance and Accountancy \(CIPFA\); June 2013](#)

## **9. Appendices**

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- 9.1 Not applicable