

REPORT TO AUDIT COMMITTEE – 20 MAY 2021

SIGN SHOP - INFORMATION ON PRICING STRUCTURE

1 Reason for Report/Summary

- 1.1 Following consideration of the Internal Audit Report “Charging Process for Signs manufactured at Inverurie Sign Shop within Audit Report No: 2024”, the Audit Committee sought further information from the service regarding the pricing for external works.

2 Recommendation

The Committee is recommended to:

- 2.1 Acknowledge the simplified pricing structure as outlined in this report.**

3 Purpose and Decision Making Route

- 3.1 The Corporate Charging Framework requires more regular reviews of charges (every three years in line with a timetable set in the Framework) and states that, where possible, full cost recovery should be achieved on any income. As the costs of sign manufacture have changed, variations are regularly applied to the external charge-out rate. It may not therefore be possible to demonstrate full cost recovery on a per-job basis.
- 3.2 A request was made by Audit Committee for the service to clarify the pricing structure.

4 Discussion

- 4.1 The cost of each sign is determined by adding labour, overhead and material costs together.
- 4.2 Labour costs are determined simply by the personnel time required to manufacture of each sign.
- 4.3 Overhead costs include the annual cost of premises, administration costs, internal transport costs and cost for design work carried out on signs. These costs are distributed prorata based on projected workloads.
- 4.4 Materials include for a small percentage of wastage and consumables used in the manufacturing process. This is assessed and reviewed regularly to ensure wastage is kept within acceptable limits.
- 4.5 As is the case in most manufacturing industries, variances to standard rates of return should be considered to reflect the size of any particular order and the

workload capacity of the Sign Shop at that given time. The pricing structure allows for such variances to be considered.

- 4.6 A Framework Tender is due to be issued for standard Materials which will be in the region of £120,000 per annum. Nonstandard items at customer request are priced on an individual basis from specialised suppliers.
- 4.7 The existing process which has been in operation for a number of years allows for the costs above to be combined and a percentage uplift to be applied for full recovery of costs and a rate of return to be achieved for the service.

Internal Customers

- 4.8 Road Services have been our main Internal Customer and have an annual Budget of approximately £250,000 for the supply of traditional Road Signs and Temporary Signs for Road Closures etc.
- 4.9 In more recent year's other departments, primarily Waste Services, have been utilising the services of the Sign Shop for the manufacture of signs and stickers. This is an area where further expansion may be achieved across all Council Service areas.
- 4.10 The Rate of Return for Internal Customers is currently set at **+5%**.

External Customers

- 4.11 Private or External Customers on average spend between £50,000 and £100,000 on a variety of different signs, banners and stickers in our Sign Shop. This varies significantly each year depending on workload available in Private Sector.
- 4.12 The Rate of Return for External Customers is currently set at **+15%**.

Variances

- 4.13 We regularly price works for other customers such as the Forestry Commission or other Councils and a decision on each individual price is taken depending on potential size of order. This flexibility needs to be allowed to ensure that we are serving our customers particularly other Councils with Best Value principles.
- 4.14 The Rate of Return is discussed between the Sign Shop Technician and Principal Engineer – Resources, and an agreement reached based on factors at that time i.e. Existing workload. This discussion will be documented, and the agreed Rate of Return clearly identified.
- 4.15 Post pandemic it is the intention to develop potential stronger links with other Councils and explore further collaborative working practices.
- 4.16 Over the past year we have taken the opportunity to upskill our workforce to ensure that we can continue to serve our customers using the best working

practices. Future recruitment, if required, would be on a planned basis using the Modern Apprenticeship Scheme.

Charging Review

- 4.17 All charges currently levied will be reviewed in line with the Corporate Charging Framework to ensure compliance and reported to Infrastructure Services Committee (ISC) at a future date.
- 4.18 The charges to be levied will also be considered as part of the ongoing review of the internal trading function being undertaken by the Roads Service in conjunction with the Finance Service.

5 Council Priorities, Implications and Risk

- 5.1 This report helps deliver the Infrastructure and Resilient Communities Priorities under the “Our Environment” Pillar, and the Economy and Enterprise Priority under the “Our Economy” Pillar.
- 5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial	x		
Staffing	x		
Equalities		x	
Fairer Scotland Duty		x	
Town Centre First		x	
Sustainability	x		
Children and Young People's Rights and Wellbeing		x	

- 5.3 Financial Implications: The simplified pricing structure will ensure full cost Recovery and compliance with the Corporate Charging Framework, on all signs, stickers and banners manufactured at Inverurie Sign Shop.
- 5.4 Staffing Implications: The structure enables the Council to retain the existing staffing structure and recruit if necessary if workload increases via the Modern Apprenticeship scheme.
- 5.5 An equality impact assessment is not required because the Sign Manufacturing Process does not have a differential impact on any of the protected characteristics.

- 5.6 All infrastructure works have a sustainability impact. Materials, plant and fuel are consumed in the manufacture and delivery of all items produced by the Sign Shop. The Service is aware of these issues and works towards incorporating more sustainable practices. Innovative strategies and new processes will continue to be introduced to improve the sustainability of the Service.
- 5.7 The following Risks have been identified as relevant to this matter on a Corporate Level:

ACORP001 Budget Pressures - Insufficient Budget expenditure to achieve full cost recovery of Overheads.

BSSR001 Balancing the Books – Decrease in Budget available to spend on sign manufacturing.

6 Scheme of Governance

- 6.1 The Head of Finance and Monitoring Officer for the Audit Committee have been consulted in the preparation of this report and their comments are incorporated within the report and are satisfied that the report complies with the Scheme of Governance and relevant legislation.
- 6.2 The Committee is able to consider this item in terms of Section G.1.1.2 of the List of Committee Powers in Part 2A of the Scheme of Governance as it relates to the adequacy of financial systems.

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5 May 2021