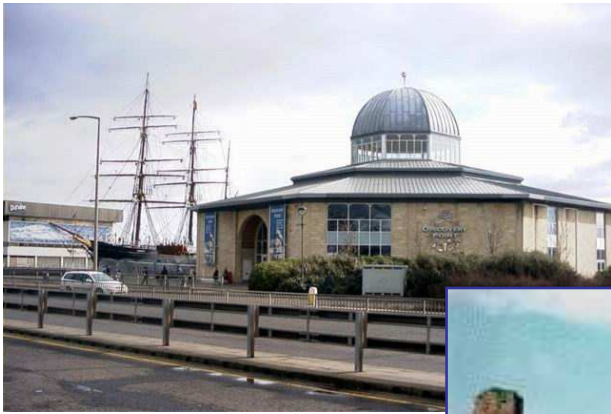


ANNUAL PERFORMANCE REPORT 2008/09



INVESTOR IN PEOPLE

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Introduction

The Local Government in Scotland Act 2003 introduced a statutory duty for local authorities to make arrangements to secure Best Value. A key requirement of this Act, under Section 13 (1), is the duty of a local authority to make arrangements for reporting the outcome of the performance of its functions to the public. Section 13 of the Act specifically extends this requirement to Joint Boards and Joint Committees as well as to Councils.

The nature and content of Tayside Contracts' performance report differs substantially from those produced by the constituent Councils. The public performance reports published by Councils are largely influenced by the Statutory Performance Indicators (SPIs) which have been drawn up by Audit Scotland in order to facilitate comparisons between local authorities' performance in different years and with other local authorities. Given their focus on areas such as Education, Housing, Environmental Services, Planning, Sport & Leisure and collection of Council Tax, the vast majority of those SPIs are not applicable to Tayside Contracts. Those SPIs which can be applied to Tayside Contracts have been included in this report.

The focus of this report is, therefore, on three key aspects of Tayside Contracts' activities and performance:

- Employees
- Financial Outcomes
- Operational Activities and Performance

The report is not intended as a detailed management information document, but rather as a summarised guide to some of the key statistics and performance indicators that underpin the business of Tayside Contracts. It is intended to continuously develop the report year on year as additional information of a suitably robust and meaningful nature is collected.

Managing Director's Overview

Tayside Contracts is increasingly regarded as an excellent example of local authorities working together to the benefit of the public, and in many ways is viewed as a model for the shared services agenda promoted by the Scottish Government and being progressed across a range of public bodies. It was set up in its present form at local government re-organisation in 1996 by Angus, Dundee City and Perth & Kinross Councils, and is unique within Scotland as a joint local authority trading organisation. Tayside Contracts employs in excess of 2,300 people, has an annual turnover of some £64 million, and since 1996 has returned in excess of £12 million to the constituent Councils in the form of surpluses.

Since 1996 Tayside Contracts has had a mission statement which is "community benefit through the pursuit of excellence", clearly demonstrating our commitment to providing quality services to the public of Tayside. The mission statement is supported by our vision for Tayside Contracts, which is "to excel and grow as a commercial local authority trading organisation". In order to measure progress towards achievement of our vision, Tayside Contracts' Business Plan for the period 2006 to 2011 is underpinned by four key business objectives:

1. To produce a cost effective, profitable, quality service that satisfies customer expectations.
2. To sustain and expand our customer base
3. To effectively manage and develop our people
4. To be proactive in promoting positive Health and Safety and an environmentally friendly approach to providing services.

A range of key performance outcomes are included in the business plan as a means of measuring progress and performance against those objectives. These measures are monitored on a quarterly basis, and reported to the Joint Committee half-yearly. Many of those measures are included in this report. As we are now into year four of the 2006 to 2011 business plan, work has now commenced on updating the plan. A project team, including senior representatives from each of the constituent Councils, will develop a new plan which will align with the Councils' objectives, strategies and priorities, which is particularly important in the current economic climate and the likelihood of severe budget pressures in the coming years.

Tayside Contracts' annual report for 2008/09 provides some comment on progress and achievement against the key business plan objectives, and should be read in conjunction with this performance report. For the purposes of this annual performance report, the focus remains on the critical elements which underpin delivery of the business plan objectives – our employees, the services that we provide and our financial performance.

To deliver a consistent and sustained high quality of service it is crucial that Tayside Contracts continues to recruit, retain and develop employees who are rewarded fairly and equitably. In 2008 Tayside Contracts implemented a revised and 'equality proof' pay and conditions package, in accordance with the Single Status Agreement, which harmonised the pay and conditions of all employees covered by the Agreement. As with all other local authorities, the Single Status project was a long and arduous journey and the successful implementation of the revised pay system was a significant achievement on the part of all involved. The revised terms and conditions are fundamental to Tayside Contracts achieving our business objectives as they

have not only secured equality of pay but have also laid the groundwork for developing more modern and flexible working practices which will improve the quality of our services to our customers and help meet the work-life balance sought by our employees.

It is also vitally important that our employees work in an environment which promotes a commitment to their health, welfare and development. During 2008/09, another improvement in Tayside Contracts' already good health and safety performance was recorded, with no serious accidents reported, and a continuing downward trend in the number of reportable accidents. Investment in training and development continues to be both substantial and cost-effective.

A strategic and pro-active approach to sickness absence management continues to be applied, and has resulted in a reduction in the absence rates to a level comparable with the Scottish averages, and with a commensurate reduction in the associated costs.

The financial performance in 2008/09 was sound, with the surplus of £1.09m being in excess of the amount targeted for distribution to the constituent Councils. This has enabled an additional £500k to be returned to the Councils and a further increase in the general reserve fund retained by Tayside Contracts for future agreed use.

Both the Construction and Facilities Services Divisions returned operating surpluses for the year, and both have achieved the statutory objective of breaking even over a rolling three year period on their Trading Accounts. The Construction Division has earned a surplus of £758k over the relevant three year period 2006/07 to 2008/09 and the Facilities Services Division, a surplus of £1.406m.

Within the Facilities Services Division, the Cleaning Unit again recorded an overall increase in workload, continuing to expand on its traditional areas of operation. Cleaning operations continue to deliver services to a high standard, and the new quality monitoring system is providing management information to enable these high standards to be enhanced throughout the services provided. The quality and efficiency of the cleaning operations was underlined through successfully securing and commencing the Public Private Partnership (PPP) cleaning contracts for both Dundee City and Angus Councils' schools.

The Catering Unit continues to demonstrate a very strong commitment to the highest quality standards, reflected in their on-going achievements in gaining national recognition and awards and positive feedback from statutory HMIE school inspections. Despite falling school populations and an initial reluctance of pupils to embrace healthy eating, meal numbers are starting to show a recovery with more pupils now eating healthier meals.

The Construction Division, which includes roads construction and maintenance, street lighting, vehicle maintenance, quarry and sign manufacturing, had a strong year despite the impact of the economic climate and inflationary pressures, particularly with oil-based products such as fuel and bituminous materials. The responsiveness and contribution of the workforce was again evident throughout the year in delivering a strong and improving operational and financial performance. This is evidenced by the extension of both the Dundee Roads Maintenance Partnership and the Street Lighting Partnership for Dundee City and Perth & Kinross Councils, for a further three years.

Winter conditions were amongst the worst in terms of both temperatures and snowfall in decades. The hours required to provide the critical winter maintenance function increased by around 53% on previous years, and the full service to the population of the constituent Councils was delivered.

At Tayside Contracts we are committed to the promoting sustainability and protection of the environment in which we live, and I believe we have invested heavily and been very innovative in our approach to this aim. It was therefore very pleasing when we were recognised nationally by winning a VIBES award (Vision in Business for the Environment in Scotland) in November 2008 for our cold mixed sustainable paving system, Tayset®. We are the only company/organisation to have won two VIBES awards since their introduction in 2000, the first being in 2001 for the development of our reed bed system for treating gully waste.

An innovative Business Improvement Technique process has commenced through the Knowledge Transfer Partnership with the University of Dundee, to embed Lean Construction techniques into our processes. This approach will bring lasting benefits to the Construction Division and underlines our commitment to innovation and excellence throughout the organisation.

General overhead costs required to provide the infrastructure and support services for front-line operations continue to be well controlled and managed, being brought in under budget despite increasing operational activity and inflationary pressures.

Further more detailed information can be read in the divisional operational reports contained in the Annual Report.

The specific measures included in this report include the statutory indicators relating to street lighting, and statistical information on construction operational activities, school and welfare meal trends and cleaning activity. Performance measures and statistical information will continue to be further developed and reported in future years as robust and meaningful information is collected.

Iain C Waddell
Managing Director
27 October 2009

Employee Statistics and Measures

The vision for Tayside Contracts is “to excel and grow as a commercial local authority trading organisation” and our success in achieving our vision will be reflected in the provision of quality services to the communities we serve.

Our employees are the key to our success and their health, welfare and development are vitally important to us. Effective employment, safety and training policies are required to ensure that we manage the business within a culture of mutual benefit and respect. We need to understand what expectations we have of each other and to communicate in a positive and open manner.

We are committed to developing a competence-based culture where all employees have access to training and development opportunities which will allow them to carry out their work safely and to the required standard, whilst also identifying potential for the future.

Furthermore a range of measures are in place to assess our performance by reference to national standards, for example: our achievement of Investors in People status, comparison of our accident statistics against the HSE’s Revitalising Health and Safety targets and, where possible, by benchmarking against other local authorities in Scotland in relation to levels of sickness absence.

Details of Tayside Contracts’ performance in 2008/09 are provided in the following section and in general provide positive feedback on our efforts through the year.

Single Status and Equal Pay

It is widely acknowledged that the implementation of Single Status presented Tayside Contracts and all other local authorities with the single greatest challenge faced by local government employers in recent times. The Single Status Agreement sought to harmonise the pay and conditions of ‘staff’ and ‘manual workers’ and to introduce a pay and grading system which was free of gender bias.

On 1 July 2008 Tayside Contracts successfully implemented a revised, modernised and ‘equality-proof’ pay and conditions of employment package for all employees covered by the Single Status Agreement. An independent Equality Impact Assessment conducted by an external consultant on behalf of Tayside Contracts concluded that:

‘The proposed pay structure and associated terms and conditions package improves the gender pay gap considerably... (and following the end of pay protection on 30 June 2011) ...we will witness a complete resolution to the gender based pay gap.’

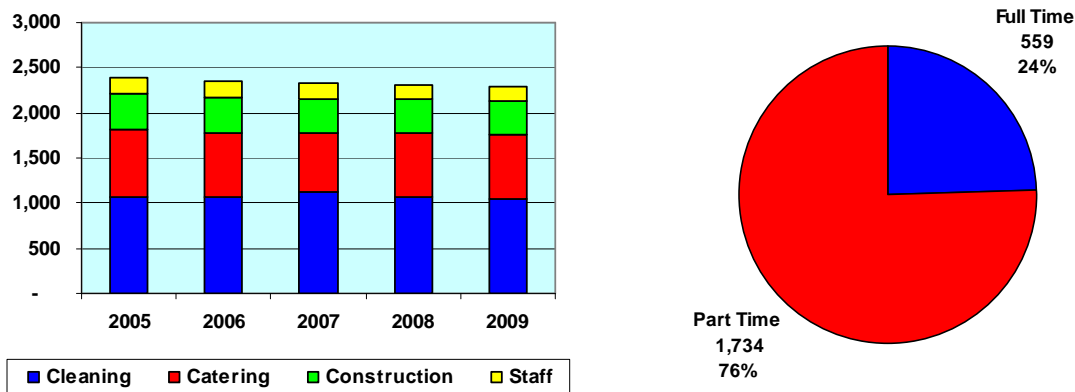
Following the implementation of Single Status there remained the potential for Catering and Cleaning employees to raise an equal pay claim in respect of Tayside Contracts’ Craft Workers who were not included in the Single Status pay and conditions package. However, in May 2009 a local Collective Agreement was reached with Tayside Contracts’ recognised Trade Unions which retrospectively harmonised the pay and conditions of Tayside Contracts’ Craft Workers with the Single Status employees with effect from 1 July 2008, thus removing pay inequality across the entire organisation.

Retrospectively, Tayside Contracts, along with most other local authorities nationally, faced the prospect of equal pay claims relating to the period prior to the implementation of Single Status.

Tayside Contracts had previously resolved all potential equal pay claims (with the exception of one employee) up to a common settlement date of 14 August 2006. The period between 14 August 2006 and 30 June 2008 (the day prior to the implementation of Single Status) became known as the 'Gap Period'. The Tayside Contracts Joint Committee gave approval to resolve the 'Gap Period' through equal pay compensation payments being offered to all affected employees who agreed to sign agreements compromising all equal pay claims related to the period prior to the implementation of Single Status. This exercise will be concluded by the end of 2009 at which time it is hoped all retrospective pay inequality issues and equal pay risks will have been resolved.

Employee Numbers

Tayside Contracts has an establishment of some 2,700 jobs and over the past five years has provided employment to on average 2,360 people, some of whom have 2 or more jobs. Employee numbers have gradually reduced over the past five years through more efficient and productive ways of working, from 2,400 in 2005 to under 2,320 in 2007 and has reduced further to 2,293 at March 2009. The contribution of this level of employment to the local economy can be measured from a total employee cost of some £30m. The nature of the work in the Cleaning and Catering Units dictates that more than 75% of Tayside Contracts' employees are part-time, with full-time equivalent staff numbers of 1,456.



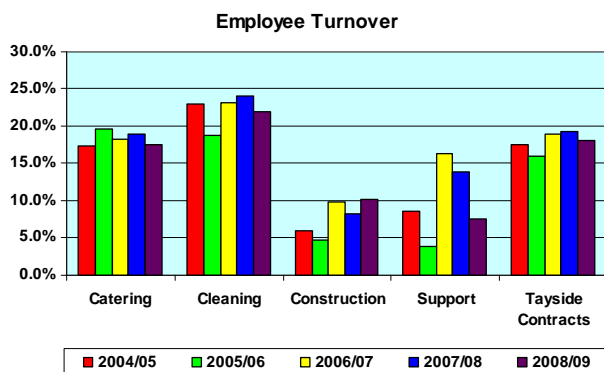
Employee Retention

Fundamental to Tayside Contracts' success is the need to recruit and retain the number and quality of employees required to achieve our business objectives. In 2008/09 the organisational turnover rate decreased to 18%, achieving the business plan key performance target. This was a reduction of 1.3% compared to 2007/08 which is a significant achievement.

It is also pertinent to note that the CIPD (Chartered Institute of Personnel and Development) Annual Recruitment and Retention Report 2009 reports 34% turnover within the hotel and catering sector and 17.8% in the construction industry which is significantly higher than Tayside Contracts' rates of 17.5% in catering, 22% in cleaning and 10.1% in construction.

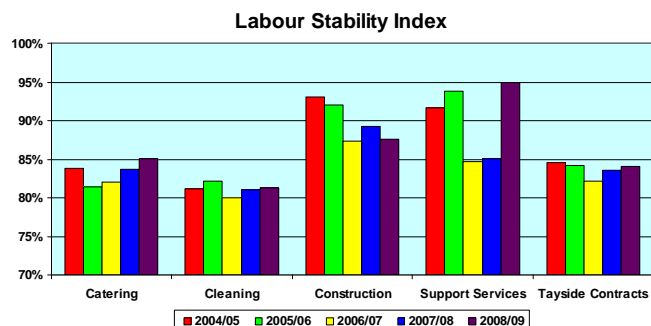
Further, it is very encouraging to note that turnover within support services, where high employee turnover was causing concern in 2006/07, reduced in 2007/08 by 2.4% to 13.9% and has again reduced significantly by 6.3% in 2008/9 to 7.6%.

Labour stability (which is a measure of the proportion of employees who have remained in post throughout the year) within Tayside Contracts increased to 84% in 2008/09, continuing the trend of longer-serving employees being less likely to leave than those with shorter service. It is encouraging that we can retain more experienced employees, which can help to enhance our service delivery capability and also ensures that we receive a return on our training and development investment.



Employee turnover within the Catering Unit reduced from 19.0% in 2007/08 to 17.5%, while the Cleaning Unit also showed a reduction, from 24% to 22.0%. In support services turnover reduced from 13.9% in 2007/08 to 7.6% in 2008/09. Employee turnover within the Construction Division increased by 1.9% compared to the previous year to 10.1%. The overall employee turnover rate of 18.0% meant that Tayside Contracts recruited 468 new staff over the course of the year.

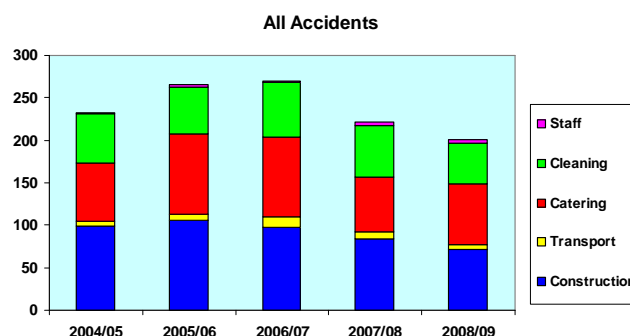
The labour stability index showed an improvement for the organisation as a whole of 0.5% in 2008/09. This positive increase in stability was demonstrated within support services, catering and, to a lesser extent, cleaning. Within the Construction Division labour stability is down by 1.7%, which is contrary to the positive organisational trends.



Health & Safety

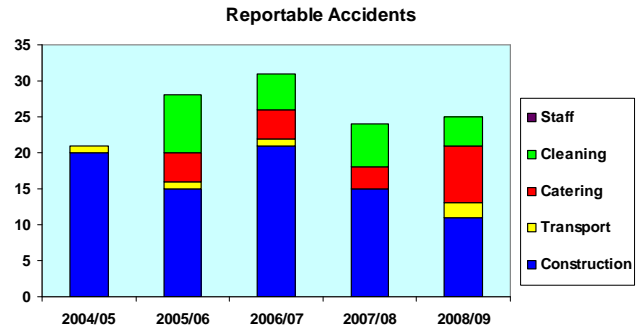
Tayside Contracts continues to actively address its responsibilities as an employer to provide a healthy and safe environment for all employees. In addition, the organisation remains committed to the promotion of proactive health and safety management by creating a culture which secures involvement and participation of employees at all levels.

The trend of all accidents reported between 2005 and 2007, now shows a continuation of the improvement seen last year. A total of 201 accidents were recorded during 2008/09 compared to 221 and 270 recorded in the preceding two years. This improvement is



particularly encouraging against a backdrop of a very busy year in all areas of the business, with increased operational activity in the construction, cleaning and catering. Each accident reported was investigated to an appropriate level depending on its severity, and action taken to ensure the prevention of any further occurrences and to implement controls to minimise future risks. In addition, analysis of the causes of accidents is carried out to identify trends and similarities. For example, focus on manual handling through training and equipment improvements has led to a 50% reduction in manual handling accidents.

2008/09 saw a small rise in the number of accidents reportable to the Health and Safety Executive from 24 to 25. These are accidents which result in employees being absent from work for more than 3 consecutive days, but none are considered to be in the serious injury category.



Training & Development

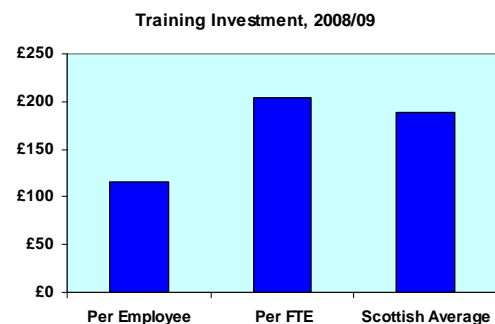
Tayside Contracts is committed to training, developing and realising the potential of all staff and generating a culture within the organisation which actively encourages innovation. A significant proportion of staff training is delivered from in-house training resources in order to ensure that training is appropriately targeted to meet staff and business needs and is delivered in a cost-effective manner.

During 2008/09

- 2383 employee training occasions took place
- 157 employees achieved food hygiene certification
- 124 employees achieved Construction Skills Certification Scheme registration
- 48 employees achieved/retained Traffic Management registration cards
- 177 employees passed a Health & Safety test
- 180 employees achieved a Scottish Vocational Qualification
- 160 employees attended corporate induction training
- 308 employees received on-job induction training
- £322k was invested in training
- £55k income was generated from training third parties
- 80% of the Training Plan was delivered

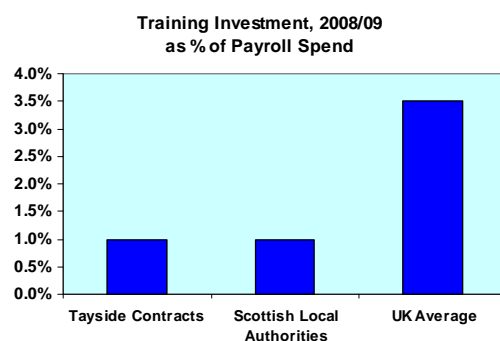
Tayside Contracts is an approved Training & Assessment Centre for:

- Scottish Qualifications Authority
- Roads Surface Treatment Association
- PAA/VQ-SET (formerly British Sign Graphics Association)
- Highways & Construction Training Association
- Royal Environmental Health Institute of Scotland
- Equipment Operators Registration Scheme
- Street Works Qualification Register
- Institute of Leadership & Management



The amount invested in training during 2008/09 per employee would appear to be below the national average for local authorities. However, when measured on a basis of investment per full-time equivalent employee, Tayside Contracts' investment is higher than the national average.

This statistic is reflected by the amount invested as a percentage of payroll costs, which is directly comparable to the average for Scottish local authorities, although investment at this level is significantly lower than the UK average for all businesses and public organisations.



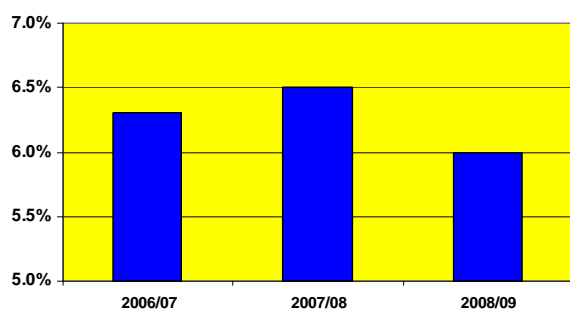
Sickness Absence Management

Tayside Contracts is committed to a policy of support for employees through periods of absence from work through illness and their subsequent return to work. A positive and active approach is also applied to the management of sickness absence to minimise any detrimental impact on employees and costs to the organisation and consequently to the local taxpayer.

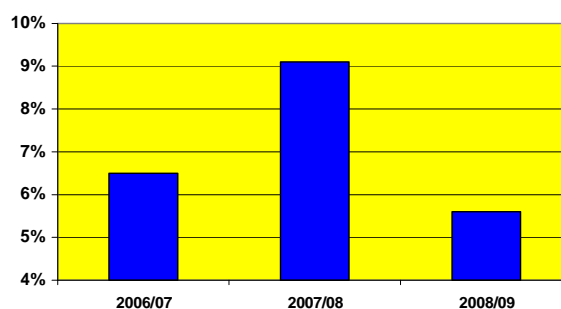
To facilitate valid and effective benchmarking, Tayside Contracts applies the same basis for calculating sickness absence statistics as that employed by the 32 Scottish Councils. Comparative figures are provided over the last three years. Prior to 2006/07, the absence statistics were calculated on a different employee grouping basis.

In 2008/09, the level of sickness absence for the Chief Officer and Local Government Employees group reduced to 6.0%, an improvement of 0.5% against the previous year. This compares with the national average of 5.8% (2007/08 data; 2008/09 not yet published). It is worth noting that Tayside Contracts figures include a significantly higher proportion of manual

Sickness Absence Trend - CO & LG Employees



Sickness Absence Trend - Craft Employees



workers, traditionally a group with relatively high levels of sickness absence. Comparison with the national average is therefore likely to be negatively impacted by the different employee mix.

The trend of sickness absence for employees in the Craft grouping also showed a welcome improvement in 2008/09, from 9.1% in 2007/08 to 5.6%. It should be noted that there is a relatively small number of employees in this grouping, and the improvement is largely due to a

reduction in long term absences. The national average (2007/08 figures) for the Craft group is 6.6%.

The costs associated with sickness absence can be categorised as direct costs (i.e. the total cost of occupational and statutory sick pay) and indirect costs (the costs invested in managing absences). Indirect costs include those which are tangible and readily measurable, such as occupational health referrals and administration as well as costs which are detrimental but not readily measurable, such as loss of productive time, management time, back-up staff and impact on staff morale. In 2008/09 the direct costs of sickness absence reduced by £66k to £919k, which is attributable to a reduction in days lost through sickness absence of 3,106 compared to the previous year. The indirect costs increased by £2k compared to the previous year. This increase is primarily due to a lower than average cost in 2007/08, which was a result of a significant decrease in health referrals during the transitional period between Occupational Health providers.

Health surveillance continues to be applied as a pro-active means of supporting employee health. The main areas of focus are HAVS testing, audiograms, vaccinations and other specific medicals (e.g. night working, quarry and traffic management employees).

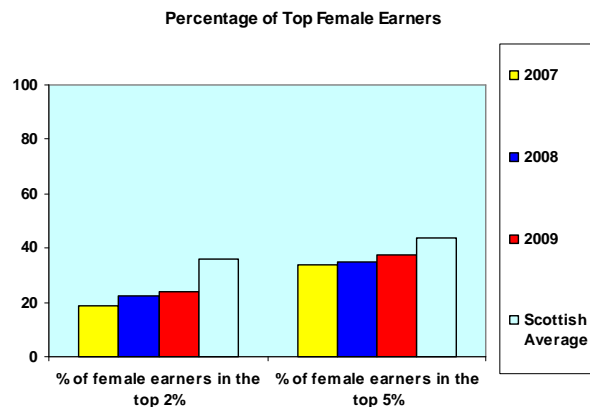
Equality and Diversity in Employment

Tayside Contracts' is committed to fulfilling its statutory equality duties through the development and ongoing implementation of our Race, Disability and Gender Equality Schemes. Significant progress has been made in ensuring that Tayside Contracts employees reflect the demographic profile of Tayside and meets the diverse needs of the community we serve.

Statutory performance indicators have also been introduced to measure the percentage of the highest paid 5% and 2% of earners among employees who are women.

Against the top 2% measure, the national average among Scottish councils reported for 2007/08 was 35.9%. Tayside Contracts is somewhat lower than the national average at 24% in 2008/09, although this represents a continuing increase from 23% in 2007/08 and 19% in 2006/07.

Against the top 5% measure, the national average in 2007/08 was 44.0%. Tayside Contracts comes in closer to this measure at 37% in 2008/09, again showing a steady increase from 35% in 2007/08 and 34% in 2006/07.



Employee Satisfaction

The annual employee survey was carried out in November 2008 as part of our continuing communications policy, and involvement of our employees in contributing towards shaping the culture the organisation. The aim of the survey was to establish the extent to which our values and performance targets are understood and embedded into the day-to-day work of our

employees. An encouraging response rate of 36%, some 856 employees, was achieved in the survey.

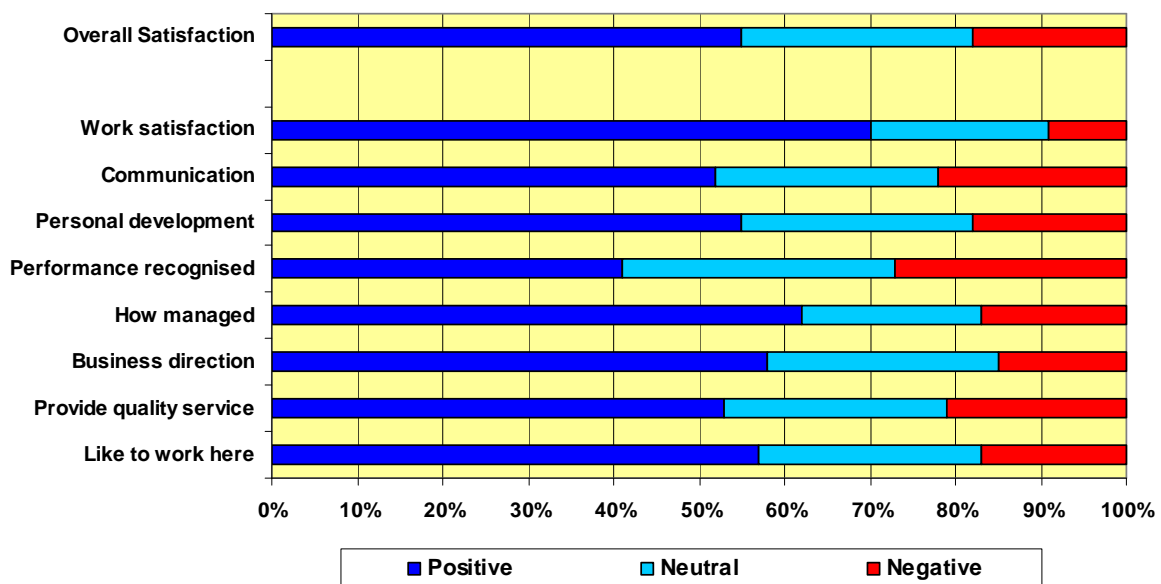
The key themes that continue to contribute positively to employee engagement and which indicate that the performance of Tayside Contracts is relatively strong are as follows:

- Section 1 – What it’s like to work here
- Section 2 – Providing a quality service
- Section 3 – Understanding business direction
- Section 4 - How I am managed
- Section 6 - Personal development
- Section 9 - Work satisfaction

The performance outcomes that impact most on employee engagement and where Tayside Contracts is performing less well are:

- Section 5 – How my performance is recognised
- Section 7 - Communication

Accordingly, it is within these areas that Tayside Contracts will target interventions to achieve the required improvements.



The overall satisfaction level shows a positive rating of 55%, a neutral rating of 27% and a negative rating of 18%, which is in line with the overall satisfaction rating from the employee survey carried out in 2007.

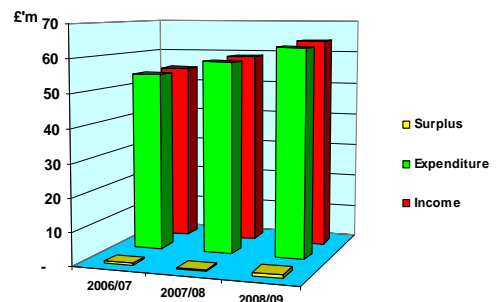
Financial Measures

Summary Financial Performance

Tayside Contracts overall financial performance in 2008/09 showed an operational surplus of £1.09m, of which £1.0m was returned to the constituent Councils and £0.90m retained in reserves. Income generated from Construction Division and Facilities Services Division activities showed an 8.7% increase over the previous year to £63.9m.

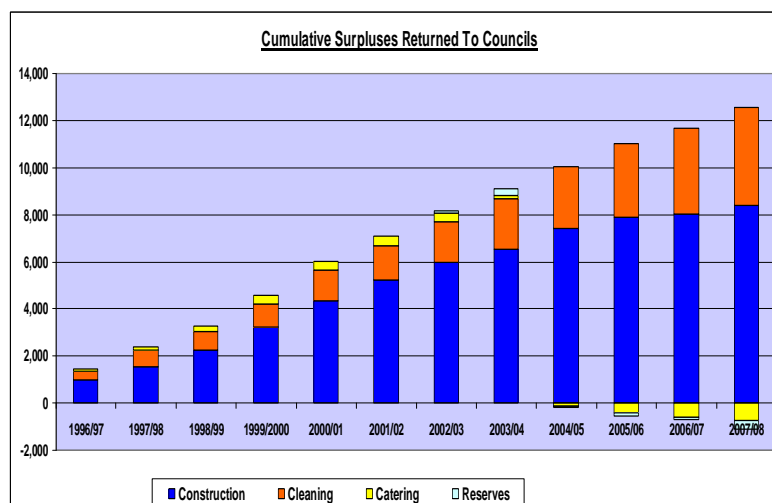
Consolidated Income and Expenditure

	2006/07	2007/08	2008/09
	£'m	£'m	£'m
Income	54.7	58.8	63.9
Expenditure	(54.0)	(58.0)	(62.8)
Operational Surplus	0.7	0.8	1.1
Transfer (to)/from Reserves	(0.2)	(0.3)	(0.1)
Returned to Constituent Councils	0.5	0.5	1.0



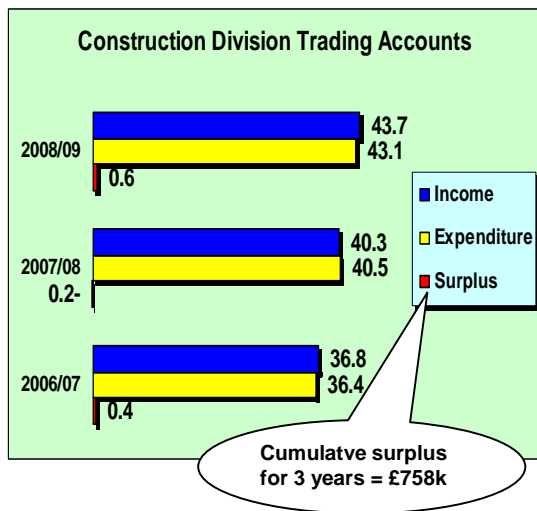
Surpluses Returned to Constituent Councils

In the 13 years since local government reorganisation in 1996, Tayside Contracts has returned a total of £12.44m to the constituent Councils, of which 70% has been generated from construction activities and 30% from facilities services. General reserves are used to meet any shortfall in surplus due to the Councils, and are built up from excess surpluses earned.



Statutory Trading Accounts

The Local Government in Scotland Act 2003 requires that trading accounts be maintained for significant trading operations, and these must achieve a financial break-even position over a rolling three year period. Tayside Contracts complies with this requirement through the inclusion in the Annual Report of trading accounts for the Construction Division and Facilities Services Division.

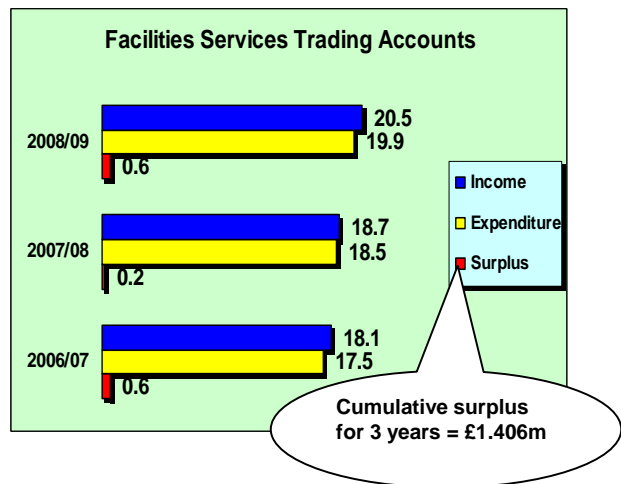


In 2008/09, the Construction Division trading account shows a surplus of £319k before applying notional pension costs as required by Financial Reporting Standard (FRS)17. Over the rolling three year period from 2006/07 a cumulative surplus of £497k has been achieved.

After adjusting for a notional FRS17 credit of £195k in 2008/09, a surplus of £514k results. The cumulative 3 year surplus after FRS 17 adjustments, against which the statutory break-even objective is measured, amounts to £758k thereby achieving the statutory requirement.

The Facilities Services Division, which comprises the Cleaning and Catering Units, reported a surplus of £502k in 2008/09 before applying FRS17 notional adjustments. Over the three years from 2006/07 a cumulative surplus of £1.19m has been achieved.

After adjusting for a notional FRS17 credit of £150k in 2008/09, the surplus is increased to £652k. The cumulative 3 year surplus after FRS 17 adjustments amounts to £1.406m thereby comfortably achieving the statutory requirement.



Procurement

Within Procurement over the last year there have been fundamental changes in the processing of tenders. With the publication in March 2006 of John McClelland's report and recommendations on his Review of Public Procurement in Scotland, Tayside Contracts has been heavily involved with the Tayside Procurement Consortium, which is the strategic procurement unit working as a shared service on behalf of the constituent Councils. A key conclusion of the McClelland report was to ensure the benefits of collective buying power which can be achieved through joint procurement were fully harnessed, and the resultant economies of scale and efficiency improvements delivered. Working together to buy goods and services can deliver more efficient business processes saving time and money. Along with the Tayside Procurement Consortium we have fully embraced the McClelland ethos and have worked very closely with the constituent Councils to bring benefit to all procurement activity through collaboration and sharing of best practice. The Tayside Procurement Consortium has been fully engaged with Procurement Scotland and Scotland Excel, who are respectively the national and local government centres of expertise. Tayside Contracts have taken the lead on commodities

such as groceries and provisions, frozen food, milk, personal protective equipment (PPE) and catering equipment on behalf of the Tayside Procurement Consortium.

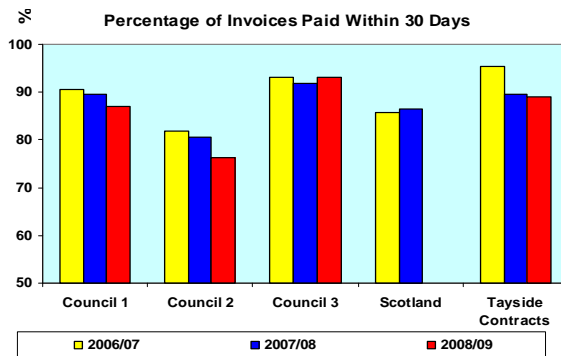
Benefits are already being realised from these contracts, and over the next year savings of some £70k are anticipated on the groceries and provisions, frozen food and PPE contracts within Tayside Contracts. In addition to these hard cash savings, there are also benefits from being able to order directly from contracts set up by the centres of excellence following a single tender process on behalf of the 32 councils.

Tayside Contracts has also benefited from applying other aspects of e-procurement including the use of embedded purchasing cards with suppliers and the development of dedicated on-line ordering with certain suppliers. This has enabled both strong control over purchasing and also the opportunity to reduce stock-holding through just-in-time purchasing. The introduction of purchasing cards has also provided a more efficient supplier payment process to the extent that we are now processing some 20,000 fewer supplier invoices per annum. This process will be extended further over the next year.

Invoices Paid Within 30 Days

One of the Statutory Performance Indicators which local authorities are required to report relates to the payment of invoices to suppliers within 30 days.

Tayside Contracts performance over the last five years has generally been better than the national average. The payment performance in 2007/08 was 89.6%, above the Scottish average of 86.5%. In 2008/09 there has been a slight drop to 89.0%, with no Scottish average available at the time of writing



Service Measures

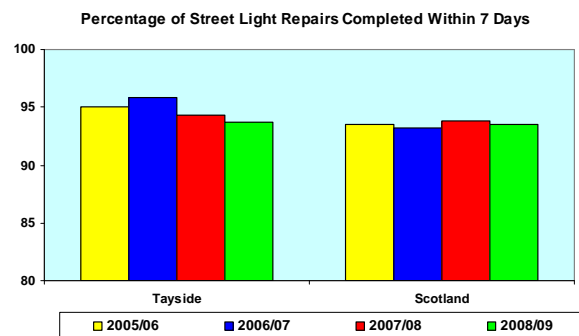
Almost all of the service-related statutory performance indicators reported to Audit Scotland relate to Council services which are not relevant to Tayside Contracts. A range of performance measures are used within Tayside Contracts for operational management purposes. Further performance indicators are being developed to measure achievements against Business Plan targets and objectives, and these will be included in future performance reports when they are considered to provide sufficiently robust and meaningful performance information.

Construction Operations

Street Lighting

One of the major activities within the Construction Division is the maintenance of street lighting in each of the constituent Council areas. A statutory performance indicator relating to the percentage of street light repairs completed within 7 days is reported by each of the Councils.

The performance of each constituent Council, and therefore of Tayside Contracts street lighting operations, continues to be of a high level and remains at least on a par the average for Scottish Councils. A performance rating of 93.7% was recorded in 2008/09 against the national average of 93.5%. The 2008/09 results show a marginal drop from 94.3% in the previous year. With increasing pressure on budgets generally, and more specifically with the higher cost of electricity directly impacting



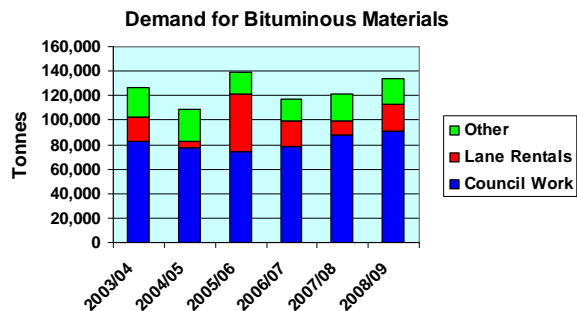
on street lighting budgets, employee levels in the street lighting partnership have reduced from 68 in 2004 to 48. While this has the desired outcome of maintaining tight control over costs, it does have an impact on unplanned reactive repairs in particular, hence the drop in performance levels in 2008/09. This is also reflected in the average time taken to repair faulty lights, which has increased from 1.9 days in 2007/08 to 2.3 days in 2008/09. However, this remains well ahead of the national average of 2.4 days for cities and 3.3 days for rural areas. The benefits of partnership working with Dundee City and Perth & Kinross Councils have been clearly demonstrated in terms of the efficiency and effectiveness of service delivery, and also the unit cost of providing the service. Partnering arrangements with Angus Council are now also under discussion to further capture these benefits.

Surfacing Activity

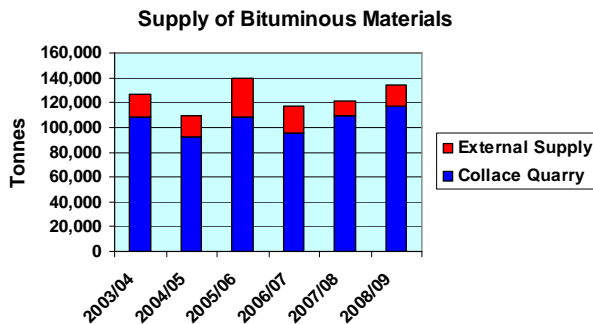
Tayside Contracts is involved in providing a range of roads maintenance services to the constituent Councils which are the subject of statutory performance indicators. However, because these services are not exclusively provided by Tayside Contracts they cannot be reported as measures of Tayside Contracts performance.

Demand for bituminous materials may be taken as an indication of road surfacing activity, demonstrating that the level of activity during 2008/09 was significantly higher (+10%) than in 2007/08, and also higher (+8%) than the average over the past 5 years. Work for the constituent Councils was higher in 2008/09; lane rental work was around the average level of activity, comprising one large value contract. Work carried out for other Councils and third

parties was higher than previous years, benefitting from housing developments, wind farm access roads and supply of materials and work won as sub-contractor on large scale Council capital projects. Towards the end of the year, it was evident that the economic downturn was beginning to have a direct impact on external works as a number of projects were cancelled or put on hold. It is clear that this trend will continue, certainly through 2009/10 and for an indeterminate period beyond. We will continue to seek profitable external work where available, but will equally focus on management of costs and efficiency of our operations to mitigate the downturn in available work.



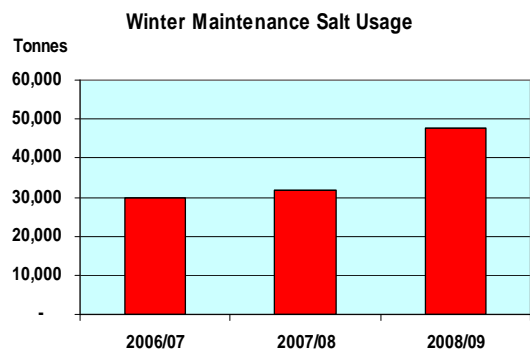
On average, 124,000 tonnes of bituminous materials per annum has been used over the last five years, comprising 104,000 tonnes supplied from Collace Quarry and 20,000 tonnes from external quarries.



In 2008/09, the volume sourced externally was below average at 16,500, meaning that in-house supply from Collace was 8,000 tonnes 7% higher than previous year and also some 10,000 tonnes up on the average level of output. This is a result of more works being carried out in locations which are economic to supply from Collace, and also more focus on minimising the need for external sourcing of asphalt.

Winter Maintenance Activity

A key feature of Tayside Contracts activity on behalf of the constituent Councils is the provision of a winter maintenance service, involving road and footpath gritting and snow clearing. The workforce in the Construction Division is largely determined by the level of manning required to provide the level of winter maintenance service specified by the Councils. The level of activity and to some extent the profitability of Tayside Contracts is dependent on the severity of winter conditions. An indicative measure of winter conditions and of the level of winter maintenance activity may be taken from the amount of salt used in gritting. As may be seen from the chart showing winter maintenance salt usage over the last three years, there was a significant increase in 2008/09 due to winter conditions being amongst the worst in terms of both temperatures and snowfall in decades. Salt usage increased from around 30,000 tonnes in each of the previous two years to almost 48,000 tonnes in 2008/09. Salt stocks were under severe pressure for a few weeks as the Government sought to allocate supplies to areas in most need. By judicious planning and allocation of salt within Tayside, no shortages were incurred and a full service provided



throughout the season. The increased activity is also reflected in the number of hours worked on winter maintenance, which showed an increase of more than 50% compared to the previous two years, up from 37,000 hours in 2007/08 to 57,000 in 2008/09.

Dundee Roads Maintenance Partnership

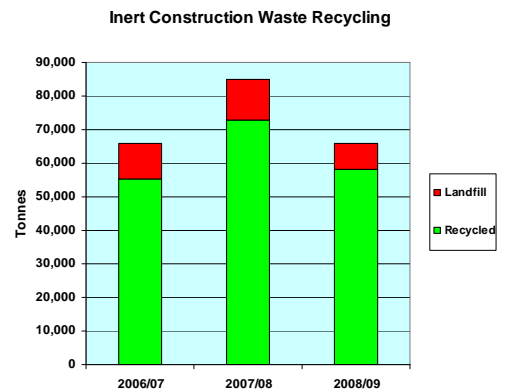
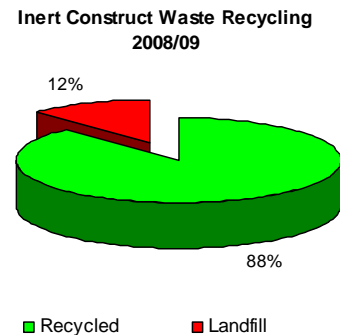
2008/09 saw the further development of the Roads Maintenance Partnership between Dundee City Council and Tayside Contracts, with client and contractor staff being co-located in Tayside Contracts' premises. The benefits of closer working relationships and removal of duplication has enabled a much more efficient and effective delivery of roads maintenance services, and the partnership has now been extended for a further three years. The priority areas for the first year of the partnership, as well as ensuring effective integration of the service, focussed on improvements in relation to gully cleaning, pothole repairs, grit bins and development of the asset management system. Being year 1, baseline data has been collected against a range of performance indicators so that targets may be set for future improvement. Where comparative data exists, the performance of the partnership has generally demonstrated a strong and improved performance. For example, cost of pothole repairs has reduced while at the same time completing 97% of repairs within target timescales. A more efficient system regarding collection and distribution of grit bins has been introduced, and work is ongoing to optimise gully cleaning operations (in excess of 20,000 gullies require to be cleaned twice a year).

The success of the Dundee partnership has led to discussion with Perth & Kinross Council with a view to establishing a pilot partnering arrangement, and partnering remains the preferred solution to achieving more efficient working with the constituent Councils.

Recycling

Recycling is now routinely a core consideration in Construction activities, for both environmental and economic reasons. Significant amounts of material are generated from road planings and other civil engineering works, and with the increasing cost and tax burdens of disposal to landfill, together with taxes on quarrying new stone and the high cost of bitumen, it is both financially and environmentally advantageous to seek means of recycling these materials. Tayside Contracts operates a number of recycling centres across Tayside to separate out the reusable materials (primarily top soil, stone aggregates and asphalt planings) and to sell or use those materials where optimum value can be derived.

During 2008/09, some 66,000 tonnes of such material was generated from Construction activities, of which 88% or 58,000 tonnes was recycled and the balance of 12% sent to landfill. The total amount of material processed is lower than in 2007/08 (85,000 tonnes), but the proportion sent to landfill has continued to reduce from 16% in 2006/07 to 15% last year, and further to 12% in 2008/09. The substantial majority of the landfill material was directed to Pairnie quarry, which is an exempt site that is being landfilled for environmental reasons and therefore does not incur landfill tax. A total of 247 tonnes



was subject to landfill tax at the lower rate for inert material.

In addition to these materials, in excess of 8,000 tonnes of gully waste was collected. This material is processed through the reed bed systems at Forfar and Loanleven, enabling the liquid content of 60% to be cleaned and recycled. The objective for the remaining solids is to meet the required environmental standard to allow recycling as green compost, and following extensive testing during 2008/09 which is nearing completion, the bulk of this material is now capable of being composted.

Asphalt planings continue to be recycled and used in the production of bituminous materials at Collace Quarry. The hot mix recycling process has now been established for some 5 years, and includes 10% recycled asphalt in the coating process. The benefits which have accrued over the 5 years, from an investment of £110k, amount to more than £350k and reflect a reduction of 550 tonnes in bitumen required. This in turn equates to a saving of more than 600,000 litres of crude oil and a consequent environmental benefit of a carbon reduction of 150 tonnes.

Development of the cold mix recycling process saw the formal Tayset® product launch in June 2008. The product was developed in partnership with Dundee University and Nynas Bitumen through a Knowledge Transfer Partnership. Building on initial laboratory work and gradually scaled-up outdoor trials, some 2,000 tonnes were used in November 2008 in the A90 resurfacing project on the busy dual carriageway between Dundee and Perth. A patent application has been submitted for Tayset®, and a number of enquiries have been received from other Authorities and contractors interested in using the material under license. In addition to the material used on the trunk road, a further 2,400 tonnes has been used in various Council road and footpath schemes. The environmental benefit derived from production of 4,400 tonnes of Tayset® amounts to a saving of 105 tonnes of CO₂ emissions. Additionally, financial savings of 15 – 20% per tonne can be achieved, enabling ever-tightening budgets to go further.

A new development has been progressed during 2008/09, involving using the ash generated from the Baldovie incinerator as a replacement for limestone dust as a filler material in the asphalt production process. Trials to date have been successful, and further testing indicates that the material can be effectively used as base and binder courses. In addition to the environmental advantages of this initiative, there are clear economic benefits for the Council and Tayside Contracts, the former saving landfill costs and taxes and the latter saving on the purchase of limestone dust.

Business Improvement Initiatives

Following the success of the Knowledge Transfer Partnership (KTP) through which the Tayset® cold mix recycling was developed in conjunction with Dundee University, a second KTP has been established with a focus on business improvement initially within the Construction Division. The project enables access to world-leading authorities on “lean techniques”, and is the first time these techniques have been applied to roads maintenance activities, having originally been developed in the Japanese motor industry and evolved into other business spheres including building projects. The programme is ambitious, and aims to deliver improvements in efficiency and profitability, asset utilisation, quality and service delivery, client satisfaction and a cultural change in our employees’ approach to work. The programme commenced in February 2009 and, while it is a two-and-a-half year project designed to deliver sustainable long term improvements, some results are expected to filter through in 2009/10.

Awards and Achievements

It is pleasing to note that the value of Tayset® has been recognised during 2008/09, gaining many accolades and winning two prestigious awards. Firstly, the APSE award for the best environmental initiative was won by Tayside Contracts for the development of Tayset® in the face of stiff national competition. It was also successful in winning the Vision in Business for the Environment of Scotland (VIBES) award for best product. The latter is particularly creditable as it is open to all businesses in Scotland and previous winners of the VIBES award include major companies such as Rolls Royce. Tayside Contracts are the only organisation to have won this award twice, having previously been successful in 2001 for development of the reed bed system for treating gully waste.

The performance of the Street Lighting partnership was also recognised by APSE for its approach to service delivery, being a successful finalist in the “Public/Public Partnership” category. Specifically, the performance of the street lighting service in Perth & Kinross was recognised, being only one of 7 Councils across the UK to reach the final in the Best Performer – Street Lighting category.

On a local level, the Perth & Kinross Securing the Future awards recognised the changes and improvements achieved through the introduction of the “Find & Fix” roads maintenance squads with a gold award.

Finally, a belated award was received from West Lothian Council following Tayside Contracts participation in their extensive roads improvement programme. Tayside Contracts was named best roads maintenance contractor in their Considerate Contractor awards, which recognise a contractor’s ability to reduce inconvenience, frustration and danger to road users and pedestrians.

Whilst awards in themselves are pleasing to receive, the real satisfaction lies in the recognition of our employees’ skills and efforts, and in particular that this recognition is across a wide spectrum including innovation, environmental sustainability, service delivery, continuous improvement and customer care.

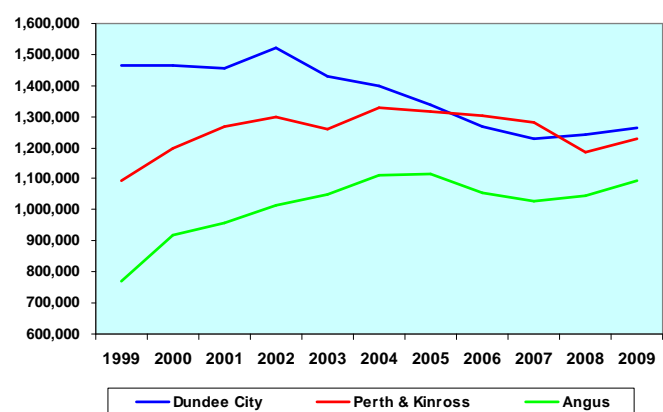
Catering

Catering operations are predominantly focussed on the provision of school meals to the three Councils and the welfare meals service in Dundee. A small amount of welfare meals are provided from school kitchens in Perth & Kinross and Angus, and a function catering service is also provided. A catering service is now also provided to Tayside Police in Dundee and Perth. Some statistics are provided relating to trends in the number of school and welfare meals provided.

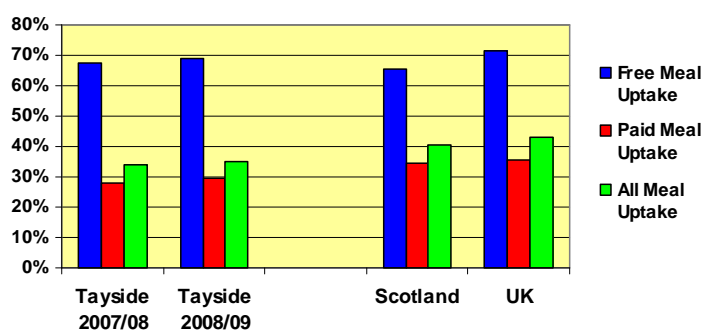
School Meals

After a period of sustained growth in school meal numbers, these levelled off in 2004/05 and began to fall in the next two years as the combined impact of a declining school population and an initially negative response from pupils to the implementation of the healthy eating agenda were seen. However, the healthy eating agenda is a long term commitment and a holistic approach is being followed involving close working with the constituent Councils to achieve a sustained improvement. The decline now appears to have bottomed-out, and the recovery in school meal uptake seen in 2007/08 has continued through 2008/09. It is also encouraging to note that more school children are eating healthier meals, a successful trend which we are committed to improving further.

Trend of School Meal Numbers



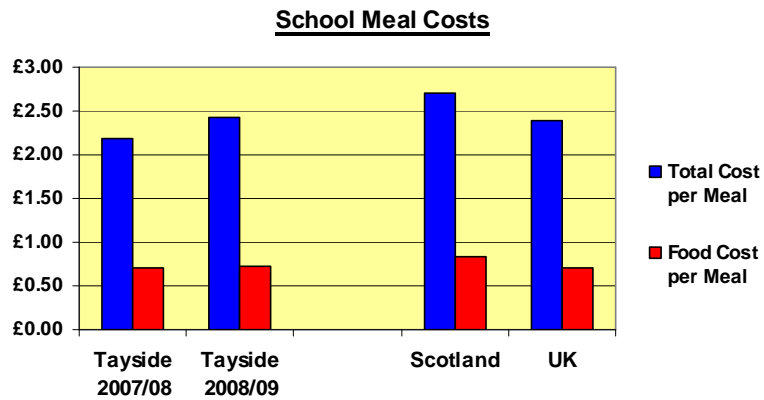
School Meal Uptake



The proportion of pupils taking school meals has also increased in 2008/09, from 34% to 35%, which is an encouraging increase but remains below both the Scottish and UK average levels of 40% and 43% respectively. Uptake of free meals by pupils entitled and registered increased from 68% in 2007/08 to 69% in 2008/09. This compares favourably with the average uptake for Scotland, but remains below the UK average of 72%. Uptake of paid meals improved from 28% of the school population in 2007/08 to 30% in 2008/09. While the increase is very welcome, the uptake levels are well below the Scottish and UK averages of 35% and 36% respectively.

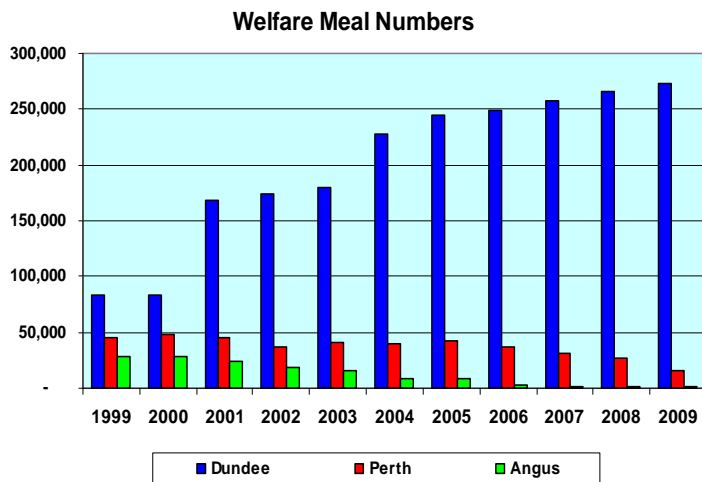
The cost of providing school meals showed an increase in 2008/09 as a consequence of Single Status implementation, through which cooks' and catering assistants' wages increased as historical inequalities in pay were addressed. Food price inflation also pushed the cost of meals up over the course of the year. However the cost of meals provided by Tayside Contracts remains competitive compared to the average costs for Scotland and the UK as a whole. In

2007/08, the cost of a school meal provided by Tayside Contracts was £2.19 compared to the UK average cost of £2.39 and the Scottish average cost of £2.70. Tayside Contracts cost increased to £2.42 in 2008/09, but comparative national figures are not yet available. The food element of the total cost was £0.70 in 2007/08, increasing to £0.73 in 2008/09. The average food cost in Scotland during 2007/08 was £0.83 and £0.70 across the UK. The Scottish comparison is more relevant as all Scottish Councils are governed by the same regulations and standards regarding the nutritional content of meals. Tayside Contracts meets all national standards, and can therefore demonstrate provision of a high quality school meals service at a cost well below the national average.



Welfare Meals

The upward growth trend in Welfare meal numbers in Dundee, where meals have been provided from the Tay Cuisine cook-chill facility since 2003, continues. Previously, welfare meals were provided from various kitchens with a limited capability of some 180,000 meals per annum. The level of meals provided has continued to grow, albeit at a much slower rate, with 273,000 meals provided in 2008/09 compared to around 266,000 in 2007/08. A relatively small number of meals have been provided in Perth and Kinross, but this provision has now ceased following the introduction of a frozen meals service. A very small number of welfare meals are provided by Tayside Contracts in Angus.



Awards & Achievements

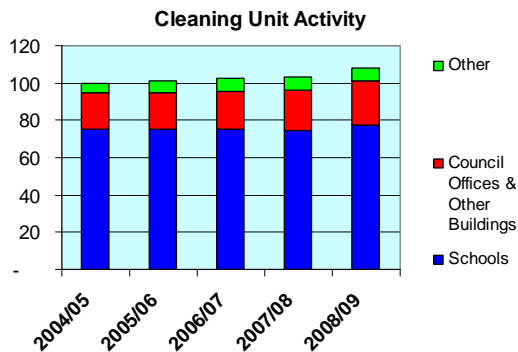
The quality of meals provided by the Catering Unit is reflected in the continued success of Tayside Contracts employees in achieving national awards and commendations. A highly commendable 2nd place was achieved by Alison Sinclair in the UK School Chef of the Year competition, having previously won the regional competition for Scotland and the North of England. Alison's prize meal was produced at a cost of £1.10, and comprised predominantly fresh ingredients from the Tayside region. This success follows on from previous achievements by Tayside Contracts cooks, who have either won or been highly commended in the national

finals of this competition over the past three years. Alison's success was mirrored by that of Patricia Hepburn, who took second place in the UK Care Cook of the Year competition. Patricia is employed in the Tay Cuisine cook-chill facility which provides community meals to individuals and luncheon clubs throughout Dundee, and as well as achieving second place, was commended for her professionalism and in particular her exacting hygiene standards. Not to be outdone, Scott Shaw, Tay Cuisine's highly talented baker, won a silver medal awarded by the Craft Guild of Chefs for his decorated novelty cake – further testament to the creativity, skill and professionalism that exists within Tayside Contracts catering staff.

Cleaning

Activity

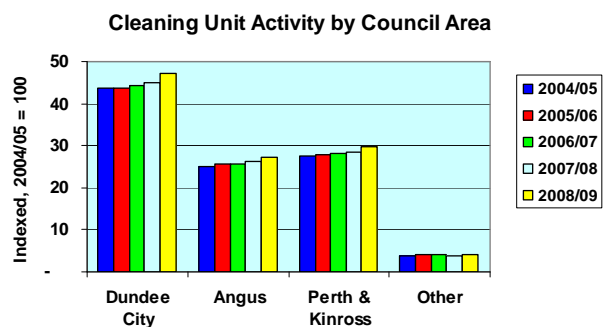
There are no statutory performance indicators which relate to cleaning activities. However, some information is provided on the activity of the Cleaning Unit in 2008/09 compared with the previous four years.



The major element of the Cleaning Unit's activity is the schools' cleaning service, which accounts for around 71% of the work carried out. Of the remaining work, 22% relates to cleaning of Council offices and other public buildings, while the remaining 7% relates to the cleaning service provided to Tayside Fire & Rescue and the communal area service to housing tenants. Following a small amount of growth in each area of around 1% per annum, a more significant increase of 5% was achieved in 2008/09. This was largely due to increased activity associated with the completion and opening of PPP schools

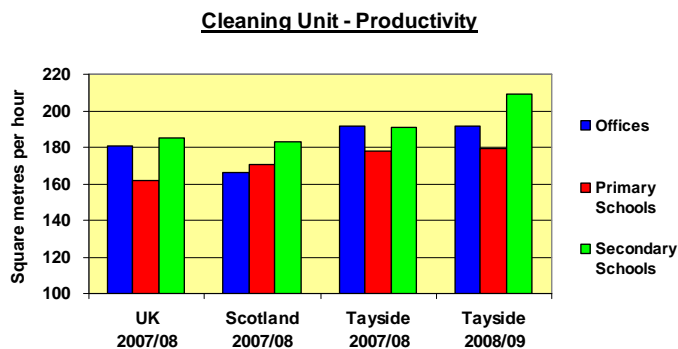
in Dundee and Angus, and also additional office cleaning work.

When viewed by Council area, it can be seen that the growth over the last five years has been achieved in each Council area, and to a lesser extent in the non-Council work. The relatively stable nature of cleaning work enables the Cleaning Unit to benefit from a greater degree of certainty than either the Catering Unit or Construction Division. This stability has in turn enabled ongoing investment in equipment and employees to deliver a quality service and continuous improvement in productivity to the mutual benefit of Tayside Contracts and the constituent Councils.



Productivity and Cost Effectiveness

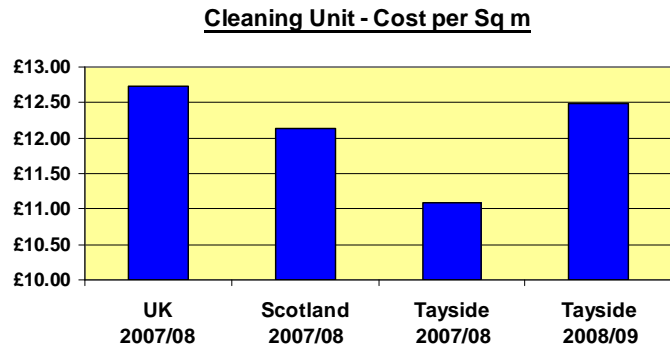
Benchmarking of a range of performance indicators is now being carried out against other Councils across Scotland and the UK. Data collected for 2007/08 and 2008/09 shows a very



credible performance with regard to the levels of productivity achieved by Tayside Contracts Cleaning Unit. Taking square metres cleaned per hour as the measure of productivity, in each category of Offices, Primary Schools and Secondary Schools, Tayside Contracts productivity is significantly higher than the recorded averages for Scotland and the UK. Even more encouraging is the improvement in productivity evidenced

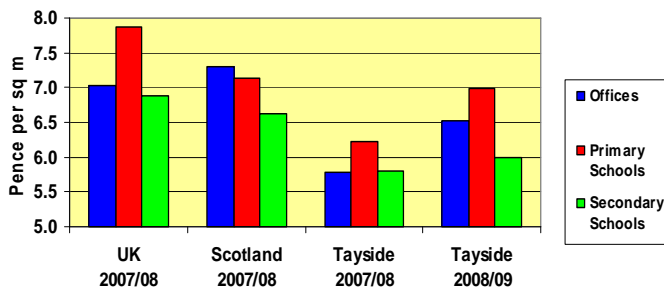
in 2008/09 in both primary and secondary schools, while productivity levels have been maintained in office buildings.

While productivity is very important in delivering best value to our customers, it is also important that the service is provided at a competitive cost. Benchmarking comparisons against other Scottish and UK Councils would suggest that the cleaning service provided by Tayside Contracts is competitive and cost-effective. In 2007/08, the cost per square metre cleaned by Tayside Contracts was £11.09 compared with average costs of £12.14 and £12.74 across Scotland and the UK respectively. Tayside Contracts costs have increased in 2008/09 following implementation of Single Status which has effectively addressed historical pay inequalities. Comparative figures for other Scottish and UK cleaning services are not yet available for 2008/09.



When taken together, the productivity levels and costs can provide a measure of cost efficiency,

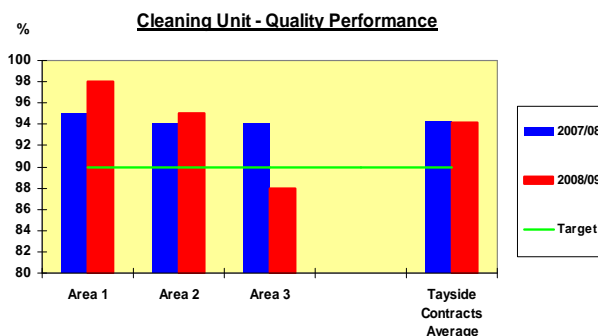
Cleaning Unit - Cost Efficiency (pence per sq m)



which is a good indicator of best value. Dividing cost per square metre by square metres cleaned per hour gives a cost efficiency measure stated in pence per hour. Again, for each category Tayside Contracts performance against the national averages in 2007/08 was very positive, and remains well ahead of the Scottish and UK averages in 2008/09 despite the necessary increase in wage costs.

Quality

Along with productivity and cost measures, the quality of the cleaning service provided to our customers is critical to the ongoing success of the Cleaning Unit. A system of inspections and audits has been developed in conjunction with the Councils, and this is supplemented by self-audits. A computerised quality monitoring system has been implemented across the three Council areas, making it easier to analyse and summarise information from tens of thousands of checks carried out during inspections. During 2008/09, a total of 130,000 quality checks were carried out. A target quality performance of 90% was set at the start of the year, and this has been exceeded with an overall quality performance of 94% achieved. While improvement was

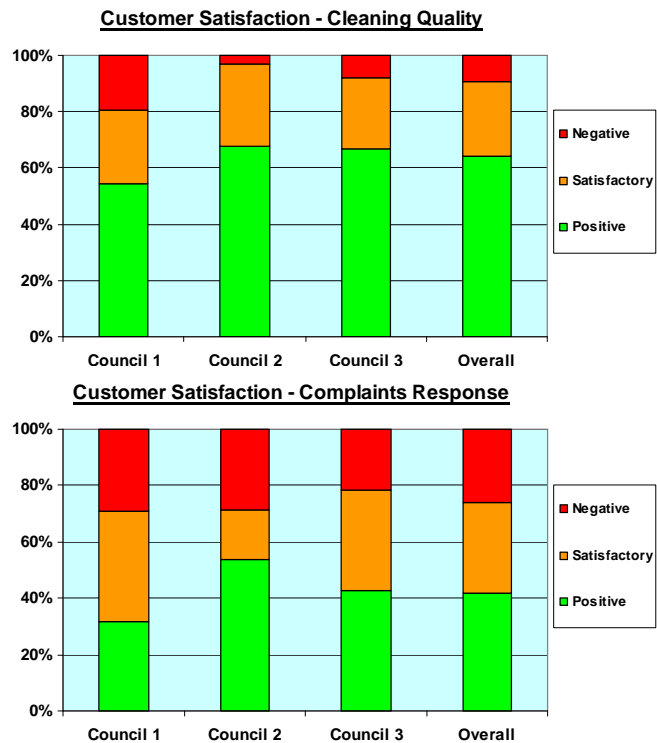


been exceeded with an overall quality performance of 94% achieved. While improvement was

seen in two of the Council areas, a concerning decline to 88% was recorded in the third area. A root cause analysis has been carried out and appropriate corrective actions put in place to ensure the required standards are consistently met.

Customer Satisfaction

While quality monitoring provides an objective and fact-based measure of quality, it is also useful to be aware of customers perception of the service provided, including customers satisfaction levels with the quality and our response to complaints raised. A help desk has been introduced to capture complaints and other customer comments so that these may be tracked and appropriate responses and corrective action taken in a timely manner. Customer surveys carried out show a positive perception of the quality of the service provided, with 91% of respondents rating the service as either satisfactory or very good/excellent. This gives reassurance that customer satisfaction is reasonably close to the objective quality measure of 94%. However, customer satisfaction with responses to complaints is less positive with 26% of respondents expressing some degree of dissatisfaction. It is hoped that use of the help desk facility will allow us to monitor complaints and responses in a more proactive manner, and improve on this rating. During 2008/09, a total of 79 calls were logged on the help desk, of which 10 were requests for information or additional work and 2 were compliments. The remaining calls logged reflect 67 complaints, of which 82% were closed out within the 5 day target. To put the number of complaints logged into context, Tayside Contracts cleans around 450 establishments more than 200 times each year – a total of some 100,000 building cleans per annum. The 67 complaints logged equates to less than 0.1% of annual building cleans, or alternatively a success rate of 99.9%. Nevertheless, we are acutely aware of the importance of improving customer perception of the services provided and will strive to improve wherever possible.



Awards & Achievements

The strenuous efforts made towards constant service improvement throughout the cleaning service are reflected in the range of awards won during 2008/09. Our cleaning employees have a good tradition of achievement, and it is satisfying to see their performance recognised by national and professional bodies. During 2008/09, a number of prestigious accolades were won by our employees. The British Institute of Cleaning Science award for premises with more than 10 cleaners was won by Lorna Clark's team from Menzieshill High School. The Menzieshill team were doubly successful, also winning the APSE Scottish Healthy Communities award for outstanding achievement in building cleaning. These successes were followed up at the

ASSET Skills Scotland Cleaning Team Challenge, at which Rachel Laing was awarded the accolade of Best Cleaning Manager and Rachel's team of Lorraine Cussick, Margaret Robertson and Evelyn Duncan were runners up in the team award, further evidence of the professionalism and dedication of the employees in our Cleaning Unit.