



SCRUTINY COMMISSION - 15 JUNE 2016

UPDATE ON LEICESTERSHIRE TRADED SERVICES

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of the Report

1. The purpose of this report is to update the Scrutiny Commission on the progress made in delivering the recommendations of the Scrutiny Review Panel on Traded Services and the future plans of Leicestershire Traded Services.

Policy Framework and Previous Decisions

2. In November 2013, at a meeting of the Scrutiny Commission, a report on the progress made on traded services was considered. The Director of Corporate Resources welcomed the opportunity to have Elected Members involved in the process of reviewing and shaping the Council's future approach to trading.
3. At that meeting there was agreement that it was important to continue trading and to retain and build upon existing business, particularly in relation to schools.
4. A Scrutiny Review Panel commenced a Review of Traded Services in June 2014 and met on five occasions, reporting to Cabinet on 19th November 2014. At that meeting Cabinet resolved to:
 - (a) accept the Final Report and recommendations of the Scrutiny Review Panel;
 - (b) Request the Chief Executive to ensure that the recommendations of the Review are acted upon.
5. With the continued financial pressure on the County Council the requirement to raise additional revenue has become a key element of the Council's Transformation Programme and has been specifically included in the County Council's MTFS which was agreed by the Council on 17th February 2016.

Background

6. The recommendations of the Scrutiny Review Panel on Traded Services were as follows:-

General

- (a) That the County Council should continue to trade some of its services and further develop them to generate income to further contribute towards the Council's savings targets.
- (b) That the existing full portfolio of traded services be reviewed and that those traded services:
 - (i) delivered by the Corporate Resources Department be consolidated under one service lead;
 - (ii) considered to be no longer viable in a changing marketplace should cease trading and focus on internal delivery;

A new "Stand-Alone" Trading Unit

- (c) That a stand-alone trading unit be developed as part of the County Council, with its own brand and identity. This would:
 - (i) enable it to have a clear and strategic position in the marketplace, with a stronger trading presence;
 - (ii) maintain a link to the Council's corporate branding, with its reputation for high quality and value for money services;
- (d) Establish a dedicated marketing resource to ensure the trading unit is able to convey a coherent message to new and existing customers;
- (e) Strengthen the existing trading arrangements and fill vital skills and capability gaps of business development, a sales and account management function be created within the trading unit to ensure that a consistent offer is in place and to enable the cross-selling of services;
- (f) That it be accepted that some services with a traded element would remain outside of the stand-alone entity.

The Future

- (g) That, whilst it does not currently feel that a separate company should be created to cater for private sector trading, it will be necessary to keep a watching brief and that this position should be reviewed at a later date once a clearer picture can be taken of the new unit's delivery and performance;

- (h) That Elected Members have a vital role to play in championing the Council's traded offer to the local customer base (particularly district and parish councils) and that their expertise in the ongoing quality assurance role of traded services would be welcomed;
- (i) That a timetable for the development of these recommendations be devised by January 2015 to enable officers to progress the work without delay and to enable the Chairman to assess progress against these recommendations in 8-10 months' time.

General progress to date

7. The County Council continues to face ongoing financial pressures and the commercialisation of some of its services is an essential part of making a contribution towards these savings. The marketplace remains fiercely competitive as private sector companies continue to challenge for business. For the Council to maintain its current presence and expand it will require a complete step change by developing new work streams, achieving economies of scale and improving employee performance.
8. Since the Scrutiny Review Panel was convened in 2014, work is now well underway to progress the commercialisation of the traded services within the Corporate Resources Department. This work has focused on laying the basic foundations of being commercial and has begun to challenge existing working practices but has also tried to utilise the skills of the Council's existing workforce.
9. In 2015 and prior to the appointment of the Head of Commercial Services, the Council commenced some engagement with its managers to begin to commercialise the existing traded services. An initial focus of the approach was to concentrate on utilising and consolidating the skills that already exist within the workforce and begin to harness these to optimum effect. In addition workshops were used to begin to develop the right mind-set across teams and to encourage employees to take responsibility for their actions and go the extra mile.
10. A series of additional workshops were also held to engage and motivate staff around new ways of working and also to remove any perceived barriers that they might hold in relation to trading. If the Council is to build on developing a commercial mind-set then colleagues need to be brave, innovative and to seize opportunities. An output of these workshops was to capture the ideas of staff and also to encourage them to feel more empowered in speaking out and developing their ideas. Some of these ideas have since been put into practice, as an example one idea proposed by a team member to offer additional IT support services to schools was developed with a business case and has since been launched as an income stream.
11. Following on from these workshops a number of work-streams have now been mainstreamed into "business as usual". One particular work stream has been developed to explore existing and potential market opportunities and for the first

time the Council has begun to collate some meaningful information around our markets and customers both in relation to size and value.

12. From the information that emerged from this work stream it has been discovered that over 200 services are sold to a wide range of customers, but by far the largest market is education. It is also interesting to note that although the County Council has one of the highest rates of academy conversion, a large amount of schools and academies are retained as customers.
13. The analysis also confirmed that although there is considerable penetration within the Leicestershire educational marketplace, there are further opportunities to be seized. Historically, we have provided services from specific functional teams and have not maximised the opportunity to cross sell products and services. To address this plans are now in place to cross-sell to the schools and academies by developing better sales processes.
14. However, despite the Council's position of strength, it is also worth noting that the education marketplace is particularly price sensitive and as such remains hugely competitive. Although strong relationships exist with Leicestershire schools and academies and a quality service is delivered, several recent tenders have been lost to private sector competition based mainly on price. One key differential between the Council and private sector operations is that the pension schemes offered by these providers are significantly less costly to maintain than the LGPS scheme, which can give them a significant advantage when pricing bids and contracts.
15. Taking all of these factors into consideration the Council realises that in order to grow its business, our offering within the education market will need to be improved but to succeed it will be necessary to diversify into other markets and develop new products. To begin to widen the Council's range of customers areas are being explored within which to diversify across the public sector in the East Midlands and also to broaden the scope of the Council's services. An example of this is where the School Food Services is being developing and marketed as a catering service. Further plans are in place to develop catering facilities within Beacon Hill Country Park in spring 2017.

Stand-alone Trading Unit

16. It is accepted that whilst previously the Council has successfully traded a number of its services, the former management arrangements within Corporate Resources did not allow officers sufficient time to focus on the commercialisation and expansion of the business. In line with Scrutiny Review Panel's recommendations to create a stand-alone trading unit, the Corporate Resources departmental management team restructure of March 2016 created the new post of Assistant Director Commercial and Customer Services and a new Head of Commercial Services. These new arrangements have already started to enable a sharper focus on driving forward the commercial agenda, developing business and removing costs.

17. To provide backing to the above arrangements, a separate Finance team has been formed to support Leicestershire Traded Services. The team was created from existing resources and has been cost neutral is now in place and being led by a trained management accountant.
18. If Leicestershire Traded Services are to become truly commercial, it will require the Council to establish a firm hold on the financials. Significant work is now being progressed by this team to better understand costs and margins and to start creating profit and loss accounts for key commercial service areas. With the correct financial measures in place we will be able to develop a definitive trading history that will in time demonstrate the true value of the business.
19. It will take some time to move from the traditional way that a local authority operates to creating a stand-alone profitable and competitive commercial model. Moving forward, more work will need to be progressed to fully understand the true costs of corporate overheads and how they are allocated across the respective service areas.
20. Although part of the growth strategy is to cross-sell products and services across existing customers, to grow significantly the Leicestershire Traded Services also need to adopt a much more aggressive approach to acquiring new business. It is intended to do this by winning more bids and tenders than is presently the case. As part of the Scrutiny Review Panel's recommendation to create a stand-alone entity, the opportunity has been taken to further develop commissioning skills and a specialist has been seconded from the Council's Commissioning Support Unit to start to work on developing improved capabilities and skills around bid and tender preparation and contract management.
21. In order to make this possible more sophisticated working practices need to be adopted and to enable this software is being purchased that will enable working across teams in a more consistent and integrated way, and also share the learning where bids are not won to enable continuous improvement.
22. To further progress the recommendations of the Scrutiny Review Panel, the Council has also provided some dedicated marketing resource from within the Digital and Communications team to support traded services. To date, significant tactical solutions have been deployed to achieve quick wins and to support bids and tenders. Work is also underway to create a marketing strategy that will incorporate e-media and social media in addition to printed materials. The Council is aware of the challenges that are faced in coming up against competitors who are more experienced within this area of expertise and it is being reviewed as to how the existing resource can be supplemented to strengthen our approach to marketing.
23. The Scrutiny Review Panel identified the need to strengthen the existing trading arrangements by developing a sales and account management function. The new Head of Commercial Services has begun to develop business across existing clients by developing a sales team from within the existing services and through him the Council has already delivered sales training workshops for 35

managers and has started to develop a pipeline of opportunities through the sales team.

24. The total sales pipeline of new opportunities has a potential contract value of approximately £17m. Close monitoring of the sales pipeline will enable information to be gathered on both the opportunities that are won and lost and from this the Council will better understand where to concentrate its future efforts. In due course, the Head of Commercial Services will develop an operating model to better support the development of a sales and account management function.

Brand and Marketing

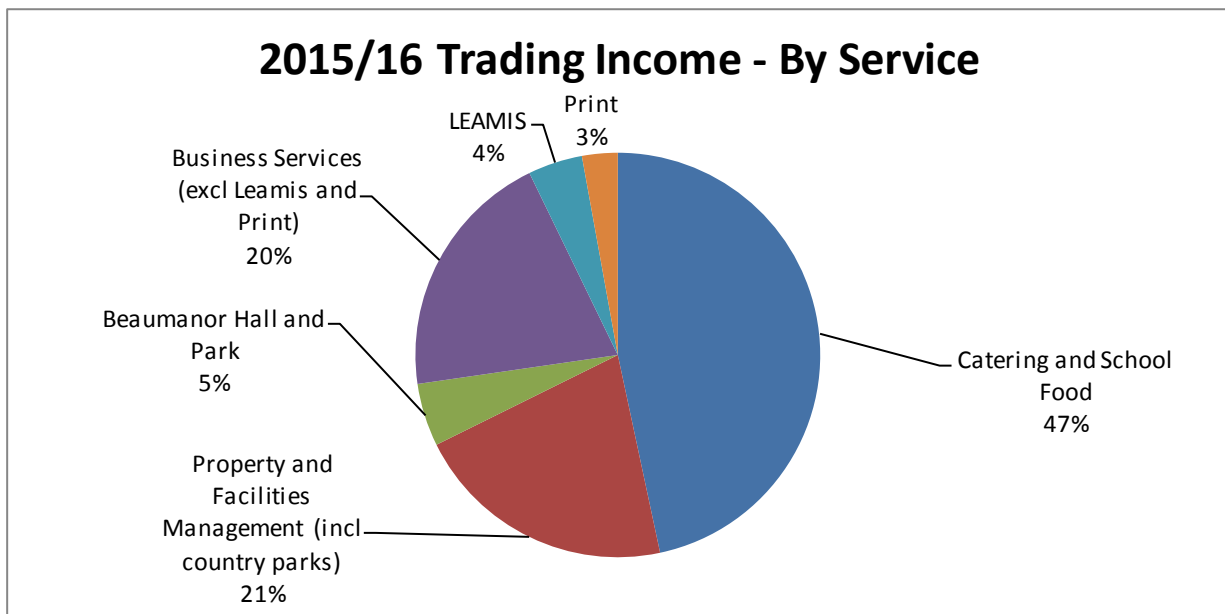
25. In line with the recommendations of the Scrutiny Review Panel, work has been undertaken to develop the Leicestershire Traded services (LTS) brand and identity. The brand has been developed as a family brand with the intention of re-establishing and re-energising the Council's position in the marketplace. The brand also builds on customer feedback that the County Council is trusted by customers. Underpinning the brand is a commitment to conduct our business in a way that builds on the values and ethics of Leicestershire County Council. The Service's new logo is shown below.



26. A key element of our marketing approach will be to demonstrate that we live up to the brand and that we are perceived to deliver commercial results but in a way that is clearly aligned with the County Council's values and behaviours. As an integral part of Leicestershire County Council it is intended that the Service is perceived as operating with integrity and is seen to conduct its business in a fair and responsible way. Also in line with the Review Panel's recommendations, the brand will continue to maintain a strong link with the Council's corporate branding.
27. It is believed that our work across the School Food Service has demonstrated a good example of what we are trying to achieve with the brand. We have attempted to deliver a commercial business but our offering has been strengthened by clearly demonstrating that the Services is keen to support the broader health and education objectives of the Council. In a competitive marketplace, it is believed that the Council's values are unique selling points, upon which existing business can be retained and the portfolio expanded within and beyond Leicestershire.

Current trading position

28. The work that has taken place since the Scrutiny Review Panel in 2014 has increased the income and surplus generated by traded services. The total income generated by trading activities of the Corporate Resources Department of the County Council was £28.7m in 2015/16 generating an estimated operating profit of £1.7m with a 6% profit margin. This compares to £26.8m income in 2014/15 and £24.4m in 2013/14. This shows the gradual upward trend in income that has been generated since the Scrutiny Review Panel. Just under half of the income relates to Catering and School Food Services with £13.4m income with broadly another quarter of income relating to Property, Building and Beaumanor Hall & Park. The final quarter relates to a broad range of services including the Management Information system for schools (LEAMIS), Print and various other support services including HR, L&D, Insurance, Marketing, Health & Safety and Internal Audit.



Future Direction

29. Building on the success that has been achieved to date the strategic and operational focus now will be to accelerate the growth of Leicestershire Traded Services (LTS) to make it a much more profitable business. In order to do this the Service will continuously identify ways to become more efficient in terms of process and costs. In addition, LTS will develop a focused and systematic way of generating new sales from existing and new customers. To underpin all of this new activity LTS will create opportunities for our people to grow by developing new skills and capabilities to work in a more commercial way.



30. The focus on growth and the combination of activities outlined below will deliver both the increased return that Members require from our traded services and also create a sustainable commercial culture across Leicestershire Traded Services.

Cost Reduction

31. There have already been significant budget reductions across the services that are traded, however in order to increase the contribution that is made to the County Council from trading, LTS will continue to undertake further analysis of processes, costs of sale, third party costs and the overheads within every service area for every product. This will enable the establishment of unit costs for each product so that analysis of profitability can be undertaken. It will also enable an ongoing process of implementing more efficient processes, reducing third party costs and perhaps in some areas decide that the return that is being generated is not sufficient to justify the investment of time and resource that is being put in.

Pricing

32. Once the unit costs for the each product have been established new pricing models will then be developed. Comprehensive market analysis and benchmarking will be undertaken to ensure that prices are in line with current market conditions and also to make sure that in seeking to increase profitability we remain competitive in markets which are very price sensitive.

33. Different pricing models will be developed which are transparent and support cross selling as well as empowering staff to negotiate with clients and make their own decisions about specific sales opportunities where necessary.

Sales

34. In order to generate additional returns for the County Council from traded activity LTS will increase the number of products our customers buy from us and increase the number of customers. To do this a number of separate but coordinated processes will be put in place to maximise sales opportunities.
35. Account management processes will be established which will increase the customer experience for existing customers, simplifying processes and invoicing for them, giving them a named contact for all services and making them aware of other services that are available.
36. LTS is working closely with ESPO and EMSS to make sure, where appropriate, that possible leads and sales opportunities are shared.

Brand and Marketing

37. The work that has been done to date in establishing the brand for Leicestershire Traded Services which is closely aligned to the values and ethics of Leicestershire County Council will be built upon.
38. LTS Staff will use the brand in all communication with existing customers to support cross selling activity and reinforce the new brand and focus for growth across our own staff.
39. LTS will attend events, develop our digital services and social media presence, and use advertising to raise our profile in our key targets markets such as education outside of Leicestershire and other public services.
40. The value of our external facing marketing activities will be maximised by making LTS staff aware of them, ensuring regular internal communication, events and roadshows which will reinforce the development of a commercial culture, supporting the changes in processes, the commercial approach to finance, the focus on cross selling and account management.

Mergers, Acquisitions and Big Ticket Opportunities

41. The Merger and Acquisition of compatible businesses or operations could be an opportunity to accelerate turnover and profit growth and these opportunities will be investigated and analysed on a case by case basis.
42. LTS is currently undertaking some research to identify how public bodies in the East Midlands currently provide or buy the services that we trade through Leicestershire Traded Services. This will enable other public bodies to be targeted with a view to providing services for them or on their behalf to other bodies such as schools if they are not pursuing trading opportunities

themselves. Once this exercise has been carried out across the East Midlands the scope will be widened in order to generate more opportunities for significant growth.

Next Steps

43. In summary, the Council remains committed to taking a more commercial approach to its traded services. The work that has been undertaken by officers to date has laid some solid foundations and despite a fiercely competitive trading environment most services have performed well. However there now needs to be a more integrated and consistent approach across all traded services and a move away from tactical and incremental approaches.
44. The finance work that is now underway within LTS will form the backbone of the new commercial entity and will bring more transparency to cost and income financial information. In time the focus of this work will also allow the Council to gain a better understanding of overheads and ensure that they are allocated appropriately and consistently across services.
45. Moving forward, the new management arrangements that are in place will ensure that traded services can be developed into a standalone business entity. The new Head of Commercial Services will be accountable to deliver a viable commercial offer to grow net revenue through the creation of a detailed business plan with clear targets for growth, margin and revenue and detailed summaries of how these will be delivered. He will also ensure that the traded services portfolio performs against the plan and will make the necessary decisions around growth, investment and closure.
46. Once the business plan has been created it will form the basis upon which performance and delivery can be monitored and members will be able to ensure that targets are met and that there is improved transparency and control of costs.
47. Removing and managing costs will form an integral part of determining the net margin and the Head of Commercial Services will review the existing management arrangements and plan to develop a new operating model to support the effective delivery of Leicestershire Traded Services and also support an account management and sale approach.
48. From the work that was done by the initial project team of officers the Council is aware of the different delivery models that are available to the County Council for the continuing delivery of its traded services and is also mindful of opportunities to reduce net costs by using alternative delivery models. Whilst the Local Authority (Goods and Services Act) 1970, allows the County Council to generate income with other public bodies, in order to trade with private sector organisations and generate profit, the Council may need to form a Local Authority Trading Company. The different models will continue to be explored, reviewed and analysed and the appropriateness of forming a trading company will be considered on an ongoing basis.

49. The changes in process outlined earlier in this report will provide a solid foundation for delivering the significant financial challenges set for Leicestershire Traded Services over the next few years. A 4 year Trading Profit and Loss Account is shown below

4 Year Trading P&L	2015/16	2016/17	2017/18	2018/19	2019/20	Change (15/16 to 19/20)	
	£000	£000	£000	£000	£000	£000	%
Baseline Income	28,680	28,680	28,680	28,680	28,680		
Increased Trading Income (already in the MTFS)		236	391	551	551	1.9%	
Increased Income (addtl to MTFS)		700	1,200	1,700	2,500	8.7%	
Total Income	28,680	29,616	30,271	30,931	31,731	3,051	10.6%
Cost of Sales	-26,942	-26,942	-26,942	-26,942	-26,942		
Increased COS for increased income		-842	-1,432	-2,003	-2,624	-2,624	9.7%
Cost Reductions (already in the MTFS)		155	200	200	200	200	-0.7%
Cost reductions (addtl to MTFS)		250	750	1,250	1,825	1,825	-6.8%
Net cost of sales	-26,942	-27,379	-27,424	-27,495	-27,541	-599	2.2%
Service Operating Profit / (Loss)	1,738	2,237	2,847	3,436	4,190	2,452	141.1%
% operating profit margin	6.1%	7.6%	9.4%	11.1%	13.2%	7%	117.9%
LTS overheads	-150	-400	-500	-600	-600	-450	
LTS Operating Profit	1,588	1,837	2,347	2,836	3,590	2,002	126.1%
% LTS operating profit margin	5.5%	6.2%	7.8%	9.2%	11.3%		

Resources Implications

50. The ongoing development of the Council's trading activity is designed to increase income generation as a means of contributing towards savings, though it is accepted that there will be some upfront cost implications attached to the establishment of a stand-alone trading unit.

Circulation under the Local Issues Alert Procedure

51. None.

Background Papers

Traded Services - Scrutiny Commission - 6 November 2013

Final Report of the Scrutiny Review Panel on Traded Services - Scrutiny Commission - 5 November 2014

File containing the reports submitted to the Scrutiny Review Panel on Traded Services and minutes of meetings of the Panel.

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Equality and Human Rights Implications

None.