



**CABINET – 24 JUNE 2022**

**ANNUAL REPORT OF THE COMMERCIAL STRATEGY 2021/22**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PART A**

**Purpose of the Report**

1. The purpose of this report is to update the Cabinet on the performance of the County Council's Commercial Strategy, the impact that Covid 19 restrictions have had on these services and future plans for recovery and growth.

**Recommendations**

2. It is recommended that
  - a) The performance against targets in the Commercial Strategy during 2021/22 be noted;
  - b) The future development of the Commercial Strategy as outlined in this report and the appended Leicestershire Traded Services Review and Outlook for 2022/23 be welcomed.

**Reasons for Recommendation**

3. The Annual Report on the Commercial Strategy outlines the progress that has been made by the County Council (via the Leicestershire Traded Services (LTS)) by introducing a more commercial approach to ensure that trading income makes an increasing and meaningful contribution to the Council's budget.

**Timetable for Decisions (including Scrutiny)**

4. The Scrutiny Commission considered the Annual Report on the Commercial Strategy on 8 June 2022 and its comments are detailed in Part B of the report.

### **Policy Framework and Previous Decisions**

5. With the continued financial pressure on the Council, the requirement to raise additional revenue has been specifically included in the County Council's Medium Term Financial Strategy (MTFS) for the past few years.
6. A Scrutiny Review Panel commenced a Review of Traded Services in June 2014, the findings of which were reported to the Cabinet on 19 November 2014. The Cabinet accepted the recommendations of the Panel and asked the Chief Executive to ensure that they were acted upon. These included further development of the Council's traded services, consolidation of the portfolio, and establishing a dedicated marketing resource.
7. The Strategy was subsequently approved by the Cabinet on 6 July 2018 which further resolved that an Annual Report on performance against the Commercial Strategy be submitted to the Cabinet and the Scrutiny Commission each June.
8. An annual report was presented to the Scrutiny Commission and the Cabinet in June 2019 and June 2021 when performance against targets was noted and future developments welcomed. Due to the Covid-19 pandemic an annual report was not presented during 2020. Instead, updates on the impact of the national and local lockdowns on LTS was included within the Council's wider Covid-19 impact, response and recovery reports considered by the Cabinet throughout the year.

### **Resource Implications**

9. The overall financial result for LTS in 2021/22, was a net spend of £700,000. This compares to a budget target of a net contribution of £1,500,000, which was set in February 2021 as part of the Council's MTFS.
10. The MTFS contribution target for 2022/23 is £0.4m. Whilst there has been a robust return of business across most traded services, there continues to be sustained inflationary pressures in the price of food and fuel, which could impact on the ability of LTS to deliver its target.

### **Circulation under the Local Issues Alert Procedure**

11. None.

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## **PART B**

12. Given the scale of the financial challenges facing the Council it has, in recent years, had to adopt a more commercial approach.
13. As a result, LTS was established in 2016 which is made up of catering services, property services, and professional and business services including HR. Its customer base is predominantly Schools and Academies. In 2022 the Leicester-Shire Schools Music Service which was previously within LTS moved to Children and Family Services to better align with their work.
14. To increase the pace of change and ensure that trading income makes a meaningful contribution to the Council's budget a step change in approach was required and an outline Commercial Strategy was approved in July 2018.

### **Review of last year's performance**

15. The impact of successive waves of Covid in 2021 and 2022 continued to provide an extremely challenging backdrop for LTS and trading activity has been severely affected. Restrictions were imposed across the Country to keep staff, customers and communities safe. Although school closures were not imposed this year, all hospitality was heavily restricted at various points, along with varying degrees of social distancing. Even once services were permitted to reopen, consumer confidence was reduced and some services continued to see reduced demand. This led to significant reductions in income in most areas of LTS which was only partly offset by good cost control, support from the Government's Coronavirus Job Retention Scheme and the Sales, Fees and Charges Income Compensation Scheme.
16. Alongside the income challenges, costs rose significantly towards the end of the year, with particularly acute inflationary pressures in respect of foodstuffs and anything related to international gas and oil prices.
17. Staffing remained a serious challenge across much of the service, with the national picture of a difficulty recruiting to hospitality roles being replicated in Leicestershire. Coupled with high levels of sickness due to Covid, this necessitated the making of changes to the delivery of the school food service in early 2022 for a short period, with simplified menus that could be delivered with fewer staff. Staff should be recognised and applauded for their willingness to work extra shifts or longer hours to support the delivery of services for the public.
18. The overall financial result for LTS in 2021/22 as shown in the table below, was a net cost of £0.7 million. This compares to a budget target of a net contribution of £1.5 million, which was set in February 2021 as part of the Council's Medium Term Financial Strategy.

|   | <b>Budget<br/>Target</b> | <b>Outturn</b> | <b>Variance</b> |
|---|--------------------------|----------------|-----------------|
|   | £000                     | £000           | £000            |
| LTS Leisure & Hospitality                       | 86                       | 104            | 18              |
| LTS Education Catering                          | -118                     | 401            | 519             |
| LTS Beaumanor                                   | -323                     | 179            | 502             |
| LTS Professional Services                       | -462                     | -557           | -95             |
| Music Service                                   | 0                        | -10            | -10             |
| Country Parks                                   | 235                      | 276            | 41              |
| Forestry  | -18                      | -11            | 7               |
| Hard FM   | 556                      | 631            | 75              |
| Soft FM   | -482                     | -429           | 53              |
| Print   | -68                      | 66             | 134             |
| LTS Infrastructure (excl unallocated challenge) | 225                      | 313            | 88              |
| LTS Unallocated Challenge                       | -1,141                   | -232           | 909             |
| <b>Total Commercial</b>                         | <b>-1,509</b>            | <b>731</b>     | <b>2,240</b>    |

19. Across the trading units, Beaumanor Hall, cafes and the Century Theatre closed during the year, with cafes reopening when possible, initially to provide a takeaway only service from April 2021. Beaumanor Hall reopened for school residential visits in May 2021. Leamis, HR and Health and Safety continued online delivery to schools where appropriate. Property Services continued to operate throughout the pandemic.
20. Whilst there were not widespread school closures in this year, the school food service has had to adapt to numbers of pupils receiving school meals being highly variable each day due to sickness and self-isolation. The service also continued to administer the Free School Meal Voucher scheme through the school holidays as part of the Household Support Fund schemes.

### **Future plans for recovery and growth**

21. Across LTS there will be a new focus on building all LTS businesses back up stronger and more sustainably. Some of the key areas of work planned for the coming year are set out below:
- i. The embedding of revised operating models introduced in Beaumanor Hall, focussing on low-risk but high margin activities, such as weddings, conferences and hires.
  - ii. Greater profitability in the Authority's cafés as a result of improved margin positions through improved cost of goods ratios and revised menus and prices.
  - iii. Opening hours have been reviewed and will be amended in line with footfall, seasons and events on an ongoing basis.
  - iv. Tendering for new opportunities in school food services, ensuring that the target margin position is achieved on all contracts.
  - v. Revisions to existing school food contracts, where appropriate, to ensure that individual contracts remain profitable amidst rising food prices.
  - vi. Streamlining of back-office finance and administration support, with some elements moving to centralised finance teams.
  - vii. In Peoples Services LTS will diversify its offer into new markets for its Organisational Development support.
  - viii. The production of detailed operational Business Plans for all operating areas with detailed financial targets and clear operating parameters which will support control of costs and risks, as well as ensuring greater profitability.
  - ix. The Service will continue to look for opportunities across the County Council in line with the Corporate Commercial Strategy 2018 - 2022, to support the delivery of the MTFS.
  - x. The Service will continue to look for opportunities across the County Council in line with the Corporate Commercial Strategy 2018 - 2022 to support the delivery of the MTFS.
22. Further details of the activity over the past year and future plans are provided in the appendix to this report.

### **Comments of the Scrutiny Commission**

23. The Scrutiny Commission considered a report concerning the performance of Leicestershire Traded Services during 2021/22 at its meeting on 8 June 2022.
24. The Commission noted that the effects of Covid and subsequent cost and inflationary increases had led to its disappointing performance, whilst staff pressures (both in terms of Covid sickness absence and retention and recruitment issues), and continuing pressure on the cost of food and fuel prices, and reduced demand, had hampered recovery. There were however some promising signs starting to emerge as demand had been rising at the cafes at Beacon Hill and Tithe Barn and footfall at Beaumanor Hall was now starting to reach pre-pandemic levels.

25. In relation to the operations at Beaumanor Hall, it was questioned whether it was being run as a truly commercial operation. Members noted that services run from the Hall were being considered along with other traded services, but that Beaumanor was a particularly expensive asset to hold and operate given the nature of the building itself. Members commented that this was a recognised, valuable and well liked asset and so consideration of how to make it more profitable would be looked at, but this had to be balanced against the need for potential investment and repairs. The Lead Member provided reassurance that all options were currently being looked at.
26. Regarding future plans for recovery and growth, Members noted that this would include reconfigured menus to reduce costs and wastage, as well as improved profit margins in its cafes including the renegotiation of contracts with suppliers to respond to the increased cost of goods. Members requested that the Services recovery and growth action plan be shared with the Commission outside the meeting for information.
27. In regard to the losses seen by the School Meals Service as a result of Covid, members noted that school meal contracts had been modified to transfer risk away from the County Council and so the losses seen were already much reduced. Members noted that the Council's losses related to staffing costs and product cost increases. Demand for the Council's School Meals Service had increased in April and May which gave confidence that this was returning to normal, pre-pandemic levels.
28. Following a member request, the Director undertook to consider how best to present information concerning the capital and running costs for each service to Commission Members in future in order to provide a better overall picture of the Services performance and profitability, whilst noting that some financial information would be commercially sensitive.

### **Commercial Strategy post-2022**

29. The Council's Commercial Strategy runs until 2022. Revision of the Strategy will, however, be delayed until 2023 so that the scale of post-Covid recovery within the Service can be fully established. The revised Strategy will be considered by the Scrutiny Commission before being presented to the Cabinet for approval.

### **Equality and Human Rights Implications**

30. There are no equality or human rights implications arising directly from this report.

### **Background Papers**

Report to the Scrutiny Commission – 8 June 2022 – Annual Report on the Commercial Strategy

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6870&Ver=4>

Report to the Cabinet – 22 June 2021 - Annual Report on the Commercial Strategy

<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6444&Ver=4>

Report to the Cabinet – 6 July 2018 - Outline Commercial Strategy and Workplan  
2018-2022

<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=5412&Ver=4>

## **Appendix**

LTS review and outlook for 2022/23