



SCRUTINY COMMISSION – 12 JUNE 2023

**ANNUAL REPORT ON THE COMMERCIAL STRATEGY AND
TRADED SERVICES STRATEGY 2023-2028**

REPORT OF DIRECTOR OF CORPORATE RESOURCES

Purpose of the report

1. The purpose of this report is to update the Scrutiny Commission on the performance of Leicestershire Traded Services (LTS) during 2022/23. The report also seeks the Commission's views on a revised Traded Services Strategy for 2023-28, attached as Appendix C to this report.
2. LTS comprises catering services, property services, and professional and business services. Its customer basis is predominantly Schools and Academies.
3. The new Traded Services Strategy 2023-28 will replace the Commercial Strategy (2018-2022).

Policy Framework and Previous Decisions

4. In November 2013, the Scrutiny Commission considered progress being made in developing the Council's traded services. It agreed that it was important for the Council to continue trading and to retain and build upon existing business, particularly in relation to schools.
5. A Scrutiny Review Panel commenced a Review of Traded Services in June 2014. The Cabinet accepted its recommendations and asked the Chief Executive to ensure these were acted upon. The Commission received an update on progress being made in delivering these recommendations in June 2016.
6. One of the Panel's recommendations was that a stand-alone trading unit should be created as part of the County Council with its own brand and identity, to enable it to have a clear position in the marketplace and link to the Council's corporate branding, building on its reputation for high quality, value for money services.
7. 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 Medium Term Financial Strategy (MTFS) since 17 February 2016.

8. On 6 June 2018, the Commission considered the Commercial Strategy and Workplan 2018-2022. It strongly supported the Strategy, recognising that traded services provided an income which protected frontline services. It hoped that the Council would continue to identify new commercial opportunities.
9. On 6 July 2018 the Commercial Strategy was approved by the Cabinet which further resolved that an Annual Report on performance against the Commercial Strategy should be submitted to the Cabinet and the Scrutiny Commission each June.
10. The most recent Annual Report was received by the Scrutiny Commission and Cabinet in June 2022 where the performance of the service during the covid pandemic was noted and the future development of the Strategy and the LTS Review and Outlook for 2022/23 was welcomed.

2021/22 Activity and Performance

11. Almost all of the Council's traded services saw a good recovery in business, some back to pre-pandemic levels. However, all were seriously affected by inflation in wages as the local government pay award added nearly 10% to costs. Significant increases in energy costs and provisions costs, also further eroded margins. In some services it was possible to pass increased costs onto customers, but in others where prices are set centrally, such as school food, this was not possible.
12. 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. High levels of staff sickness in the winter months continued.
13. This combination of rising costs and reduced income has led to significant reductions in margin and contribution in many areas of LTS and significant losses in some areas.
14. The overall financial result for LTS in 2022/23, as shown in the table below, was a net cost of £3.6 million. This compares to a budget target of a net cost of £0.7 million.

	Budget Target	Outturn	Variance
	£000	£000	£000
LTS Leisure & Hospitality	171	315	144
LTS Education Catering	749	2,686	1,937
LTS Beaumanor	-73	97	170
LTS Professional Services	-525	-365	160
Country Parks	195	362	167

Forestry	86	130	44
Hard FM	578	584	6
Soft FM	-599	-506	93
Print	-75	154	229
LTS Infrastructure	234	186	-48
Total Commercial	741	3,643	2,902

15. The most significant difficulty has been felt in the School Food Service which contended with a 10% national living wage rise, higher staff sickness than expected, significant food cost inflation, and lower income because of school closures and the lingering effects of the covid pandemic on demand. The outlook for 2023/24 remains challenging.
16. The Print Service also had significant challenges in 2022/23 with demand for traditional print services falling, some staff sickness, and significantly high paper prices. Although, a restructure has taken place, integrating Print and the Post Services and adopting a more digitised approach, achieving the targeted contribution will be problematic in 2023/24. However it is anticipated the forecast profit will be made from 2024/25.
17. Demand for outdoor activities at Beaumanor Hall has not yet recovered from the impact of the pandemic; day visits have particularly suffered. In addition, the 2022/23 pay award and high energy costs have hit the services.
18. Country Parks has a challenge to reduce net cost to zero over the medium-term. For 2022/23 breakdowns of some car parking machines and a delay implementing changes to the new regulatory regime have both had an impact on income levels.
19. Professional Services under-performance is due to the challenging competitive market LEAMIS operates in. With more alternative options available to schools and a move by a provider, who had previously worked as a partner, into direct competition with LEAMIS, the trading position has deteriorated.
20. Leisure and Hospitality Services have been affected by the national living wage's impact on the local government pay award and high food costs.

Recovery and Growth

21. Across LTS there will be a new focus on building all businesses back up stronger and more sustainably. Some of the key areas of work planned for the coming year are set out below:
 - A continued focus on weddings and high margin (profit) events at Beaumanor Hall, along with some investment in facilities, branding and marketing.
 - A new menu in LTS cafés, along with a refresh of the furniture and décor at Beacon Hill Café.

- Carrying out a substantial transformation programme within School Food to remove unnecessary cost and ensure that the service is competitive.
- Tendering for new opportunities in School Food services, ensuring that the target margin position on all contracts is achieved.
- Making revisions to existing school food contracts where appropriate, to ensure that individual contracts remain profitable amidst rising food prices.
- Streamlining of back-office finance and administration support.
- Diversifying the Peoples Services offer to be able to enter new markets.
- Restructuring Print Services to prepare it for a world of hybrid print-to-mail.
- 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.
- LTS will continue to look for opportunities across the County Council in line with the Traded Services Strategy 2023 - 2028, 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 A to this report.

Traded Services Strategy 2023-2028

23. The Commercial Strategy was extended into 2023 so that the scale of post-Covid recovery within the service could be established. The Strategy has been revised and replaced with a Traded Services Strategy for 2023 – 2028 as set out below.

Review of Commercial Strategy 2018-2022

24. Considerable progress was made during the lifetime of the Commercial Strategy around embedding commercial awareness and skills and enhancing current trading activities.
25. LTS was less successful in developing new models of service delivery, as this was not deemed appropriate during the plan period.
26. A large part of the reason that the financial goals for the Strategy were not delivered by 2022 is due to the effects of the pandemic, wage inflation, and food and energy inflation.
27. A more detailed review of performance during the lifetime of the Commercial Strategy is set out in Appendix B.

Traded Service Strategy 2023-2028

28. The new revised Strategy has been drafted based upon engagement with council officers and elected members.
29. The new title better reflects the importance of the Strategy's overall contribution and recovery of full costs; that the focus should be on external trading. It will

also help avoid confusion with other council initiatives such as the Investing in Leicestershire Programme.

30. Commercialism, for the purposes of this Strategy, is defined as trading of services with external (and sometimes internal) customers. All trading with external customers should deliver a desired margin and therefore contribution to the Council.
31. The new mission of the Strategy is “To deliver a financial contribution to Leicestershire County Council through trading of high-quality services with third party organisations.”
32. At the heart of the Strategy are seven Strategic Principles. These set out key criteria against which any commercial enterprise within the County Council can be measured. They are not prescriptive as to how commercialism should be delivered, this is contained within individual service plans, but they do set out the framework within which traded services are delivered:
 - a. Financial Resilience - All services should be able to demonstrate that they are making a true financial contribution to the County Council.
 - b. Ethical and transparent trading - In all trading LTS should be guided by the values of Leicestershire County Council.
 - c. Expertise – the County Council should only trade in areas where it has an existing expertise.
 - d. Mainstreaming commercialism - There are examples of commercial best practice across the County Council and their development should be promoted and encouraged.
 - e. Growth and retrenchment - LTS will continue to seek new business opportunities and any existing business that is not managing an acceptable contribution rate should be rapidly reformed within the Strategy period, or the County Council should divest itself of the business.
 - f. Brand - Services within the County Council can trade using whatever brand speaks most appropriately to customers.
 - g. External trading should not detract from the core business of the Council.
33. Alongside this there are five strategic mechanisms for change as set out below. Whilst the Strategy does not seek to be prescriptive about how the service should be delivered, within the framework of the Strategic Principles, it is acknowledged that there are a number of key changes that need to be made. These strategic mechanisms for change are shared within the portfolio of traded services and managed through the Traded Services Board.
 - a. Account management
 - b. Data
 - c. Shared understanding of acceptable margin position
 - d. Shared resources
 - e. New product development
34. The draft Traded Services Strategy is attached as Appendix C.

Resource Implications

35. The overall financial result for Leicestershire Traded Services in 2021/22 is a net cost of £3.6 million compared to a budget target of a net cost of £0.7 million, an adverse variance of £2.9 million.
36. The budget target for 2022/23 is a net cost of £1.2 million. This includes recognition that the School Food Service will take time to recover.

Timetable for Decisions

37. The Annual Commercial Strategy Report and proposed Traded Services Strategy 2023-2028 will be considered by the Cabinet at its meeting on 23 June 2023. The views of the Scrutiny Commission will be reported to that meeting.

Recommendation

38. The Commission is asked to note the performance of LTS during 2021/22 and to comment on the draft Traded Services Strategy for 2023 -2028.

Background Papers

Scrutiny Commission - 15 June 2016 - Update on Leicestershire Traded Services
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=4539&Ver=4>

Scrutiny Commission – 8 June 2022 – Annual Commercial Strategy Report
<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6870&Ver=4>

Cabinet – 25 June 2022 – Annual Report of the Commercial Strategy
<https://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=6775&Ver=4>

Circulation under the Local Issues Alert Procedure

None.

Equality Implications

There are no equality implications arising directly from this report. If services change in the future an Equality Impact Assessment will be undertaken as required.

Human Rights Implications

There are no equality implications arising directly from this report.

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Appendices

Appendix A – LTS Review and Outlook 2023/24

Appendix B – Review of Commercial Strategy 2018-2022

Appendix C – Draft Traded Services Strategy 2023-2028

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