



CABINET – 23 JUNE 2023

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

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PART A

Purpose of the Report

1. The purpose of this report is to advise the Cabinet regarding the performance of the County Council's Commercial Strategy and to seek the Cabinet's approval for the adoption of the Traded Services Strategy 2023-2028, which it is intended will replace the Commercial Strategy.
2. The Commercial Strategy sets out the performance of the Council's traded services, known as Leicestershire Traded Services (LTS).

Recommendations

3. It is recommended that
 - a) The performance against targets in the Commercial Strategy during 2022/23 be noted;
 - b) The future developments as outlined in this report and the appended Leicestershire Traded Services Review and Outlook for 2023/24 be welcomed;
 - c) The Traded Services Strategy 2023-2028 be adopted.

Reasons for Recommendation

4. The Annual Report on the Commercial Strategy outlines the progress that has been made by the County Council (via the Leicestershire Traded Services) by introducing a more commercial approach to ensure that trading income makes an increasing and meaningful contribution to the Council's budget.
5. The new Traded Services Strategy sets a future direction for all traded services in the County Council.

Timetable for Decisions (including Scrutiny)

6. The Scrutiny Commission considered the Annual Report on the Commercial Strategy on 12 June 2023 and its comments will be reported to the Cabinet.

Policy Framework and Previous Decisions

7. 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.
8. The Commercial Strategy was 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.
9. An annual report was presented to the Scrutiny Commission and the Cabinet in June 2019, June 2021 and June 2022 when performance against targets was noted and future developments welcomed.

Resource Implications

10. 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.
11. The budget target for 2023/24 is a net cost of £1.2 million. This includes recognition that the School Food Service will take time to recover.

Circulation under the Local Issues Alert Procedure

12. None.

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PART B

Review of Performance for 2022/23

13. 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.
14. 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.
15. 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.
16. 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 Facilities Management	578	584	6
Soft Facilities Management	-599	-506	93
Print	-75	154	229
LTS Infrastructure	234	186	-48
Total Commercial	741	3,643	2,902

17. 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.
18. 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.
19. 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.
20. Country Parks has a challenge to reduce net cost to zero over the medium-term, as per the MTFS. 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.
21. 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.
22. 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

23. 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.
 - Conducting 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 (HR) offer to be able to enter new markets.

- Restructuring Print Services and integrating it with Postal 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.

24. Further details of the activity over the past year and future plans are provided in the Appendix A to this report.

Traded Services Strategy 2023-28

25. 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

26. Considerable progress was made during the lifetime of the Commercial Strategy around embedding commercial awareness and skills and enhancing current trading activities.
27. LTS did not focus on developing new models of service delivery, as this was not deemed appropriate during the plan period.
28. 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.
29. A more detailed review of performance during the lifetime of the Commercial Strategy is set out in Appendix B.

Traded Service Strategy 2023-2028

30. The new revised Strategy has been drafted based upon engagement with council officers across departments.
31. 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.
32. 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.

33. 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.”
34. 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.
35. 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

36. The draft Traded Services Strategy is attached as Appendix C.

Equality Implications

37. There are no equality implications arising directly from this report.

Human Rights Implications

38. There are human rights implications arising directly from this report.

Background Papers

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>

Report to the Scrutiny Commission – 9 June 2021 – Annual Report on the Commercial Strategy
<http://politics.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=6376&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>

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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