



## **SCRUTINY COMMISSION: 29<sup>th</sup> JANUARY 2024**

### **INTERIM REPORT ON THE TRADED SERVICES STRATEGY**

#### **REPORT OF DIRECTOR OF CORPORATE RESOURCES**

##### **Purpose of the report**

1. The purpose of this report is to provide the Scrutiny Commission with an overview of the themes that were explored in the Traded Services Scrutiny Commission workshop, held in October 2023.
2. It also provides an interim update on the performance of Leicestershire Traded Services (LTS) during 2023/24.
3. Finally, the report sets out some suggested criteria for how the Council's traded services might be evaluated, beyond financial performance alone.

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

4. In June 2023, Cabinet approved the Traded Services Strategy, which replaced the Commercial Services Strategy. 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."
5. 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.
6. At its meeting on 12 June 2023 the Scrutiny Commission considered the annual report of the Director of Corporate Resources which provided an update on the performance of Leicestershire Traded Services (LTS) during 2022/23. The report also sought the Commission's views on the revised Traded Services Strategy (previously titled the Commercial Strategy) for 2023-28.
  7. Members requested that a Scrutiny Commission workshop be held to discuss in more depth the service action plans and the costs and income generated by all traded services noting the need to manage some commercially sensitive information. This was held in October 2023.
  8. Furthermore, it was agreed that a further performance update report be presented to a future Scrutiny Commission meeting.

### **Background**

9. The main traded services delivered by the Council include School Food, Beaumanor Hall, Cafes, Traded HR and Health & Safety, Traded Soft Facilities Management (including cleaning and grounds maintenance), Sites Development and Hard Facilities Management, Century Theatre, LEAMIS and School Financial Services.
10. Some of these services, such as Beaumanor, have been run by the County Council since the 1970s. Others, such as LEAMIS and School Financial Services, were centralised as part of an offer to schools in the 1990s. The newest traded services are the cafes on country parks, which were established around five years ago.
11. In November 2013, the Scrutiny Commission considered progress being made in developing the Council's traded services. It established a Scrutiny Review Panel to look at this in more detail. In 2014 the Panel made several recommendations to the Cabinet, including requesting that a stand-alone trading unit 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. This led to the establishment of Leicestershire Traded Services.
12. Over the years Leicestershire Traded Services (LTS) has, overall, performed well and generated a reasonable income for the Council, particularly in relation to facilities management, HR and Health and Safety. Although the picture has always been mixed across such a broad range of services that

have gradually fallen under 'Leicestershire Traded Services'. More recently, as reported to the Commission and detailed below, the Service has been hit hard by the Covid 19 Pandemic and subsequent rise in costs and inflation which has affected the level of returns generated in more recent years. It is for this reason that the Scrutiny Commission sought to take a closer look at each of the services within LTS through the Scrutiny Commission Workshop.

### **Review of the themes explored within the Traded Services workshop**

13. The workshop focussed on the main traded services delivered by the Council. Members were provided with some information on why the County Council historically operated each of its traded services. It was noted that the County Council has not set up any traded services from scratch and some, such as School Food, LEAMIS, School Financial Services, Century Theatre or Beaumanor, had been run as part of the local authority for many decades. Without exception the services were originally intended to deliver primarily social benefits, the majority in support of the council's responsibilities as a local education authority. Services had been placed within the Traded Services 'basket' to improve their financial performance and to adapt to the rapid increase in academisation of schools. Finally, some services such as Traded HR and H&S (Health and Safety) and Facilities Management were natural extensions of the Council's core corporate service and also had their origins in provision of support to schools.
14. The services had not been set up solely to deliver a financial return to the Council. Originally their purpose was to provide wider benefits beyond the financial. Many services continue to have these wider benefits. Some of these are operational as internal services, such as HR and H&S, are bolstered by the volume of business which reduces core costs and allows the Council to recruit higher quality officers. Other traded services support the maintenance and delivery of key systems used by other directorates, such as LEAMIS's support for the Synergy system that underpins much of Children and Family Services, or School Food delivering the free school meals service across the County.
15. Other benefits from these services are social benefits to communities around the County and the wider area. These include the public health benefits of the fresh-cook ethos of the school food service, offered to over 30,000 children daily, or the 26,000 children who gain experiences of outdoor activities or a night away at Beaumanor. The Century Theatre offers an arts venue in North West Leicestershire, and a location for many amateur and community dance and drama groups to perform.
16. Generating a meaningful financial contribution became of greater focus following the formal establishment of the Council's Leicestershire Traded Services in 2014 and in particular, with the continued financial pressure on the County Council, when the requirement to raise additional revenue became a key element of the Council's Transformation Programme and specifically included in the County Council's Medium Term Financial Strategy (MTFS) in 2016. For Leicestershire Traded Services however, these wider benefits have

continued to be delivered and are therefore considered when determining the overall benefits of each service.

17. Members noted that services trade at different margins, dependent on the market and nature of their business. For example, the margin on a high volume business such as contract cleaning, was substantially lower than that on a low volume business such as HR consultancy. Therefore, it was important to consider each traded service on its own merits, noting that comparisons based solely upon margin may not be helpful and would not provide the full picture of the benefits generated. Some services may never make a profit, such as the Century Theatre, as very few small regional theatres operate without subsidy. However, its inclusion within the traded 'basket' of services was intended to ensure that it continued to be operated as commercially as possible.
18. Members expressed concern about the current level of financial return from certain services such as cafés and the likelihood of generating a short-term financial contribution from other services, such as Beaumanor and School Food. They were keen to ensure that the County Council was closely monitoring financial performance in all traded services and to consider whether more significant changes needed to be made.
19. Members noted that inflationary pressures have had a significant impact on all traded service margins in the past few years. The local government pay award has added c. 20% costs in two years and the rise in utility costs has been particularly extreme for some sites, such as Beaumanor.
20. Not all services have been able to manage increased costs through increased income in the same proportion. Some services have income capped by central government, such as school food. In other services, the time lag between the pay award being initially offered and finally agreed, meant that pricing could not be easily adjusted. These and other issues have led to squeezed margins in a number of areas.

### **Overview of performance in individual areas to date and MTFs position 2024/25**

21. Beaumanor Hall and Park
  - a. Current year financial performance is a forecasted £231k cost.
  - b. Income at Beaumanor is set to hit all targets this year or be within a variance of less than 2.5% to target. The Park will have generated the largest amount of income in its history and volumes have returned to pre-covid levels. The Winter Fayre was particularly well attended and generated profit significantly ahead of target.
  - c. As previously reported the pay award and energy costs have hit the service particularly hard, adding nearly 100% to costs in the latter case.
  - d. The move of the Register Office from Loughborough has been undertaken, although not all ceremonies will be transferred to Beaumanor until April 2024. This will provide the opportunity to cross sell other services to increase overall revenue.

- e. The budgeted position service, including the below the line costs is a net cost of £206k in 2024/25.
22. Cafes
- a. Current year financial performance is a forecasted £35k contribution.
  - b. Income at Beacon Hill continues to outperform the budget. Tithe Barn has now moved to a seven day operation.
  - c. The pay award has added considerably to the costs of both outlets, although the cost of goods has improved, compared to budget.
  - d. The budgeted position within the MTFS for these services is a net contribution of £24k for Beacon Hill and £12k for Tithe Barn.
23. School Food
- a. Current year financial performance is a forecasted £1.6m cost
  - b. The service is mid-way through a significant transformation programme from its previous loss of £2.7m (2022/23). New contracts have been created with all schools to ensure the future viability of the service at a planned margin.
  - c. Costs continue to rise with significant food price inflation and wage inflation. This is being managed by a significant restructure of staffing within all kitchens in order to deliver lower costs.
  - d. We are about to embark upon a period of contract negotiation with our customers to ensure contracts deliver the desired margin.
  - e. The budgeted position within the MTFS for School Food is a net cost of £485k in 2024/25, moving to a contribution in 2025/26. School Food remains the highest priority service for rapid transformation, given the current poor financial performance.
24. Traded HR
- a. Current year financial performance is a forecasted £42k contribution.
  - b. Income is set to achieve target this year and may be slightly over. This is dependent on the ability to complete commissioned work, such as investigations to enable invoices to be processed before the year end.
  - c. Operating costs have increased this year due to the pay award and a £20k charge from Legal for the provision of their services.
  - d. The budgeted position within the MTFS for HR is a contribution of £15k in 2024/25 with the service looking to revamp and expand its offer to improve contribution levels.
25. Traded H&S
- a. Current year financial performance is a forecasted £41k contribution
  - b. Over the last two years income has increased by 24.3% which has been ahead of budget. The increase in income has been led from LA maintained schools converting to academies, new academies joining the service and academies who had left returning. In addition, new business has been expanded in the distribution, service and leisure sectors.
  - c. Service costs have increased in line with inflation. However, working with our suppliers has enabled the service to control these increases to below the rate of inflation, e.g. software services and training venues.

- d. The service continues to provide resilience support to the Corporate Health and Safety Team enabling support to LA maintained schools, governor services and inspection of LTS Catering in academies.
- e. The budget provision in 2024 to 2025 remains buoyant with new academies signed up for this financial year and into next. In addition, there are possible new opportunities from the East Midlands Freeport.
- f. The budgeted position within the MTFS for H&S is a contribution of £42k in 2024/25.

26. LEAMIS

- a. Current year financial performance is a forecasted £140k contribution
- b. LEAMIS and School Financial Services are forecast to hit their income target for 2023/24, this is despite an extremely challenging market environment.
- c. Service Level Agreements include an 8% increase to cover cost of pay awards/inflation.
- d. Work undertaken by LEAMIS to increase the level and breadth of management information system (MIS) accreditation opens multiple new income generation opportunities. This is beginning to win new business and ensures we can continue to support our existing customers should they change MIS.
- e. The budget position in the MTFS for 2024/25 is £102k contribution.

27. Century Theatre

- a. Current year financial performance is a forecasted £63k cost.
- b. Income into the theatre has been lower than forecast this year as we were not able to have the programming levels that had been budgeted. Costs have been reduced accordingly.
- c. The theatre had an exceptionally strong Christmas trading period, with the pantomime selling more tickets than in recent years and achieving a public performance occupancy level of over 95%. There is a very strong programme for the Spring and Summer seasons.
- d. We have been working with a specialist programmer to diversify and improve the commerciality of the theatre's programme.
- e. The budget position in the MTFS for 2024/25 is £67k.

28. Soft Facilities Management (e.g. cleaning, grounds maintenance)

- a. Current year financial performance is a forecasted £181k contribution
- b. Soft FM Contract Management has increased the externally traded activity and surplus progressively over the last 5 years and is forecasting to achieve budget again this year.
- c. The Soft FM Service are currently engaged in a major re- procurement process of all FM service contracts.
- d. The budget position for 2024/25 from external work is a £180k contribution.

29. Sites Development

- a. Current year financial performance is a forecasted £111k contribution
- b. Income has increased this year due to better profiling of work within the teams and being able to fill vacancies and recruit to three full teams.

- c. The current improving position is forecast to achieve a surplus just above the budget position for 23/24.
- d. Despite the pay-award, staffing costs have decreased for the last two quarters of the year due to a level of management being removed from the team structure.
- e. This restructure has been successful and has resulted in an increase in productivity in addition to a reduction in staffing costs
- f. The service is forecasting to achieve the stretch target of £140k contribution for 2024/25

### **Suggested criteria to evaluate services against**

- 30. The Traded Services Strategy sets out some criteria for why we trade. As we continue to evaluate the performance of Traded Services in the next MTFS period, we are developing a form of prioritisation for traded services to help us with this evaluation.
- 31. The Commission might like to consider whether the priority afforded to some of these elements is correct:
  - a. Financial return (versus risk)
  - b. Fit with LCC's operations (e.g. economies of scale or resilience provided to corporate functions)
  - c. Area of competitive advantage for LCC
  - d. Benefits to Leicestershire residents
  - e. Benefits to Leicestershire businesses/public sector
  - f. Benefits to communities outside of Leicestershire
- 32. This prioritisation may form part of the next iteration of the Traded Services Strategy.

### **Recommendation**

- 33. The Commission is asked to note the interim performance update of Traded Services.
- 34. The Commission is asked to comment on the proposed criteria to evaluate traded services against and the order of priority and whether the focus of service development in the right areas.

### **Background Papers**

Scrutiny Commission – 12 June 2022 – Commercial Strategy Annual Update and Performance Review <https://democracy.leics.gov.uk/mgAi.aspx?ID=75233>

Cabinet – 23 June 2023 – Annual Report of the Commercial Strategy and Traded Services Strategy 2023-28  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MIId=7077&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.

**Officer to Contact**

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