



## **SCRUTINY COMMISSION – 4 SEPTEMBER 2024**

### **ANNUAL REPORT ON THE TRADED SERVICES STRATEGY 2023/24**

#### **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 performance of Leicestershire Traded Services (LTS) during 2023/24.
2. LTS comprises catering services, property services, and professional and business services. Its customer base is predominantly Schools and Academies.

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

3. 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.
4. 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.
5. 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.
6. 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.
7. 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.

8. 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.
9. The most recent Annual Report was received by the Scrutiny Commission and Cabinet in June 2023 where the performance of the service in the context of a difficult inflationary period was noted. A draft Traded Services Strategy, to replace the Commercial Strategy, was presented to the Commission for comment and was later adopted by Cabinet in June 2023.
10. An interim report on the performance of Traded Services was received by the Scrutiny Commission in January 2024. This provided an overview of the themes explored in the Leicestershire Traded Services (LTS) Scrutiny Commission workshop held in October 2023 and an interim update on the performance of Services during 2023/24.

### **2023/24 Activity and Performance**

11. The performance for the previous financial year was a mixed picture for traded services. In some areas, particularly cafés, Century Theatre, property services, people services and health and safety, contribution targets were delivered and sometimes overachieved. In areas most exposed to inflation, there remain significant variances to the MTFS. The local government pay award added nearly 10% to costs and significant increases in energy costs continued, further eroding margins.
12. Staffing remains challenging across much of the service, with the national picture of a difficulty recruiting to hospitality roles being replicated in Leicestershire. Whilst the picture has eased significantly from 2022/23, 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. Retendering of services by Multi Academy Trusts (MATs) is becoming an increasing risk, with aggressive pricing by competitors and some insourcing leading to several contracts being lost.
15. The overall financial results for LTS in 2023/24, are shown in the table below. All relevant costs have been included including property costs for Beaumanor Hall. Additional corporate overheads are not relevant for performance reporting, as the services take the standard corporate offer. The margin that services target includes covering a notional overhead allocation.
16. As in previous years, there was no capital expenditure incurred in any of these areas.

Service	Budget Target	Outturn	Over/ (Under) Spend
	£000	£000	£000
School Food	1,798	1,903	105
LTS Beaumanor	135	455	320
Cafés	(40)	(41)	(1)
LTS Professional Services (LEAMIS, HR, H&S)	(496)	(297)	199
Soft FM	(577)	(424)	153
Hard FM	(250)	(519)	(269)
Century Theatre	78	75	(3)
Print	10	(75)	(85)

### **School Food performance to date and MTFS position 2024/25**

17. The School Food Service transformation programme outlined in previous reports has seen the service improve by £0.8m on 2022/23 performance, to a loss of £1.9m. This was slightly worse than the budgeted year end position of £1.8m.
18. This improved position was achieved mainly through new financial agreements with all customers to deliver the required margin. This meant that although the number of overall customers decreased, income into the service remained static.
19. As part of the contract work that has been undergone LTS has clear sight of all associated costs with each site and this position enables both LTS and their customers to understand all costs, and ensure the service is both sustainable and viable
20. Significant challenges continued with staff cost inflation of 9% driven by national living wage rises and food inflation peaking at 19.2% in March 2023.
21. The January report outlined the measures to improve performance for the current financial year. To manage increased staff costs, one of the largest restructures in the council was successfully completed. This reconfigured the hours of all frontline staff, to reflect actual hours worked better, reduce wage costs and remove the need for overtime.
22. Staffing levels were also restructured and reduced in the administrative and management functions by reconfiguring workloads, making better use of technology, and due to lower customer numbers.
23. The management restructure has meant that LTS now has a dedicated team to manage their contracts which has improved direct communication with customers at client level. Regular contract meetings have been organised with all customers.

24. There is now a clear Operations team who manage the day to day running of the service, each site has been internally audited to ensure standards across the service are being met. Regular audits are undertaken by the external Environmental Health Team and LTS regularly achieve 5 stars.
25. LTS continues to focus on improving the management information that allows the measuring of performance of individual contracts and continued refinement of agreements with customers.
26. A decision was also taken to proactively withdraw from contracts in Luton and Cambridgeshire to focus on delivering a better service to the core offer in Leicestershire.
27. The service continues to look for ways to improve the take-up of meals. A three-week rotation menu is now offered, with five daily options, as standard: one of the most flexible standard menus on offer in the UK. A small focus group of children and school cooks worked with the Development Chef to create the new menu. Food for Life Bronze standard food continues to be offered.
28. LTS has relaunched the marketing calendar to run alongside the new menu, this has been shared with customers with a special menu day each month, designed to both attract more customers monthly, and keep the profile of LTS high in customers minds.
29. A new LTS Website has been launched designed to attract new customers, and further raise LTS profile. This is combined with additional proactive sales work.
30. LTS ran a highly successful Junior Chef competition which saw children from 17 schools across Leicestershire competing to cook a main meal and a dessert for the judges. The finals were held at Loughborough College and were judged by local scientist Josh Smalley - finalist in last year's Great British Bake Off.
31. Food costs are more settled than previous and LTS is working closely with procurement to ensure the new food contract gives best value but also includes periods of fixed costs to enable LTS to control costs more effectively.
32. The success of the service will depend upon aligning the offer with the requirements of schools and academies. The past year has seen a number of MATs go out to tender, with greater emphasis on cost. Unfortunately, LTS has been unsuccessful in defending its contracts due to some highly aggressive pricing from competitors. Losing contracts at tender is always disappointing and remains one of the biggest risks to the service.
33. The combined impact of these changes has been to improve the budget position for the service in 2024/25 to a reduced loss of £485k. This is a financial improvement of over £2.2m in two years. The residual loss is due to the timing of rolling out new contracts due to the financial year of MATs starting in September. The service is expected to return to achieving contributions from 2025/26.

**Beaumanor performance to date and MTFS position 2024/25**

34. The Hall and Park made a loss of £455k overall including £245k above the line expenditure and £210k below the line expenditure, worse than the anticipated position.
35. To ensure best value for the Authority some costs, such as maintenance, are centralised across its corporate portfolio buildings and service. These below the line costs for Beaumanor relates to building maintenance, insurance, marketing, grounds maintenance etc. These costs form a key part of the monitoring and governance of the service.
36. Most of this worsened contribution was due to the inflationary cost pressure due to the 2023/24 pay offer as well as a further increase in electricity prices.
37. Overall, Beaumanor exceeded its income target, with the Hall operation bringing in £691k of income (£38k over target) and the Park operation narrowly missing its income target (£926k vs £944k). As reported to the committee in January, the business grew in the area of local large scale themed craft fairs, and winter fairs on site at Beaumanor Hall, as well as in private hire for parties, proms and wakes.
38. Whilst over 26,000 children attended Beaumanor in 2023/24, Park bookings remain slightly below pre-covid levels in terms of volume, suggesting some residual weakness remains in the market, as well as some opportunity for new customers. To manage this, the bookings team has been restructured to be more focussed on driving new and repeat business.
39. To improve the position in the current financial year managing costs remains a focus and LTS continue to work on improving the energy efficiency of the building. As LTS begins to feel the effects of lower energy prices later in the financial year, it will reduce some of the pressure on the budget. However, the pipeline of sales has not increased sufficiently to meet the plan previously presented to the Commission.
40. However, this will not improve performance sufficiently for the site to make a contribution. The MTFS position for Beaumanor is a loss of £228k in 2024/25, this includes the below the line costs of £210k.
41. Further improvements, that take time to become established, are required in growing the business. There is a focus on weddings and away days. These high margin events bring together both halves of Beaumanor and are proving popular with local businesses.
42. One of the most significant changes for Beaumanor Hall saw the Register Office move from Southfields in Loughborough to Beaumanor. This now means that all registrations of births and deaths take place on site, as well as a large number of weddings. The move took place in a short space of time with no noticeable impact on service to residents. As well as being a significantly more

attractive venue for weddings than Southfields, Beaumanor also allows further increases in income by selling optional 'add on' packages.

43. Whilst this partnership with Registrars improves the potential for high margin wedding income was noted in the report in January 2024 that there is a certain amount of uncertainty as to the value of the partnership. Most of the income comes from future upselling opportunities on civil ceremonies e.g. larger ceremony room, photography opportunity, drinks reception, light reception, dressing room and as this is a very new element of the business at Beaumanor, the income from it is currently untested. This does bring some risk to the financial forecast. As part of this LTS has invested in a business development resource to give more capacity for increased sales.
44. A review of the Wedding and Private hire use of has resulted in external providers now being able to cater events. This has opened up Beaumanor Hall to a different customer base, booking the site as dry hire, and resulting in a reduction in labour costs.
45. Social media platforms and the website have been refreshed towards the site's target markets.
46. Further risks to the forecast relate to the nature of the building. Whilst in good condition, considering its age, continued investment is required. The site was temporarily shut down due to the discovery of a potentially dangerous chimney by one of our contractors, whilst carrying out a routine piece of maintenance. This necessitated a rapid and significant mobilisation of staff and resource to make the building safe. A full remediation will take place later this year once relevant permissions have been granted by Charnwood Borough Council. A number of bookings were unavoidably lost during this closure period.
47. As was noted in January, the service also had to carry out extensive, unplanned works to the high ropes course to ensure it remained safe and usable. These works are now complete and the course is reopen.
48. LTS is taking a cross-service approach to the procurement of food and drink such that Beaumanor can benefit from the economies of scale afforded by the school food contracts whilst ensuring compliance against procurement regulations.
49. As the Commission noted in January, extensive, unplanned works had to be carried out on the high ropes course to ensure it remained safe and usable. These works are now complete and the course is reopen.

### **Cafés performance to date and MTFs position 2024/25**

50. The cafés made a contribution of £41k, significantly improved from a loss of £25k in 2022/23.

51. Income was at the highest ever level. Beacon Hill brought in over £350k and Tithe Barn, now operating 7 days a week, brought in £225k.
52. Both sites had remodelled menus to make them more tailored to their customer base. Improvements have also successfully been made to the cost of goods, lowered wastage and managed staffing costs astutely.
53. It should be noted that on both sites, the value of having catering facilities is greater than the catering financial return that they make. For example, since the café was constructed at Beacon Hill, the car park usage at Beacon Hill Country Park increased by over 40% in the months following, compared to the figures from the previous year. Likewise, the offer at Bosworth Battlefield Heritage Centre would not be complete without some form of catering.
54. Recruitment remains challenging, in line with the wider hospitality industry. Labour costs also increased markedly, due to the local government pay award, which added further pressure to the margin.
55. LTS is in the process of appointing a lettings agent to find long term tenants and operators for the cafés. Since the Beacon Hill café opened in Autumn 2019, it has delivered exceptionally high turnover figures. Tithe Barn at Bosworth Battlefield has also developed into a high turnover operation. Whilst both cafés are making a reasonable financial contribution to the County Council, officers consider that a rental return could be higher than the current contribution, subject to external agents' advice. At previous meetings, Scrutiny Commission members have expressed a keenness to explore private sector operation of these venues. The expectation is that a new provider could be in place in early 2025.

### **Professional Services – LEAMIS and School Financial Service**

56. LEAMIS missed its contribution target by just under £200k. The School Financial Service delivered to budget.
57. As explained to the Commission in January, the main reasons for the variance in income were due to lower trading volumes in the LEAMIS function with MATs increasingly looking to deliver their Management Information Systems (MIS) function in-house, or moving to support directly from the supplier, who was offering attractive introductory discounts.
58. The School Financial Service also had a challenging year with changing expectations from schools around the level of support that they require. Whilst schools' budgets are increasingly strained, the need grows for enhanced support on budgeting and forecasting. Currently the service does not have the capacity to offer what schools require and the service will need to adapt rapidly. In this climate, that the service delivered a positive financial contribution is a notable achievement. Regardless of the service offer it is likely that a reduction in the level of business will continue as Finance is a function that academies usually prefer to operate in-house.

59. During 2024/25, the LEAMIS service will assist schools seeking to change MIS provider and continue to offer support to them. It will also fully support a new digital cloud service to enhance teaching and learning, parental engagement, reduce paper costs, reduce impact on the environment, meet the digital agenda and help improve outcomes for pupils in Leicestershire.
60. A full review of school financial services is being implemented. This will see a significantly altered service, designed in conjunction with schools, that better delivers their requirements for timely budgeting, forecasting and school business management. It may be that the service is no longer considered traded and becomes a form of shared service that will enable Leicestershire maintained schools to deliver their budget position.
61. In 2024/25, LEAMIS is forecasted to deliver a contribution of £91k and the School Financial Service is budgeted to deliver £43k. It should be noted that there is some risk in these figures as the services are transformed over the next 12 months.

### **Professional Services – People Services, Health and Safety**

62. Health and Safety delivered to budget. People Services under performed budget by £17k.
63. Digital initiatives in the Learning and Development offering continue to pay off, with an expanded portfolio of training options which enabled People Services to continue to increase their income.
64. The key challenge for People Services and Health and Safety continues to be financial pressure and the stretched budgets of existing customers. LTS is unable to lower its prices further and is having to annually increase prices to take account of the national pay award. In 2024/25 LTS will continue to review its approach and overhaul the pricing models and service offer.
65. People Services and the Health, Safety and Wellbeing Service will deliver a combined contribution of £57k.

### **Soft Facilities Management performance to date and MTFS position 2024/25**

66. The Contract Management offer had another very strong year, delivering a contribution of £337k. The Furniture/Logistics and Traded Premises Support teams achieved a £134k contribution, short of their combined targets of £242k. This was largely due to staff vacancies in furniture, logistics and premises officer teams, which hampered its capacity and trading activities.
67. Following a major transformational process bringing the two services together under a streamlined structure, the Print Services financial performance improved by £154k from the previous years' outturn and is forecasting to achieve a £50k contribution in 2024-25. Post services exhibited a similar improvement delivering an underspend against budget of £25k. Print and post



continue to modernise, ensuring that hybrid print-to-mail becomes the norm in their work.

68. In 2024/25 Soft Facilities Management will be focusing on re-procuring a number of significant contracts for the County Council and external sites.
69. The forecast contribution for the services for 2024/25 is £368k, although it is expected that there could be some improvement in these figures as the year progresses.

#### **Hard Facilities Management performance to date and MTFS position 2024/25**

70. The service delivered a significant improvement on its budgeted contribution of £250k with a contribution of £519k. This was largely due to increased income generation both from fees from the capital programme and from increased trading level in the Sites Development Service, as well as restructuring teams to create savings.
71. Within the Sites Development Team, the main challenges have been recruitment and retention to meet the demands of the service, there is a good sales pipeline and the number of external enquiries from schools is increasing.
72. In 2024/25, with a good pipeline of business coming through, the budgeted contribution for the combined services is £276k and there is, once again, a high likelihood of this figure being exceeded.

#### **Century Theatre performance to date and MTFS position 2024/25**

73. Regional theatre continues to be challenging for local authorities.
74. The outturn for Century Theatre was a loss of £75k, almost exactly on budget for the year. This was an improvement on the loss for 2022/23 of £101k.
75. The main difference was greatly increased levels of programming, leading to higher income levels. Staffing was also closely controlled throughout the year.
76. In 2024/25 an outturn of £78k loss is forecasted.

#### **Recommendation**

77. The Commission is asked to note the performance of LTS during 2023/24.

#### **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>

Scrutiny Commission – 12 June 2023 – Annual Commercial Strategy Report  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=7101&Ver=4>

Cabinet – 23 June 2023 – Annual Report of the Commercial Strategy  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=135&MId=7077&Ver=4>

Scrutiny Commission – 29 January 2024 – Interim Report on the Traded Services Strategy  
<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=137&MId=7441&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 human rights implications arising directly from this report.

### **Officer to Contact**

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