



meeting **ENVIRONMENT SELECT COMMITTEE**

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**6**

## JOINT REPORT OF THE CABINET MEMBER FOR RESOURCES AND THE DIRECTOR OF ENVIRONMENT

### **ENVIRONMENT DEPARTMENT DIRECT TRADING SERVICES TO SCHOOLS**

#### **Purpose of Report**

1. To apprise Members of Select Committee of the business and competitive environment impacting upon Direct Services provided to schools through Environment Department.

#### **Background**

2. Members of this Committee at a previous meeting requested further reports on business issues relating to Direct Services to schools provided by Environment Department. The purpose of this report is to provide necessary information in this regard in the broader context. This will be followed by further reports on trading performance of these services in recent years, as well as projected results for 2005/05 in due course.
3. Members are no doubt aware that Environment Department provides a number of services to schools to support the work of the County Council, which cover Catering, Cleaning and Landscapes, and Building Maintenance through *buildingDirect*.
4. By way of background Members are reminded that these services were established as separate trading units by the County Council in response to Compulsory Competitive Tendering (CCT) legislation, starting in the late 1980's. This legislation, inter alia, required local authorities to seek competitive tenders and only if successful in this process enabled these services to be kept in-house. The County Council's track record in this regard has been one of success as evidenced by the size of the in-house services and the levels of buy-backs from schools.
5. The CCT regime was replaced by Best Value legislation in 2000, affording local authorities greater flexibility in how these services are procured and delivered, but responsibility for achieving value for money for services are just

as strong if not more. For example in the days of CCT the straightjacket of competitively procured contracts meant that any changes were invariably subject to additional claims. Opportunities now exist for services to provide a flexibility to respond to customer requirements without resorting to often cumbersome and resource extensive formal tender processes.

6. Although the Direct Services now operate under the Best Value framework, it is important to stress that separate trading accounts are kept as was the case in CCT days, thus maintaining commercial accounting principles for budgetary control and transparency for reporting purposes. Given the competitive nature of the environment these services operate, trading accounts are managed on very tight margins invariably to achieve break-even results

### **Direct Services to Schools**

7. Members are no doubt familiar with the Local Management of Schools (LMS) environment, whereby Governing Bodies/Head Teachers are free to buy in services either from the County Council or from other service providers. Accordingly, services provided to the schools in Nottinghamshire by the Authority have to be competitive in terms of value for money and indeed geared to the needs of individual schools. As a result, these services are constantly adapting to changing customer requirements and external commercial pressures.
8. Schools Catering, Cleaning, Landscape and Building Maintenance services are on the whole on the basis of buy-back decisions made by LMS schools. As a general rule service packages are agreed with schools individually, as to the quantum and quality and thus are extremely flexible to meet the needs of individual establishments.
9. As explained earlier in the report, separate trading accounts are kept for these Direct Services within which all the capital and revenue expenditure are accounted for. In other words all costs incurred in the provision for the services are recovered through sales income, rather than as a charge against the revenue budget of the Council. Any surpluses made are reinvested in the services through acquisition of capital assets such as equipment, tools and vehicles, as well as refurbishment of the catering facilities.
10. It is important to reiterate that as these services are sold to schools in open competition, margins on turnover are extremely tight, which limits the scope for reinvestment into the services and indeed unforeseen requirements in areas such as health and safety and increased wage costs because of national pay agreements.
11. Members should be aware that in the last 3 years, nearly £800k has been expended in primary schools in repair, maintenance and upgrading school kitchen and dining room facilities. This averages at £80 per school per year. Surpluses generated in secondary schools, of over £0.5m have resulted in an average return of over £5k per school per year for reinvestment into better education provision.

## Key Strategic Drives

A brief summary of each service area and strategic drivers is set out below:

### 12.1 **Building Cleaning**

#### Service Overview

- Building Cleaning Services has an annual turnover of £8m.
- £6m of the business relates to individual annual service level agreements with Nottinghamshire Schools (Nursery, Primary, Special and Comprehensive)
- £1m of the turnover relates to the provision of cleaning services to Internal Nottinghamshire County Council Buildings
- £1m of external work won in open competition, usually for three-year contract periods. (i.e. Colleges, Notts Fire and Rescue Service, Bassetlaw District Council)
- The business directly employs 14 Managers, 3 Administrative Officers and 1600 part time Frontline Cleaning Operatives/Caretaking Operatives
- 90% of all costs are labour related
- The business supports its customer base through the delivery of:
  - Day to day building cleaning functions including schools and offices
  - Delivery of caretaking services (Janitorial, portage, security)
  - Associated services such as external window cleaning, fire and flood damage clean-ups, chewing gum removal area also provided as and when required

#### Strategic Drivers

- 80% of the business operates through annual buy-back agreements with schools. New service level agreements with schools are negotiated and delivered between April and March each financial year. Short term budget processes have meant that virtually all these agreements are covered by a one-year buy-back period only.
- Alternatives for schools are to procure this service from a private sector supplier, or to internally self-manage the service with the transfer of frontline employees from the Environment Department to the individual schools.
- 10% of the business turnover is obtained through works let as open contracts, generally for three-year periods and tendered for via contractual/specification documents by both public sector and private sector organisations.
- The remaining 10% of the turnover relates to building cleaning services to other Departments of the County Council.

- Performance is monitored by levels of turnover, feedback from individual customers, and comparison against other local authority bodies.
- The Business relies heavily on its ability to recruit a part time labour force, which remains predominantly female. Simply due to customer service requirements, the majority of posts are between 10 and 15 hours per week and are generally classified as 'unsociable working hours' i.e. early morning or early evening work. These criteria dictate that the vast majority of this labour force reside close to their employment base and either walk or use public transport in order to get to work.

## 12.2 **Landscape Services**

### Service Overview

- Landscape services currently has an annual turnover of £3.1m
- £1.77m of this business relates to annual individual service level agreements arranged with Nottinghamshire schools
- £0.75m relates to development projects
- £0.20m relates to external contracts tendered for in open competition
- £0.40m relates to the management of other Nottinghamshire County Council land and property
- The business employs ten operational managers/management officers, one clerical support officer and seventy-one front-line operatives.
- During peak work periods (predominantly the summer months), the permanent front line operatives are supported by an additional fifteen (average) temporary employers recruited through local job agencies
- 49% of all business costs are directly labour related
- The Business supports its customer base through the day to day delivery of :-
  - the management of outdoor sports and amenity areas
  - estimating services for additional works
  - provision of an advisory service (e.g. Writing specifications and contract letting to site developments)
  - provision of arboriculture services; by annual inspections and programmed works.

### Strategic Drivers

- 57% of the business operates through its annual 'bought back' services from Nottinghamshire LEA schools. New service level agreements with schools are negotiated and delivered between April 1<sup>st</sup> and March 31<sup>st</sup> each financial year. Budget processes and school requirements have meant that virtually all these arrangements are covered by a one year buy-back period only.

- 24% of the business operates through the provision of development projects, where individual projects are designed and built to meet customer requirements.
- 13% of the business covers the maintenance of Nottinghamshire County Council's land and property
- The remaining 6% of the business relates to external turnover won in open competition
- The business acts as a benchmark for the Nottinghamshire customer base in terms of cost and quality in relation to alternative methods of service delivery which includes private sector provision and self management of the service
- The business performs efficiently largely due to the productivity levels achieved by front line operatives, who currently receive a standard bonus payment to compensate for increases in productivity levels.
- All front line operatives live and work within the communities of Nottinghamshire, a number of which have been employed and supported following the demise of local industries (e.g. mining).

### 12.3 **Secondary Schools Catering**

#### **Service Overview**

- Individual service level /contract agreements exist between school governing bodies and the Environment Department. Managed on a cost plus arrangement all income less expenditure for provisions, wages, overheads is returned to the school either in cash payments or via investment funding. Annual turnover is £3.1m
- Lengths of agreements vary between 1 and 10 years, most have been subject to a competitive tender process. A mixed market economy exists:-
  - 29 schools managed by the DSO
  - 9 Private Sector (8 Scolarest + 1 Redcliffe Catering)
  - 9 Self Managed (4 due to return to DSO 2006/07 under the Bassetlaw PFI arrangement)
  - Service includes breakfast clubs, morning breaks, lunchtime service, vending and function/hospitality catering.

#### **Strategic Drivers**

- With the high level of competition in this area both with other providers and alternatives for pupils at lunchtime i.e local shops, customer satisfaction is the highest priority
- Government nutritional standards were introduced in 2000
- There is a statutory requirement for a free meal and the provision of facilities for pupils who bring a packed lunch. This is a vulnerable group of customers and as such constitutes a high risk service provision.

Heavy legislation applies to the provision of food, associated equipment premises and legal responsibilities for staff involved.

- Reduced lunchtime serving periods, inadequate facilities at most secondary schools present a challenge to the service on a daily basis
- Approximately 254 (102 FTE) staff are employed in this sector all requiring training and certification in food handling and health and safety issues

## 12.4 **Primary Schools Catering**

### Service Overview

- A principal service level agreement is in place between the Education and Environment Departments covering the provision of a lunchtime catering service to primary and special schools within the county boundary.
- This service includes the statutory responsibilities for a free school meal service and the provision of facilities consisting of a seat and access to drinking water for pupils bringing in packed lunches.
- In addition the voluntary provision of a two-course hot meal, breakfast clubs, morning breaks and catering for functions is also made available to schools on a daily basis.
- 98% of schools participate in this arrangement with a turnover of £8.5m
- Arrangements are on a bought back service with free meal and premise budgets delegated to schools who then choose to buy back the services provided.
- The service has responsibility for the maintenance, repair and replacement of all heavy & light equipment, including furniture, associated with the provision of the service. The funding for this comes in the form of contributions from the LEA in part but on the whole from the operating margins generated from the sales income from school meals. However, ownership of these assets is deemed to vest in schools. Maintenance of premises is carried out by a buy-back option direct with the Education Department.
- Replacement of equipment has traditionally been undertaken in accordance with changes to service provision, uneconomic repair, health and safety or legislative requirements. Current available budget funding has been insufficient to meet current demands. Additional funding is now urgently required over the next three years to replace obsolete equipment and to bring the estate up to an acceptable operational level. With a life cycle of at least 10-15 years, this expenditure represents a medium/long term capital investment for the business. An important funding stream for improving future viability of the service is through the Authority's Medium Term Financial Strategy, with the remainder dependent upon future profitability of the service.

- The current service contains an element of independent advice and monitoring by the Education Department to customers of the service.
- Income for the service comes from the delegated free school meals and equipment allowances returned by schools (1/3) and cash from paying customers (2/3). The price of school meals is determined by Governors of the schools however the Authority makes a pricing recommendation, which is currently £1.65

#### Strategic Drivers

- There is a statutory requirement for a free meal and the provision of facilities for pupils who bring a packed lunch. This is a vulnerable group of customers and as such constitutes a high risk service provision.
- Onerous legislation applies to the provision of food, associated equipment premises and legal responsibilities for staff involved
- The current arrangements provide access to all schools across the county together with the ability to bespoke and deliver local services
- The service in conjunction with other in-house services contributes financially through support charges to the corporate centre e.g. payroll, financial management, and contribution to department overheads
- Approximately 897 (400 FTE) staff are employed in this sector all requiring training and certification in food handling and health and safety issues

### 12.5 **buildingDIRECT**

#### Service Overview

*buildingDIRECT* has two trading arms Project Services and Operations.

Project Services:

- Project Services provides a Design and Technical Advice support service to County Council Establishments
- This team has a projected order value of £8-10m, which generates a design income of £1.384m.
- £913K is received from Corporate Property in Resources Department to manage the planned maintenance programme and provide area based technical advice to support County Council establishments.
- £421K fee income is generated from planned-work; client funded capital projects and DA/DDA work.
- £50K is earned from administering service agreements.
- The business employs 24.5 FTE staff. During peak work periods additional temporary employees recruited through agencies support the permanent establishment or Consultants are appointed. Management and support salaries in this team account for 24.5% of business costs.

#### Operations:

- The operations team provide out of hours emergency repair services and day-to-day responsive repairs, planned maintenance and minor works throughout the County.
- This team has a projected turnover of £9.154m.
- £5,604m from planned projects.
- £1.513m from LMS customers.
- £2,037m from other customers.
- The business employs 24.5 FTE management and support staff whose posts will be evaluated under the NJE scheme. These salaries account for 4% of business costs.
- There are also 96 craft workers (including 14 Multi-Trade Supervisors) employed who are outside of NJE. During peak work periods additional temporary employees recruited through agencies support the permanent establishment. These salaries are billed directly to the customer for work undertaken on a cost-plus basis.

#### Strategic Drivers

##### Project Services:

- 70% of business relates to the maintenance and servicing of Nottinghamshire County Council Properties and is subject to Financial Regulations, Best Value and CPA legislation. Maintenance budgets are set annually and are subject to variation in both volume and type of work.
- 30% of business relates to the development of individual projects, which are designed to meet the customers' requirements. This work fluctuates subject to constraints of client budgets.
- The business acts as a benchmark in terms of cost and quality in relation to alternative methods of service delivery, which includes private sector provision.

##### Operations:

- 61% of turnover relates to work for corporate customers and is subject to financial regulations, Best Value and CPA legislation.
- 17% of work is from LMS customers who market test by obtaining three competitive quotations.
- 22% of work is from other customers who include Fire/Police and Health Service customers who also market test by obtaining 3 competitive quotations.



- Financial performance is monitored via the monthly profit and loss accounts, customer satisfaction by feedback from individual customers via the customer satisfaction cards and the annual customer survey. Benchmarking is undertaken using quantitative data via APSE e.g. target times, productive labour cost as a percentage of total cost.
- The majority of front line operatives live and work within Nottinghamshire.
- Both teams contribute to the corporate services e.g. payroll, personnel and other departmental overheads.

## **Overall Summary**

13. As Members would no doubt appreciate from the situational content as set out above, Direct Services to schools operate in a very dynamic and fast changing environment. This together with competitive pressures on these services means that there are a number of challenges that lie ahead in order to maintain future viability of the services. In particular reference is made to the current condition of heavy equipment used for the delivery of catering services in Primary Schools. The replacement of equipment has become an additional responsibility for the Environment Department in the last two years, for which no additional funding has been made available in the expectation that the service can fund it internally. For example, a recent inspection of 57 mixers (out of 300 in use) 35% require both a re-spray and a complete overhaul at a cost of over £500 each, i.e. a cost of nearly £30,000 to the business. With increasing changes in legislation a parallel cannot help but be drawn with recent developments concerning PFI provision, i.e. the service is provided with new dining facilities and kitchen equipment that is fit for purpose at the commencement of service contracts. In other words, a PFI contractor does not have to bear these costs in its business mode, very much unlike the position Primary Schools Catering finds itself in.
14. On a related matter, it is appropriate to stress that in-house catering service has worked in partnership with the LEA and schools to promote the healthy-eating agenda to tackle the national issue of obesity. In this respect very significant changes in choice of menus and sourcing of healthy food products have been made to enhance nutritional value of school meals in Nottinghamshire, in some cases even withdrawing more profitable but unhealthy food/beverage lines. Nonetheless, such short-term down turns are considered necessary to reap the long term benefits of healthier life styles amongst pupils in Nottinghamshire.
15. The general outlook for the future viability of the services sold to schools is that of continuous change because of the competing pressures on school budgets and short-term nature of the buy-back arrangement with schools. This coupled with the competitive environment these services have to operate under pose ongoing challenges to safeguard their future.
16. In conclusion, these are difficult and challenging times ahead for the Direct Services to schools provided through Environment Department. However,

given the successful track record to date, the future viability of the services should be viewed with optimism given the commitment of staff and the ongoing support from the County Council.

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