



11 February 2015

Agenda Item: 6

REPORT OF THE CHAIR OF THE PERSONNEL COMMITTEE

TRADING SERVICES: SCHOOL MEALS AND FACILITIES MANAGEMENT PRICING 2015/16

Purpose of the Report

1. The purpose of this report is to seek approval for the pricing policies for Catering, Cleaning and Landscape services relating to the provision of their respective services to schools and academies.

Information and Advice

2. In operational terms, these three activities are delivered by two business entities, Schools Catering which provides school meals, and Facilities Management (FM) which provides cleaning services and ground maintenance. The total annual turnover for these two businesses is in the region of £35m (£21m for Catering and £14m for FM).
3. The County Council's operating policy for these services is that the income generated from meals and FM service charges should cover all costs to break-even as a minimum, with the aim to generate a small surplus at the end of each financial year. This policy is applied to all the main services sold by the County Council to schools.
4. In this context, surpluses represent a very small percentage of turnover, and in recent years, this figure is well under 1%. Any surplus generated is placed in a trading reserve and is used as a contingency or to reinvest in the service. This includes, for example, the provision and purchase of new kitchen equipment for schools, the purchase of new grass cutting machinery and other equipment for landscape services. Without some form of operating surplus, any deficit would have to be made up from elsewhere in the authority's budget through alternative savings. It would be very difficult to replace essential equipment to sustain the services without provision from the authority's capital programme.
5. It should be noted that these service areas have undergone significant change through major efficiency initiatives over the past few years. These include absorbing a circa £3M impact of the national job evaluation scheme, major management reductions and improved systems and processes to support schools, including electronic payment systems. Whilst further small efficiencies

may be attained, little, if any, flexibility remains. Given the scale of these enterprises, with some £35M/annum turnover, pricing is the major factor in maintaining viability.

6. The Authority is committed to maintaining a strong and mutually beneficial relationship with Nottinghamshire schools, whether they be local authority maintained schools or academies. This relationship has been built upon trust and confidence, with the authority committed to delivering high quality services in support of schools that are responsive to their needs. This relationship has been nurtured over many years and is reflected in the level of buy back from schools totalling over £50M annually on all services, including Catering and Facilities Management.
7. The Authority is also totally committed to ensuring that employees, including our own staff, receive an income that provides an adequate standard of living. As a result, the Authority voluntarily adopted the 'Living Wage' in April 2014 in accordance with the administration's election manifesto. This has had a hugely beneficial impact on the 2,890 staff in the Catering and FM services, many of whom are female, part time workers, on very low wages. This has provided significant help to them and their families at a time of serious economic constraint and has increased spending power in the local economy. Our aim is to encourage our commercial partners and others to adopt the same approach as the Authority: to pay an income to their staff that provides an adequate standard of living. The Council is very proud to have adopted the Living Wage and to have been an exemplar in Nottinghamshire, and it is hoped that others will follow.

Schools Catering Service

8. The provision of healthy, balanced school meals is a very important adjunct to enhancing the education standards across the County. Evidence indicates that children's learning and attention is improved if they receive a proper meal at lunchtime. The goal of the authority has been to encourage meal take up by pupils and parents. The Authority has successfully increased this over the past 4 years as follows: (% of pupils consuming meals against roll numbers): 2011 (43.1%), 2012 (43.9%), 2013 (44.4%), 2014 (45.9%). These figures do not include the impact of the introduction of universal free infant meals.
9. Buy-back of the authority's meal service is strong at present but it is operating in an increasingly competitive environment, especially in the secondary sector. The market is changing as academy chains operate across the country and groups of schools look to commission services in different ways.

Maintained Secondary Schools (4)	Secondary Academies (41)	Maintained Primary & Special (255)	Primary & Special Academies (26)
NCC 4 (100%)	NCC 21 (51%)	NCC 246n (96%)	NCC 19 (73%)
Private Sector - 0	Private Sector 6 (15%)	Private Sector 0	Private Sector 2 (8%)

Self-managed 0	Self-managed 14 (34%)	Self-managed 9 (4%)	Self-managed 5 (19%)

Table 1 - Catering Buy Back 2013/14

10. The pricing of the school meals is very complex due to the variety of different funding streams and different entitlements of schools and pupils, as outlined in the table below. Schools are charged for the school catering service through a combination of the charges for pupil premium free school meals, universal infant free meals and paid meals. Schools are responsible for the receipt, banking and accounting of all income from paid meals and budgets received for free meals.

<i>Primary Services For Schools and Academies</i>	2014/2015	Projected annual meal nos. 2014/2015	% of meal nos.	Projected annual meal nos. 2015/2016	% of meal nos.
Universal Infant Free School Meals	£2.30 Government Funded	2,101,578 (126 days)*	36%	3,246,340	55% (191 days)
Pupil Premium Free Meals	£2.10 Government Funded	1,002,951	18%	1,060,395	18%
Paying Pupils	£2.10 Parent/Carer Funded	2,642,869	46%	1,584,347	27%
Total Meals		5,747,398		5,891,082	

*Universal infant free school meals were introduced Sep 14.

Table 2 – School Meal Numbers and Funding

11. The decision on the school meal price rests with schools rather than the County Council. NCC, as the service provider, needs to determine the price schools/academies pay for the provision of the school meals service, as opposed to what the school decides to charge to pupils.
12. In nearly all circumstances in the primary sector the schools will charge the price that is set. In the secondary sector, pricing is agreed based on individual service level agreements, as the vast majority of schools are academies. Any surpluses made are re-invested in the service at the academy or returned to the school after the cost of the service has been paid to NCC. In these circumstances in effect NCC bears the commercial risk of controlling costs. Risks on overall profitability/deficit rest with the individual academy/school.
13. Schools receive £2.30 funding per meal for universal infant free meals and this was the basis of charging for 2014/15 by the Authority for these meals (compared to the £2.10 charged for a paid and pupil premium free meal). This higher price to schools was needed as a one-off cost to recover the investment needed to commence the infant meal provision. This included considerable costs for

additional light equipment, recruitment and other costs required to start this new service. There still remain a number of projects related to the infant meals programme where there are pressures on production and the need for some further investment to the tune of £400K in 15/16. However, now the new service is established the recommendation is to return to a standard price to schools for meal provision.

14. It is still too early to assess the full impact on the viability of school catering of the introduction of universal free infant meals. Fewer of the primary schools that were originally operating in net deficit, in terms of cost to the authority of providing the meal service, will be in the future. The break-even point has been improved by the increase in the volume of meals provided. It is still the case that very small primaries will be to a degree cross-subsidised, as costs to provide meals to these schools is considerably higher than the 'standard' price. The long term impact of infant meals is likely to be beneficial as it is likely to maintain a higher take up of school meals by many pupils through their school careers.
15. The cost of providing the school meal service is largely made up of food (between 34-35% of cost over the past 4 years) and direct labour costs (between 46-47% over the past 4 years). In addition around 6% is spent on equipment provision, maintenance and materials. There are indirect labour costs of some 7% and Corporate Support Costs (CSC) -Democracy, HR, Finance, ICT, property etc-of around 4%.
16. CSC have been recalculated through a reappraised formula and their reapportionment has resulted in Catering and FM being given a greater proportion of costs than previously, to reflect what is assessed to be the true costs. This is still to be finalised but the impact of this on a traded service is to increase the charge so that they can cover their overall costs.
17. Costs of the service will increase from 14/15 to 15/16 due to wage costs rises (1.9%) and food price inflation (2.6%) and the need to invest a further £400K into the operational service to cater for the impact of universal free infant meals. This together with the CSC cost reapportionment means that to break-even on the service there is a need to increase the charge to schools. Without a price increase the service would be likely to operate at a loss, as current surplus levels have become marginal at best.
18. It is recommended that the cost of a school meal charged by NCC is set at £2.15 (currently £2.10 since April 2014). This is a rise of 2.38% to cover inflationary pressures. For parents/carers this would mean an increase of £9.50 per annum (5p per day for 190 school trading days). It should be noted that some 73% of children who have a school meal now receive it for free due to universal free infant meals, free school and pupil premium meal arrangements.

Schools Cleaning and Landscape services (FM)

19. As outlined above, the service aims to ensure that income generated from service charges covers all direct/indirect costs, the allocated corporate service charges and ultimately ensures a break even or small surplus at the end of each financial year.

20. FM is a labour intensive 'people' business that provides its large number of customers (473 sites, including 260 schools and academies) with in excess of 20,000 building cleaning/site management and landscaping hours every week. It employs 1700 staff (around 506ftes) As about 80% of the costs of these services are wage related, rates of pay have a significant bearing on the hourly charge out rate.
21. The market place for these services is extremely challenging with a number of local and national companies competing for the work when schools go out to tender, which they are now doing on a regular basis. NCC hourly charge rates for 2015/16 on full cost recovery basis are higher than their market competitors. Up till now the impact of this has been ameliorated by continuing satisfaction with the quality of the service, and confidence and trust in the LA provision.
22. It should be noted that significant savings have been made since 2011 to reduce management and business support costs by over 30%. Service delivery for each site has been fundamentally reviewed in order to ameliorate cost increases to schools. There is now very limited scope to achieve further cost savings other than through a reduction in the provision of site cleaning/landscape hours. School/Academies and internal customers regularly request a service review and the business has the flexibility to change its service offer to meet the financial requirements of each customer.

FM Pricing Strategy – Options & Implications

23. The challenge is to maintain a balance between covering costs through full cost charging to schools and the rapid potential loss of business through competition and ever more cost conscious customers. In 2014/15 a two year pricing strategy was agreed and this resulted in an 8% increase in prices this year with a further 3% originally required for 2015/16. As a result in 2014/15 of this staging there is a projected deficit for this financial year of £299k. This deficit will be covered by the utilising trading reserves of the Catering and Facilities Management Group and is part of a short term business strategy to maintain business over a fixed time period, which is important for sustainability.
24. However, with further wage increases of some 1.9% (circa 150K), increases in CSC costs of circa £250K (for reasons as outlined above) and with the current deficit of £300K the current planned 3% increase for 15/16 will not be sufficient to deliver full cost recovery – a gap of £700K. Each 1% price increase delivers about 120K of income across the service
25. Once again the challenge is to maintain a balance between price and competitiveness. A one off 6% increase to close the gap would affect buy-back with annual increased charges of £5,000 and £1,000 in a typical secondary and primary school respectively. Any loss of turnover would mean loss of contribution to corporate and internal overheads.
26. The recommendation is therefore for a further staged price increase over 2 years with 3% in 15/16 and a further 3% in 2016/17. The residual deficit would have to be managed on a short term basis through the use of trading services reserves.

Other Options Considered

27. Not revising the charge to schools for a school meal would not recover the increased costs of the service and will result in a financial deficit which would fall to NCC at the expense of other spending priorities of the council.
28. Not increasing FM charges would result in an ongoing substantial deficit for the authority and would be subsidising schools.
29. Work is ongoing to evaluate whether a collaborative partnership/JV with the City Council and/or other partners might enable further efficiencies and opportunities to generate income. The viability of this should become clearer later this year.

Reasons for Recommendations

30. As these are traded services the increases are needed to maintain the financial viability of the services.

Statutory and Policy Implications

31. This report has been compiled after consideration of implications in respect of crime and disorder, finance, human resources, human rights, the NHS Constitution (Public Health only), the public sector equality duty, safeguarding of children and vulnerable adults, service users, sustainability and the environment and ways of working and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

Financial Implications

32. The financial implications are contained within the body of the report.

RECOMMENDATION

33. It is recommended that Policy Committee:
 - a. Approves the cost of a school meal charged by NCC to be set at £2.15 for 2015/16.
 - b. Approves the two year pricing structure for Cleaning and Landscape Services (FM) with a 3% increase in 2015/16 and a further 3% increase in 2016/17, as outlined in the report.

Councillor Sheila Place
Chair of the Personnel Committee

For any enquiries about this report please contact: Tim Gregory, Corporate Director, Environment & Resources, 0115 9773404

Constitutional Comments (HD 02/02/2015)

34. Policy Committee has the authority to determine the recommendations set out within the report.

Financial Comments (TMR 02/02/2015)

35. The financial implications are set out in the report.

Background Papers and Published Documents

None

Electoral Division(s) and Member(s) Affected

All