

6 January 2016**Agenda Item: 9****REPORT OF THE CHAIR OF THE PERSONNEL COMMITTEE****TRADING SERVICES: SCHOOLS CATERING SERVICE AND FACILITIES MANAGEMENT PRICING STRUCTURE 2016/2017 & 2017/2018****Purpose of the Report**

1. The purpose of this report is to seek approval for the two year pricing structure for Schools Catering, Cleaning and Landscape Services to schools and academies.

Information and Advice**Services Sold to Academies and Schools**

2. The Authority is committed to sustaining a strong and mutually beneficial collaboration with Nottinghamshire schools; whether they are local authority maintained schools or academies. This relationship has been built upon trust and confidence, with the Authority committed to delivering high quality services and being responsive to schools. The success of the present arrangements is reflected in the generally good levels of buy-back from schools totalling over £50m annually on all services from the County Council. This also includes School Catering and Facilities Management Services.
3. Academies and schools have the freedom and choice over where they buy their services from; and the decisions are based on value for money and the quality of service. The County Council therefore is a service provider of choice and has a good track record of maintaining good levels of buy-back over the years.

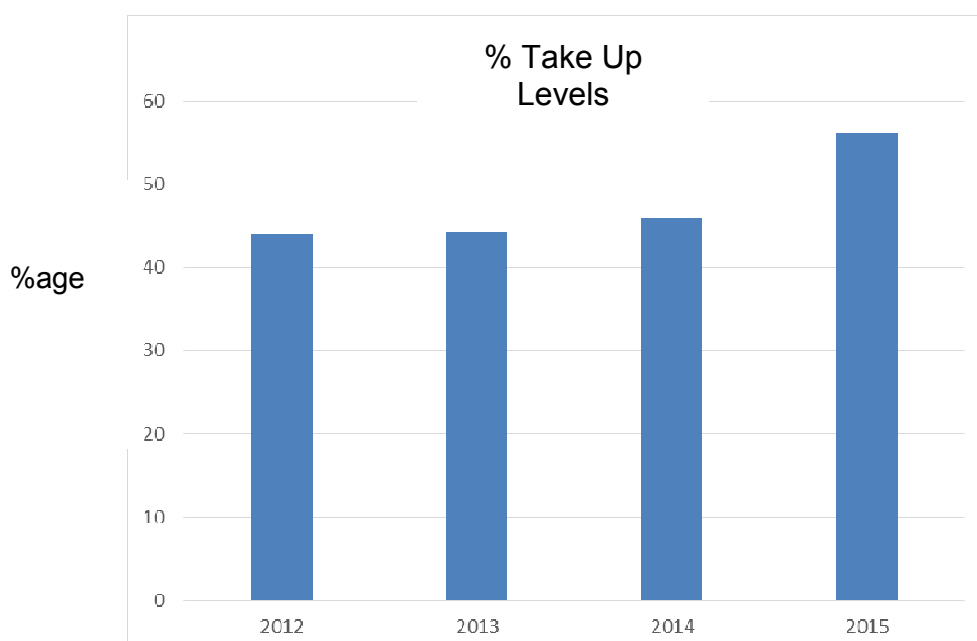
Schools Catering and FM Services

4. In operational terms, the services are delivered by two business entities; Schools Catering which provides school meals; and Facilities Management (FM) which provide building, cleaning and grounds maintenance. The total annual turnover for these two businesses is in the region of £35m (£21m for Catering and £14m for FM).
5. The County Council's operating policy for these services sold to schools/academies is based on full cost recovery. This means that income levels generated from school meal and FM services sold to schools must cover all costs to break-even as a minimum. The financial aim is to generate a small surplus to cover risks to enable essential investment into the services whilst maintaining viability. This policy applies equally to all the other main services sold by the County Council to schools.

6. It needs to be stressed that in the context of Schools Catering and FM services, operational surpluses represent a very small percentage of turnover. In recent years this figure is well under 1%. Any operational surplus generated is placed in a trading reserve and is used as a contingency or to reinvest in the services. This includes, for example the provision of equipment for schools, new grass cutting machinery and other equipment for landscape services. The alternative would be the need to fund this on-going investment in order to sustain the services from the Authority's limited capital programme.
7. Furthermore, without some form of operating surplus, any deficit would have to be funded by the Authority from the general revenue budget at the expense of other priorities/services. In view of the significant financial challenges currently facing the County Council, any significant subsidy to these services is not a realistic or affordable option.
8. These services have undergone significant changes through major efficiency initiatives in recent years. This has included a radical redesign of services, management reductions and improved systems and business processes, including the use of electronic payment systems in order to keep the services financially viable and cost-effective. More savings are to be attained from further streamlining business processes and management structures, but realistically there is no scope to make significant cost savings in the way the services are managed and provided. These are low margin, high volume, labour intensive services and therefore pricing is the major factor in maintaining financial viability of the services.

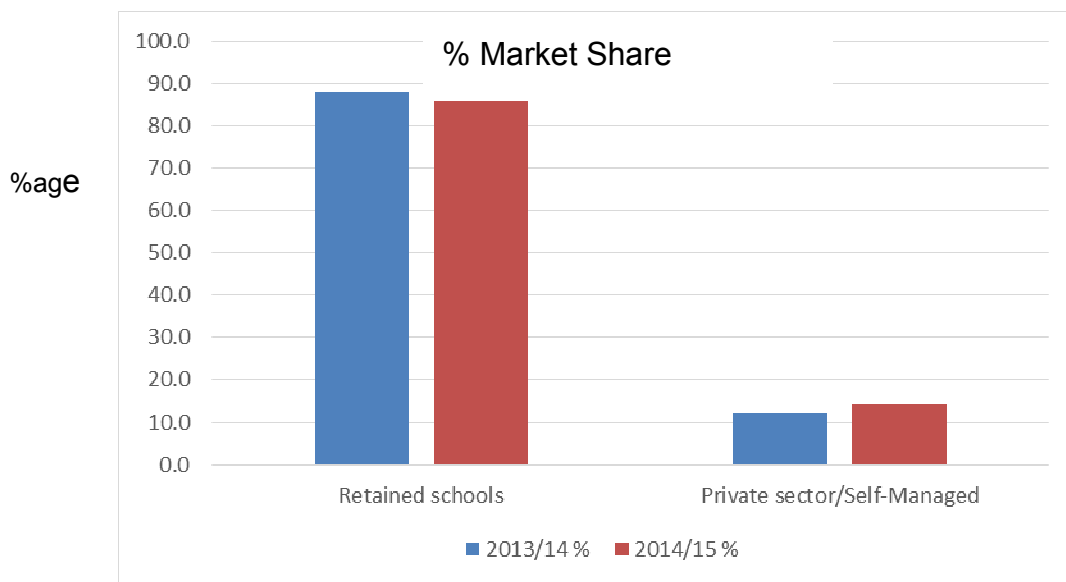
Schools Catering Service

9. The provision of healthy, balanced school meals is a very important factor in enhancing the education standards across the County. Evidence indicates that children's learning and attention are 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 shown below:



10. Buy-back of the Authority's school catering service is reasonably strong at present but it is operating in an increasingly challenging and competitive environment, especially in the academy/ secondary meal sector. The whole market is changing as academy chains operate across the country and contract for chains rather than as individual schools. As academy numbers increase in the primary sector, groups of schools are likely to commission services in different ways.

11. The table below summarises the position and buyback levels in recent years.



Funding

12. The funding of the Schools Catering Service by the Government is very complex with a variety of different funding streams and differing allocations for schools and pupils due to factors such as pupil premium free school meals and universal infant free meals. These funding streams are paid directly to schools not to the Authority and schools are responsible for banking and accounting for all income and funding for all school meals whether paid or free.

School Meal Prices Charged to Pupils

13. It is important to emphasise that 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 catering service, as opposed to what the school decide to charge to pupils. It is not uncommon for actual schools meal prices paid for by pupils to be different from the charge made by the County Council to schools for the provision of the service.

14. However, in the primary sector nearly all schools charge the same price as that set by the Authority.

15. In the secondary sector, price for the services provided is agreed based on individual service level agreements. The vast majority of these schools are now academies. Any surpluses made are re-invested in the service or returned to academies/schools 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 academies/schools.

Proposed Charges for Schools Catering Service

16. The table below shows the summary of income and expenditure for years 2015-18 costs:

	2015/16 £000	2016/17 £000	2017/18 £000
Income*	20843	21166	21603
• Labour	9500	10146	10481
• Food & consumables	8946	8777	8856
• Indirect Costs	1361	1406	1447
Overheads	839	828	828
Total Expenditure	20646	21157	21612
Surplus/(Deficit)	197	9	(9)

*Based on charges of £2.15, £2.22 and £2.29 a meal.

17. Members should note that schools receive £2.30 funding from the government per meal for universal infant free meals. In addition, schools also receive funding from the Government for free school meals from 'pupil premiums' and other allocations which, inter-alia, are deemed to cover the cost of the school catering service.

18. To cover costs and maintain viability the cost of the service will need to increase charges to schools in both financial years 2016/17 and 2017/18. Without a price increase the service would operate at a loss and this would have to be funded corporately.

19. It should be noted that without a price increase there will be an overall deficit of £601K.

20. It is therefore recommended that the charges to schools for the meals service provided are increased from £2.15 a meal in 2015/16 to the following figures:

2016/17 - £2.22 per meal	£9k surplus
2017/18 - £2.29 per meal	£9k deficit

21. The Committee should note that the proposed price increases lead to a break-even position and as a result there is no margin to cover unforeseen and unavoidable expenditure in the service. In other words this is a financial risk which would need to be funded by the Authority in the event it materialises.

22. The Committee should note that some 73% of pupils in primary schools who have a school meal now receive it for free due to universal free infant meals, free school and pupil premium funding.

Schools Cleaning and Landscape Services (FM)

23. As explained earlier in the report, the services aim to ensure that income generated from service charges covers all direct/indirect costs and allocated CSC to achieve a break-even position at the end of each financial year.
24. FM is a labour intensive 'people' business with 473 sites, 260 schools and academies. It employs 1625 staff (around 475 FTEs). In overall terms over 80% of the cost of the services are wage related and therefore it is the most significant factor in determining the hourly charge out rates.
25. 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 market competitors. Until 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. However, going forward the buy-back levels are likely to be under increased pressures as academy trusts continue to work to reduce costs and tender to achieve better value for money from contracts with service providers.
26. The Committee should be aware that service delivery for each site has been fundamentally reviewed in recent years 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 regularly request service reviews and the business has the flexibility to change its service offer to meet the financial requirements of all customers.
27. It should also be noted that significant savings have been made since 2011 to reduce management and business support costs by over 30%. In order to limit cost increases to customers, further reductions are planned in management and business support costs, and these savings are factored into the proposed pricing strategy. This is challenging but achievable over a 2 year period. A further report will be presented to the Personnel Committee to seek approval to implement changes in management and business support at a later date.

FM Pricing Strategy – Options & Implications

28. The challenge is to maintain a balance between full cost recovery from schools and the rapid potential loss of business through higher pricing and greater competition with ever more cost conscious customers. However large losses cannot be sustained and nor can they be supported from the trading reserve as that is rapidly reducing due to current cost pressures.
29. In order to safeguard the buy-back levels the Policy Committee agreed a two year pricing strategy in February 2015 for 2015/16 and 2016/17 of 3% each of the two years. This left a deficit of circa £300k which would have been recovered through planned increases of 3% in 2016/17 assuming no other significant additional increases in the operational costs. This has proved not to be the case as the actual pay award for front-line workers for 2015 has been 5% rather than 3% assumed in charges set last year. This means that the shortfall of 2% is an additional cost on top of the projected cost increases in the following two years.

30. The table below sets out income and expenditure projections for the service:

	2015/16 £000	2016/17 £000	2017/18 £000
Income*	13582	13592	14109
• Labour	10727	10514	10924
• Materials, Plants Equipment	1465	1404	1424
• Indirect Costs	1069	1013	958
Overheads	795	786	786
Total Costs	14056	13717	14092
Surplus/(Deficit)	(474)	(125)	17

5% pa reduction in turnover (and corresponding costs) in 2016/17 and 2017/18

31. The pricing strategy recommended therefore is a 5% increase annually in charges for 2016/17 and 2017/18. It will leave the service in a near break-even position with the assumption that the buy-back levels would reduce by 10% over the two year period.

Other Options Considered

32. Not revising the charges for Schools Catering and FM Services will result in a financial deficit which would fall to NCC for funding at the expense of other spending priorities of the Council.

33. Not increasing the charges would also result in an ongoing substantial deficit for the Authority; which in effect is a subsidy to services provided to schools.

Reasons for Recommendations

34. As these are sold and traded services the increases are needed to maintain the financial viability of the services.

Statutory and Policy Implications

35. 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

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

RECOMMENDATION

37. It is recommended that Policy Committee approves:

- 1) the setting up of charges made by NCC for the catering service provided to schools at £2.22 and £2.29 a meal for 2016/17 and 2017/18 respectively;
- 2) a 5% per annum increase in charges for Cleaning and Landscape Services in 2016/17 and 2017/18.

Councillor Sheila Place
Chair of the Personnel Committee

For any enquiries about this report please contact:
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Constitutional Comments (SLB 15/12/2015)

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

Financial Comments (SES 10/12/2015)

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

Background Papers and Published Documents

None

Electoral Division(s) and Member(s) Affected

All