

EDUCATION & YOUTH OVERVIEW AND SCRUTINY COMMITTEE

Date of Meeting	Thursday 15 th December 2016
Report Subject	School Meals Service
Cabinet Member	Cabinet Member for Education
Report Author	Facilities Operations Manager
Type of Report	Operational

EXECUTIVE SUMMARY

Education & Youth Overview and Scrutiny Committee have requested an update report on the School Meals Service and how this is performing in schools at present. This report details the current performance but also explains the current strategic position within the service in relation to the creation of a Local Authority Trading Company (LATC) for the delivery of Catering and Cleaning services which forms part of the Alternative Delivery Model (ADM) programme.

The School Meals Service is part of the wider Facilities Services section which now reports to the Organisational Change Overview and Scrutiny Committee on a regular basis, this being the reason that the Education & Youth Overview and Scrutiny Committee has not received a report from this service for some 2 years now. Although we no longer report to this Committee the relationship needs to be maintained and the opportunity to provide this update report is welcomed.

A full operational update is given below which shows how the service has performed over the last 2 years, the improvements in technology which are being introduced and the affect this is having on income.

Strategically the service is now moving into a new and exciting chapter with the development of the LATC for the delivery of Catering and Cleaning services.

In March 2016, Cabinet agreed to move forward with the development of the LATC with a TEKAL exemption for Facilities Management Services, following this decision work to progress this model has been undertaken with the commencement date for the new operating model agreed as April 2017.

A further report has been prepared for December 2016 Cabinet when final approval to establish the LATC will be requested.

RECOMMENDATIONS

1	Members of the Education & Youth Overview and Scrutiny Committee acknowledge and provide comment on the operational update on the School Meals Service
2	Members of the Education & Youth Overview and Scrutiny Committee support the creation of a Local Authority Trading Company for Catering and Cleaning Services and support officers and Governors to enter into discussions on the length of contract to award the new LATC in order to provide the sustainability required to support the growth identified in the business plan.

REPORT DETAILS

1.00	Operational update on the performance of the School Meals service and Strategic update on the creation of a Local Authority Trading Company for Catering and Cleaning Services
1.01	Operational Update
1.02	<p>Operationally the School Meals Service has performed well over the last 2 years having increased the uptake of meals in the Primary schools by 7% in the last year, which is an increase of 10% in terms of income.</p> <p>Secondary school income is up by 13% in 2016/2017 when compared to the same period last year. The main reason attributed for this is an increase in marketing and promotion combined with menu development and a better understanding of the customer and client requirements.</p> <p>We are also introducing more technology into the service with on-line payments now available in 19 Primary schools and about to be launched into the Secondary sector.</p> <p>The service has also invested in a new data management system and reviewed staffing and productivity levels across the service which has been key in realising service efficiencies in line with the Medium Term Financial Strategy.</p> <p>In total savings of £292,000 where realised in 2015/2016 and £172,000 has been committed for 2016/17 which is on target to be achieved and is particularly impressive when considering the steady increase in income has been achieved whilst making these efficiencies.</p>
1.03	Strategic Update
1.04	Organisational Change Overview and Scrutiny Committee has previously received reports on the Facilities Management feasibility study and progress on the work of Business Planning in the Autumn of 2015, prior to

	<p>Cabinet agreement of the Business Plan on the 22nd March 2016.</p> <p>This year Organisational Change Overview and Scrutiny Committee have considered further progress on the business plan. Since Members of Scrutiny Committee last considered the Facilities Management ADM key technical work has taken place on challenging and assuring the business plan, developing the final governance model, assessing tax and VAT implications.</p> <p>These are the final pieces of work that will be considered by Cabinet in December for approval to establish the LATC and appoint to the Board of Directors.</p>
1.05	<p>In terms of activity undertaken since March 2016 this is set out below:-</p> <p>(1) Staff engagement. (2) Consideration and development of structures around the board (3) Tax and Vat work – identifying the issues and considering the best legal structure and contractual arrangements</p>
1.06	Staff Engagement
1.07	<p>A total of 18 staff engagement sessions were undertaken over a two week period in September 2016, these were held at various venues throughout the County to ensure maximum available access for all staff involved in the ADM. The meetings were attended by 211 staff (42%) and Trade Union representatives were present to support staff in each of the sessions, overall these engagement sessions were viewed as very positive. Building on this work a process of further but smaller group consultations are now going to take place so that sharing and further understanding can be built upon around the future business model.</p>
1.08	Consideration and development of structures around the board
1.09	<p>In considering this aspect there has been a need to reflect on the key skill sets of the service and the need to:-</p> <ul style="list-style-type: none"> • Have the appropriate business experience; • Demonstrate the right values; • Collective skill sets to encompass legal, financial, commercial, human resources and negotiation; • Competency will be a key pre-requisite of the role; • Ability to balance commercial opportunities aimed at business sustainability with social outcomes. <p>Initial thinking around the structure is set out below:</p> <p>Facilities Management Shadow Board</p> <ul style="list-style-type: none"> • Cabinet Member • Financial Director (External appointment) • Commercial Director (External appointment) • Human Resources (External appointment) • Social Services (Internal appointment to inform new market areas)

	<ul style="list-style-type: none"> • Independent Chief Officer Company Secretary (Internal appointment) <p>Reporting to the board - Managing Director</p> <p>Advisory role - Education representative</p>
1.10	There will be a direct relationship with a representative from the Education Service as a major client service.
1.11	In relation to the above, roles and job descriptions are currently being developed for all board positions.
1.12	Vat and Tax Work
1.13	<p>VAT Advice</p> <ul style="list-style-type: none"> • NewFM will be required to register for VAT on the basis of the expected levels of income set out in the Business Plan. • The service fees levied by NewFM to the Council for the provision of services under the catering and cleaning services SLAs should represent taxable supplies for VAT purposes by NewFM to the Council. • On this basis, NewFM would typically be entitled to reclaim all input VAT incurred in relation to the costs of delivering those services.
1.14	<p>Vat Treatment of School meals</p> <p>Ernst and Young in their report set out below a typical structure used in respect of contracting out school meals to a catering provider:</p> <ul style="list-style-type: none"> • Typically, all the costs of producing school meals should be borne by the catering provider as it has responsibility for delivering the catering service. • The catering provider should contract with the Council/local authority school and invoice the Council/local authority school for the cost of providing the catering service, which should be subject to VAT at the standard rate. By structuring the contact in this way, the catering provider should be seen as supplying catering services to the Council. • The catering provider may then serve the meals and collect income from charges for those pupils not eligible for free schools meals, but must do so on behalf of the Council/local authority school. This means that the contractor must be seen to be acting as agent for the Council/local authority school in collecting the income. This should support the supply of school meals being seen as still made by the Council and treated as incidental to the provision of statutory education and non-business for VAT purposes, provided that the supply of catering is made at, or below, cost.
1.15	<p>Corporation Tax</p> <ul style="list-style-type: none"> • NewFM will be an entity guaranteed by shares, and therefore a

	<p>body corporate for tax purposes.</p> <ul style="list-style-type: none"> Therefore, it is anticipated that NewFM will be subject to corporation tax on its taxable profits at the applicable corporation tax rate in force for the period in question (currently 20% reducing to 19% 1 April 2017 and 18% from 1 April 2020 – a reduction to 17% from 1 April 2020 has been announced but is not yet in force).
1.16	Market Development Work and Growth
1.17	As part of the business plan it was envisaged that the service would develop and grow its existing markets and this financial year it has been successful already if securing cleaning contracts with Youth Service, Theatre Clwyd and Halkyn Depot (external client).
1.18	<p>In relation to catering services our primary school meal take up numbers have increased by 7% with income up 10%. Secondary school numbers have also increased with income up 13%. These increases have been the result of marketing campaigns, theme days and increases in choice of our food offer in schools. In addition we have introduced, in a number of schools, cashless payment systems.</p> <p>Finally within the Bistro at County Hall we have recruited a new chef, hold theme days which are proving popular with staff, and are moving to introduce a new till to assist in managing and monitoring sales and waste; we are also exploring card payments.</p>
1.19	Summary
1.20	<p>The work detailed above has been undertaken to demonstrate that activity has continued to de-risk the ADM though the specific professional external advice around Vat and tax, an issue that was raised at the previous scrutiny meeting. It is clear from the information provided that there is a suitable mechanism for dealing with Vat and a way forward which addresses school meals charges.</p> <p>In relation to the staff meetings clearly the main point of concern has been staff terms and conditions and the Council has reconfirmed its position in this respect, this will of course be further reinforced during future staff meetings. Trade Unions have been instrumental in supporting the ADM and staff and will continue to do so over the coming months.</p> <p>The shadow board structure is being developed and we are actively progressing job descriptions and actively looking for potential recruits to the positions. This will be built upon further as the ADM continues to be progressed.</p> <p>The activities set out within the report will all feed into a detailed transition plan which will form the basis of a report to Cabinet and allow the FM ADM to move forward to a successful commencement date in April 2017.</p>

2.00	RESOURCE IMPLICATIONS
2.01	<p>Financial Implications</p> <p>In relation to the FM service for current and future years the service, within its efficiency plans, has already set out how it intends to meet the 30% overall target of efficiencies, which is reflected in its business plan.</p>
2.02	<p>Human Resource Implications</p> <p>Clearly this work involves major transformational change and as such it is critical that staff and trade unions are fully engaged in the process. Within the staff engagement meetings there was concern about staff terms and conditions. The Councils response in relation to this point has been consistent and clear in that the establishment of any ADM, the Transfer of Undertakings Protection of Employment Regulations (TUPE) will apply.</p>

3.00	CONSULTATIONS REQUIRED / CARRIED OUT
3.01	<p>Consultation has been extensive with reports and updates being brought to Organisational Change Overview and Scrutiny meetings and Cabinet. In addition the service is working closely with Trade Union representatives and staff in raising awareness and sharing information.</p>

4.00	RISK MANAGEMENT
4.01	<p>The full business plan identifies key risks and how these will be mitigated. The overall key risk and mitigation at this stage if development for the Council is:-</p> <p>That the implementation plans are not of a good enough quality to progress - then either the work finishes and the service does not progress to an ADM or conditions are placed upon the future work required if they are to be reconsidered.</p>

5.00	APPENDICES
5.01	None.

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	<p>None</p> <p>Contact Officer: Steve W Jones, Facilities Operations Manager Telephone: 01978 704039 E-mail: steve.w.jones@flintshire.gov.uk</p>

7.00	GLOSSARY OF TERMS
7.01	<p>Alternative Delivery Model</p> <p>An operating model that is different from the current method of delivery of the service. In the context of the work being undertaken by the Council at present the main models are Collaboration, Shared Services, Independent Trading Company, TECKAL, Mutual, Cooperative, Social Enterprise, Community Asset Transfer. These models range from those that are closest to public service delivery to those that are the most removed from public sector delivery. This scale also helps indicate (as a rule of thumb) the amount of control that is retained by the Council, and as a result the amount of transfer that is required from the Council to other agencies.</p>
7.02	<p>Facilities Management</p> <p>The integration of processes within an organisation to maintain and develop the agreed services which support and improve the effectiveness of its primary activities. In the property context as discussed in this report it can include the following service areas:-</p> <p>a) Soft FM services: Cleaning, Caretaking, Waste disposal and recycling, Security, Catering, Pest control, Furniture and Equipment, Vending machines, Window Cleaning</p> <p>b) Hard FM services:- Building and fabric maintenance both planned and reactive, Energy and water management, Building management systems; boiler, heating, air con etc., Assets and Lifecycle Maintenance, Planning, management and control of physical assets and the building through their life time, Third Party Lettings, Management of all out of school use of buildings and site facilities</p> <p>Note:- In the case of this ADM it will provide Catering and Cleaning Services</p>
7.03	<p>Transfer of Undertakings Protection of Employment Regulations (TUPE)</p> <p>Employees transfer automatically to the new organisation with their terms and conditions of employment and continuity of service preserved.</p>