

Options Appraisal of School Meals Provision in the City

SUMMARY

- 1.1 A comprehensive review has taken place of school meal provision in the City due to the significant losses the school meals service is making. The future of non-schools catering is also considered in this report.
- 1.2 The report sets out the various options with details of the benefits and negative impacts along with projected costs.
- 1.3 Due to the scale of the continuing losses and schools deciding to opt out of the Council run catering service, it is important to make a strategic decision on the preferred option for the service as soon as possible.

RECOMMENDATIONS

- 2.1 To approve the outsourcing of the school meals service either through:

Option A: Outsource the production and delivery of school meals to a Council distribution hub which will transport the meals to school kitchens where the meals will be regenerated, or
Option B2: Outsource the school meals service to either a private or public catering provider with a regeneration production process

dependent upon the outcomes of a full tendering process.
- 2.2 To include non-school catering in the outsourced contract.
- 2.3 To change the school meal options from September 2010 to a choice of two meals – fish or meat and vegetarian, from the currently provided choice of three meals – fish, meat and vegetarian, as detailed in paragraph 4.63 giving an estimated saving over a full year of £141,000.
- 2.4 To note proposals to renew life expired and obsolete kitchen equipment and approve the policy on catering equipment ownership that, in the event of a school opting out of the Council catering service, any remaining borrowing liabilities on assets are transferred to the school with the asset as detailed in paragraphs 4.60 and 4.61.

REASONS FOR RECOMMENDATIONS

- 3.1 A decision is required on a financially sustainable method of operation which delivers high quality school meals. A full analysis of the costs, based on soft market testing, of each option demonstrates that a regeneration cooking method is the only process that will enable the catering service to generate sufficient cost reductions to produce a school meal at a price the Council can afford. This method will maintain nutritional, health and quality standards and allow a greater choice of meals to be provided. Options A and B2 are the most favourable in financial and risk terms.
- 3.2 Non-school catering, essentially the Council House and Kedleston Road, is making a loss of approximately £40,000.
- 3.3 Short-term cost reduction measures are required to reduce the budget deficit for this year.
- 3.4 Kitchen equipment will remain in schools which opt out of the centrally provided service. Replacement of life expired kitchen equipment soon to be carried out will be funded partly through Government grant and partly from the modernisation fund as unsupported borrowing. This funding has to be repaid.

SUPPORTING INFORMATION

Background and Policy context

- 4.1 In 2009/10 the Council provided a school meals service to 77 nursery, special and primary schools and 5 secondary schools across the city.
- 4.2 Eight schools opted out of the service for this year and it is currently used by 69 nursery, primary and special schools and five senior schools. The service is projected to make a total loss of £275,000 in 2010/11. The financial data demonstrates that if the school meals service is to remain within its current operational format, then the Council will need to agree to either subsidise the provision or to significantly raise the school meal price. An increased selling price will result in a potential loss of customers.
- 4.3 The minimum legal requirement is for a Local Authority to provide a meal for every child in receipt of a free school meal. It is not specified that this should be a hot meal. Consideration could be given to reducing the service to a cold sandwich option. However, within certain parts of the city, the school meal is the only hot meal that many children receive. It is, therefore, considered important that the Council ensures that all pupils entitled to free school meal provision receive an option of a hot meal.
- 4.4 The 'Food Based Standards for School Lunches' legislation has meant that there has been a move away from re-heating convenience food products, towards the creation of homemade dishes. While this addresses both health and nutrition issues, it is more labour intensive to deliver and has resulted in increased food and labour costs.

- 4.5 In addition to providing a varied, healthy menu, the service is required to provide all primary children with free bread and access to a free salad bar. This has placed additional costs on the provision of a meal. The Council exceeds the minimum standards by providing a choice of a free drink of fresh juice, milk and water to all primary children.
- 4.6 The school meals service works collaboratively with Derbyshire County Council to procure food at the highest quality and lowest price.
- 4.7 Currently 9 schools and 6 nurseries are without a kitchen facility and have problems with food consistency and temperature control which affect the overall quality of the school meal. The production of a school meal through a centralised production process and the implementation of regeneration on site would address these problems.

Budget position

- 4.8 The school meals service has a turnover of around £5.5m per year. Overall, the service has returned a deficit between £80,000 and £370,000 for the last five years and is projected to make a budgeted loss of £275,000 in 2010/11 (inclusive of the £50,000 target returns to the general fund – see below).
- 4.9 The service is budgeted to make returns to the general fund of £50,000 in 2010/11 and £350,000 in 2011/12. Any saving from the school meals review above £350,000 was approved by Cabinet on 16 March 2010 to be retained by the service to bring it back to breakeven.
- 4.10 The service currently receives £225,000 from the School Lunch Grant (a government grant used to subsidise the cost of the improved school meals) which is time limited to October 2011. It is not yet known if this grant will be available after October 2011.
- 4.11 Cabinet on 16 March 2010 agreed to use £220,000 from the Trading Reserve to partly cover the 2010/11 loss. A further £170,000 is approved to be used towards forecasted losses in 2011/12.
- 4.12 Every primary school meal sold costs the Council approximately £3.00 to provide, while the charge to parents is currently £2.00. Therefore, it is costing the Council £1.00 for every paid meal provided.
- 4.13 In 2009/10 a simple analysis of schools within the service based on their percentage of free meals compared to paid meals showed that about 22 out of 77 schools using the service were likely to make a surplus. Of those 22 primary schools, 4 withdrew from the service from the 31 March 2010. If other schools that make a surplus withdraw it will increase the overall loss of the service.
- 4.14 The secondary school sites currently run at a surplus of around £50,000 per year. This includes around £60,000 of fixed central and departmental costs. Consequently, if these sites decide to run the service themselves, the remainder of the catering service would have to find £110,000 to cover this loss of custom. For the purpose of this review, it has been assumed that these sites will remain in the service.

School meals review

- 4.15 A comprehensive review of all aspects of nursery, primary and special school meal provision has been carried out over the last year by a review team which included officers and a specialist consultant with extensive experience of school meals provision. The review was established to examine ways to reduce the losses in the school meals service whilst ensuring the meals met the appropriate nutrition, food safety and quality standards.
- 4.16 The review team has consulted and/or visited a number of other local authorities to gather information and benchmark service provision.
- 4.17 The review was based on five options:
- A Outsource the production and delivery of school meals to a Council distribution hub which will transport the meals to school kitchens where they will be regenerated
 - B Outsource the service to either a private or public catering provider:
 - B1 To outsource the school meals and provide a cook from scratch production process
 - B2 To outsource the school meals service and provide a regeneration production process
 - C Production in a Council centralised kitchen with regeneration in school kitchens
 - D The Council delivers an in-house modernised cook from scratch service in school kitchens
 - E The Council agrees to subsidise the existing school meals service

Results of the review

- 4.18 The Review Team has carried out a detailed analysis of the operational and financial aspects of each option.
- 4.19 In order to give robust figures for this report 'soft market testing' was carried out on the various outsourcing options. Soft market testing involves advertising an outline contract specification for a service. Public bodies and private companies were then approached to bid. The bid is not binding on either party but enables an indication of likely bids if the service was offered on a full contract. However, prices from a full tender process may be higher.
- 4.20 A reduction in school meal numbers will increase the financial risk to the Council for any option.

Analysis of options

4.21 A full and detailed set of workbooks containing the financial analysis for each option has been produced. These have been subjected to detailed analysis by accountants from the Resources Directorate. The workbooks have been independently audited.

4.22 The workbooks have been used to produce the information which follows.

Option (A) Outsourcing the production and delivery of school meals to a Council distribution hub. Council staff will hold and transport the meal to school kitchens, where the food will be regenerated

4.23 This option involves a central production of meals by an external supplier.

4.24 The supplier would deliver the meals into a distribution hub. The distribution hub would be run by the Council's school meals service, which would store, distribute to schools and regenerate the meals.

4.25 This model is likely to lead to a reduction in staff of approximately 125. There can be no guarantee that the supplier would be local.

4.26 The soft marketing exercise indicated that a supplier of frozen meals could be found to produce an appropriate nutrient compliant meal for £2.36 per meal.

4.27 Head teachers' feedback indicates that this method would be unpopular because it is a similar model to the central production kitchen with the added perceived disadvantage that the meals may be produced outside the city boundary. This may lead to head teachers withdrawing from the service, making this a relatively high risk option.

4.28 A full analysis of the costs of each option demonstrates that a regeneration cooking method is the only process that will enable the catering service to generate sufficient cost reductions to enable the service to produce a school meal at a price the Council can afford. This means that regeneration is the preferred production option. Three options looked at regeneration as a cooking process. However, only this option produced the full required £800,000 savings.

Option (B) Outsourcing the school meals service:

B1 Outsourcing the school meals service with a cook from scratch production process

4.29 The soft marketing exercise looked at the option of either a private or public catering company providing the school meals service for the Council.

4.30 The soft market testing indicated that the private sector could provide school meals to the nutritional and food safety standards for £2.82 - £3.07 per meal based upon the prices presented by 2 private contractors.

B2 Outsourcing the school meals service with a regeneration production process

- 4.31 Soft market testing indicated that the Council could provide school meals to the nutritional and food safety standards for £2.55 –£2.91 per meal based upon the prices presented by 2 private contractors.
- 4.32 Both options B1 and B2 may reduce the financial risk to the Council dependent upon the contract rules on a price per meal. Contract documentation will be drafted to allow for variation in school meal numbers. Although high numbers of meals lead to economies of scale, there is also a number of meals below which the service is not viable.
- 4.33 Option B1 and B2 would enable all staff to transfer to the contractor under 'TUPE' and therefore prevent large numbers of staff being made redundant.
- 4.34 The two independent providers who took part in the soft market testing exercise stated that they would prefer to operate a cook from scratch operation, the cooking method preferred by head teachers. However, neither supplier was able to produce the efficiencies required to cover the full operational costs as outlined in Appendix 1.

Option (C): Production in a Council centralised kitchen with regeneration in local school kitchens

- 4.35 A central production kitchen would require a significant capital investment in the region of £1.5 million. However, this could be financed from overall budget savings from the project.
- 4.36 There will be significant difficulties in planning and building the kitchen and getting it operating by 2011. An alternative is to lease an industrial unit and operate the kitchen from it. This removes the capital requirement. The financial viability of building or leasing and equipping such a facility depends on school meal uptake numbers remaining at current levels. Any reduction in numbers will result in a significant financial risk to the Council.
- 4.37 A central production kitchen built by the Council will produce meals at a cost of £2.49 per meal. This includes the cost of capital finances.
- 4.38 This option will result in the reduction of circa 114 staff employed to produce the school meals.
- 4.39 A number of head teachers have indicated that they would not be happy with meals provided from a central kitchen and may withdraw from the service, making this a high risk option.

Option (D): The Local Authority delivers an in-house modernised cook from scratch service in school kitchens

- 4.40 Consultation with head teachers demonstrated a preference for a cook from scratch method in school kitchens.

- 4.41 The provision of a cook from scratch method delivered by an in-house school meals service was discounted in phase 1 of the review due to the costs involved.
- 4.42 Simplistic comparisons have shown that the Council school meal kitchens are overstaffed in comparison with other local authorities and private companies.
- 4.43 This option produces a nutritionally compliant meal at the cost of £3.10 per meal.
- 4.44 This option would produce efficiencies providing staff levels were reduced in line with other providers. This would lead to staff reductions of approximately 60.

Option (E): The Council agrees to subsidise the existing school meals service

- 4.45 The Council could agree to continue to provide the existing service with the existing staff levels and agree to underwrite the loss that the service will make and provide a cook from scratch operation in line with head teachers' feedback.
- 4.46 This would produce a nutritionally compliant meal at the cost of £3.43 per meal.
- 4.47 This option would produce no efficiencies although staff levels would be protected. In the current budget situation this option is not considered sustainable.

Consultation

- 4.48 Schools and head teachers have been consulted and involved in the review through the Heads Liaison Group. There have also been visits to schools and direct contact with head teachers.
- 4.49 Six primary schools and two nursery schools have since withdrawn from the Council service to run their own service.
- 4.50 Feedback from head teachers demonstrated a view that school meals should not be centrally produced either from a Council centralised kitchen or from an independent provider. Head teachers stated that either model would reduce the quality of the meal. However, central production of a meal will allow greater choice and is a method being adopted by an increasing number of councils. Head teachers may opt out and choose to run their own school meals service as a cook from scratch process, but would become responsible for any deficit.

Compliance staff

- 4.51 For fully outsourced services, it is proposed that, although the contract is procured centrally, each school contracts directly with the supplier. This will reduce the bureaucracy, particularly invoicing, of operating on a sub-contractor basis. However, the Council has a duty to ensure nutrition, food standards and safety requirements are met.
- 4.52 The school meal prices detailed in the report for outsourced service include the cost of contract compliance staff to monitor these aspects. This team will consist of 2 contract compliance posts graded at SO1/2 and 0.5 clerk graded at scale 4.

- 4.53 Each contract compliance officer would have circa 35 schools to monitor. They will be required to visit each school 3 times per year over 190 operating days, to audit the quality of the school meal and to visit each school manager to obtain feedback on the contract. Officers will be responsible for monitoring the contract against agreed key performance indicators.
- 4.54 The clerk will support the compliance officers.

Staff and labour costs

- 4.55 The current method of operation uses a high level of staff against meals produced. Benchmarking with other councils and efficiency reviews show that the service could be delivered with significant reduction in staff numbers by changing production processes.
- 4.56 The service is inefficient because the high staff numbers make labour costs about £1.56 of the cost of each meal. The alternative methods of school meal provision would reduce this to £0.87 - £1.01 for each meal depending upon the provider.
- 4.57 Options A, C and D would require staff numbers to be reduced by between 60 and 125. If one of these options is chosen, the Council's procedures will be followed with full staff and trade union consultation.
- 4.58 It is hoped that reductions in staff could be made through voluntary redundancies and redeployment. However, compulsory redundancies may be needed and financial provision will need to be made for this.
- 4.59 It is not expected that any redundancy costs will be taken from the overall savings, rather that they will be funded from the Council's transformation change budget. The redundancy costs are not included in the price per meal or in the efficiency figures.

School kitchen refurbishment

- 4.60 Cabinet on 16 February 2010 approved commencement on a scheme to refurbish school kitchens within the service. This is funded by a combination of a Department of Education (DoE) grant of £841,534, plus match funding from the Modernisation Fund financed unsupported borrowing to be repaid over ten years. The refurbishments should go ahead to address life expired, obsolete equipment regardless of the meal preparation option chosen. However, the option chosen will influence the type of equipment bought. Currently, if a school withdraws from the catering package, the school will expect to retain the equipment in the kitchen.
- 4.61 Cabinet is requested to approve that, in the event of a school opting out of the Catering Service, any remaining borrowing liabilities on assets are transferred to the school with the asset.

Other factors

- 4.62 The review has included in all the options the addition of a Halal choice to the menu in response to demand from parents.

Short term measures

- 4.63 Cabinet is asked to approve a change in the school meals option from 3 options per day of 1 meat, 1 fish and 1 vegetarian choice to 2 options of 1 meat or fish and 1 vegetarian choice per day. This would result in total estimated savings of around £140,000 per annum and mitigate some of the losses this financial year (£70,000 in 2010/11 based on a September start).
- 4.64 This is based on saving in a full year an estimated £80,000 in food costs and £60,000 in staff costs. To achieve this, the service is planning to reduce kitchen assistant time at each school site by 30 minutes per day. This will require a change to staff terms and conditions. Currently staff hours are calculated on a basis of meal numbers produced. However, it is recognised that these changes may reduce meal uptake. The change to three options a day over the past two years has seen meal numbers rise by 6% across primary schools.

Non-School Catering

- 4.65 Catering Service provides a catering function to the Council House and to Kedleston Road. For several years the combined loss between the two services has equated to approximately £40,000.
- 4.66 Historically the food prices at both Kedleston Road and the Council House catering operations have seen price increases in line with the Council overall price policy. Over the past 3 years food inflation has risen by an average of 9% compared to an average price rise of 2.5%. This has put pressure on the income stream.
- 4.67 Labour is the largest cost to any catering operation. In the short term, consideration could be given to the amalgamation of the two teams which will reduce on-going costs whilst still maintaining the same level of service.
- 4.68 The catering service could be run from Kedleston Road during the Council House refurbishment programme. Once complete, the integrated team staff would be able to return to the new building when it is re-opened providing a catering outlet for staff, training, members and the Civic Office.
- 4.69 The school meals service may be out-sourced as a consequence of the review. The tender process could be extended to include non-school based catering. The Council House catering staff may then be transferred to the new provider and return to the refurbished Council House as an outsourced provision. Should the decision be taken to outsource school meal provision, it is proposed to include non-school catering as part of the contract process.

OTHER OPTIONS CONSIDERED

- 5.1 As detailed in the report. In addition:
- 5.2 The School Meals Service could give notice to the remaining 56 schools that are running at a loss that a school meals service will no longer be provided. Individual sites would then become responsible for the catering service to their pupils. This would be contentious as head teachers would be unable to buy into the Council provided catering service. Where these services are making a loss, a decision would need to be made on the provision of school meals if head teachers refuse to provide a service. This may lead to differences in provision across city schools. It would lead to ineffective procurement if schools procured separately.

The 56 schools have been identified as loss-making based on their proportion of free school meals to total meals provided. Where this is less than 50%, then sites are likely to be running at a loss. This is because the cost of producing a meal is above the £2 per meal charged for a paid meal and is effectively subsidised by the free school meal allocation. This option has been discounted because it may lead to a loss of school meals service within some schools. The uptake of school meals is currently a National Indicator which all Local Authorities are required to report on.

- 5.3 The option to increase the price of a school meal to cover the costs of preparation was considered but rejected because of
- the impact on low paid families across the city.
 - it is also considered that it would lead to a significant reduction in take-up and consequently increase the costs of producing the remaining meals.

For more information contact: Chris Edwards, Director of Asset Management
Tel 01332 255070 e-mail chris.edwards@derby.gov.uk
Sandra Cole, Head of Service
Tel: 01332 642142 E-mail: sandra.cole@derby.gov.uk

Background papers: Detailed review papers
List of appendices: Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 The current and future levels of losses against budget are detailed in the body of the report.
- 1.2 The revised meal method adopted needs to reduce current costs by around £800,000 to ensure that in the medium term the service breaks even. This will enable any future increases to the paid meal charge to be kept to a minimum.
- 1.3 It should be noted that the financial analysis is based on 'soft marketing testing'. It may be that prices are higher if a full tender process is followed.
- 1.4 The school meals service relating to primary schools currently incurs around £250,000 of central and departmental overhead costs. For comparative purposes, these are assumed to remain the same as present, irrespective of the meal delivery method chosen, but in reality would need to be reviewed in line with the changed service.
- 1.5 The table below identifies the price per meal, the estimated efficiency savings and the possible staff reduction impact by each model. Each option includes for a fully funded capital replacement of kitchen equipment.

Cooking Method	Price Per Meal	Target cost reductions £'000	Changes to current costs £'000	Subsidy required £'000	Staff reduction and potential redundancy costs
A) Outsource the production of a school meal and deliver to a Derby City Council hub	£2.36	800	- 825	0	125 staff Circa £137,000
B1) Outsourcing cook from scratch – Company 1	£2.82	800	- 250	550	Nil; Staff TUPED
B1) Outsourcing cook from scratch – Company 2	£3.07	800	+ 40	840	Nil; Staff TUPED

B2) Outsourcing; regeneration direct to school kitchens – Company 1	£2.55	800	- 700	100	Nil; Staff TUPED
B2) Outsourcing; regeneration direct to school kitchens – Company 2	£2.91	800	- 220	580	Nil; Staff TUPED
C) Derby City Council; central production kitchen	£2.49	800	- 660	140	114 Staff Circa £125,000
D) Derby City Council; modernised cook from scratch operation	£3.10	800	+ 50	850	60 staff Circa £62,000
E) Derby City Council; cook from scratch	£3.43	800	+ 575	1,375	No change to staffing

The redundancy costs are not included in the price per meal or in the efficiency figures.

Legal

- 2.1 Any changes to provision must be delivered in accordance with all the Food Safety Legislation and the 'Food-based Standards for School Lunches' legislation.

Personnel

- 3.1 It is likely that there will be staff reductions from these proposals. The Council's procedures and policies will be followed, including Trade Union consultation to ensure staff are treated fairly and equitably.

Equalities impact

- 4.1 A key aim of the review is to produce culturally appropriate meals in line with Derby City Council's Equalities and Diversity Statement.

Corporate objectives and priorities for change

5.1 The feasibility exercise will ensure that Council's catering service supports the key corporate objectives:

- to ensure the physical, emotional well-being and safe choices (of our children and young people)
- A healthy city where people enjoy long, healthy and independent lives
- to deliver value for money across all services